



CHRYSLER SOLD TO PRIVATE INVESTMENT FIRM

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German automaker Daimler announced this week that it plans to sell its controlling stake in the American car manufacturer Chrysler to a private group of investors called Cerberus Capital Management.

The deal represents the end of a nine-year merger between Daimler, the manufacturer of Mercedes-Benz automobiles, and Chrysler, which also makes the Jeep and Dodge brands.

In the late 1990s, the deal between the two automakers was seen as a natural business partnership. Chrysler would benefit from the German carmaker's engineering expertise. Daimler, it was thought, would get access to the mass-market sales enjoyed by Chrysler in America.

In recent years, however, the American automaker has experienced a series of setbacks. Rising gas prices have made its minivans, SUVs, trucks and large sedans less attractive than cars that get better gas mileage made by rivals Toyota and Honda. Chrysler also has been saddled with growing cost of health care and pension benefits for its thousands of American employees.

Last year the Detroit-based company reported a \$1.5 billion loss and, in February, announced that it would cut 13,000 jobs.

The sale to Cerberus, a group known for buying troubled companies and forcing them to restructure and cut costs, has raised many questions about whether Chrysler can be turned around and what the impact will be on the company's 80,000 workers.

The deal

Under the deal, Daimler, which spent \$36 billion on the merger in 1998, will effectively pay Cerberus \$677 million in cash to take over Chrysler.

In return, Cerberus has agreed to invest some \$7 billion in the American carmaker and take on the projected \$18 billion that Chrysler will have to spend on employee health care and retirement benefits going forward.

Shouldering these costs may turn out to be a huge undertaking. But Cerberus, which already owns 50 companies with combined revenues of more than \$60 billion and more than 175,000 employees, thinks it can succeed where public companies have not.

In an interview, Cerberus Chairman John Snow told the Wall Street Journal that a turnaround for Chrysler would take patience.

"It might take a couple of years to really show the results. And public companies don't have two or three years," Snow told the Journal, referring to the fact that public companies have to report profits and losses regularly to investors. Those results often affect investor confidence in a company and, in turn, business decisions.

A turnaround at what cost?

The transfer of Chrysler to a privately held company has raised questions about how patient the automaker's new owners will be, how they plan to make a profit, and what cuts they will make.

Only last month, Ron Gettelfinger, president of the United Automobile Workers -- a union that represents 50,000 Chrysler employees -- cautioned that a private equity firm like Cerberus might sell off the company's valuable assets for a quick profit.

One of the easiest ways for Cerberus to make money would be to cut costs, potentially by laying off workers or reducing employees' health care and retirement benefits.

For now, however, Cerberus has not announced any plans to cut more than the 13,000 jobs proposed by Daimler in February or discussed how it will handle employee benefits.

The UAW has even tentatively supported the deal. After being briefed for four hours by Chrysler executives over the weekend, Gettelfinger said, "We have been led to believe that they [Cerberus and Chrysler executives] are very concerned about the American automobile industry," the New York Times reported.

Workers react

With many details of workers' health care and pension packages still unclear, not all Chrysler workers are convinced that the deal will be in their best interest.

Tim Preston, a tradesman at the automaker's Jefferson Avenue North assembly plant in Detroit, told the New York Times that "they're going to want us to give something up."

Other workers are unsure what to think.

In an interview with National Public Radio, Mike Lawler, an employee at a Chrysler stamping plant in Warren, Mich., said, "There's not really much you can do ... just hope for the best. ... Only time will tell what's going to become of it."

The UAW and Chrysler are set to start negotiations on a new national contract this summer.

-- Compiled by Noah Buhayar for NewsHour Extra

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