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GM reaches milestone on road back from bankruptcy

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This is the day Uncle Sam starts inching out of the auto business, billions of taxpayer bailout dollars at a time.

Cleansed by bankruptcy, propped up by contributions from the U.S. and Canadian governments and a United Auto Workers health fund, propelled by growing demand for new vehicles, General Motors today offers an expanded initial public stock offering.

GM on Wednesday confirmed that in its historic return to the New York Stock Exchange it is upping the number of common shares available by 31 percent. It set the price at $33 a share, much higher than reported earlier.

At the previously anticipated smaller sale at a lower price, the federal government expected to get back $9 billion of its $49.5 billion stake in the company. Now, it could reap close to $13.6 billion from the sale of 412 million common shares. Other GM owners, the Canadian government and the union health fund, will sell 138 million shares.

In total, the company expects to take in $20.1 billion, or up to $23.1 billion if more shares are sold to meet demand. That would make this the largest such stock sale in American history.

Analysts said raising the number of available shares reflects turbocharged demand for stock in a company well-positioned to compete for sales.

That recovery — far from complete, and accomplished with the controversial infusion of taxpayer cash — is remarkable for a company that nearly went broke in 2008 and lost $80 billion in four years prior to last year's bankruptcy.

“They've cut an awful lot in the company, so any kind of (vehicle) sales you get are going to cause profitability, and they're getting sales,” said Jim Gillette, an analyst at IHS Automotive. “There should be good demand for the stock.”

Predictions like that have had the Obama administration's former so-called car czar Steven Rattner crowing that the billions in government money pumped into GM saved thousands of jobs, and that the U.S. Treasury could see most of that money returned.

A good stock sale today bodes well for GM's Kansas City, Kan., Fairfax plant, much as the success of the Chevrolet Malibu and Buick LaCrosse assembled there are seen as wins for GM.

Before raising the share price to $33, GM was going to set it between $26 and $29. Some analysts predict the price today on the stock exchange could move to $35 or $36.

Finding the sweet spot on the opening price isn't easy. Price it too high and demand evaporates — making the stock less attractive in subsequent sales. Price it too low and taxpayers miss out on the best possible return, while GM risks the appearance of a windfall giveaway to the large institutional investors — pensions, mutual funds, stock brokerages — who get first crack.

Individual investors can only buy from the bigger players. That's standard practice for IPOs, where underwriting banks sell the shares to outfits buying in bulk. Those first-in buyers typically benefit from a rise in price, but also take the risk that the stock can nosedive.

GM's partner in China, Shanghai Automotive Industries Corp., also is considering a 1 percent stake worth about $500 million, according to Chinese state media.

Today's stock market re-entry should cut Washington's 61 percent stake to about 33 percent.

The government isn't dumping all of its stock, because to do so would likely flood the market, driving down share prices. The government expects to liquidate the rest of its stake next year.

After today, the U.S. Treasury will still hold about 500 million GM shares. They would have to sell at $53 each —

far higher than most analysts imagine — for taxpayers to break even.

Most analysts still estimate that the government will lose about $10 billion even after another roughly $10 billion in loans is repaid.

Not everyone sees the venture as a success story. Dan Ikenson, an economist at the libertarian Cato Institute, said the government bailout underlined a too-big-to-fail mentality that upsets the risk-reward dynamic of a market economy.

“Now GM has got to be thinking that they can still make risky decisions and know the government has their back,” Ikenson said. “We’ve lost the moral authority to tell other governments not to subsidize their industries and compete fairly with us.”

GM’s transition from a fast-falling company was painful. It ditched entire brands such as Pontiac, shuttered factories and trimmed its number of dealerships from 6,200 across the country to 4,500.

Among those who lost a dealership was Scott Adams, president of Adams Automotive Group, which still sells Dodge, Chrysler, Jeep, Scion and Toyota vehicles in the Kansas City market. His GM dealership in Belton closed Nov. 2.

Yet he’s seen improvements in the way GM operates.

“GM finally started listening to dealers and the customers and building what the customer wanted,” Adams said.

As an example, he noted that a surplus of Chevrolet Suburbans meant the SUVs once sold with $7,000 rebates — a clear indication that too many flooded dealer lots.

“Why build too many,” he said, “and then have to give them away?”

Analysts also see a pent-up demand for new cars. At the same time, GM has a stronghold in fast-growing Asian markets. In China, government officials and government-owned firms have preferred Buicks over Audis.

The Detroit behemoth pleaded with a lame-duck President George W. Bush for bailout bucks in December 2008 and got nearly $10 billion in government loans. Then President Barack Obama forced out the CEO in March 2009. By June 2009, GM was exiting the stock exchange — where it had been a blue-chip fixture for 92 years — as it began an expedited, government-sponsored bankruptcy and the renegotiation of labor contracts.

It came out of bankruptcy in July 2009, but only in a move that made the government its majority owner.

GM had quit the vilified Hummer line of Army-inspired SUVs, sold its Saab division and jettisoned its Saturn and Pontiac brands. It closed 14 of its 47 plants and cut its debt from $46 billion to $8 billion.

GM has been on a roll lately. This week its electric Chevrolet Volt was named Motor Trend’s Car of the Year. The car gets up to 50 miles on a charge and has a gas engine to deliver more miles. The magazine called the Volt one of the most significant vehicles to win in the award’s 61-year history.

“The more we think about the Volt the more convinced we are this vehicle represents a real breakthrough,” said editor-in-chief Angus Mackenzie.

John Melton, bargaining chairman of United Auto Workers Local 31 in Kansas City, Kan., said the company is better off than a year ago but still needs to get 4,000 laid-off auto workers back to work. Paying off the last of the government loans, he said, will help.

“The sooner we pay it back,” Melton said, “the sooner we stand on our own two feet.”

Meanwhile, some GM fans just want to savor the recovery symbolized by the stock sale. Gary Waller of Greenwood, Mo., owns a Corvette and a Cadillac and sells Corvette accessories and jewelry.

“We should build things in America,” he said. “I’m really glad they came back.”

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