

August 12, 2010

Whitacre Resigns, but Is GM Really Ready to Roll On with its IPO?

By Don Miller, Associate Editor, Money Morning

Whether it's because the company is ready to again stand on its own two feet, or because of undue political pressure, [General Motors Co.](#) looks to be preparing an initial public offering (IPO) that would repay billions to taxpayers who own a majority stake in the company.

The company yesterday (Thursday) reported a 44% increase in net profit and announced that Chief Executive Officer Ed Whitacre would step down from his post on Sept. 1.

Whitacre, who was named GM's chairman last year as the company emerged from bankruptcy protection, will be replaced by GM board member Daniel Akerson. Akerson has little experience in the automobile industry, but he boasts a solid track record of leading telecommunications companies.

Steven Rattner, the former head of the Obama administration's Auto Task Force, told *The Associated Press* that after two strong quarters of profitability, [it's an appropriate time for Whitacre to step down](#). Many analysts, sensing change in the wind, took that as an indication that GM would register for its IPO as early as today (Friday).

Indeed, the timing of the prospective launch - right before this year's midterm elections - would be more than coincidental. There are rumblings that the Obama administration is pressuring the company to free itself from government debt, perhaps prematurely.

["It's earlier than what would be ideal relative to where GM stands with their turnaround, but there are broader political considerations playing into the timing,"](#) Craig Fitzgerald, an automotive analyst at Plante & Moran in Southfield, Michigan told *ABC News*.

Of course, if the IPO receives a tepid response from Wall Street, the company could leave money on the table and fail to meet taxpayer expectations, something that would backfire on the Democrats, Dan Ikenson, a researcher with the libertarian think tank [Cato Institute](#) told *ABC*.

"A lackluster offering would generate a lot of bad press before the election," he said. "With economic growth and auto sales prospects apparently in doubt and the \$41,000 Chevy Volt about to be unveiled when gas prices are relatively low, investors may not be ready to own GM stock."

GM has repaid about \$7 billion of U.S. government loans since the auto industry rescue,

and still owes the government about \$43 billion. The government can't recover the money until GM issues public stock and the Treasury begins selling its 61% stake on the open market.

The United Auto Workers (UAW) retiree medical fund now holds 17.5% of GM, the Canadian government has 11.7% and debtors are left with 10%.

Showing profit growth would be a key underpinning for a possible IPO. Accordingly, GM reported second-quarter net income of \$1.54 billion on increased vehicle sales and production. Profit rose 44% from \$1.07 billion in the first three months of the year, as revenue also increased 44% from a year ago to \$33.2 billion.

GM said it built 731,000 vehicles in North America - an 85% increase over the second quarter of 2009 - as revenue and profit gains were driven by an increase in output and higher productivity at its plants.

"[Last year GM was shutting down plants when they filed](#)" Chapter 11, Mike Wall, an auto industry analyst based in Grand Rapids, Michigan told **Bloomberg**. "This summer, most of its U.S. plants were running full out."

Some analysts think there's no time like the present for a GM offering.

GM could raise as much as \$20 billion in the offering, which would make it the largest in U.S. history, surpassing Visa Inc.'s (NYSE: [V](#)) \$18 billion offering in 2008, a person familiar with the plan told **ABC**.

"You've got to get the money when the market is giving it," Shelly Lombard, debt analyst with New York-based Gimme Credit, said in a telephone interview with **Bloomberg**. "Now is the time for GM to do an IPO."

GM has obtained as much as \$5 billion in a revolving line of credit from a group of at least 15 banks to clear the way for an IPO, a person familiar with the matter told **Bloomberg**. More than half could act as underwriters, including Morgan Stanley (NYSE: [MS](#)), JPMorgan Chase & Co. (NYSE: [JPM](#)), Citigroup Inc. (NYSE: [C](#)), Bank of America Corp. (NYSE: [BAC](#)) and Credit Suisse Group AG (NYSE ADR: [CS](#)).

A document exceeding 500-pages, called an S-1, is likely to be filed with the U.S. Securities and Exchange Commission today, **Bloomberg** reported. However, it may not happen until Monday and the exact value of the offering may not be fully detailed in the filing.

Whitacre, the retiring CEO, has said he is eager for the U.S. government to sell its 61% share of the automaker.

"We don't like this label of Government Motors," he told **Bloomberg** last week.

As far as the timing, the bank underwriters' will tell GM whether now is the right time to come to market and whether there is sufficient demand for the shares, Fitzgerald told *ABC*.

"If they tell GM the time is now, then GM will go for the offering," he said. "If the judgment is now is not the time we can't sell this, then GM will back off."