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## UPDATE 4-GM posts loss, vows to repay US, Canada early

GM/ (UPDATE 4, PIX)

- \* Analysts say results show pressure remains on GM
- \* GM to begin repaying U.S., Canadian debt in December
- \* Net loss of \$1.2 bln for July 10-Sept. 30 period (Recasts with details from analyst presentation, quotes)

By Kevin Krolicki and David Bailey

DETROIT, Nov 16 (Reuters) - General Motors Co said on Monday it lost \$1.2 billion in a bankruptcy-shortened third quarter, but it vowed a quick repayment of \$8 billion owed to the United States and Canada.

The results gave analysts and potential investors the first look at GM's books for the period from July 10, when the top U.S. automaker emerged from a fast-track sale out of a bankruptcy engineered and financed by the Obama administration, through the end of the third quarter. Revenue for the entire third quarter dropped 26 percent to \$28 billion.

Analysts said the results underscored the pressure facing the automaker even after a \$50-billion financing package that has made the U.S. government a 61-percent owner.

"They are still on life support as a business and they are going to continue to be," said Mirko Mikelic, a portfolio manager at Fifth Third Bank in Grand Rapids, Michigan.

Chief Executive Fritz Henderson said the results showed GM has "significantly more work to do" despite topping its own targets for market share and sales as it came out of bankruptcy.

"The first step in the turnaround is to stop the bleeding, stop shrinking as we get to the foundation," Henderson told financial analysts on a conference call.

The "new GM" has cut 34,000 jobs globally from the start of the year, eliminated \$78 billion of debt and built up a cash hoard of almost \$43 billion thanks to its bailout. It has also cut its U.S. inventories of unsold vehicles in half.

Henderson's predecessor, Rick Wagoner, was asked to step down by the White House after resisting plans for a bankruptcy that GM had long argued would hurt consumer confidence.

### FROM ONE POCKET TO THE OTHER?

Bolstered by its bailout, GM ended September with almost \$43 billion in cash compared with \$14 billion a year earlier.

That included \$17.4 billion in a special account created with bankruptcy financing provided by the U.S. government. GM said it has allocated \$8.1 billion from that taxpayer-funded account to pay off its government debt.

"This is basically them taking money from one pocket and putting it in the other," said Brad Coulter, an automotive restructuring adviser at O'Keefe & Associates.

"But they need to keep showing that they are stabilizing to get consumers back in showrooms. They also need to show investors and creditors that the business has stabilized and it's OK to invest in the auto supply base," he said.

GM's results were not prepared according to generally accepted accounting principles and were not comparable to past results. GM has lost \$88 billion since 2005.

In the United States, where the "cash for clunkers" sales incentives helped lift a sagging market, GM's U.S. market share dropped to 19.5 percent from 24.3 percent a year earlier.

Aaron Bragman, an analyst with IHS Global Insight, called the GM results "surprising and a little disappointing."

"The bankruptcy was effective in some ways; the debt is a lot less; the structural costs are dramatically less; but why are they still turning in a loss?" Bragman said. "We expected better." GM forecast industrywide sales in its home market would recover to about 11.5 million vehicles in 2010, up from 10.5 million this year. It declined to say how it would fare in a market of that size. Its North American operations lost \$651 million in the shortened third quarter.

"When you are living on the edge of a cliff, which a company in bankruptcy and coming out of bankruptcy clearly is doing, it is all about being around for when the economy is thriving again," said Van Conway, principal at Detroit-based restructuring specialist firm Conway Mackenzie.

#### CHINA GAINS, EUROPEAN LOSSES

GM's results were supported by booming auto sales in China, where it has a nearly 14 percent market share. GM made \$429 million in Asia in the period.

But that was more than offset by a loss of \$437 million in Europe, where GM is racing to secure financing for its Opel unit. In a move that has strained relations with its German union and Germany's government, GM's board reversed course earlier this month and decided to keep Opel. The German government had pledged to contribute 4.5 billion euros (\$6.7 billion) to finance a deal that would have sold Opel to a Russian-backed group led by Canadian auto parts supplier Magna International Inc.

Henderson said GM needs to raise about 3 billion euros for this year and next to restructure Opel. He said he expects the funding would come mostly from GM in the United States.

GM is in the process of revaluing its balance sheet in a process expected to take until the first quarter.

In a move that would represent its first return to the capital markets, GM also plans to arrange a revolving line of credit in preparation for an eventual IPO, Henderson said.

"All of our shareholders want to sell shares," he said. "Creating a market for an orderly trading of the stock is important." (1 euro=\$1.499) (Additional reporting by Soyoung Kim, editing by Gerald E. McCormick and Dave Zimmerman)

<http://www.reuters.com/article/earningsSeason/idUSN1648314420091116>