

Thoughts on GM/Chrysler Plans

GM/Chry Request More Gov't Aid; Bankruptcy Sketch Provided

GM and Chrysler on Tuesday submitted their February 17 restructuring plans to the US Treasury Department as required by the term sheets of their previous TARP loans. Both companies increased the total amount of their respective aid requests while seeking to accelerate certain aspects of their turnarounds and also provided detailed cost/duration estimates of a bankruptcy (as required by UST).

- **GM increased its baseline estimate for gov't funding needs from \$12B to \$22.5B and warned it could need as much as \$30B in a downside scenario**, reflecting an 09/10 SAAR under "baseline" scenario of 10.5MM/12.5MM (12MM/13.5MM previously) and inability to refinance \$4.5B revolver. GM requested that in the event gov't funding reaches \$30B, that a sizable chunk of total aid be in the form of preferred equity rather than debt, a tacit acknowledgement of the fact that GM may emerge from an out-of-court process as a still highly-levered firm.
- **Out-of-court stakeholder concessions still ongoing:** GM stated that some progress has been made with the UAW on work rules/costs, but full cost competitiveness has not yet been reached yet. Bondholder discussions are ongoing, but no resolution as of yet. We suspect bondholder concessions will remain difficult given what seems like more favorable UAW VEBA haircuts: a partial cash compensation for bondholders and/or a gov't guarantee of new bonds may be needed to achieve desired 2/3 par value reduction of bonds.
- **Bankruptcy assessment:** GM estimated that in a pre-pack bankruptcy (where VEBA funding is settled before filing): duration would be 2 months, sales drop would be 35% initially/5% permanently, and cost to US gov't would be \$36B. A traditional Cht 11 was estimated to have a 2 yr duration, sales drop of 50-80% initially and 40-70% permanently, and cost the US gov't \$71-86B. GM's bankruptcy assessment clearly assumes sales would still be incrementally damaged very sizably from a bankruptcy (at least in the initial phases), an assumption that is up for debate given some likely consumer desensitization at this point to a carmaker bankruptcy (due to consumer awareness of proposals for gov't sponsored warranty and DIP loans for GM during bankruptcy).

Automobile Manufacture

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Expanded Points

GM now says it needs \$22.5B in a baseline case scenario, up from \$12B previously. GM on Tuesday submitted to Treasury updated industry volume and related funding requirements. Main variances relate to funding requirements in baseline and downside scenarios. On December 2nd, GM had estimated a baseline industry/macro scenario (including 2009 12.0MM US total industry SAAR, 11.7MM light) would necessitate \$12.0B of government funding. However, as previously communicated around the time of the Detroit Auto Show, the downside scenario envisioned by the company in its December 2nd plan submission to Congress — including 2009 total US industry SAAR of 10.5MM (10.2MM light) — is now GM's baseline assumption (JPM expects 11.0MM).

GM had maintained on December 2nd it would need \$18.0B of funding in such a downside scenario. GM also is increasing its estimated government funding requirements due to the fact its previous plan assumed it could roll \$4.5B of secured revolver funding due in 2012 — a point it no longer presumes. Thus its new baseline scenario calls for \$22.5B of funding (\$18B + \$4.5B).

GM's lowering of 2009 industry volume expectations is understandable in light of further worsening of the macro environment and US auto sales over just this short period. We believe 11.7MM light vehicles was a reasonable assumption for 2009 light vehicle sales in early December, although we did not at that time assume GM could replace its 2012 revolver with private funds.

GM government funding needs in a downside scenario could total \$30B. GM's new downside scenario would necessitate an additional \$7.5B in government funding requirements. Whereas the previous downside estimate was based on 10.5MM US total industry SAAR in 2009, the new downside estimate assumes 9.5MM.

In general, we find GM's baseline industry assumptions in line. GM's implied 2009 US LV SAAR estimate is 700K lower than JPM. For 2010, GM is expecting, 12.5MM total industry SAAR, implying 12.2MM light — or roughly 800K below JPM. GM illustrates the macro assumption on which it bases its overseas production (and hence cash flow projections and government loan requirements) are below current consensus estimates). Assumptions that may be a touch on the aggressive side include projections for US market share (20.4% in 2010 vs. 21.5% in 2008) and 2009 asset sales (combined cash proceeds of \$1.5B from AC Delco and Strasbourg, France transmission facility — which GM has been shopping since at least mid-08).

Incremental brand points: Saab / Hummer could be unwound as soon as this quarter. GM warned it could file its Swedish subsidiary, Saab, for bankruptcy protection as soon as this month and Hummer would either be sold (it is in talks with interested parties) or cease production shortly after March 31st.

GM provided additional color on the effects of a bankruptcy filing on its business, stating that bankruptcy is still very risky and net more expensive to the US taxpayer. It appears both GM and Chrysler were required by Treasury to provide some estimate of the potential cost and duration of one or more bankruptcy scenarios. GM provided three bankruptcy scenarios, detailing estimated likely sales

impact and required DIP financing in each. In short, it assumes its auto sales would still be incrementally damaged very sizably from a bankruptcy (at least in the initial phases), an assumption that is up for debate given likely consumer desensitization at this point to a bankruptcy (and consumer awareness of proposals for gov't sponsored warranty and DIP loans for GM during bankruptcy). Key points of GM's 3 bankruptcy scenarios:

- a) A 2-month "pre-packaged" Cht. 11 in which VEBA funding levels would be decided upon beforehand and in which case the bankruptcy process would simply be used to reduce bondholder claims. Estimated required US gov't support costs of \$36B (\$45B globally) and assumption of a 35% initial sales drop and a more permanent 5% drop (vs. pre-bankruptcy levels).
- b) A 3-6 month more aggressive "pre-negotiated cram down plan" in which bondholders and VEBA payments may both be 100% equitized and potential impairments of other claimants (e.g., litigation liabilities, dealer claims). Estimated required US gov't support cost of \$46-55B (\$57-70B globally) and assumption of a 50% initial sales drop and a more permanent 10-20% drop (vs. pre-bankruptcy levels).
- c) An 18-24 month "traditional Cht 11" case in which the scope of liabilities that can be reduced is much wider than the above two scenarios. Estimated required US gov't support costs of \$71-86B (\$86-103B globally) and assumption of a 50-80% initial sales drop and a more permanent 40-70% drop (vs. pre-bankruptcy levels).

Chrysler separately requested additional funds (\$2B incremental to its December 2nd request and \$5B beyond what it has already been allocated). Chrysler requested additional funds while warning an orderly liquidation would necessitate \$24B of DIP financing.

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