

# McTevia's Analysis of "New" Delphi

New Delphi: Big investors, safe pensions

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Delphi Corp., the nation's largest auto supplier, announced Monday key decisions toward emerging from bankruptcy in a way that would protect UAW pensions, deliver better prices to former parent General Motors Corp. and provide a measure of stability for southeast Michigan as the parts-making giant gets back on its feet.

Delphi named a new chief executive officer, promised to fully fund pensions and announced an agreement to potentially give 70% ownership to five institutional investors in advance of a public stock sale next year.

Delphi, spun off from GM seven years ago as the world's largest auto parts supplier, struggled under the weight of its union contracts and declining sales to GM before seeking refuge in bankruptcy court last year.

Now it has a blueprint for a reorganized company, backed by Appaloosa Management LP, Cerberus Capital Management LP, Harbinger Capital Partners' Master Fund I, Merrill Lynch & Co. and UBS Securities LLC. They agreed to invest between \$1.4 billion and \$3.4 billion in the new company.

"It's a vote of confidence by people who already have an investment in the company," said Jim McTevia, a managing member of turnaround consulting firm McTevia & Associates LLC in Bingham Farms. "It sends a message that Delphi is on the road to getting out of Chapter 11."

Delphi's directors and its largest institutional investors agreed to a leadership change that will make Delphi President and Chief Operating Officer Rodney O'Neal the company's third CEO, effective Jan. 1. He'll replace Steve Miller, who will be executive chairman in the reorganized Delphi.

The company plans to emerge from bankruptcy in mid-2007.

A cousin of Merrill Lynch CEO Stanley O'Neal, Rodney O'Neal has been running the company's daily business operations while Miller has handled bankruptcy's leadership demands.

If the bankruptcy court approves the plan, the implications would be profound. Delphi would be the nation's largest manufacturer to emerge from bankruptcy court protection. And O'Neal, a Dayton, Ohio, native with a corner office in Troy, would be the highest-ranking black auto executive in the nation.

What's next: Jan. 31 deadline

Under Delphi's multipart financing plan, existing stockholders will get an estimated 24 cents for each share and be eligible to purchase common stock in the reorganized Delphi for \$35 per share.

GM, its former owner, will own 5% of Delphi and receive \$2.63 billion in cash. GM also is permitted to have its existing claims against Delphi paid through Delphi's bankruptcy process.

The plan assumes that GM will pay for certain Delphi guaranteed benefits to hourly workers, subsidize worker wages and support the winding down of Delphi plants and the sales of certain Delphi product lines.

But those decisions are contingent on Delphi's ability to reach an agreement with its unions and with GM by Jan. 31. The automotive supplier of everything from radiators to satellite radios is trying to negotiate wage reductions, plant shutdowns and product discontinuations with GM and its unions. If no deal is reached, then the institutional investors can walk away from their commitment.

"This reinforces a simple fact that we have made clear from the beginning of this process: Our membership will be heard," said UAW President Ron Gettelfinger, who represents the majority of hourly Delphi workers.

Delphi also affirmed its commitment to protecting pensions, with an arrangement to fund \$3.5 billion of its pension obligations. Delphi said that as much as \$2 billion of that amount may come from GM, through an existing agreement promising to fund the pension plan if Delphi couldn't.

Since Delphi filed for bankruptcy on Oct. 8, 2005, Miller has said that protecting worker pensions was a top priority.

"While other major Chapter 11 labor transformation cases have regrettably had to terminate their pension plans as part of their restructuring, Delphi has expended a great deal of effort and energy to save our employees' pensions," Miller said Monday in a statement.

On several occasions Miller has presented Delphi's worst-case scenario, with the assumption no deal would be reached with unions or GM, let alone a multibillion-dollar promise from New York investors.

"If we do it badly, Delphi may be broken up into small pieces, and America will have lost some of its precious industrial treasures," Miller said during a Jan. 16 speech.

GM says plan is progress

Bankruptcy has proved expensive for all parties involved.

GM has estimated its liability for Delphi at \$6 billion to \$7.5 billion, a narrower range than the \$5.5 billion to \$12 billion initially projected.

And Delphi took a \$1.7-billion charge in June because of an attrition plan that paid 20,100 workers to leave.

GM said the deal means progress and a framework to continue negotiations.