



## ***Weekly Car Dealers Newsletter***

**April 21, 2009**

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This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

# **Week of April 20, 2009**

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### **ANNUAL CFO MEETING**

This year's meeting will be held June 25<sup>th</sup> in our Edmonton office.

The guest presenters are Paul Gillrie (The Gillrie Institute) and Jim Trafford a former factory auditor who will address who to keep your warranty claims, factory incentives and how to deal with the factory audit.

Plus much more, watch for the mailings.

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### **CRASH TESTS SHOW SMALL CAR RATINGS ARE MISLEADING**

Buyers choosing the smallest cars for low price and high gas mileage could be endangering themselves and their passengers, says a major auto-safety researcher.

In new crash tests, the Insurance Institute for Highway Safety rammed three automakers' smallest cars into their midsize models. Although the small cars had passed other IIHS tests, they flunked in collisions with larger but still-fuel-efficient sedans. "The safety trade-offs are clear," IIHS President Adrian Lund says. "There are healthier ways to save gas." IIHS, funded by auto insurers, usually crashes cars into stationary barriers at 40 miles per hour. This time, it was car into car, each going 40 mph. Barrier tests, in effect, show how a car holds up crashing into one like itself, Lund says. These tests show colliding with a larger car at the same effective speed as the barrier test.

IIHS picked three small cars that got its top rating of "good" in barrier tests. In these tests, they fell to "poor" The report comes as small cars take a larger share of U.S. new-vehicle sales. While R.L. Polk registrations show 13.8% of vehicles on the road are classed "small cars," their share of new-car sales rose from 14.5% in 2006 to 18.1% last year, says Autodata. "We're hearing people say, 'Everything gets a 'good' rating now, so I might as well buy a small car,' " Lund says. "A lot of people are forgetting that the laws of physics still hold" and even a little bit bigger still is safer. The mileage trade-off may not be much. A Honda Fit, for instance, is rated 31 miles per gallon in city/highway driving. A larger Civic gets 29 mpg.

The IIHS tested:

- Fit vs. Accord. The Fit crash-test dummy registered severe leg injuries. The dummy's head also slapped through the air bag and whacked the steering wheel.
- Toyota Yaris vs. Camry. Yaris nearly lost a door. Its driver's seat tipped forward. The dummy's head hammered into the steering wheel.
- Daimler Smart vs. Mercedes-Benz C-Class sedan. IIHS says the Smart "went airborne and turned around 450 degrees ... a dramatic indication of the Smart's poor performance, but not the only one." Much of the interior was shoved into the crash dummy "from head to feet."

Dave Schembri, president of Smart, says, "If you carry this to the nth degree, we'd all be driving 18-wheelers." And, he says, fewer than 1% of crashes are as violent as the IIHS test.

Lund says the car vs. car tests are meant to mimic killer crashes, not fender benders. He also says that the only difference between the barrier test, in which Smart got a "good," and the latest test is the size of the obstacle the Smart ran into.

Cynthia Sholander. of Fairfax, Va., praises Smart. She survived a horrific rear-end crash last October that sent her Smart sailing off Interstate 95, into trees, then bouncing back. Sholander says she suffered a concussion but no other injuries. – *Source By James R. Healey, USA TODAY*

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### **FIAT RACES TO STRIKE CHRYSLER DEAL - But Italian carmaker's lack of cash raises doubts**

Fiat SpA is offering Chrysler LLC billions of dollars worth of small-car and engine technology as part of a proposed alliance, but analysts, auto executives and, most importantly, members of the White House auto task force question whether the benefits will come in time to save the Auburn Hills automaker. Savings from platform- and component-sharing are valued at as much as \$10 billion but could take months, even years, to materialize, while Chrysler's cash needs are urgent.

Fiat is Chrysler's last hope to avoid bankruptcy, but the Italian automaker is constrained in its ability to help because it is also burning through cash, analysts say. Fiat's debt rating was downgraded to junk status recently by Standard & Poor's Ratings Services. As the government's April 30 deadline for a decision on Chrysler approaches, top Fiat officials are making frequent trips to Detroit and Washington to hammer out a deal. A person familiar with the task force's thinking said Tuesday that the task force is not convinced that an alliance with Fiat will ensure Chrysler's viability. But the source, who spoke on condition of anonymity, indicated the government did not see an alternative option for the smallest of Detroit's automakers.

Late last month, President Barack Obama gave Chrysler until April 30 to conclude a deal with Fiat. If the two car companies succeed in joining forces, the government will offer Chrysler up to \$6 billion in additional loans. Officials in Washington are loath to see Chrysler fail at such a vulnerable time for the national economy. The source said the task force was studying how Chrysler intended to use the loans to stay in business. Chrysler burned through \$7 billion last year and analysts estimate it is going through as much as \$1 billion a month in this steep downturn. The risk of a Chrysler bankruptcy is rising as the company struggles to conclude government-mandated deals with bank lenders, bondholders and the United Auto Workers union to reduce its debt.

