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Morgenthaler Finds A New Platform

Ari Nathanson

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In 2004 there were at least 27 PE-sponsored deals in the auto industry. In what may have been the final auto-related deal of 2004, private equity firm Morgenthaler Capital acquired Phillips & Temro Industries, a supplier of products for diesel engine-related markets, from Chicago-based private equity firm TMB Industries. Terms of the transaction were not disclosed.

Having been on the Cleveland-based firm's radar for about four months, Morgenthaler purchased the company via a Lincoln Partners-run auction.

Phillips & Temro brings in more than \$60 million in revenues a year by supplying cold start and emissions-control products to both engine and motor vehicle OEMs (original equipment manufacturers) as well as to the motor vehicle aftermarket. The company also provides diesel engine intake and exhaust-silencing products to the stationary power generation, marine engine and off-highway industries.

Headquartered in Eden Prairie, Minn., Phillips & Temro has facilities in Winnipeg, Manitoba and Prior Lake, Minn. and currently has more than 450 employees. The company's president and CEO, Gary Edwards, and the existing management team, will continue to run the business while it is a part of Morgenthaler's portfolio. Some of its better-known customers include Caterpillar, Ford, General Motors, John Deere, and Volvo/Mack.

The firm is no stranger to the auto space. For more than a year-and-a-half, Morgenthaler has been piecing together Precision Parts International Inc. (PPI), a high-precision metal assemblies platform that manufactures transmissions and chassis. PPI was forged out of the firm's March 2003 acquisition of MPI International and bolstered with the add-ons of Skill Tool & Die Corp. and Precision Gear.

"We like the sector, that's what it really is gets down to. I think the heavy duty and off road diesel truck market will see a lot of growth over the next three to 10 years. Also, there is a lot of consolidation going on in the sector; people want fewer, not more, suppliers. So one trend you'll see in the future is fewer and fewer mom-and-pops supplying the heavy duty OEMs," Al Stanley, a partner at Morgenthaler Partners, told Buyouts.

That said, the firm will certainly be seeking avenues for Phillips & Temro to travel down and grow. While the company's management will focus more on organic growth, Morgenthaler will seek "substantial" geographic growth for the platform by looking to Europe and Asia for strategic acquisitions to tuck into it, Stanley said.

American Capital Strategies Ltd. provided financing for the transaction, while equity came from Morgenthaler's \$850 million Morgenthaler Fund VII, which the firm raised in 2001.

This is the second time that American Capital has invested in Phillips & Temro. The firm provided \$5 million in deal financing to TMB Industries when it acquired the company from a unit of ThyssenKrupp AG in December 2002. At the time, the company was generating approximately \$40 billion in revenues.

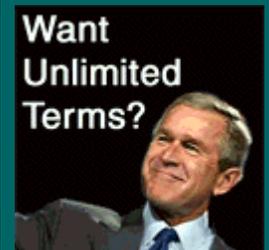
Morgenthaler makes investments in the middle-market, which is defined by the firm as transactions that fit within the \$50 million to \$250 million price range, Stanley said.

Snapshot

Target: Phillips & Temro Industries

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