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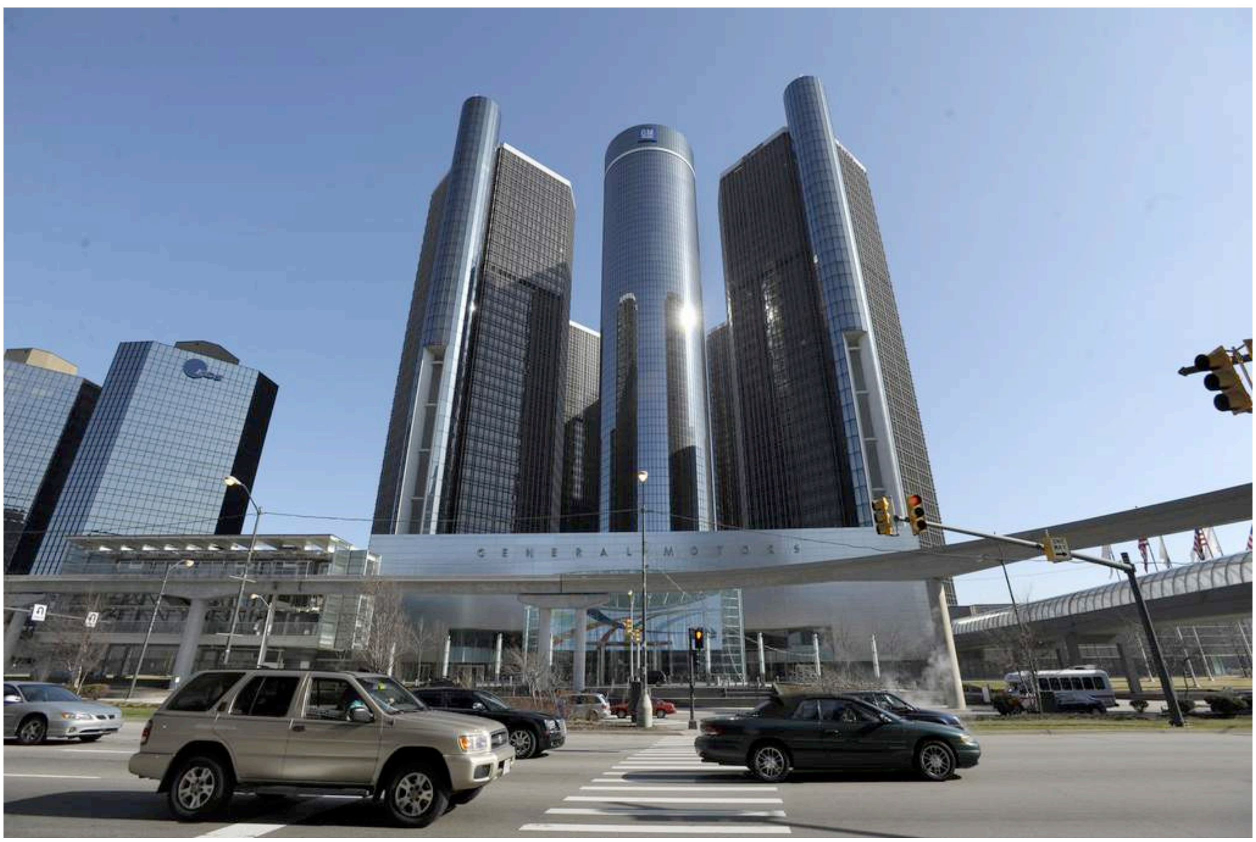
October 29. 2010

GM spiffs up finances for IPO
Automaker reduces debt and pension obligations by $11B

David Shepardson / Detroit News Washington Bureau



GM has previously paid $6.7 billion in outstanding government loans, and just over $700 million in dividends and interest. (David Guralnick / The Detroit News)

General Motors Co. took steps Thursday to pare its debt and pension obligations by $11 billion, in preparation for its initial public stock offering.

Key among them: buying back $2.1 billion in preferred stock that has been held by the U.S. Treasury Department since the government bailout and securing a $5 billion line of credit.

Other financial moves include paying at least $6 billion in cash and stock into its underfunded U.S. employee pension plans, and paying off its financial obligation to retiree health care seven years early. That step alone will save the automaker about $1.4 billion.

