

## GM Suppliers Face New Threat as Bankruptcy Looms for Automaker

By Alex Ortolani



May 29 (Bloomberg) -- [General Motors Corp.](#)'s parts suppliers, battered by losses from slumping vehicle production, face new threats to their survival as the largest U.S. automaker prepares to idle factories in bankruptcy.

[American Axle & Manufacturing Holdings Inc.](#) and [Shiloh Industries Inc.](#) are among the companies whose sales will shrink when their biggest customer shuts plants for as long as 9 weeks. Payments in bankruptcy court for old bills will only cushion the blow of lost GM business, the partsmakers say.

Suppliers are trying "to understand what their cash needs will be and how they're going to manage," said [Scott Eisenberg](#), a managing partner at restructuring firm Amherst Partners LLC in Birmingham, Michigan. "They're trying to figure out how they're going to pay their vendors, buy raw materials."

Viable partsmakers are pivotal for GM's exit from a bankruptcy set to start June 1. GM shares more than 50 percent of about 1,500 North American suppliers with Chrysler LLC and [Ford Motor Co.](#), consultant CSM Worldwide estimates. [Visteon Corp.](#), a former Ford unit, filed for bankruptcy yesterday.

GM's plan for a Chapter 11 filing was described yesterday by people familiar with the Detroit-based automaker's preparations. While Vice Chairman [Bob Lutz](#) said any stay in court protection would be quick, he wouldn't discuss specifics.

Factory closings already were part of GM's restructuring in or out of court, adding to the strain on an industry that suffered 40 bankruptcies among major parts companies in 2009, according to the [Motor & Equipment Manufacturers Association](#), a trade group based in Research Triangle Park, North Carolina. Visteon is among at least seven seeking court protection in 2009.

Recession's Impact

Automakers are buying fewer parts because the recession is ravaging demand, dragging the [seasonally adjusted U.S. sales rate](#) in April to 9.3 million units, 43 percent less than a year earlier.

A bankruptcy judge is likely to allow GM to pay partsmakers for bills outstanding before the filing through a combination of debtor-in-possession financing and a U.S. aid program, said [William Kohler](#), a Detroit-based attorney and co-chair of law firm Butzel Long's global automotive practice.

"They will make an effort to pay suppliers for receivables that are outstanding, similar to Chrysler," he said.

Chrysler proposed paying its biggest vendors as part of its April 30 bankruptcy filing. U.S. Bankruptcy Judge [Arthur Gonzalez](#) approved the motion, and the Auburn Hills, Michigan-based carmaker said it is paying at least some pre-bankruptcy bills to 1,200 suppliers.

### Bolstering Suppliers

GM has taken actions to help its supply base, including making payments yesterday instead of when they originally were due on June 2, said [Dan Flores](#), a spokesman. Unlike Chrysler, which disclosed plant-closing plans in its bankruptcy filing, GM has alerted partsmakers to pending factory shutdowns.

GM also is participating in a U.S. Treasury aid program that guarantees or immediately pays bills from partsmakers. GM often pays suppliers as many as 60 days after parts are shipped.

American Axle and Shiloh, a maker of oil pans, rank first and second among publicly traded partsmakers in their dependence on GM, according to New York-based research company Connexiti.

American Axle got 76 percent of its \$402.4 million in sales from GM and 11 percent from Chrysler last quarter, according to a company filing. Shutdowns by the carmakers may chop sales by \$250 million in the second and third quarters, Detroit-based American Axle said May 1.

Spokeswoman [Renee Rogers](#) declined to elaborate. The company's products include axles for pickups and sport-utility vehicles.

### Cutting Costs

Shiloh said GM's idlings will "adversely impact our operating performance" in the third quarter, Chief Executive Officer [Theodore Zampetis](#) said in a May 26 statement. He said the Valley City, Ohio-based company has consolidated plants and made "other cost-reduction initiatives" as auto output falls.

Chief Financial Officer [Kevin Bagby](#) didn't return a call seeking comment.

[Shiloh](#) rose 4 cents to \$2.21 yesterday in Nasdaq Stock Market composite trading. The shares dropped 78 percent in the year ended yesterday. American Axle fell 8 cents to \$2.16 yesterday in New York Stock Exchange composite [trading](#), dragging its 12-month decline to 88 percent.

American Axle's 7.875 percent bonds due March 2017 slid 0.5 cent to 30 cents on the dollar, according to Trace, the bond- pricing service of the Financial Industry Regulatory Authority. The yield was 33.8 percent. The bonds traded at 88.5 cents on the dollar a year earlier. Shiloh doesn't have any bonds, according to Bloomberg data.

GM fell 3 cents to \$1.12. The shares have tumbled 93 percent in the past year.

Visteon, Delphi

Ford's attachment to Visteon, its former parts unit, is similar to GM's connection to Delphi Corp., the partsmaker that filed for bankruptcy in 2005, said [Van Conway](#), a restructuring consultant at Conway MacKenzie & Dunleavy in Birmingham, Michigan.

"Ford needs Visteon to make cars, so it, like GM and Delphi, is a party at the table whether they like it or not," he said.

Visteon, spun off from Dearborn, Michigan-based Ford in 2000, said it will attempt to restructure after eight straight annual net losses. Van Buren, Michigan-based Visteon said Ford will "support" some of the reorganization costs, without giving an amount.

GM is in discussions with Delphi, lenders and the U.S. Treasury's car task force on a way to help the auto supplier leave bankruptcy. The carmaker agreed in a [United Auto Workers](#) contract to take ownership of five of Troy, Michigan-based Delphi's facilities. A Delphi spokesman, [Lindsey Williams](#), declined to comment.

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