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PPI Passed On To First Atlantic

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Through a sponsor-to-sponsor transaction, New York-based First Atlantic Capital Ltd. aims to pick up where Morgenthaler Partners left off. Earlier this month, First Atlantic agreed to acquire 100% of Morgenthaler's control stake in Precision Parts International LLC (PPI), a designer and manufacturer of high-precision metal components and subassemblies.

A source close to the transaction told Buyouts that the value of the transaction, scheduled to close by early October, is approximately \$200 million. The source added that GE Capital has agreed to provide senior debt to finance the deal while Norwest Mezzanine Partners and Golub Capital signed commitment letters to provide equal parts of the mezzanine component.

PPI, headquartered in Rochester Hills Mich., is an amalgamation that Morgenthaler put together starting with its March 2003, acquisition of MPI International U.S., the fineblanking unit of Klockner-Werke AG. The Cleveland, Ohio-based firm then bolstered the platform with the additions of high-precision metal stamping company Skill Tool & Die Corp. and specialty aviation gearing manufacturer Precision Gear.

Today, the three entities that make up PPI boast a total of eight U.S.-based plants and more than \$200 million in sales per annum. The company's products are marketed mainly to original equipment manufacturers in the automotive industry, such as Toyota, Chrysler and Ford, while other end markets include the aviation, construction, medical device, and industrial sectors.

"Fineblanking is gaining share over other processes in the automotive industry," such as traditional metal stamping and forging processes. "So as far as market opportunities are concerned, PPI really has the wind at its back," said James Grover, a principal at First Atlantic.

Fineblanking is a specialized process that combines the principles of metal stamping and cold-forming and was developed to overcome the limitations of conventional stamping, Grover said. The process is most suitable for smaller, intricate parts such as fittings for automobile transmissions, brakes and engines, and fills a niche for the manufacturing of parts that, due of their complexity, either: require multiple machining processes, cannot otherwise be manufactured at competitive costs, or simply cannot be made by other methods.

Industry-wide, fineblanking is a technique used predominantly in Europe and Japan, a factor that has the U.S. OEMs trying to catch up, said Roberto Buaron, chairman and CEO at First Atlantic. Hence the thesis is that PPI is poised for all-but-certain organic growth in the U.S., in addition to having a relatively unlimited pallet for broader geographic expansion.

"While all of PPI's manufacturing plants are currently located in the U.S., international expansion into Europe and the Far East is something First Atlantic will look at in addition to further domestic growth, as well," Buaron said.

First Atlantic tapped its nearly-depleted, vintage-2000 Atlantic Equity Partners III to fund the equity portion of the deal. According to an investor a First Atlantic vehicle, the firm is in the process of raising its fourth institutional buyout fund.

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