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GM Flop Opens Door for Gores

INVESTMENT: **Equity firm picks up auto parts business.**

By JOEL RUSSELL *Staff Reporter*

With one bold stroke, L.A. billionaire Tom Gores made himself an auto industry player last week with the purchase of bankrupt GM parts supplier **Delphi Corp.**'s major assets.

Not a good time to get into the troubled auto business?

Don't tell that to Gores, the 44-year-old founder of Beverly Hills private equity firm **Platinum Equity LLC**, who's made a name for himself as a turnaround artist.

Gores

In the 14 years since the firm was founded, Platinum has invested $27.5 billion in more than 100 acquisitions, and has boasted of making triple-digit returns.

Taking risks is nothing new for Gores, identified by the Business Journal last month as the 10th wealthiest person in Los Angeles with an estimated net worth of $2.25 billion. And since the recession has deepened, he has grown increasingly bolder.

Just last month, Platinum raised eyebrows when it purchased the foundering San Diego Union-Tribune, a company in a business outside its expertise. The firm took control of the newspaper May 4 and three days later fired 192 employees.

Normally, the firm targets companies in heavy industry, technology or related industries. For example, last month Platinum also picked up Geesink Norba Group, a Netherlands maker of garbage collection and compaction equipment.

Still, some auto industry observers are wondering if this time Gores has taken on too much, considering he bought Delphi assets out of bankruptcy, where it had languished for four years.

"The (auto parts) suppliers were not healthy by conventional business metrics when the auto industry was selling 17 million vehicles per year, and now it's at 10 million," said Bill Visnic, editor at Edmunds Inc.'s AutoObserver.com site in Santa Monica. "It's hard to see private equity as a recipe for success."

Visnic noted that automotive suppliers have faced eroding markets for years as the Big Three squeezed them on prices amid steep foreign competition. So-called megasuppliers, such as GM's Delphi and Ford's Visteon, have been the hardest hit. Visteon filed for bankruptcy May 28.

Platinum method

Gores, an Israeli native who grew up around the auto industry in Flint, Mich., declined to comment for this article, but issued a statement saying that he was optimistic his firm could make the acquisition work.

"Despite the obvious challenges facing the auto industry, we are excited at the opportunity to be a part of its renewal," Gores said. "Automakers need strong suppliers in order to rebuild their own businesses and return to profitability. It starts from the ground up and we look forward to contributing to that process."

Platinum's Portfolio

Since Platinum Equity was established in 1995, the private equity firm has completed more than 100 acquisitions. With the economic downturn, the pace of deal-making has picked up.

April 2008: Purchases Wheel Pros, an Orlando, Fla. maker of high-performance automotive rims.

April: Purchases Owens Corning's composite manufacturing plants in Belgium and Norway.

April: Purchases Covad Communications Group, a San Jose maker of integrated voice and data telephony equipment for $470 million.

June: Purchases Maxim Crane Works Inc., a Bridgeville, Pa. heavy equipment lease company.

August: Sells PNA Group, an Atlanta metals processor for $300 million.

October: Arena Football League announces Platinum takes $100 million 40 percent stake in the business, but Platinum later pulls out and the league cancels the 2009 season.

November: Purchases SCM Metal Products, a Buffalo, N.Y. maker of powders and pastes for metallurgy.

January 2009: Takes majority stake in Los Angeles brokerage DAUM Commercial Real Estate Services.

April: Purchases wire harness and electrical distribution business of Alcoa Inc.

April: Takes majority stake in Canvas Systems, a Norcross, Ga. refurbisher of computer equipment.

May: Sells Avure Technologies Inc., a Seattle maker of pasteurization equipment

May: Purchases Geesink Norba Group, a Netherlands maker of garbage collection and compaction equipment.

May: Purchases San Diego Union-Tribune newspaper.

June: Takes majority stake in Delphi Corp., auto components manufacturer in Troy, Mich.

Source: Business Journal research

The company takes a hands-on approach to its investments, usually targeting distressed spin-offs of large corporations. By the time a deal closes, Platinum executives like to have a business plan that identifies problems from human resources to purchasing. Then they run the company for five to seven years before selling it off.

In tribute to its method, Platinum has trademarked the symbol "M&A&O," meaning it focuses on mergers and acquisitions and operations of its portfolio companies.

