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Fiat Agrees to Buy Rest of Chrysler in \$4.35 Billion Deal

By Tommaso Ebhardt and Mark Clothier January 02, 2014

Fiat SpA agreed to buy the remaining stake in Chrysler Group LLC owned by a United Auto Workers retiree health-care trust in a \$4.35 billion deal, the last step needed before the Italian and U.S. carmakers can merge to create the seventh-largest automaker.

Sergio Marchionne, chief executive officer of both manufacturers, structured the agreement so that Chrysler puts up most of the cash, easing strains on the Italian parent as it seeks to end losses in Europe. Fiat rose the most in almost five years in Milan trading.

The deal announced yesterday with the trust, structured as a voluntary employee beneficiary association, avoids an initial public offering of Chrysler stock that would have complicated Marchionne's attempt to combine the companies. The agreement gives Turin-based Fiat full ownership of Chrysler less than five years after the No. 3 U.S. automaker's government-financed bankruptcy.

"In the life of every major organization and its people, there are defining moments that go down in the history books," Marchionne said yesterday in a statement. "For Fiat and Chrysler, the agreement just reached with the VEBA is clearly one of those moments."

Fiat jumped 16 percent to 6.89 euros, the biggest intraday gain since April 2009, and was trading at 6.85 euros at 9:23 a.m., valuing the carmaker at 8.58 billion euros (\$11.8 billion). The stock climbed 57 percent in 2013.

Challenging VW

Full ownership of Auburn Hills, Michigan-based Chrysler will combine two regional manufacturers into a global player with better scale to challenge General Motors Co. ([GM:US](#)) and Volkswagen AG. Marchionne, who has sought a merger since taking the helm at the Italian company in 2004, estimated in June that Fiat and Chrysler combined will be the world's seventh-largest carmaker.

Assigning the majority of the transaction to Chrysler is "a bit of a coup and will be seen as a big positive surprise," said Max Warburton, an analyst at Bernstein Research in Singapore. "The deal successfully secures Fiat's operational and financial future."

Fiat, which already holds 58.5 percent of Chrysler, will pay the trust \$1.75 billion in cash when the deal closes. Chrysler will contribute \$1.9 billion through a special dividend to complete the transaction for the 41.5 percent stake.

In addition, Chrysler agreed to pay the trust \$700 million in four annual installments, with the first to be made when the deal closes, which Fiat expects by Jan. 20. The Italian company said the money would come from

cash on hand and that a share sale probably won't be needed.

Daimler Ownership

Including earlier purchases of holdings from the U.S. and Canadian governments, Fiat's spending on Chrysler stakes will total \$3.7 billion. That compares with the \$36 billion that the then Daimler-Benz AG paid for the U.S. company in 1998. The DaimlerChrysler deal unraveled in 2007, when Cerberus Capital Management LP paid \$7.4 billion for 80 percent of Chrysler.

The agreement's value is lower than some analysts forecast. Banca Akros estimated in December that Marchionne would need to pay \$4.5 billion for the VEBA's holding. As of Dec. 20, Fiat was seeking to pay about \$4.2 billion for the stake, compared with the trust's demands for at least \$5 billion, a person familiar with the talks said at the time.

'Fair Deal'

"This looks like a fair deal for the union and a reasonable valuation on Chrysler," Richard Hilgert, an analyst with Morningstar Inc. in Chicago, said in an e-mail. The purchase price gives Chrysler an enterprise value of \$23.3 billion, he said.

The deal comes at a time of resurgence and transition in the U.S. auto industry, which is rebuilding lineups from top to bottom to fuel record sales and profits.

Ford Motor Co. plans to introduce 23 models worldwide this year, a product onslaught that risks being overshadowed by speculation that CEO Alan Mulally will leave to take the same role at Microsoft Corp. The automaker said last month that the cost of the new products will cause profit to drop this year.

Last month, GM named a new CEO, Mary Barra, to succeed Dan Akerson Jan. 15, and may consider paying a dividend this year. GM brought out 18 new or revamped models in the U.S. in 2013 and plans 14 more this year as the automaker improves its lineup from one of the industry's oldest into one of the newest. The automaker also saw the U.S. Treasury sell its final shares of GM, freeing the Detroit-based company from U.S. government ownership.

Model Strategy

Chrysler has increased sales for 44 straight months, led by vehicles developed with help from Fiat, including the Dodge Dart and Jeep Cherokee as well as by expanding the range of product offerings to include the tiny Fiat 500.

Merging the two companies will allow Fiat to pool cash with Chrysler and tighten cooperation between its Alfa Romeo, Lancia and Maserati brands and the Chrysler, Dodge and Jeep nameplates. Fiat plans to invest as much as 9 billion euros to revive underused Italian factories to stem losses in Europe. That plan is largely dependent on accessing Chrysler's \$12 billion cash hoard.

The time line for a merger with Chrysler could be outlined as soon as late January, when Fiat's board meets, said two people familiar with the situation who asked not to be identified because the talks are private.

Toyota Top

Chrysler and Fiat together delivered 4 million vehicles worldwide in 2012. That compares with 9.07 million vehicles sold by Wolfsburg, Germany-based VW, 9.3 million by GM and 9.75 million by Japanese competitor Toyota Motor Corp., according to Bloomberg Industries data.

Fiat already relies on Chrysler to sustain profit amid losses in Europe, where the car market has fallen to a two-decade low. Group net income, including minority holdings, totaled 1.41 billion euros in 2012. Without Chrysler, Fiat would have posted a 1.04 billion-euro loss.

Fiat started accumulating Chrysler stock in June 2009 as part of a government and labor-union bailout of the U.S. carmaker, which was losing as much as \$100 million a day at the time. Rather than paying cash for the initial 20 percent holding and subsequent 15 percent stake, Fiat provided management experience and technology and helped Chrysler meet various performance milestones, such as developing models.

Final Talks

Marchionne restarted negotiations with the VEBA the week before Christmas, after Fiat's first proposal in months was initially rejected, people familiar with the matter said at the time.

The agreement between Fiat and the UAW fund will end a potential Chrysler IPO, which was forced by the trust amid a legal dispute over the holding's valuation. Fiat and the trust also agreed to dismiss legal proceedings in Delaware as part of the agreement.

"I have been looking forward to this day from the very moment that we were chosen to assist in the rebuilding of a vibrant Chrysler back in 2009," Fiat Chairman John Elkann said in the statement. He also leads Exor SpA, the holding company of Fiat's founding Agnelli family that holds 30 percent of the automaker.

To contact the reporters on this story: Tommaso Ebhardt in Milan at tebhardt@bloomberg.net; Mark Clothier in Southfield, Michigan, at mclothier@bloomberg.net

To contact the editors responsible for this story: Jamie Butters at jbutters@bloomberg.net; Chad Thomas at cthomas16@bloomberg.net

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