

## **Rocky Road for Parts Suppliers**

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Mark G. Douglas

What do Tower Automotive, Meridian Automotive, Collins & Aikman, Universal Automotive, Metalforming Technologies, Uniboring, Jernberg Industries Inc. and Hastings Manufacturing Co. have in common?

All of them are suppliers in the beleaguered North American automobile industry. What's more, they all filed for bankruptcy in 2005. In fact, no less than eight major suppliers sought bankruptcy protection in the first half of 2005 and a total of twelve have taken the plunge in the last two years.

The downward spiral of the parts industry can in large part be blamed on the waning fortunes of original equipment manufacturers ("OEMs"). These manufacturers have entered crisis mode because of a combination of the massive legacy costs of providing health care and pension benefits to active workers and retirees, fluctuating steel prices, over reliance on gas guzzling SUVs at a time when gas prices have skyrocketed and stiff competition overseas.

OEMs outsource the manufacture of parts to thousands of third-party suppliers. These are known as Tier I, Tier II and Tier III suppliers. The tier signifies whether supply is furnished directly to the OEMs or to other suppliers. The automotive industry has for many years been characterized by a multitude of suppliers. Recently, "sourcing" by OEMs to suppliers of whole component and module production on a "platform" basis has been part of an industrywide restructuring designed to reduce labor costs and to shift capital-intensive manufacturing to suppliers. The shift allows OEMs to focus on less capital-intensive final assembly, marketing and design.

OEMs manage thousands of suppliers with a view toward meeting three critical demands: cost control, quality and performance control and supply continuity. Herein lies the root of the suppliers' malaise — increased capital intensiveness of automotive supply and pressure from OEMs to reduce costs have infected suppliers with the OEMs' distress, in some cases forcing the suppliers to seek bankruptcy protection.

Even brief disruptions in the delivery of components can halt OEM production, with costs escalating into the billions. As such, confidence in supply continuity is always a key factor in OEM and supplier relations. OEMs commonly avoid sourcing additional platforms to, and may re-source away from, suppliers known to be in distress or in bankruptcy. A prolonged reorganization or extended period of public financial distress can have dire consequences for an automotive supplier.

The upshot of these developments for suppliers is daily fodder for the financial pages. Given the existing state of the market, the prospect of even higher oil prices (currently hovering near \$70 per barrel) and stricter fuel economy guidelines for light trucks and certain SUVs approved by

the Bush administration at the end of August, it remains to be seen whether a bankruptcy filing can offer a workable solution to suppliers' problems in the long term.

The results so far have been mixed. Citation Corp. confirmed a chapter 11 plan at the end of May 2005 reducing its \$550 million debt to \$210 million and emerging from bankruptcy with new customer contracts and supply agreements and an \$80 million line of credit, but with a creditor-controlled board of directors. Oxford Automotive Inc. emerged from bankruptcy on March 25, 2005 after shedding or shuttering its ten U.S. plants in favor of exclusively European operations. Amcast Industrial Corp. confirmed a plan of reorganization on July 28, 2005 that ceded ownership of the company to its secured lenders, who ended up taking a \$55 million haircut in the process. Internet Corp. confirmed a chapter 11 plan on September 26, 2005 under which existing shareholder interests were extinguished, secured creditors were paid in full, unsecured creditors received a 50% recovery and the company emerged from bankruptcy with a new name (Light Metals Group Inc.) and \$265 million in exit financing.

#### **Significant Autopart Supplier Bankruptcies 2004-05**

<i><b>Company</b></i>	<i><b>Filing Date</b></i>
Citation Corp.	Sept. 21, 2004 (emerged May 2005)
Internet Corp.	Sept. 30, 2004 (emerged October 2005)
Amcast Industrial Corp.	Nov. 30, 2004 (emerged July 2005)
Oxford Automotive Inc.	Dec. 7, 2004 (emerged March 2005)
Tower Automotive Inc.	Feb. 2, 2005
Meridian Automotive Systems Inc.	April 26, 2005
Collins & Aikman Corp.	May 17, 2005
Universal Automotive Industries Inc.	May 27, 2005
Uniboring	June 9, 2005
Metalfforming Technologies Inc.	June 16, 2005
Jernberg Industries Inc.	June 29, 2005

Hastings Manufacturing Co.

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NYI-2216451v1  
NYI-2221404v1  
NYI-2223178v1