

Chrysler releases projected numbers, McTevia analyzes figures for Detroit Free Press

Chrysler loss to shrink this year
Cost cuts, retiree care cited in viability plan

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Chrysler LLC, which lost \$8 billion in 2008, told the government that it expects to narrow that loss to \$1.1 billion this year.

That would be an 86% improvement for the Auburn Hills automaker, in a year when U.S. auto sales are widely expected to plummet below the dismal 13.2 million car and truck sales in 2008.

Chrysler's projections are part of the company's 177-page viability plan submitted Tuesday to the Obama administration, which offers a rare glimpse into the financials of the privately held company.

Chrysler's projection comes at a time when most automotive companies have avoided making financial predictions for the next few years, after having to continually lower their sales expectations in 2008.

The narrowed loss that Chrysler projects for 2009 hinges on two major changes:

- A nearly \$10-billion decline in the company's variable costs between 2008 and 2009, to \$29.9 billion.

This would come from savings associated with the company's decision to cut production by about 30%.

- A \$1-billion noncash accounting gain that the company would record if it is able to start paying for retiree health care costs from the UAW-negotiated Voluntary Employee Beneficiary Association this year, which would be a year earlier than previously agreed to with the union.

Without the UAW agreeing to that move, the \$1.1-billion loss Chrysler projects for this year could nearly double to \$2.1 billion.

"That's the unknown right now," said Grand Rapids-based auto analyst Erich Merkle. "Depending on what happens there, that could make this picture look different."

Turnaround expert Jim McTevia said that if Chrysler is able to narrow its losses to \$1.1 billion, or even \$2.2 billion, this year, that would still be impressive.

In its viability plan, Chrysler also projects that its revenue would jump to \$54.6 billion in 2011.

That would be a 21% increase over 2009 revenue projections, even as the automaker assumes that U.S. auto sales will rise by only 1% in that same period.

McTevia said sales beyond this year are too difficult to predict in this uncertain market.

"It's too far away. There's nobody around that can accurately forecast what is going to happen in 2010," he said. "I wouldn't go one bit beyond 2009."

Analysts agree that Chrysler is using realistic sales assumptions for this year.

"I think some of the industry assumptions are pretty conservative," said Brad Coulter, a director at Bloomfield Hills restructuring firm O'Keefe & Associates.

Chrysler expects light-vehicle sales this year to be 10.1 million, a 22% decline from 2008. If sales fall to Chrysler's worst-case scenario -- to 9.1 million vehicles for a sustained period of time -- the automaker said in its plan that it would need an additional \$2 billion in federal loans to survive.

That would take the automaker's request for federal loans to a total of \$11 billion.

Chrysler already seeks an additional \$5 billion in loans, for a total of \$9 billion.

If sales are much worse than even Chrysler expects, Aaron Bragman, an auto analyst for IHS Global Insight, said: "We're going to have to see them either ask for more money or we're simply going to have to talk about bankruptcy."