



Weekly Car Dealers Newsletter

March 15, 2010

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

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GM CANADA - DEALERSHIPS NOT GIVEN OPTION TO STAY OPEN

General Motors dealerships slated for closure in Canada will not be given the same option to remain open that their U.S. counterparts have been offered. GM Canada spokesman Tony LaRocca said Monday that the decision to reinstate 661 dealerships south of the border has no bearing on the 240 Canadian dealerships that have been closed or are in the process of closing. He said that's because the scenarios are entirely different for a number of reasons, including the fact that the Canadian operation never filed for bankruptcy. "We did a business assessment of each dealership, (whereas in the U.S.) they took a cut at numbers because they were bankrupt and just had to shed, so we've already done a very thorough, very diligent assessment of each individual dealer," he said.

GM executives in the U.S. said Friday that the dealerships (more than half of those seeking to stay with the automaker) will receive letters giving them the option to remain open. GM said it would not have enough time to negotiate with all 1,100 dealerships that appealed the automaker's decision to close them within a four-month window imposed by the federal government. As part of its restructuring in the U.S., the automaker had told about 2,000 dealerships it would not renew their franchise agreements once they run out in October 2010.

But the dealerships accused GM of treating them unfairly, and last month Congress passed a law requiring an appeals process for the dealers. Arbitration hearings for the dealers who didn't get offers but still want to stay with GM will begin later this month.

In Canada, GM had said it intends to eliminate more than one-third of its Canadian dealerships by October 2010 in an attempt to cut costs and streamline its business. Over 200 of more than 700 dealerships in Canada have already closed. A class action lawsuit has been launched on behalf of the 215 Canadian General Motors dealerships whose businesses were closed last year. The lawsuit, which is seeking \$750 million in damages, claims GM Canada broke franchise laws by giving its dealers, at most, four business days to respond to a termination package offered by the company.

LaRocca said the process it followed in Canada since May, when it broke the news to dealers, has been different than the course in the U.S. "(Canadian dealers) had recourse to management review meetings, mediation and arbitration . . . in a process that exists here in Canada that does not exist in the United States," he said.

Rick Gauthier, president of the Canadian Automobile Dealers Association, called on GM Canada to reinstate some of the 240 dealers Friday in a letter to GMC vice-president of sales and marketing Marc Comeau. "We view General Motors Corporation's announcement (in the U.S.) as a recognition that it clearly erred in terminating some of the dealers that it did and in light of this it is inconceivable to us that GMCL (General Motors Canada Ltd.) is immune to similar errors in judgment," he wrote. Gauthier said Monday he had not heard back from the company, and he was shocked to hear it was not following the parent company's decisions, after it had done so since the restructuring began in the fall of 2008. He said he would give GM Canada "a pass for today," but added the Canadian company should waste no time in reconsidering its position. Gauthier added that if all 240 Canadian dealerships close about 12,000 jobs will be lost. "GM U.S. filed for bankruptcy, which gives them legal protection from any kind of recourse from those dealers and yet they are coming back and saying we need to rethink some of these closures," he said. "You would think that GM Canada, who was able to avert bankruptcy thanks in great part to the fact that the General Motors dealers worked with GM , you would think that they would owe those dealers a better hearing, a fairer hearing," he said. *Source: The Canadian Press*

CLASS-ACTION LAWSUITS COULD COST TOYOTA \$3 BILLION

Miami -- Toyota owners claiming that massive safety recalls are causing the value of their vehicles to plummet have filed at least 89 class-action lawsuits that could cost the Japanese auto giant \$3 billion or more, according to an Associated Press review of cases, legal precedent and interviews with experts. Such class-action lawsuits "are more scary for Toyota than the cases where people actually got injured," said Tom Baker, a University of Pennsylvania law professor. "A super-big injury case would be \$20 million. But you could have millions of

individual car owners who could (each) be owed \$1,000. If I were Toyota, I'd be more worried about those cases." Toyota owners suing the company contend their vehicles have dropped in value because of the recalls and that Toyota knew all along about safety problems but concealed them from buyers. In some of the lawsuits, Toyota owners seek additional damages because they're afraid to drive what they call "defective and dangerous" cars, while still others claim insurance premiums will likely go up. *Source: The Detroit News*

