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GM gears up for float with rules filing

By Bernard Simon in Toronto

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General Motors inched closer to a much-heralded public share offering this week by spelling out in a regulatory filing the rules that will apply for board and shareholder meetings once Detroit's biggest carmaker returns to public ownership.

The pace of preparations is about to pick up. GM, controlled by the US government since last year's court-supervised restructuring, is sure to point to its second-quarter results, to be published today, as evidence that its shares will be a sound investment.

Ed Whitacre, chairman and chief executive, hinted last week that net earnings between April and June beat the \$865m posted in the first quarter. Two profitable quarters in a row should be enough to persuade investors that "our future is pretty bright".

Mr Whitacre also confirmed that GM was negotiating a revolving line of credit as part of the IPO preparations. Although GM is sitting on a \$36bn cash pile, a revolver is a key element in most big IPOs to provide extra flexibility for the company and reassurance to investors.

The next move is likely within the next week or two when GM files a preliminary prospectus, known as a registration statement, with the Securities and Exchange Commission. GM declined to comment on the timing of a filing.

Presentations to investors cannot go ahead until the SEC has approved what will be a bulky and complex document. That process, likely to include a good deal of negotiation between GM and the SEC, could take up to several months.

GM and its bankers, led by JP Morgan and Morgan Stanley, are taking special care over the wording of the risk factors to its offering, according to one person familiar with the process.

On one hand, the prospectus needs to spell out the huge uncertainties that the company faces, from the possibility of a double-dip recession in the US to its growing dependence on China. But, as the person puts it, the question is how high to lift the skirt.

Charles Moore, senior managing director at Conway MacKenzie, a Detroit turnaround consultancy, describes the climate for the IPO as “very favourable”, noting that GM is selling more cars under its remaining four brands – Buick, Cadillac, Chevrolet and GMC – than the eight it had when it filed for bankruptcy protection 14 months ago. Its 19 per cent share of the US market in July was virtually unchanged from a year earlier.

Mr Moore also points to GM’s performance in other parts of the world, with booming sales in China offsetting problems in western Europe. China made up almost a third of GM’s first-quarter vehicle deliveries, and 11 per cent more than its sales in North America.

The US and Canadian governments, which together hold 72 per cent of the equity, have yet to disclose how much they plan to sell in the initial offering.

Steven Rattner, former head of the Obama administration’s autos task force, estimated this year that the US government could recover about \$40bn.

Given GM’s size, it has been widely assumed that Washington will reduce its stake in stages. Lazard is advising the US Treasury.

But Mr Whitacre said last week that he expected “to roll it out there all at once”.

“We want the government out, period. We don’t want to be known as Government Motors.”

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