Even so, GM will still have an estimated $24 billion in cash and credit.

GM is eager to get its balance sheet in order ahead of its planned IPO, before Thanksgiving. Thursday's steps also significantly reduce GM's interest and dividend payments.

"It's pretty good housekeeping ahead of the IPO," said Van Conway, a turnaround expert at Conway MacKenzie. "It's a smart effort to reduce debt."

Smaller debt is attractive to investors.

As part of the bailout, the U.S. Treasury swapped $42.8 billion in loans for a 61 percent equity share in GM and took $2.1 billion in preferred stock. By buying back the preferred stock, GM is further reducing what it owes the government.

GM has now repaid the government $9.5 billion of the $49.5 billion bailout, leaving about $40 billion unpaid.

The government hopes to recoup most of that in a series of stock sales, though it expects to take a loss on the first round. The News reported this month that the government could sell as little as $6 billion to $7 billion in the IPO.

Dan Ammann, GM vice president of finance and treasurer, said the actions will reduce the company's annual interest and dividend obligations by $500 million.

Getting credit

GM Chairman Edward Whitacre Jr. said in August that securing a line of credit, to "show that we're credit worthy," was necessary before an IPO.

The $5 billion, five-year secured line of credit with a group of lenders led by Citigroup Global Markets Inc. and Banc of America Securities is to offer "backup liquidity" for GM, but the company says it does not plan to tap it.

To get the line of credit, GM was forced to pledge most of its domestic assets, including its trademarks, intellectual property, real estate and stake in Ally Financial Inc.
With its $2.8 billion payment to a United Auto Workers retiree health care trust fund — a condition the banks insisted on before GM could get a line of credit — GM has closed out its obligations to fund the health care of hourly retirees.

GM was to make payments of $1.39 billion in 2013, 2015 and 2017 to the UAW health care trust. Bymaking the payment early, it avoids interest payments of $1.4 billion.

"Paying off Treasury's preferred (stock) is another tangible example of the success of the rescue of General Motors," said former Obama auto czar Steve Rattner.

The automaker already had repaid $6.7 billion in government loans, and $700 million in dividends and interest.

GM will repurchase its 83.9 million shares at $25.50 each on Dec. 15, meaning the Treasury will collect $2.14 billion, or $40 million more than their previously estimated value.

Investors concerned
GM's remaining debt obligations are still a looming concern for investors.

Its pension plans are underfunded by $27 billion worldwide, but GM isn't currently required to make any contributions.

The government's pension insurer, the Pension Benefit Guaranty Corp., praised Thursday's move to shore up the plans, which cover about 700,000 people. The PBGC steps in when companies cannot meet their pension obligations.

"The PBGC is pleased that GM will use its IPO to strengthen its pension plan. This shows that GM recognizes the importance of its commitments to its workers and retirees," said PBGC director Joshua Gotbaum.

The United Auto Workers health care trust and the Canadian governments also are expected to sell some shares in the initial offering. The health care trust holds a 17.5 percent equity stake in GM, warrants for another 2.5 percent and preferred stock worth $6.5 billion in preferred stock. GM is paying $585 million annually on the preferred stock.

The government likely will take at least 18 months to sell its stake in the Detroit automaker. GM is expected to announce significant third-quarter earnings next week. It earned $2.2 billion in the first half of the year.

The automaker also is preparing for a two-week global road show, in an attempt to convince large investors to buy its stock.

GM executives are expected to visit about a dozen cities in the United States, Canada and Europe. Execs already have pitched investors in Asia and elsewhere.

The main outstanding question is the price at which the share will be offered.

To break even, the government needs to get $131 a full share, before any split, if the value of the dividends and interest is factored into the repayment. Shares are expected to be split before the offering, to make them more affordable — likely around $20 a share.

GM also announced Thursday it is ending a wholesale agreement that provides for accelerated receipt of payments made by a financial institution on behalf of the automakers U.S. dealers. GM's U.S. dealers borrow from financial institutions to fund their inventory of vehicles purchased from the automaker. Upon termination, GM no longer will receive payments for vehicles purchased by the dealers in advance of the scheduled delivery date. This action will result in an estimated $2 billion increase to GM's accounts receivable balance.

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