FIAT HAS A SELLING JOB

Fiat SpA, the Italian carmaker that helped Chrysler Group LLC emerge from bankruptcy, may wait to turn around the U.S. business before deciding on a share sale or spinoff for its automotive division. The Italian company's stock has risen 21 percent this month on speculation that Chief Executive Officer Sergio Marchionne may carve out Fiat's biggest unit as a new company. Fiat executives have so far sent mixed signals about whether an initial public offering of the division will take place. A separation of the auto manufacturing operations, which generated 56 percent of Fiat's revenue last year, would give Marchionne an entity to facilitate future alliances, and a share sale would generate cash for international expansion. The maker of Puntos and Ferraris must show progress at Chrysler, of which it owns 20 percent, before convincing investors to buy shares in the unit, said Royal Bank of Scotland analyst Jose Asumendi. "Fiat has too much on its hands right now to think about a possible spinoff," said London-based Asumendi, who advises holding Fiat's stock. "The priority is to resurrect Chrysler, make it profitable and repay its government loans."

Fiat Automobile, not including Fiat's 20 percent stake in Chrysler, is worth about 5.9 billion euros (\$8 billion), or 53 percent of Fiat's market value, said Stephen Pope, chief global equity strategist at Cantor Fitzgerald in London. "Get the U.S. strategy right and in six years time, Fiat Auto could be worth 20 percent more."

Holding Pattern

Fiat derives the remainder of its revenue from units including truckmaker Iveco SpA and CNH Global NV, an agricultural and construction machinery maker. Marchionne plans to detail on April 21 in Turin, Italy, how Chrysler, which he also runs, will improve Fiat's profitability through shared sales efforts and technology. The CEO is trying to shore up both companies as government incentives to buy new cars end in Europe and Chrysler's U.S. market share lags a 10.5 percent target for 2010. Chrysler is "in a year of hibernation" and talk of a separate Fiat Auto is "premature," Kristina Church, an analyst at Barclays Capital, wrote in a March 8 note. Barclays upgraded Fiat to "equal weight" from "underweight" in part because the shares may benefit from the speculation.

Share Performance

Fiat's surge this month is more than triple that of the Bloomberg World Auto Manufacturers Index, which includes Fiat and has risen 5.7 percent. Ford Motor Co., the only major U.S. carmaker that didn't take a government bailout, has jumped more than sixfold in 12 months and is up 28 percent this year, compared with a 9 percent decline by Fiat. The Italian carmaker rose as much as 2.1 percent today and was up 1.4 percent at 9.35 euros at 3:39 p.m. in Milan.

That recent share gain might persuade executives to press ahead with a share sale sooner rather than later, said Pierre Bergeron, a credit analyst at Societe Generale SA in Paris. The company's perceived value is unlikely to rise soon because Fiat and Chrysler offer a weak product lineup in a challenging U.S. market, he said. A partial sale or spinoff this year, of a 30 percent stake, could give Fiat additional options for consolidating its debt, Bergeron said. Fiat could also sell more after that, he said. A spinoff "is not dead," Marchionne told reporters March 3 in Geneva. A day earlier, Chairman Luca Cordero di Montezemolo told Bloomberg News that he didn't foresee a share sale.

'Conjecture'

Responding to a request from Italy's stock market regulator, Fiat said March 6 that media reports about an IPO or spinoff are "conjecture" and that it isn't planning any "extraordinary transactions." A company spokesman declined to comment further yesterday. Marchionne said last year that the creation of a separate auto company may take several years. Fiat will be held back this year by declining car sales, pricing pressure and industry overcapacity, Barclays's Church wrote. Fiat makes about 2 million cars annually, while Chrysler manufactured 1.3 million last year. That's short of Marchionne's contention that to survive as a global automaker, a company needs production of at least 5 million vehicles. Last year, the carve-out speculation centered on Fiat's bid for General Motors Co.'s Opel because a purchase could have given Fiat the scale Marchionne says is necessary to survive. GM eventually decided to keep the European operations. Marchionne needs to show success with current strategic plans before he considers creating one automotive group, analysts at Goldman Sachs Group Inc. led by Stefan Burgstaller said March 8 as they added Fiat to a "conviction buy" list.

