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## **As Chrysler sits on blocks, what will Fiat do to fix it?**

By James R. Healey, USA TODAY

Fiat and Chrysler Group are scheduled to spend an almost unbelievable six hours Wednesday briefing analysts and journalists about the U.S. automaker's five-year business plan, or survival plan, if you prefer.

Word already has spread about a number of Chrysler, Dodge and Jeep models that are supposed to be discontinued by 2012. Less has been said about what Fiat Group models might replace them. The accuracy of those reports, which have kept Chrysler scurrying to stamp out rumors without giving away too much in advance, will be verified or refuted today.

Great grist for the mill.

But what's not been telegraphed is what the industry's deep thinkers say is more important — the financials.

How will Fiat, itself struggling, keep Chrysler alive financially until, presumably, resuscitating it with small, fuel-efficient Fiats, bigger Alfa Romeos, perhaps even Lancias built on Chrysler's big-car, rear-drive chassis? Modifying or redesigning the Italian cars and fuel-efficient powertrains to meet U.S. regulations and consumer expectations could take a couple of years.

And what North American factories will build them, bringing a sigh of relief to communities that depend on those factory jobs? The automaker must make about 40% of its U.S. sales volume in the U.S. under a promise made to the Treasury department to get emergency federal loans.

If the auto executives can't or won't detail a robust financial plan Wednesday to keep Chrysler in business the next few years, then the \$13.8 billion in government loans, the layoffs and plant closings, the dealer cuts the past few months — meaningless.

"If they don't announce financial details, people assume the worst," says Brad Coulter, a turnaround specialist at consultants O'Keefe and Associates. "We're only a few months from the bankruptcy, and the credit markets aren't completely convinced about the turnaround. There is great reluctance to lend into the auto sector," he says — a charriness that could become outright refusal if a company can't prove it has a chance to survive.

And Uncle Sam's wallet is closed. "Treasury has stated that it has no plans to provide additional assistance," a report earlier this week from the U.S. General Accountability Office pointed out.

Chrysler Group was formed to emerge from Chapter 11 bankruptcy in June by assembling Chrysler's best assets and giving Italy's Fiat, a huge industrial conglomerate that includes Fiat Auto, management control and a 20% stake in the new Chrysler Group. Fiat's fuel-efficiency technology, stylish designs and worldwide distribution network are to be its contribution to Chrysler.

"Fiat's clearly announced that it's not going to put any money into Chrysler. That'll have to change," to satisfy lenders, Coulter says. The domino effect also could take down suppliers who depend heavily on Chrysler business. Lenders would shun them, too, Coulter forecasts.

Fiat might not be able to kick in cash, even if it were to change its mind.

Debt-rating agencies Moody's Investors Service and Standard & Poor's both rate Fiat's bonds in junk category, saying the company has too much debt, has tapped out its lines of credit and would find it difficult to raise money in today's credit-pinched reality.

Fiat Group reported a net loss the first three quarters of 565 million euro (\$786.6 million). A year ago, it reported a nine-month profit of 1.5 billion euro.

Operating profit was in the black but still way off: 296 million euro (\$435.2 million) for the first three quarters, vs. earnings of 2.7 billion euro a year ago.

Debt had climbed to 8.1 billion euro (\$11.9 billion) at the end of September, from 3.7 billion euro at the end of 2008, Fiat reported.

Despite the intense interest in how Chrysler will pay its way the next several years, Fiat executives "don't get it about transparency. They'll disclose as little financial information as possible," predicts Rebecca Lindland, director of auto research for the Americas at consultants IHS Global Insight.

"I don't see being so pessimistic beforehand," says Barbara Castellano, associate director of corporate ratings in Standard & Poors's Milan, Italy, office. "It's in the interest of Chrysler to put out the best possible plan."

S&P's Sept. 25 report on Fiat, the most recent, noted that Marchionne, for 2009, "has targeted a ?1 billion reduction in (Fiat's) industrial debt. This seems challenging in our opinion."

The report cautions: "We see a risk that Chrysler's turnaround could absorb a greater share of Fiat's energies than what we currently assume. We could review the ratings if management is distracted by this new challenge or if the integration appears to us to be disadvantageous for Fiat."

Castellano points out that "Marchionne has been a crucial part of the Fiat turnaround" from near-bankruptcy in 2004 to profits within a few years.

Three years ago, Nov. 8 and 9, 2006, Fiat hosted analysts, investors and journalists at a two-day affair in Italy called Fiat Investor and Analyst Days. Fiat laid out pretty specific financial details.

Those included earnings projections, debt forecasts, yearly cash cushions and other details for 2007 — '10.

That confab, like the Chrysler event Wednesday, was meant to introduce CEO Sergio Marchionne's plan for the automaker. He's now CEO of Chrysler, too. It is, perhaps, not surprising in that context that Fiat would assume a several-hour, one-day presentation is modest.

What the curious hope to hear discussed today, in addition to the financial issues:

- Product plans. Will Chrysler, as the advance chatter has it, really kill the venerable PT Cruiser, a signature product for the brand?

What will replace the compact and midsize cars that are supposed to be on the chopping block, such such as the Chrysler Sebring, Dodge Nitro and Dodge Avenger?

Chrysler emphasizes that it won't abandon the compact and midsize car market that makes up roughly half of U.S. car sales.

- Badging intentions. Which Fiat Group vehicles will be sold in the U.S.? Will they carry their own brand names, or be marketed as Chrysler Group vehicles — a midsize Fiat Group sedan replacing the Avenger, for example.

- Manufacturing plans. Where will the new vehicles and powertrains be made? How many will be for the U.S. market and how many for export?

- Dealer setups. If Fiat intends to sell under its own Fiat, Alfa Romeo and even Lancia brands in the U.S., will all Chrysler Group dealers handle those models? Or will they be pitched as rewards that the best dealers can sell?

- Design and styling dominance. Will Chrysler design its own vehicles, Fiat relying on the Detroit automaker's familiarity with the U.S. market and Chrysler's reputation for adventurous styling?

- Quality concerns. Fiats have scored at or near the bottom in the most recent J.D. Power and Associates satisfaction surveys of owners of two-year old cars in the U.K., France and Germany.

Fiat insists those rankings don't account for improvement made the past two years.

Still, does Fiat understand the importance of trouble-free autos to U.S. buyers? And can it boost the mediocre scores that Chrysler Group vehicles have in U.S. rankings?

- Marketing savvy. Can any paln account for the voodoo of properly marketing a vehicle? "Look at the Dodge Journey," a crossover SUV, says Lindland. "It's just the type of vehicle people are looking for, a great product that nobody knows about. There's been such a painfully small amount of marketing money dedicated to it."

Perhaps most important, does Fiat really know and understand the fans of domestic autos, especially Chryslers and Dodges?

Think of those buyers as "sitting down with an American cheeseburger and fries," Lindland says, "and thinking, 'beer.' Fiat's red wine."

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