

Visteon May Not Meet Loan Terms as Auto Sales Slump

By Alex Ortolani

Feb. 25 (Bloomberg) -- Visteon Corp., the auto-parts maker spun off from Ford Motor Co., said it may not be able to stay in compliance with loan terms and boosted its job-cut target because of slumping global vehicle production.



The supplier's fourth-quarter net loss widened to \$328 million, or \$2.53 a share, the Van Buren, Michigan-based company said today in a statement. Previously announced cost-saving steps such as salaried and hourly job cuts and shortened workweeks are continuing, Visteon said.

Breaching loan terms may mean penalty fees and higher interest rates for a company already struggling after revenue plummeted 42 percent to \$1.65 billion, dragging the supplier to its 10th straight quarterly loss.

“They’re running through their cash reserves without a bright light at the end of the tunnel,” said Van Conway, managing partner of Conway MacKenzie & Dunleavy, a restructuring consulting firm in Birmingham, Michigan. “You can keep cutting costs to right-size for a while, but not forever.”

Cash at the end of December was \$1.18 billion, compared with \$1.76 billion a year earlier, Visteon said. The supplier drew \$30 million Jan. 28 under a credit agreement for a total of \$105 million it has borrowed through the arrangement, according to a U.S. regulatory filing.

Visteon “cannot assure” it will remain in compliance with its debt covenants because shrinking worldwide auto demand will reduce cash flow and liquidity, according to the statement. Chief Executive Officer Donald Stebbins said “automakers quickly reduced production levels in nearly every market.”

New Job-Cut Target

The company increased the number of salaried jobs it seeks to cut to 1,000 positions, up from 800 announced last month, for annual savings of \$90 million, Stebbins said on a conference call with analysts. Last year, 9,300, or 27 percent, of manufacturing jobs were eliminated, he said.

Visteon fell 2 cents, or 12 percent, to 13 cents at 12:43 p.m. in New York Stock Exchange composite trading. The shares tumbled 96 percent in the 12 months through yesterday.

There is a “high probability” Visteon will fall out of compliance with loan terms, said Conway, the consultant. “If it wasn’t likely to happen you wouldn’t say it.”

Breaching loan terms means “you’re going to have to go to the bank, pay fees, end up with a higher interest rate, and probably pay down some of what you owe today,” said David Breen, a Detroit-based automotive consultant with PricewaterhouseCoopers LLP.

Beat Estimates

The quarterly loss included one-time costs such as a non-cash expense of \$200 million for the supplier’s interiors business and \$53 million to pay for plant and job cuts, Visteon said.

Excluding those costs, the loss was \$1.40 a share, narrower than the \$1.68 average of 7 analyst estimates compiled by Bloomberg. Visteon’s loss a year earlier was \$43 million, or 33 cents.

In an effort to save cash, Visteon said in January it would suspend matching contributions to employee 401(k) retirement plans, in addition to cutting white-collar positions. It has shut or sold 30 plants in the past three years.

Ford, Visteon’s largest customer, accounted for about 30 percent of the supplier’s fourth-quarter product sales, according to today’s statement. The automaker, which spun off the supplier in 2000, said vehicle sales fell 31 percent last quarter.

Hyundai Motor Co. and its affiliate Kia Motors Corp. made up 28 percent of Visteon revenue, the company said.

No Predictions

The partsmaker would consider eliminating or disposing of “substantial assets or operations,” according to the statement said. Visteon said it wasn’t providing financial projections because of the volatile market.

The company sells vehicle climate systems, interior parts, and lighting and electronic systems, and has about 33,500 employees.

Visteon is part of a partsmaker trade group seeking as much as \$18.5 billion in government aid to bolster the industry. The Original Equipment Suppliers Association said in a proposal to the U.S. Treasury Feb. 13 about one-third of partsmakers are in “imminent financial distress” unless they receive government support.

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