Cerberus Takes Control of Struggling Chrysler - AP asks McTevia for Comment

Cerberus takes control of struggling Chrysler in historic deal
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The Associated Press

DETROIT - Chrysler is an American icon, storied home of Lee Iacocca and the minivan, and it's once again in American hands after breaking from Daimler AG on Friday. But industry watchers agree that America isn't where Chrysler's future lies.

The new owner, private equity firm Cerberus Capital Management, must help Chrysler expand overseas business if it's going to successfully restructure the 82-year-old automaker.

"A return to industry-leading edgy design is what Chrysler needs to return to a place of prominence in the U.S. market, but in order to survive as a full-line automaker, expansion beyond North America is an absolute must," said Aaron Bragman, an auto industry analyst with the consulting firm Global Insight.

Chrysler became a private company when DaimlerChrysler AG transferred an 80.1 percent stake in the automaker to New York-based Cerberus Friday in a $7.4 billion deal. The German automaker retained a 19.9 percent interest in the new company, Chrysler LLC.

"After months of uncertainty, then a period of transition, we are beginning a new chapter in Chrysler's proud history - and we have the chance to write a terrific story," Chrysler Chief Executive Tom LaSorda said in an e-mail to employees.

With the closing, Chrysler becomes the first U.S. automaker in private hands since Ford Motor Co. went public in 1956. Chrysler, which plans to revive its five-sided logo at a companywide celebration Monday, will be free of the short-term quarterly earnings pressures that public companies face since there will be no Chrysler shares.

"Going private means we can bring laser-like focus to our business and make the long-term investments needed to compete," LaSorda said.

LaSorda added that Chrysler now is open to new partnerships or alliances. That could mean more agreements like the one signed in July with Chinese automaker Chery Automobile Co. to produce Chinese-made cars for the U.S. market.

"We will be able to move faster to leverage these opportunities to accelerate our growth," LaSorda said.

Chrysler currently has a minuscule presence outside North America, where it sold 2.4 million vehicles in 2006. Its total share of the European market in 2006 was less than 1 percent, according to the European Automobile Manufacturers Association, and it sold even fewer vehicles in Asia and South America than it did in Europe. By contrast, General Motors Corp. and Ford Motor Co. make most of their profits overseas.

Chuck Moore, a director at the Detroit restructuring firm Conway, MacKenzie and Dunleavy, said Cerberus must make Chrysler grow - and not just cut costs - if it wants to make a return on its investment. He predicts Cerberus will buy more automakers or push for alliances with established players such as South Korea's Hyundai Motor Co. Hyundai already has an engine-building alliance with Chrysler and Japan's Mitsubishi Motors Corp.

"Overseas, the Chrysler name without Daimler is really going to be challenged. That's why the growth will have to come through some sort of partnership," Moore said. "To move as quickly as they need to move, it's likely they're going to have to team up with brands that are already known."

Cerberus Chairman John Snow has said Cerberus plans to keep Chrysler's management team in place and give it the freedom to implement its restructuring plan, which currently calls for shedding 13,000 hourly and salaried jobs in the U.S. and Canada by 2009.

"We are excited about realizing this monumental opportunity to help bring an American automotive icon back to a path for profitability and long-term success," Snow said Friday in a news release.

Jim McTevia, a Detroit restructuring consultant, said even if Chrysler's team stays in place, Cerberus will play a very active role in the restructuring.

"They've got a lot of money on the line, but even more important than money, they've got their reputation on the line," he said. "You can rest assured they'll leave no stone unturned."

Former Chrysler executive Wolfgang Bernhard, a senior adviser to Cerberus, is expected to be named chairman of the board at Chrysler, but there was no announcement about Bernhard Friday.

As part of the deal, Cerberus agreed to invest $6.1 billion in Chrysler and its financing arm and to pay DaimlerChrysler $1.4 billion. Cerberus has agreed to take on most of the auto company's approximately $18 billion in long-term retiree health care costs.

The sale ends the stormy nine-year marriage of Daimler and Chrysler, which merged in a $33 billion deal that was hailed as creating a global giant. Instead, Daimler found itself battered by rising pension and retiree health costs in the United States while its Mercedes brand faltered with quality problems at home.

DaimlerChrysler shares will become Daimler shares, but otherwise shareholders won't be affected. DaimlerChrysler is to be renamed Daimler AG, a change that must be approved by shareholders at a meeting Oct. 4 in Berlin. In a letter to employees, Daimler Chairman and former Chrysler chief Dieter Zetsche said the company made the right decision.

"As a company we've become faster and overall more efficient," he said. "Our balance sheet is strong."

DaimlerChrysler shares fell $2.06 to close at $89.12 Friday in trading on the New York Stock Exchange.

On the Net:

Cerberus Capital Management LP: http://www.cerberuscapital.com

DaimlerChrysler AG: http://www.daimlerchrysler.com