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Money led GM to woo Chrysler for merger *Talks started in '07, bankruptcy records show*



A merger between General Motors Corp. and Chrysler LLC is out of the picture -- at least for now.

BY TIM HIGGINS • FREE PRESS BUSINESS WRITER • June 15, 2009

Last year, when Chrysler LLC approached General Motors Corp. about a possible merger, many auto industry watchers scratched their heads and wondered: Why?

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The idea of a GM-Chrysler union kept coming up, even though many saw little efficiency to be gained -- at least in the short term.

Testimony and filings in the GM and Chrysler bankruptcy cases show GM's motivation: money.

William Repko, a Wall Street financial adviser for GM, told the U.S. Bankruptcy Court in New York that when GM was struggling to get the lending it needed last year, it saw a Chrysler deal as a way to get banks to pony up more cash.

Several experts thought a GM-Chrysler deal made sense long-term. The court records show the companies began high-level talks in 2007.

Robert Manzo, a Chrysler financial consultant from Capstone Advisory Group, testified that his studies showed the value of a Chrysler alliance with GM was "higher than ... a deal with Fiat."

With Chrysler now linked up with Fiat and GM slated to be remade by the government, the idea of a GM-Chrysler merger is in the past -- at least for now.

Behind the scenes

The idea of a General Motors-Chrysler merger has transfixed Detroit for years.

Such a deal could have created a new, supersized American automaker that sold nearly one-third of the cars and trucks in the United States -- nearly double the size of Toyota Motor Co.'s market share.

Testimony and court records in the bankruptcy cases of both Chrysler and GM give a glimpse into the behind-the-scenes efforts to merge the Detroit automakers -- and what was driving them.

Talks between the two automakers occurred in the spring of 2007, became more serious in 2008 and were shelved in November when it became clear to GM leaders that they needed to focus on saving their own company from collapse.

But as recently as April, Chrysler representatives were again kicking the idea around, testimony during the Chrysler bankruptcy hearings revealed.

Chrysler filed for Chapter 11 bankruptcy protection April 30; GM filed June 1. Throughout it all, industry insiders have questioned the sensibility of a deal between the two reeling automakers.

Newsweek dubbed the idea of a GM-Chrysler merger "a lemon of a deal," calling the notion proof that "two wrongs don't make a right."

However, information from the bankruptcy cases suggests there was much to be gained, even if more jobs, factories and dealerships were lost.

Talks with DaimlerChrysler

Fritz Henderson, GM president and chief executive officer, described in records filed with the U.S. Bankruptcy Court in New York how his company entered into "high-level discussions" in the spring of 2007 with then-DaimlerChrysler to acquire Chrysler.

The German company was looking for a buyer for the Auburn Hills automaker.

"GM viewed Chrysler ... as having the potential to create significant synergies, the present value of which was estimated to be significantly greater than the equity value of either of the parties at the time, as well as an opportunity to reduce costs," Henderson said.

Ultimately, GM concluded a merger would "only exacerbate GM's exposure to a dwindling U.S. automotive market with mounting costs and supplier concerns."

Private equity firm Cerberus Capital Management emerged as Chrysler's new owner.

But that wasn't the end of the GM-Chrysler idea.

Chrysler comes knocking

By June 2008, GM began privately working with finance experts at Evercore Group LLC, a global corporate advisory firm, about raising money through the capital markets to offset cash problems that were beginning to develop from two bad business quarters in 2008, GM court records say.

Publicly, GM also stepped up cost-cutting efforts.

Then, that summer, Chrysler approached GM again.

As speculation swirled over the possible deal, many questioned what immediate efficiencies could be realized by combining the sprawling global operations of GM with those of Chrysler, which were mostly limited to North America.

"GM still hasn't achieved efficiencies within GM, let alone bringing Chrysler into the mix," Erich Merkle, an industry analyst, recalls thinking at the time.

Joseph Phillippi, a veteran Wall Street auto analyst, told USA Today: "I am quite baffled how this could work."

They questioned the brand synergies that could be found by combining GM's already heavy load of Chevrolet, Cadillac, Buick, Pontiac, GMC, Saturn, Saab and Hummer with Chrysler's lineup of Chrysler, Dodge and Jeep.

They noted that a new GM-Chrysler would have thousands more car dealerships than it needed nationwide.

Many also speculated that a GM-Chrysler union would result in dramatic job cuts as GM and Chrysler combined engineering and other back-room operations, reducing the need for thousands of white-collar ranks. Such a move was already beginning to take place, as Cerberus began laying the groundwork to combine the financial operations Chrysler Financial and GMAC, of which it was majority owner.

It made sense at one time

Still, a GM-Chrysler pairing held potential advantages.

A key person involved in GM's efforts at Evercore was Repko, who spent more than 35 years working with troubled companies. He is the former chairman and head of J.P. Morgan Chase & Co.'s restructuring group.

In an affidavit filed with the court, Repko said GM was struggling to get the lending it needed, but the automaker felt that a deal with Chrysler in 2008 could be a way to convince banks to lend more money. GM had \$15.8 billion in cash on hand at the end of September, while Chrysler had \$11 billion, but the market was beginning to deteriorate rapidly, leading the automakers to burn through billions and anticipate they would need more.

Restructuring expert Van Conway of Conway McKenzie Inc. said it's a strategy that could have worked, had the credit markets not collapsed in the fall of 2008.

"Once it crashed, there was no more bank money," Conway said. "On paper, before the crash, it made sense."

Already taken

The final stab at a GM-Chrysler deal came in April, before the companies filed for bankruptcy.

Manzo resurrected the deal and championed the idea. As late as April 14, he pushed the idea in an e-mail to Tom LaSorda, former Chrysler copresident.

"I do believe the valuations of an alliance with GM were higher than those of a deal with Fiat," Manzo said during testimony in the bankruptcy case.

But the government, which had given billions to the automakers and had gained a lot of say-so in their future, had already committed Chrysler to the Italian automaker Fiat.