Chrysler has offered debtholders about 15 cents on the dollar, or about \$1 billion, for its \$6.8 billion in secured debt. Its banks are preparing a counter-offer, the source said. While some bankers grumble that Fiat will get a stake, initially 20 percent, without putting in cash, a source said banks aren't calling on Fiat to inject money. The banks appreciate that Fiat is the only carmaker brave enough to approach Chrysler, the source said, and they don't want to alienate the Turin-based automaker. Chrysler's owner, Cerberus Capital Management LP, said in December that it was willing to relinquish its holding as part of a Chrysler bailout. Its former owner, Daimler AG, has written down the value of its remaining 19.9 percent stake in Chrysler to zero.

From the outset, Fiat said it would not inject cash into Chrysler but offer the U.S. automaker access to its international dealer network and to its small-car platforms and engine technology. Fiat and Chrysler value that contribution at between \$8 billion and \$10 billion. The task force has retained Boston Consulting Group to assess the value of Fiat's technology and expertise. Chrysler and Fiat are talking about sharing at least four platforms, two engines and two transmissions. Developing a new platform -- the underpinnings for one or more models -- can cost upwards of \$1.5 billion, said Gaetan Toulemonde, a Paris-based auto analyst for Deutsche Bank. – *Source: The Detroit News* But he questioned whether Chrysler would survive long enough to see the benefits. "The first model Chrysler will get will be in the next couple of years, and the issue of its survival is in the next six months." A source familiar with the Chrysler-Fiat negotiations said that while it would take time to see all of the cost-savings from an alliance, some gains could be achieved fast. Some sharing of components and economies of scale can be achieved within months, said the source, but declined to elaborate. Fiat also would help Chrysler by sharing its own turnaround experience. Under Chief Executive Sergio Marchionne, the Italian automaker returned to profit in 2005 after learning to pinch pennies and it has earned money every year since.

But like most automakers, Fiat burned through cash last year, and it has substantial debts coming due this year and next. Standard & Poor's Ratings Services recently downgraded Fiat's debt to below investment grade. It has a negative outlook on the company. "The downgrade reflects our opinion of Fiat's weak liquidity position considering 2009 and 2010 debt maturities," said S&P credit analyst Barbara Castellano. At the end of 2008, Fiat had close to \$6 billion in debts coming due over the next year. – *Source: Detroit News*

## **KEYBANC PREDICTS RESURGENCE IN NEW-VEHICLE SALES**

The rising demand for used vehicles and loosening of financing will soon translate into increased demand for new-vehicle sales, according to the latest report from KeyBanc. Driving this expected ramp up of demand are improving retail auto financing and auto asset-backed securities issuance, along with growing used-vehicle sale volumes and prices, officials indicated. "Dealers have been reporting that retail financing trends have been improving, which is corroborated by CNW Research data showing approval rates for automotive loans are improving at all levels (prime, near-prime and subprime)," the report found. For instance, KeyBanc pointed to GMAC, which has increased the credit spectrum for auto loan approvals recently. Moreover, the company said that the Federal Reserve's Term Asset-Backed Securities Loan Facility, or TALF, is positive news because "it should provide additional capital for retail automotive loans by 'unfreezing' the automotive asset-backed securities market." "Specifically, automotive ABS issuance increased to \$5.4 billion and \$1.7 billion in March and April, respectively, which is a material increase over the anemic \$1 billion average monthly issuance since October 2008," executives wrote in the report.

When TALF launched in March, three companies issued \$5.4 billion, including Ford Credit, Nissan Credit and Huntington Bank. Moreover, during the second round, two companies issued \$1.7 billion, including World Omni and CarMax. While KeyBanc said this issuance is below the average monthly issuance, it does represent "a material increase." "Barring any material exogenous shock to the U.S. new- and used-vehicle market, improving retail automotive financing and automotive asset-backed securities issuance trends should ultimately result in an increase in new-vehicle sales," officials continued.

Basically, while many in the industry may believe there are two types of shoppers, new and used, KeyBanc explained that consumers tend to consider both new and used units prior to purchasing. "A recovery in overall vehicle demand is typically first evidenced by an increase in used-vehicle sales and prices," the company highlighted. Moreover, KeyBanc stated, "Based on our retail automotive experience, we believe a significant portion of the recent decline in new-vehicle sales can be explained by consumers' inability to buy due to tougher consumer credit." Continuing on, officials indicated, "Used-vehicle sales typically increase before new-vehicle sales increase because returning buyers continued to be swayed toward used vehicles because of their desire to save money as well as the exaggerated price disparity between new and used vehicles. For example, we estimate the U.S. Used Vehicle SAAR bottomed at 32 million vehicles in October 2008 then remained in the 33 million to 34 million vehicle range from November 2008 to January 2009. "However, in February and March, the U.S. Used Vehicle SAAR showed a notable improvement, rebounding to 39 million vehicles, respectively, (roughly a 10-percent increase)," the company highlighted. A recovery in demand also helps used-vehicle prices because it drives up the value of trade-ins, executives pointed out. Based on the Manheim Used Vehicle Value Index, an average trade-in valued at \$20,000 in December 2008 was worth an additional \$1,600 in March. "Ultimately, the increase in used-vehicle prices, combined with an increase in overall vehicle demand causes many vehicle buyers to switch back to new vehicles, resulting in an increase of new-vehicle sales," according to KeyBanc officials.

