



Weekly Car Dealers Newsletter

July 5, 2010

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

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**GM IPO TO CUT US STAKE, RAISE NEW CAPITAL
TESLA IPO RAISES \$226 MILLION
TOYOTA/LEXUS TO RECALL 270,000 CARS**

GM IPO TO CUT US STAKE, RAISE NEW CAPITAL

- * IPO to make U.S. Treasury minority shareholder -sources
- * UAW healthcare trust also aims to sell shares in IPO
- * GM aims to show progress to potential investors

The planned initial public offering of General Motors Co [GM.UL] is likely to leave the U.S. government with a minority stake while also raising new funds for the automaker, people briefed on the still-developing plans said. The U.S. Treasury, which owns 60.8 percent of GM stock as a result of its \$50 billion bailout last year, aims to sell about 20 percent of its holdings as part of the stock sale, two sources with knowledge of the preparations said. That would leave the U.S. government with a 49 percent stake before accounting for the further dilution from new GM share issuance.

GM is considering issuing new capital in the IPO, chipping away at the one liability on its balance sheet that the government-funded restructuring failed to address: a \$27 billion shortfall in its pension funding, the sources said. The retiree healthcare trust, affiliated with the United Auto Workers union but administered independently, also plans to sell part of its 17.5 percent stake in GM to raise cash and diversify its portfolio, the sources said. The healthcare trust is the No. 2 GM shareholder after the U.S. Treasury. The sources asked not to be named because they were not authorized to discuss the confidential negotiations and no final decisions have been made. The sources could not detail plans for the two smaller GM shareholders. The governments of

Canada and Ontario own 11.7 percent of GM, while bondholders in the Old GM, now known as Motors Liquidation Company, have 10 percent. The emerging terms of GM's planned IPO are expected to dominate interest among potential investors and analysts who will gather in Detroit on Tuesday to hear the first financial presentation by the automaker's new executive team headed by Chief Executive Ed Whitacre.

BEYOND THE BALANCE SHEET

GM is expected to talk about how a stronger balance sheet emerging from bankruptcy has made it possible to break even despite sharply lower U.S. sales, how it plans to expand further in fast-growing markets in China and how it plans to address remaining issues, like funding the restructuring of its money-losing European unit Opel. Mirko Mikelic, a fixed income portfolio manager at Fifth Third Bank in Grand Rapids, Michigan, said he expected GM to face grilling about the risks of a return to recession in the United States. "There's concern about a double dip out there. That's probably the biggest thing that's weighing over GM coming to the market because that's going to keep (auto sales) down for another year or two," he said. Industry-wide U.S. sales have stabilized in the first half of the year above 11 million units on an annualized basis but have failed to show signs of the recovery that automakers, including GM, had expected to see.

GM is preparing for a stock listing as early as this year, just over a year after emerging from a government-sponsored bankruptcy that wiped out equity investors. Sources have said GM could raise up to \$20 billion in what would be one of the largest U.S. IPOs ever. Whitacre, a former AT&T executive, has been focused on changing the way GM executives operate, people inside the company have said. Reforming GM's bureaucratic decision-making and shaking up its product development were top priorities for GM even under former Chief Executive Fritz Henderson, who steered the automaker through bankruptcy before being ousted in December. GM executives say that process has accelerated under Whitacre, who is expected to face questions on the topic on Tuesday when he meets analysts and potential investors at GM's development and engineering center in Warren, Michigan. "GM wants to prepare everybody for the IPO, talking about all the good things the company's doing," one person involved in the preparation said. "It's time to start talking to the market about what GM is today." Among the changes Whitacre has driven to simplify and flatten decision-making was putting Mark Reuss, president of North American operations, in charge of turning around U.S. operations. Whitacre, who still commutes back to his home in Texas on weekends, was initially frustrated by the way GM's reporting lines and responsibilities were tangled, particularly in vehicle development and marketing. "He wants to be able to say, who's in charge of this, and to point to that person," one aide said. Other GM executives, including Vice Chairman Tom Stephens, say the radically simpler mission statement credited to Whitacre -- "Design, build and sell the world's best vehicles" -- has the automaker's engineers motivated to do better with launches still in the pipeline. Karl Stracke, vice president of global vehicle engineering, said: "The real change came along when Ed Whitacre said, 'Guys, what is important in this company?' And he said the product is the most important. So, now, there are no financial people in the middle of everything anymore."