The company has boasted of big success in recent years. Among the more recent investments to complete the cycle is PNA Group, an Atlanta-based metals processor that was sold to **Reliance Steel & Aluminum Co.** in August 2008.

Reliance, the publicly traded L.A. company, paid roughly $300 million for PNA, which together with the $181 million in accumulated profits, represented 27 times Platinum's original investment of $17.5 million two years earlier.

Last month, Platinum sold another company, **Avure Technologies Inc.**, which makes high-pressure pasteurization equipment, to another private equity firm for an undisclosed sum. During the four years in its portfolio, Platinum claimed in a statement that the Seattle company experienced "more than a two-and-a-half times increase in revenue and an even greater increase in profitability."

In the fall, Platinum announced the closing of a $2.75 billion leveraged buyout fund. It had originally sought only $1.5 billion, but cited "strong investor demand and a rising tide of deal opportunities" in increasing the fund.

Private Equity Intelligence Ltd., a London-based analyst of private equity fund performance, found that Platinum's first buyout fund in 2004, Platinum Equity Capital Partners Fund I, made $2.68 for every $1 invested, according to a trade publication of the Metals Service Center Institute.

Platinum's first foray into the automotive sector came in 2005, when it bought a fastener manufacturing operation from Textron. It still holds the asset, which is now named Acument Global Technologies.

Still, the Delphi deal ranks among the most complex and biggest transactions yet by the private equity firm. Delphi was spun off from **General Motors Corp.** in 1999 but has been in Chapter 11 bankruptcy since 2005, while GM – a partner in the deal – filed bankruptcy last week.

The Troy, Mich., company manufactures complex auto parts and subassemblies, including radiator, brake, suspension and navigation systems. Delphi reported revenue of $18.1 billion in 2008, down from $26.9 billion in 2005. Sales to GM North America decreased 41 percent in 2008, but GM remains its biggest customer, accounting for 31 percent of revenue last year.

The company's stock trades over the counter at around 8 cents per share, yielding a company value of about $48 million. However, in order to complete the deal, Platinum lined up capital commitments worth $3.6 billion for use as working capital for Delphi. Both Delphi and Platinum refused to comment on the sources of the capital, though a Wall Street Journal report citing an anonymous source said Platinum put up $750 million of its own money.

Possible synergies?

Delphi's plan to emerge from bankruptcy will divide the company into three parts: GM will take over the steering assembly factories; certain noncore assets will be liquidated by a new entity; and the majority of assets will retain the Delphi name and be transferred to Parnassus Holdings II, an affiliate of Platinum Equity that will become the majority shareholder.

Delphi expects to emerge from bankruptcy after a final court hearing scheduled for July 23 in New York.

The assets Platinum gets in the transaction are an eclectic mix of manufacturing facilities around the world. They include a plastic-injection molding, metal-stampings, battery and cable assembly plant in Warren, Ohio; wire and seal manufacturing plants in Mississippi; and more than 100 smaller manufacturing sites in Latin America, Europe, the Middle East and Asia.

Although Platinum normally buys and operates companies as stand-alone entities, Delphi offers potential synergies with the firm's existing portfolio companies. Platinum owns a wheel maker, a composite glass factory and several telephone equipment makers, all of which overlap with Delphi's technology.

Platinum refused to comment on whether the Delphi operations might receive business or funnel it to other portfolio companies. But a Delphi spokesman raised that possibility.

"We view Delphi as a good fit with their portfolio of companies, many of which are in the automotive industry," said Lindsey Williams, Delphi's director of corporate communications.

Lloyd Greif, chief executive of L.A. investment bank **Greif & Co.**, said that he believed the primary reason Platinum went after Delphi was more basic: The company met the firm's fundamental criteria.

"In the deal world, it's all about price, and in this situation, Tom Gores is buying the right way. During bankruptcy, Delphi has been shedding manufacturing assets, pension costs, employees and expenses," Greif said.

"Platinum buys broken companies for broken prices and then fixes them. That's the opportunity they perceive here. They always make high-risk, high-reward bets, and this time they are betting on their ability to change the company," he continued. "It's an opportunistic transaction – and I wouldn't bet against Tom."