Dodge Chargers, 300s

Fiat acquired the 20 percent stake in Auburn Hills, Michigan-based Chrysler in June as part of a plan to help the U.S. carmaker emerge from bankruptcy. The Italian company can lift the holding to 35 percent in increments by meeting targets such as building an engine in the U.S., and can win control after government loans are repaid. Chrysler is refreshing most models, including the Jeep Grand Cherokee. New Chrysler 300s and Dodge Chargers will use the first platform developed jointly with Fiat, which plans to begin selling its 500 subcompact in the U.S. Marchionne has said Chrysler may have an IPO after 2010. Chrysler yesterday named former Volkswagen AG executive Laura Soave to lead the reintroduction of Fiat in North America. Soave, 36, will take charge of presentation of the Fiat 500 starting in December. The trendy city

car, to be made in Mexico and sold at Chrysler dealerships, aims to compete with Bayerische Motoren Werke AG's Mini. Fiat left the U.S. market more than 25 years ago.

Tesla, GM

Tesla Motors Inc., the Palo Alto, California-based producer of a \$109,000 electric Roadster, filed in January for an initial public offering to raise as much as \$100 million. Detroit-based GM, which emerged from bankruptcy July 10, could hold an IPO by late 2010, Chairman Ed Whitacre has said.

Fiat may have earnings before interest, taxes, depreciation and amortization of 4.26 billion euros this year, a 14 percent increase from 2009, according to the average estimate of 26 analysts surveyed by Bloomberg. Chrysler had Ebitda of \$200 million in 2009's third quarter and posted a sales gain in February, its first in 26 months. One hurdle to a separate Fiat Auto is how the carmaker will apportion its bonds, according to Alessandro Frigerio, a fund manager at RMJ Sgr, which oversees about 100 million euros and owns Fiat shares. Fiat's bonds totaled 11.4 billion euros at the end of 2009, according to its annual report. "It's a complicated transaction that has to satisfy both the bondholders and the shareholders," Frigerio said. "The transaction is also very much tied to how things go at Chrysler, which is still in the preliminary stages of the restructuring." *Source: Bloomberg.com*

FOR POLICE INTERCEPTOR – THE BEAR GETS CLAWS

Ford's new Taurus-based squad car is set to go on patrol in late 2011, replacing the venerable Crown Victoria in police fleets across the country.

With EcoBoost V6 power and all-wheel drive, the new purpose-built Police Interceptor is a departure from the traditional rear-wheel-drive, V8 Crown Vics which have been a mainstay of police fleets for more than 15 years. It will be offered when production of the Crown Victoria ends late next year.



Ford has had the cop-car market largely to itself since the demise of the Chevrolet Caprice in the 1990s. But it now finds itself with renewed competition from Chevy, which is bringing a rear-wheel powered competitor to market in 2011, and Dodge, which has found a strong following among police officers with its muscle-bound Charger sedan.

The new Ford cop car gets two motors: the 3.5-liter V6 EcoBoost with 365 hp and 350 lb-ft of

torque and a naturally aspirated 3.5-liter V6 making 263 hp. They're paired with a six-speed automatic. The shifter is column-mounted. It comes in front-wheel and all-wheel drive models.

The squad car is also loaded with new features from the Blue Oval's technology bin, including Sync, blind-spot detection, cross-traffic alert, a rearview camera and standard stability control. It's also laden with safety technology, including a side-curtain airbag rollover-protection system. The car was tested by the Michigan State Police and the Los Angeles County Sheriff department.

Additionally, the brakes are larger and work in concert with standard 18-inch steel wheels for ventilation. Engine cooling is improved, and the interior is redesigned from the street car. Most notably, the front seats have a lower bolster for officers' utility belts, and there's an antistab plate to protect front-seat occupants.

It's also easier to load perps into the backseat: The rear doors swing open 10 degrees more to accommodate entry and exit, especially in handcuffs.

The new vehicle does set up an intriguing choice for departments nationwide--the tried-and-true rear-wheel action with V8 power as an option from Dodge and Chevy, or the EcoBoost V6 with AWD.

Crime isn't supposed to pay, but the police-car market is an area to which all three of the Detroit-based automakers are paying increased attention for sales. *Source:AutoWeek.com*
