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## Fiat spins off its noncar firms

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Move shows company serious about Chrysler, experts say

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Fiat SpA is spinning off its industrial holdings from its automotive operations, in a bold move that relies heavily on its partnership with Chrysler Group LLC to succeed.

That bodes well for Chrysler's future and may silence skeptics convinced that Fiat is not in the partnership for the long haul.

"People at Chrysler should be very excited," said Aleks Miziolek, director of the auto industry group of Dykema PLLC in Detroit, calling it a serious play by Fiat to grow its Chrysler partnership into a global company.

The move to split the Italian automaker comes as Chrysler is showing signs of recovery.

On Wednesday, Chrysler reported \$143 million in operating profit in the first quarter and a 3 percent gain in net revenue, to \$9.7 billion. Overall, Chrysler lost \$197 million in the quarter, but that compares to a net loss of \$3.8 billion from June 10, 2009, when Chrysler emerged from bankruptcy, through the end of the year.

Fiat reported a \$28 million loss in the first quarter, up from a \$549 million loss in the same period a year ago.

The breakup of the 109-year-old Fiat will give each entity freedom to make more focused business decisions, Sergio Marchionne, CEO of Chrysler and Fiat, said in announcing the change Wednesday as part of Fiat's five-year business plan in Turin, Italy.

"Today, Fiat enters a new chapter in its history and takes on a new shape," he said. "The time is now right to proceed with a spinoff."

Chrysler is along for the ride as Marchionne stressed the key synergies of savings, shared product development, purchasing, manufacturing and sales crucial to the success of Fiat auto. Together, Fiat Auto and Chrysler revenues could reach \$139 billion by 2014.

Could be done by end of the year

Splitting Fiat needs board approval but could be completed by year end, Marchionne said.

Fiat will consist of automotive units: the Fiat, Lancia and Alfa Romeo volume brands, luxury Ferrari and Maserati, powertrain and components divisions.

A new company, to be called Fiat Industrial, will include the Iveco commercial and truck division and CNH, which makes agricultural and construction equipment. Marine and industrial powertrain work will stay with this group.

The "demerger" will unbundle businesses with different products, customers, investment needs and risks. Separating them also gives each company the freedom to pursue its own alliances, Marchionne said.

The projected revenue for Fiat Group is a record \$125 billion by 2014. That would be broken down to \$86 billion from the new Fiat (auto) and \$39 billion from Fiat Industrial.

Shareholders will be given equal shares in each company.

Joe Phillippi, analyst with AutoTrends Consulting Inc. in Short Hills, N.J., also sees Fiat's plan as a huge endorsement of Chrysler and reliance on the Auburn Hills automaker to create a global automotive power.

Releasing the value of the auto side of the business will provide capital that will be reinvested in research and development of new vehicles and engines for Chrysler, Phillippi said.

"I can't think of any cons."

Relying on Chrysler sales

Marchionne envisions an auto company that sells 6 million vehicles annually by 2014 -- but only with Chrysler's help.

Of 51 new products for Fiat in the next five years, one-third will come from Chrysler, Marchionne said. Many will be made in Chrysler plants. He avoided specifics but said Alfa Romeo will become a full premium brand and could source a sedan from Chrysler's Brampton, Ontario, plant.

Alfa's return to the U.S. has been pushed back to 2012 and while some Alfas could be sold in Maserati dealers, Marchionne expects Chrysler dealers to be the main distribution network.

The combining of the Chrysler and Lancia brands in Europe will produce eight new products in the next five years -- six of them based on Chrysler models.

A plan to better utilize Fiat's plants in Italy calls for them to produce 1 million vehicles annually by 2014 -- 300,000 of them for export to North America.

Three car segments planned

Economies of scale will come as Fiat and Chrysler develop families of vehicles in three segments: minicars, small cars and compacts.

Each segment will generate more than 1 million vehicle sales for Fiat and Chrysler by 2014, said Harald Wester, head of Fiat engineering and design.

Sharing development cost with Chrysler is crucial, he said. In return, Chrysler taps into Fiat's ability to develop a new vehicle in as little as 15 months. Together they save \$803 million by 2014 in engineering costs.

Synergies with Chrysler are to amount to \$2 billion in savings by 2014. Combined the two will have \$80.3 billion in purchasing clout, which should translate into \$3.9 billion in annual savings, a third courtesy of Chrysler.

Marchionne said he will focus his attention on the Fiat auto side.

**Separating the auto business "makes it easier for transactions in the future," said Van Conway, president of Conway MacKenzie Inc., a turnaround consulting firm in Birmingham.**

And the underperforming Chrysler has a security blanket in Fiat -- which appears serious about nurturing its appreciating asset, he said.

Detroit News Staff Writer Bryce Hoffman contributed.