



Some experts optimistic that GM's restructuring plan can help automaker avoid bankruptcy

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DETROIT -- The pain of General Motors Corp.'s latest severe restructuring cuts, announced Monday, will be felt in factories, dealerships and households across Michigan.

But if the plan works, GM might be able to skirt bankruptcy and turn an operating profit by next year, the automaker said.

In its third major downsizing since December, GM said it will eliminate the Pontiac brand by 2010, cut thousands more jobs and accelerate the buyout of more than 2,600 dealers.

"It really is another deep blow to Michigan's economy," said Scott Watkins, a senior consultant at the Anderson Economic Group in East Lansing. "But it's a really necessary step to get the company to the size it needs to be to survive."

GM's top executive acknowledged the plan is the last chance for survival outside of a bankruptcy court.

"We need to have a more stable and sustainable business model because, candidly, we only want to do this once," GM Chief Executive officer Fritz Henderson said in a news conference.

U.S. taxpayers could end up owning 50 percent of GM under the plan which would have the federal government convert half its loans to equity.

GM'S PLAN

- Ask bondholders to accept 225 shares of GM stock for every \$1,000 in bonds
- Convert half of the federal loans to GM stock
- Eliminate 2,600 dealerships by 2010, 500 more than the previous plan
- Kill Pontiac brand by 2010
- Trim 23,000 hourly jobs by 2011, as many as 8,000 more in the previous plan

Source: GM

GM also wants the United Auto Workers union to accept \$10 billion worth of GM stock as part of the automaker's obligation to fund a retiree health care trust.

That would result in the U.S. Treasury Department and the UAW owning 89 percent of the company.

Henderson said Treasury "has shown no interest" in running GM.

GM is living on \$15.4 billion in federal loans and said Monday it needs \$11.6 billion more.

The plan calls for it to trim 23,000 hourly jobs by 2011, as many as 8,000 more in its Feb. 17 viability plan.

Henderson said GM also will "go deeper" in cutting salaried jobs, but he didn't specify how many.

GM will close 16 assembly, powertrain and stamping plants by 2012, one more than in its Feb. 14 plan. Six plants will close this year and seven more by the end of next year.

"The depth of the pain inflicted on our workers, families and communities by these decisions should not be minimized," U.S. Sen. Carl Levin, D-Mich., said.

Henderson said the names of those plants and related job cuts will be announced in early July.

As part of its restructuring, GM also announced a plan to convert \$27 billion in debt to equity by giving bondholders 225 shares of GM stock for every \$1,000 in bonds they hold.

The stock closed Monday at \$2.04 a share, up 35 cents. It has traded as high as \$24.24 within the past 12 months.

Henderson said at least \$24 billion on bond debt must be converted to stock by June 1 or GM will file for Chapter 11 bankruptcy protection.

Under terms of its \$15.4 billion in federal loans, GM must gain concessions from bondholders and from the UAW on retiree health care by June 1.

GM doesn't have an agreement yet with either group.

Several experts said the new debt-to-equity exchange offer might succeed in keeping GM out of bankruptcy.

"At least (bondholders) know what the agreement is," said Mike Boudreau, a corporate turnaround consultant at O'Keefe and Associates in Bloomfield Hills. "While it's painful, they still have the opportunity to participate in the upside with their new stock."

The offer to bondholders is likely more than they would get after paying attorneys and other fees in bankruptcy court, said Richard Hilgert, president of Automotive Financial Research LLC in suburban Chicago.

Hilgert said he thinks there is "better than 50-50 chance" that GM will get the 90 percent of bondholders it needs to accept its offer.

GM will face a tough set of negotiations with its dealers as it shuts down the Pontiac brand and negotiates buyouts of more than 2,600 dealers.

The plan also calls for eliminating about 500 more dealerships than its Feb. 17 viability plan.

And the plan further accelerates dealer consolidation by four years, from a completion date of 2014 to 2010.

GM had 6,246 dealers in 2008 and will shrink that number to 3,605 by the end of 2010.

Dealers are frustrated because GM's plans have repeatedly changed, and the media coverage has hurt sales, said Terry Burns, executive vice president of the Michigan Automobile Dealers Association in Lansing.

"This is what they have announced today. There may be changes to that," Burns said. "It's made it very difficult to plan and do business."

Burns said there are 300 GM dealer locations employing about 16,000 workers in Michigan.

State franchise laws require automakers to pay dealers to end their franchises. But if GM enters bankruptcy, it could ask a judge to nullify its franchise agreements.

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