How Private Equity Ownership Could Reshape Chrysler

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Bradford Wernle, Robert Sherefkin
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Two of Wall Street's biggest financial Bigfoots stomped through Chrysler's Auburn Hills headquarters last week, kicking a huge set of tires.

While General Motors stalks Chrysler, at least six private equity groups also are in the hunt. They include the colossal Blackstone Group, with its $125 billion war chest, and giant Cerberus Capital Management, which is partnering with Appaloosa Management to buy Delphi.

Both came knocking on Chrysler's door, checking out the hardware, combing through the numbers and quizzing Chrysler CEO Tom LaSorda and other top executives.

It's easy to imagine how a GM takeover would play out - products, factories and dealer networks would be consolidated. But what if a secretive private firm took control of Chrysler?

For one thing, the dealer network could get a lot smaller a lot faster. There could be tougher dealings with suppliers, perhaps a smaller r&d budget and probably fewer halo cars.

It also could mean a new Chrysler management team. But private equity ownership might also lead to a tight, focused, leaner, meaner Chrysler - like the one we used to know.

How would things work, and what would it mean for dealers, suppliers and employees? Here's a primer on Chrysler's life under a private equity titan:

How would Chrysler's operations change?

Private means private. Management would not have to worry about quarterly earnings reports while it restructures and recapitalizes.

What would happen to Tom LaSorda and his team?

Private equity is known to replace a target company's management team - but not always. LaSorda is racing to implement a restructuring plan that would make Chrysler leaner and more attractive to potential buyers. The plan may not be radical enough, though. Private equity may want to move faster and hire its own managers.

Would Wall Street investors starve product development?

One analyst familiar with private equity practices says these firms would be less supportive of speculative products such as the Jeep Compass. They're only interested in vehicles that make money. Unprofitable products likely would be killed quickly.
But they also know that a car company's lifeblood is new products. The cash that private equity funds bring to the table could help grow new products more quickly.

How would r&d be affected?

There would be more outsourcing and aggressive seeking of alliance partners to acquire new technology.

What would private equity groups do with Chrysler's dealer body?

They'd want to shrink it, and fast. A private equity group would steer clear of the incentive wars. For these big shooters in a hurry, Chrysler's Alpha consolidation program is moving at a snail's pace. Chrysler has 3,750 dealerships - at least 1,000 too many. Slashing those numbers would be a top priority.

What do dealers think of a Wall Street owner?

Many are apprehensive. They worry about an attempt to breach franchise contracts.

``They're notorious for coming in and trimming the fat out of companies they buy," said Sid DeBoer, chairman of Lithia Motors Inc., which has more than 100 Chrysler group franchises. ``They would more likely want to come in and trim the dealer network. It could be messy."

How would it affect the way Chrysler works with suppliers?

No more mister nice guy. Private equity firms promise to return 15 to 20 percent or more, and they have a short time to do it. Publicly traded industrial companies generally strive to earn 5 percent after taxes.

How do Chrysler's labor unions view private equity?

They hate the idea. ``If they sold to these private equity firms, we'd be very concerned about members' jobs," said Buzz Hargrove, president of the Canadian Auto Workers.

``It should be sold to somebody committed to job creation rather than private equity, which wants to make a lot of money for a very small group of people."

Has a private group ever bought a carmaker?

BMW sold Rover Group in the United Kingdom for about $17 to a group of businessmen known as the Phoenix Group. BMW kept the Mini brand, leaving Phoenix with MG and Rover.

The story did not end happily. Sales faltered, and the company searched desperately for a white knight. Chinese automaker Nanjing Automobile Group eventually bought MG Rover and is still trying to bring new models to market.
What makes Chrysler attractive to a private equity buyer?

The auto industry's huge cash flow. Last year, Chrysler had revenues of $62 billion. It also has an aggressive new product program. Jeep is a global icon, and Chrysler still owns the minivan franchise.

What makes the private firms nervous?

The estimated $18 billion in health care liabilities. Also, labor unions could raise a stink and might even strike.

Does one equity group have the upper hand?

Blackstone Group. They have done the biggest deals - TRW Automotive Holdings Corp. and American Axle & Manufacturing Holdings Corp. - and they nearly got United Technologies Automotive.

What's a likely exit strategy?

After three to seven years of fixing the company and pruning noncore businesses, Chrysler would be sold.

These guys are rich and aggressive. Wouldn't a Chrysler takeover be a piece of cake?

No way. The highway is littered with the corpses of outsiders who thought they could transform the car business. There's no guarantee well-funded private investors could find a way to deal with Chrysler's massive legacy liabilities, its unions, its factories and its dealers.

``This is the single biggest challenge for a private equity firm,'' said Colin Blaydon, director of the Center for Private Equity and Entrepreneurship at the Tuck School at Dartmouth University. ``This is not generally the kind of challenge they go looking for.''

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Interested parties

Private equity firms in the hunt for Chrysler, according to news reports

Blackstone Group

Blackstone is headed by Steve Schwarzman, recently dubbed the ``New King of Wall Street'' by Fortune.

Cerberus Capital Management

Cerberus' automotive group is chaired by David Thursfield, former chairman of Ford of Europe and head of Ford's international operations.
Centerbridge Partners

Centerbridge's automotive adviser is Stephen Girsky, former senior auto analyst with Morgan Stanley who became an adviser to GM CEO Rick Wagoner. Girsky left GM in 2006 after less than a year.

Ripplewood Holdings

Former Chrysler President Tom Stallkamp is a partner.

Carlyle Group

Carlyle is a huge, politically conservative firm. It has been criticized for managing money for the bin Laden family.

Apollo Advisors

Ninety percent of Apollo's investments have generated positive returns, according to Fortune.