U.S. sales for the first five months of 2010 showed a 15 percent gain for GM, a better percentage of growth than the top two Japanese rivals, recall-restrained Toyota Motor Corp (10.5 percent and Honda Motor Co at 13 percent.

A stock listing could allow GM to start to rebuild consumer confidence in brands tarnished by years of quality missteps and criticism that it became "Government Motors," analysts said.

A successful GM IPO would also represent an important political win for the Obama administration, which engineered bailouts for both GM and its smaller rival Chrysler in 2009 in the face of Republican criticism and public opposition. *Source: Reuters*

TESLA IPO RAISES \$226 MILLION

Tesla Motors Inc., the electric-car company that hasn't posted a profit, rallied 41 percent after raising \$226 million in the first initial public offering of a U.S. automaker in a half century.

The maker of the \$109,000 electric Roadster bought by Brad Pitt and George Clooney climbed \$6.89 to \$23.89 in Nasdaq Stock Market trading, the biggest gain for a U.S. IPO since March. The Palo Alto, California-based company sold 13.3 million shares at \$17 each after offering them for \$14 to \$16, according to a statement and a Securities and Exchange Commission filing. Tesla will use proceeds for factories and possible acquisitions.

The IPO was the first by an American car company since Ford Motor Co. in 1956. Chief Executive Officer Elon Musk, who has staked his personal fortune to Tesla after making almost \$300 million selling PayPal Inc. and Zip2 Corp., is using the offering to fund a startup that expects to lose more money in the next two years as it tries to build a battery-powered sedan.

"Certainly in the short run, people like this story," said Thiemo Lang, who helps oversee about \$1.2 billion in energy and clean-energy investments at Sustainable Asset Management AG in Zurich and bought shares in the IPO. "You always have the short-term hype, but in the long term, the company has to show they're able to execute."

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S&P 500's Slump

Tesla rallied even as the Standard & Poor's 500 Index tumbled 3.1 percent on concern over weakening growth in China and lower-than-estimated U.S. consumer confidence. The sale also came after at least 35 companies worldwide postponed or withdrew IPOs since the start of May as the European debt crisis sent the S&P 500 down as much as 14 percent from its 2010 high.

The first-day advance was the second-biggest for a U.S. IPO this year after Financial Engines Inc., according to data compiled by Bloomberg. The Palo Alto, California-based investment adviser co-founded by Nobel laureate William Sharpe increased 44 percent on March 16.

Tesla raised 27 percent more than it originally sought after boosting the number of shares it was offering yesterday to 13.3 million from 11.1 million. Goldman Sachs Group Inc., Morgan Stanley and JPMorgan Chase & Co. of New York, along with Frankfurt-based Deutsche Bank AG, led Tesla's offering. "Tesla has been the first good sign of an IPO in a long time," said Darren Fabric, Chicago-based managing director of IPOX Capital Management LLC, which oversees the

Direxion Long/Short Global IPO Fund. "There's really no comparables to it. People may want to own it just for the reason that it's the first U.S. car company that's gone public in 54 years."

Obama's Support

Electric-car technology has been supported by U.S. policy makers including President Barack Obama as a way to reduce the nation's oil use and dependence on foreign energy sources. Obama set a goal of getting 1 million plug-in hybrids and electric cars on U.S. roads by 2015 and subsidized Tesla with a \$465 million loan from the Department of Energy to develop its cars. Musk, Tesla's biggest shareholder, co-founded PayPal, the online payment company now owned by San Jose, California-based EBay Inc., and is CEO of Space Exploration Technologies Inc., a Hawthorne, California-based company that builds spacecraft. He has spent more than \$70 million of his own money on Tesla while selling about 1,000 Roadsters to film stars, musicians and battery-car advocates.

'Just Not Possible'

The company would already be profitable if it only made the Roadster and supplied powertrains, Musk said in an interview on Bloomberg Television's "In the Loop With Betty Liu." Tesla is expanding "3000 percent" over two to three years as it develops the Model S sedan and aims to remain independent. "It's just not possible for the company as a whole to be profitable with that rate of expansion," Musk said. While the automaker has burned through \$230.5 million in cash and posted losses in every quarter since it was founded in July 2003, Tesla attracted Toyota City, Japan-based Toyota Motor Corp., the world's largest automaker, which planned to buy \$50 million of shares alongside the IPO. Tesla and Toyota said they may cooperate on electric-vehicle development, though they haven't signed agreements to do so, filings show. Mountain View, California-based Google Inc.'s founders Larry Page and Sergey Brin, the government of Abu Dhabi and Daimler AG of Stuttgart, Germany, are also investors. Tesla's net loss in the first quarter almost doubled to \$29.5 million from a year earlier. The deficit is more than half the \$55.7 million the carmaker lost in all of 2009.

