

By Marc Raybin

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Revvng Up

To the relief of many consumers, President Obama and the federal government unlocked an additional \$2 billion in the “Cash for Clunkers” program. There were fears the initial \$1 billion would run out much sooner than expected and stall the drive for buyers getting new cars.

The question remains as to whether this program will jumpstart the American auto industry. If so, how will private equity firms, flush with investor cash, react? Will they jump back into the sector, or will they slam on the brakes with the Chrysler-Cerberus Capital Management implosion still in their rearview mirrors?

“I think the program has provided tangible evidence that there is a heartbeat still to the industry,” says Tom Gordy, a senior managing director at investment bank CM&D Capital Advisors. “Already, we are hearing suppliers firming up stronger release schedules and actually bringing back employees to meet increased production demands. These things will provide some comfort to the PE firms that we may have hit the bottom and they can identify with a little more clearly who the survivors are likely to be in the future.”

Gordy has a firsthand look at the state of the U.S. auto industry with his firm based just outside of Detroit. He says the results of the “cash for clunkers” plan is certainly getting the attention

of investors. The success of the plan could provide a some level of comfort for investors, but he admits they will have a cautious approach to the sector.

Asked if he thinks private equity firms are a bit gun-shy in pulling the trigger on an auto deal in light of Chrysler-Cerberus, Gordy says yes.

“In addition to all the well chronicled issues that are still unfolding currently, in many cases there is also a new dynamic related to getting a read on the ability to anticipate the actions of some of the major customers in the industry given their new ownership structures,” he says. “These factors should keep most near term transactions in the hands of strategics and private equity firms that are well versed in automotive with capital to invest in the space.”

For those firms that have expertise in the auto industry, this could be a good time to invest. He says the depressed marketplace is providing the opportunity to expand with low capital commitments. Having said that, investors should be prepared for a long-term play, Gordy cautions. There may not be a high cost element right now for investors to get into the space, but they need to be patient.

“We have already seen private equity firms positioning themselves during 2009 with respect to their existing portfolio companies to identify those targets that they can take on at historically low valuations that serve to address their own capacity and product enhancement issues as well as increasing their profile as a critical supplier,” Gordy says. “There will be some suppliers that will be too capital starved to meet the demands of a production ramp up and those private equity firms comfortable with automotive and distressed transactions will be able to step in to fill a void in a slightly more optimistic scenario.”