Based on all its data and experience, KeyBanc is predicting resurgence in new-vehicle sales to

take place in the next several months, as long as the market doesn't experience an unexpected shock. – *Source: SubPrime Auto Finance News*

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## **SATURN DEVELOPMENTS**

An investor group including private equity firm Black Oak Partners has approached General Motors about buying its Saturn brand assets and dealership network, both sides said on Wednesday. The investment group, which includes some Saturn dealers, said its goal was to set up an independent distribution network that would first sell GM vehicles and then branch off into products -- including electric vehicles -- from its rivals.

GM confirmed it had been in discussions with Black Oak and said there were other investment groups interested in taking over Saturn, a struggling brand GM launched 25 years ago in a failed bid to head off market gains by Japanese imports. "They're one of several parties that we've had discussions with at this point," Saturn spokesman Mike Morrissey said of Black Oak. He declined to name the other potential investors. Financial terms of the deal, which Black Oak proposed to GM earlier this month, were not disclosed.

The Black Oak Partners-led group said in a statement that its offer would preserve about 10,000 retail jobs and would spare GM the cost of shutting down Saturn. GM, which has been operating since the start of the year under a federal bailout and faces the risk of a government-financed bankruptcy, had pledged to present its dealers with an update on Saturn by this week. In mid-February, when GM said it was working to spin off Saturn as a distribution company, the brand had about 420 U.S. showrooms. That number has dropped to about 380 stores now as more Saturn dealers opt to shut down and sell back their unsold inventory to GM. "We understand the pressure in the marketplace," GM's Morrissey said.

John Pappanastos, a spokesman for the Black Oak-led investor group said GM needed to act quickly to complete a deal before more Saturn dealers choose to shut down. Saturn dealers are having trouble getting banks to finance consumer purchases because of concerns about the resale values of cars given the brand's uncertain future, he said. In addition, Pappanastos said, many Saturn dealers are concerned they could lose their ability to sell unsold inventory back to GM if the automaker is pushed into bankruptcy, as many analysts now expect. "There is a very clear sense of urgency," he said.

**CHINA OPTIONS** - People briefed on the discussions have said GM has sounded out a number of overseas automakers about their interest in selling cars through Saturn dealerships, including China's Chery Automobile and Geely Automobile Holdings. Representatives of those automakers could not be immediately reached for comment, and it was not clear if either was actively considering using the Saturn sales channel to break into the U.S. market. Under the restructuring plan it submitted to U.S. officials in February, GM committed to provide Saturn dealers with vehicles through 2012.

Black Oak Partners said in a statement that it wanted to open Saturn to sell small and fuel-efficient vehicles from a range of manufacturers. That would make the sales operation closer to a traditional retailer and set it apart from other U.S. auto dealerships, which are typically restricted to selling vehicles from a single manufacturer. GM, which has taken \$13.4 billion of

U.S. government loans since the start of the year, is reviewing underperforming brands, including Saturn and Hummer as part of a sweeping restructuring mandated by the U.S. government. GM is also under pressure to win deep concessions from its bondholders and the United Auto Workers union, with the government warning the alternative would be bankruptcy. GM created Saturn in 1984 in a bid to compete head-on with Japanese vehicles for quality and customer service.

The first Saturn dealerships opened in 1990 and pioneered a "no hassle," flat-price sales model that took much of the negotiating out of buying a car. But the brand languished over the past decade as GM throttled back on new investments. Saturn brand sales dropped 22 percent in 2008, worse than the 18 percent decline in the overall market. Sales were down by 58 percent through March this year.

Former GM executive and consultant Steve Girsky was hired earlier this year to conduct a review of Saturn's prospects for the automaker and dealers. – *Source: Reuters*

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### **VOLKSWAGEN Q1 SALES MAY OVERTAKE TOYOTA AS WORLD LEADER**

Volkswagen's global vehicle sales fell by 11.4 percent in the first quarter but its market share gains may have let it overtake Toyota Motor as the world's top-selling automaker. VW's first-quarter group sales of 1.39 million vehicles ... gave it a global market share of 11 percent, up from 9.7 percent a year earlier, it said in a statement. Toyota has given no forecast for retail sales, but its latest estimate for shipments for the 2009 first quarter is 1.23 million vehicles, down 47 percent from a year earlier. - *Source: [Reuters](#)*

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