

CRAIN'S DETROIT BUSINESS

<http://www.crainsdetroit.com/article/20090531/FREE/305319925/1069>

POSTED: 8:00 p.m., May. 31, 2009

GM aims to pay key suppliers

'Critical vendor' list would be filed with court

By Ryan Beene

Suppliers with outstanding receivables not covered by Thursday's \$2 billion early payment by General Motors Corp. are likely to be paid even if the automaker files for bankruptcy, which is expected today.

Bo Andersson, GM group vice president for purchasing and supply chain, told a group of suppliers in a Friday conference call that its production parts suppliers and logistics providers would be included in any "critical vendor" motion included in a GM bankruptcy.

If approved by the court, such a motion ensures those critical vendors are paid for parts shipped to the automaker.

But much of the cash-strapped supply base is already teetering on the brink of bankruptcy, with little to no chance of car and truck production volumes growing in the near term.

Industry experts say without a source of capital or bridge loans to the supply base to prevent a rash of failures, automakers could find themselves unable to begin making cars when demand returns.

Craig Fitzgerald, a partner and automotive supplier consultant at Southfield-based Plante & Moran P.L.L.C., says critical vendor status will keep some suppliers from going belly-up, but not others.

"For certain suppliers, it will not make a difference and they will still go into liquidations and bankruptcies," he said.

Additional auto parts suppliers are likely to follow Van Buren Township-based Visteon Corp., Plymouth-based Metaldyne Corp. and the six other

major automotive suppliers that have filed for Chapter 11 bankruptcy this year as the summer schedule of significant production cuts continues and capital markets remain essentially off limits.

“There has been very little discussion, at least outwardly, about what to do for the supply base,” said Robert Gordon, an automotive and bankruptcy attorney with Clark Hill P.L.C. in Detroit. “Even if they get their pre-petition debts paid, that is not going to be sufficient to save the suppliers from the problems that have been created by January shutdowns, historic low volumes in the first quarter and expanded shutdowns beginning now.”

As North American vehicle production volumes hover at roughly 50 percent of last year's level, many of GM's largest suppliers are already on the brink, and some have warned they could file for bankruptcy.

Southfield-based Lear Corp., which was granted a credit line default waiver until June 30, has said it could file for bankruptcy if its lenders and debt holders don't agree to a revamp of its debt-heavy balance sheet.

The supplier saw its first quarter revenue drop 43.8 percent to \$2.17 billion compared with \$3.86 billion in the same period last year.

Detroit-based American Axle & Manufacturing Holdings Inc., saw revenue drop 31.5 percent in the first quarter to \$402.4 million from \$587.6 million in 2008.

American Axle supplies GM with rear axles and other components for nearly every truck and SUV in the automaker's lineup, and GM accounts for about 75 percent of the supplier's annual revenue.

Suppliers facing liquidity shortages likely will not survive the next few months, said Van Conway, president of Birmingham-based turnaround firm Conway MacKenzie & Dunleavy.

“You're going to see more production reductions, more layoffs ... and if you've got a supplier that's on the critical supplier list, that's not good enough,” Conway said. “That supplier is still going to run out of money.”

Suppliers have had access to credit crippled by production cuts, as fewer accrued receivables erode a parts maker's borrowing base.

Complicating the issue of preserving struggling suppliers is the completion of Chrysler's linkup with Fiat and when Chrysler plants will begin building cars again.

“If (Chrysler) has some longer term extended bankruptcy or shutdown than planned, those same suppliers become even more vulnerable,” said Laurie Harbour-Felax of the Royal Oak-based Harbour-Felax Group.

Some suppliers have renegotiated covenants to waive any loan default during the Chrysler shutdown, assuming it's for 60 days. If it drags out, defaults could abound.

“If Chrysler doesn't come out of bankruptcy and we go into July and Chrysler is still down – it's a whole new ballgame,” Harbour-Felax said.

Automakers historically have stepped in to prop up troubled suppliers, but in bankruptcy, that may prove more difficult.

“The question is, has the government really factored in the amount of money needed to keep the tiers alive?” Conway said.

A bankrupt GM could potentially issue bridge loans to a crucial supplier using its debtor-in-possession financing, which is expected to be provided by the government.

“There's no legal impediment to doing that, it's not unlike an essential supplier situation,” said Gordon. “It's highly unusual, but certainly (in a GM bankruptcy) it could be done – the only question would be if it can be demonstrated that there is a need to do this.”

Supplier trade groups have long called for direct federal assistance for suppliers. OESA requested \$18.5 billion in aid earlier this year, and Gov. Jennifer Granholm last week pressed Ed Montgomery, the Obama administration director for recovery of automotive communities and workers, for additional supplier aid.

The U.S. Treasury Department launched a \$5 billion receivables insurance and quick-pay fund, but red tape has caused the program to flop.

“The reality is providing bridge loans to keep otherwise healthy auto supplier businesses afloat is the lowest-cost support that the government can provide to sustain hundreds of thousands of jobs,” Fitzgerald said.

Such a program could be executed by distributing billions in bridge loan funding to more than a dozen regional banks that have historically done business with suppliers.

But some suppliers to key GM vehicles could still see some revenue trickle in. Andersson said during the conference call that GM plans to carry out its production plans for rolling shutdowns throughout the summer and keeping some of its manufacturing operations on line, which would be unlike Chrysler's bankruptcy in which it shut down all plants until the sale of most of its operations to Italian automaker Fiat S.p.A. concludes.

Neil DeKoker, CEO of the Troy-based Original Equipment Suppliers Association says Chrysler's shutdown was partially due to suppliers who stopped shipping parts when the automaker filed for bankruptcy.

“It was a surprise to the supplier community that Chrysler decided to shut down — it was not something we knew nor was it something that we expected,” he said. “In the case of GM, they are saying very specifically it's not their plan. Chrysler never said it wasn't not their plan, they just never said anything about it,” DeKoker said.

GM, is being very transparent and communicative with the supply base, DeKoker said, with Andersson hosting conference calls like Friday's every week to provide updates and answer questions.

“(GM) is recognizing the fragility and the absolute need that the suppliers have to get paid for parts they've shipped and will ship at the back end of bankruptcy,” Fitzgerald said. “(Suppliers) are not in a position to absorb relatively small receivables write-offs.”