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More parts firms to file for Chapter 11

Suppliers struggle for operating cash

BY JEWEL GOPWANI • FREE PRESS BUSINESS WRITER • May 31, 2009

More automotive parts suppliers will file for bankruptcy in the weeks ahead, analysts said, a consequence of a cash drought brought on by falling production that could intensify after General Motors Corp.'s expected filing for Chapter 11 this week.

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Across the country, suppliers whose revenues have plunged below their costs are struggling to find the money they need to keep operating.

Last week, Visteon Corp. and Metaldyne Corp. -- which together employ thousands of workers in Michigan -- filed for bankruptcy protection. They followed Hayes Lemmerz International Inc. and Noble International into bankruptcy this year.

"Every time there's another major bankruptcy, it puts more stress on the system," said Van Conway, restructuring expert at Birmingham-based turnaround firm CM&D. "There will be more job loss. There will be more shutdowns."

The auto industry is experiencing its second major wave of supplier bankruptcies this decade. Several large suppliers filed for Chapter 11 in the first half of the decade, including Dana Corp. and Tower Automotive Inc., as automakers demanded lower prices and material costs rose.

This time, plummeting sales and a tight credit market have ushered several suppliers into bankruptcy.

Analysts say surviving suppliers will run into another wave of this crisis when sales pick up, and they need money to pay workers and ramp up production.

"Either the banks are going to have to step in or the government is going to have to step in to provide some funding to support the ramp-up when it finally happens," said Craig Fitzgerald, automotive consultant at Plante Moran.

Before a GM bankruptcy became all but inevitable, the automaker said it would cut production, extending its summer shutdown. But one major question in the industry is whether even more production cuts would be made as GM's bankruptcy case unfolds.

Chrysler LLC's bankruptcy shutdown and GM's extended summer shutdown have already severely slashed supplier revenues.

American Axle & Manufacturing Inc. counts on GM for 75% of its business and Chrysler for another 10%. Mike Simonte, the company's chief financial officer, earlier this month said summer shutdowns could send sales down by \$250 million in the second and third quarters

While GM continues to operate some of its plants, it has put many of its pickup and SUV plants on extended shutdown. American Axle supplies parts to many of those trucks.

During the shutdowns, Simonte said, "Eighty-five percent of our revenue base disappears for two months."