Relative Value

At the original midpoint price of \$15, Tesla was valued at 5.5 times its net tangible assets, a measure of shareholder equity that excludes assets that can't be sold in liquidation. That's triple the median 1.82 times for automotive companies globally, data compiled by Bloomberg show. Tesla will use the IPO and the federal loan to develop its lithium-ion battery-powered Model S, a \$57,400 electric sedan intended to travel 160 miles (257 kilometers) per charge, by 2012. The company plans to produce at least 20,000 units of the Model S each year. Under terms of the federal loan, Musk and certain affiliates must retain 65 percent of their stock in Tesla for a year after completing the Model S project. Musk's divorce proceedings won't result in the combined stake falling below 65 percent or have a material impact on his ability to serve as CEO, according to filings.

Nissan, GM

As Tesla focuses on creating a niche for premium-priced electric vehicles, Yokohama, Japan-based Nissan Motor Co. and General Motors Co. are developing battery-powered vehicles to appeal to mainstream buyers. Nissan's electric Leaf hatchback, which has a range of 100 miles, goes on sale in the U.S. later this year with a base price of \$32,780, or a third that of Tesla's Roadster. GM plans to introduce the Chevrolet Volt electric car in November. The Detroit-based automaker is preparing for an IPO that may sell 20 percent of the Treasury's stake in the company and reduce the U.S. to a minority owner, two people familiar with the plan said last week. Nissan Chief Executive Officer Carlos Ghosn said the automaker has received more than 20,000 orders for the Leaf globally, and is prepared to build as many as 500,000 electric cars annually by 2012. Japan's third-largest automaker reported revenue of \$81.1 billion in its fiscal year ended March 31.

Tesla had revenue of \$112 million last year.

"It's not unusual to see a good deal of exuberance when an IPO is first announced," said Laura Marcero, a Southfield, Michigan-based partner at Grant Thornton LLP who works with partsmakers. "As time goes on and more of the company's plans and finances are looked at, it may go down. The more Tesla can do to broaden out its business plans, the better." *Source: Bloomberg.com*

TOYOTA/LEXUS TO RECALL 270,000 CARS

Toyota Motor Corp. says it will recall 270,000 vehicles worldwide next Monday to fix faulty engines. Toyota spokesman Paul Nolasco said Friday the recalled vehicles include seven models of luxury Lexus sedans and the popular Crown. Of the 270,000 vehicles, some 180,000 were sold overseas and the rest in Japan. Nolasco said Toyota will inform Japan's transport ministry of a recall of 90,000 vehicles on Monday.

Toyota spokesman Hideaki Homma previously said the company was evaluating measures to deal with the problem of defective engines that can stall while the vehicle is moving. He would not confirm a recall was being considered.

The automaker has been working to patch up its reputation after recalling more than 8 million vehicles worldwide because of unintended acceleration and other defects. The 270,000 vehicles include the popular Crown and seven models of luxury Lexus sedans. Toyota said it has received around 200 complaints in Japan over faulty engines. Some drivers told Toyota that the engines made a strange noise. Homma said there have been no reports of accidents linked to the faulty engines. The models affected include LS460, LS600h, GS350, GS450h, GS460 and IS350.

The automaker's shares dropped 2.3 percent to close at 3,010 yen in Tokyo on Thursday.

U.S. authorities recently slapped Toyota with a record \$16.4 million fine for acting too slowly to recall vehicles with defects. Toyota dealers have repaired millions of vehicles, but the automaker still faces more than 200 lawsuits tied to accidents, the lower resale value of Toyota vehicles and

the drop in the company's stock. In the aftermath of the recalls, Congress is considering an upgrade to auto safety laws to toughen potential penalties against automakers, give the U.S. government more powers to demand a recall and push car companies to meet new safety standards.

Toyota said last week it will recall 17,000 Lexus luxury HS250h hybrids after testing showed that fuel can spill during a rear-end crash. *Source: Associated Press.*
