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What to watch ahead of a GM IPO

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Think back to what seemed to be a lifetime ago — like a whole three years — and you'd be hard-pressed to find someone who didn't have GM stock in some part of their portfolio.

It was one of the most widely held stocks in the world, and one of the world's best-known brands.

And then it crashed and burned.

We're on the other side of that story now. The turnaround of GM has begun, or so its leadership is telling us. GM earned \$865 million in the first quarter, its first profit since 2007, and has slashed more than \$10 billion in costs by closing plants, cutting jobs and reducing health care expenses and debt.

Numbers like that would normally give a stock a boost. But there's a catch: GM filed for bankruptcy court protection last summer and one of the bluest of blue-chip stocks hasn't traded since then.

Now, a year after emerging from bankruptcy, GM is preparing for an IPO that could hit the market by the fourth quarter. Analysts estimate GM could be worth at least \$70 billion, topping the peak value of around \$60 billion it reached in 2000.

It's a bold assessment for a company that a year ago was nearly dead. But GM executives say that today's GM is making money and operating more efficiently. They took that sales pitch to Wall Street on Tuesday during a gathering of 200 financial analysts at a GM facility just north of Detroit.

"We are not re-introducing GM today," said Ed Whitacre, GM's chairman and chief executive. "We are introducing a new GM, because we are a new and a much different company than we were 12 months ago."

Whitacre and his team make a convincing case. GM is selling more vehicles today with four brands than it did a year ago with eight. It has stricter controls over production, and its inventories run about 400,000 units, half of what they were a year ago. Consumers are paying on average \$3,000 more for GM vehicles this year than last, and it leads in China, the world's fastest growing market.

GM is moving in the right direction, and it's not a bad idea for the automaker to go public. But one strong quarter, or even two, isn't enough to ensure a successful offering.

GM shouldn't rush an IPO. There's too much at stake. The automaker needs to cash out its current owners — starting with the U.S. government, which owns 61 percent of the company — and convince new investors that the stock is a good buy.

In order to do that, GM still has plenty to prove, such as turning out new products that become winners. A crucial test is coming up in September when it will roll out its latest small car, the Chevrolet Cruze.

GM has never been able to produce a decent compact car, but its executives say this time will be different. It better be, since more drivers are expected to look for smaller cars in the coming years instead of gas-guzzling SUVs.

The Cruze has to be as reliable as the Toyota Corolla or Honda Civic, the top-selling U.S. compacts. It will sell for \$17,000, slightly more than its competitors but with more standard features.

The company's executive team is also mostly new, and some of its top leaders have never worked in the auto business. Chief Financial Officer Chris Liddell came from Microsoft last December, and Stephen J. Girsky, who was named vice chairman of corporate strategy and business development in February, was a long-time Wall Street auto analyst.

"There has been a lot of shuffling in the management ranks over the last year, and we need to know that the new managers are committed to both products and consumers," says Erich Merkle, who runs auto industry analysis and consulting firm autoeconomy.com in Grand Rapids, Mich.

GM also faces an uncertain global economy.

GM's sales have been rising, but not necessarily because of brisk buying by American consumers. Strong sales from fleet customers such as car rental agencies and the government boosted GM's results in May. Those sales pulled back in June, slowing the pace of GM's overall growth. For June, GM's total sales rose about 11 percent, compared with 17 percent gain in May.

U.S. consumers in June dramatically cut their expectations to buy a car within the next six months, according to new research by The Conference Board, a private research group.

Working against GM, and all automakers, is the fact that nearly one in 10 Americans remain unemployed. "Car sales are a function of job security," says Van Conway of the consulting firm Conway MacKenzie, Inc.

Any slowdown abroad could also hurt GM, especially since the automaker's executives say international sales are a key driver of growth. A third of GM's sales in 2009 came from foreign markets.

Of particular concern is GM's European business, which continues to lose money and isn't expected to be profitable until next year. Economic conditions in Europe have deteriorated in recent months, and the euro has tumbled this year against the U.S. dollar. That makes U.S. exports more expensive abroad.

GM still has a few months to persuade investors why they should buy their stock again. If its executives want the "new" GM shares to hold the same value and prestige as the "old" GM stock once did, they still have some work to do.