U.S. Autos
Industry & Government: An Investor Perspective

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See Appendix A-1 for Analyst Certification and Important Disclosures
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A Look Back at 2009: Government Played a Crucial & Effective Role

- **Who Will Lend to a Bankrupt Automaker?**
  - Government Served as Lender of Last Resort

- **Won’t Chapter 11 Process Take Years?**
  - Government Facilitated a Fast Track Process

- **Will Consumers Buy a Car From Bankrupt Automaker?**
  - Warranty Commitment & Public Assurances

- **But Won’t a Quick Chapter 11 Process Become Tainted?**
  - Painful Concessions From Every Stakeholder

Source: GAO, company reports and CIRA estimates.
A Look Back at 2009: Government Played a Crucial & Effective Role

### Review of Government Injections

<table>
<thead>
<tr>
<th>Company</th>
<th>Description of Funding</th>
<th>Authorized amount</th>
<th>Repayments of principal</th>
<th>Interest and dividend payments</th>
<th>Amount and form of future repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler</td>
<td>Loans to Chrysler for general business purposes and restructuring</td>
<td>$12.5</td>
<td>0</td>
<td>0.052</td>
<td>A total of up to $7.1 billion will be repaid as a term loan, including $5.1 billion to be repaid within 8 years and $2 billion to be repaid within 2.5 years. Treasury also received a 9.25% equity share in the new Chrysler. Treasury also has $5.4 billion of debt in the old Chrysler, but it is not clear at this time whether this amount will be repaid.</td>
</tr>
<tr>
<td>Supplier Support Program loan</td>
<td>1.0</td>
<td>0</td>
<td>0.032</td>
<td></td>
<td>Amounts provided are due to be repaid by April 2010.</td>
</tr>
<tr>
<td>Warranty Commitment Program loan</td>
<td>0.28</td>
<td>0.28</td>
<td>0.003</td>
<td></td>
<td>All funds have been repaid.</td>
</tr>
<tr>
<td>Chrysler Financial Receivables Trust funded through Chrysler LB</td>
<td>$1.5</td>
<td>$1.5</td>
<td></td>
<td>0.007</td>
<td>Loan repaid in full plus about $7 million in interest.</td>
</tr>
<tr>
<td>GMAC</td>
<td>Preferred stock and convertible preferred stock</td>
<td>125</td>
<td>Not applicable</td>
<td>0.43</td>
<td>Treasury may convert $75 million of preferred shares to common shares upon specified events such as public offerings.</td>
</tr>
</tbody>
</table>

**Total** | $4.1 | $31 | $0.68

Source: GAO analysis of Treasury Information
The Result? So Far so Good…

- Government Led Restructuring Bolstered Consumer & Investor Confidence…

- …Capacity Reductions & Other Measures Reduced Break-Even Points…

- …Causing Earnings to (So Far) Recover Faster On Better Operating Leverage

- Improved Balance Sheets Contributing to Pricing Discipline…. 

- …Profit Margin Expectations Have Risen Dramatically

Source: Ward’s, AutoData, company reports and CIRA estimates.
The Result? So Far so Good…

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The Result? So Far so Good...

Source: Ward’s, AutoData, company reports and CIRA estimates.
How Might This Relationship Evolve?

2 Issues on Investors’ Minds Today:

(1) How will the U.S. Sales Recovery Unfold?

(2) To What Extent Will Recent Restructuring Lead to Structurally Higher Returns on Capital?

Government Involvement Plays Meaningfully Into These Considerations!

(1) We’ve Already Seen the Power of Government Stimulus…More to Come?

(2) Investor & Government Interests Seem Aligned Near-Term

(3) Investors Generally View Government Role as Positive Near-Term; More Questionable Longer-Term
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Issue # 1: How Will the U.S. Sales Recovery Unfold?

- Restructuring Goes So Far, Ultimately Interests Hinge on a U.S. SAAR Recovery…
- …“Cash For Clunkers” was Instrumental in Kick Starting Demand and Residual Values…
- …Yet, U.S. SAAR Recovering at a Very Slow Pace (Jan = 10.8mln)
- Hopefully an economic recovery can bolster SAAR, But What if it Doesn’t?

Have We Seen the Last of Government Sales Stimulus Initiatives?  
We Think Perhaps Not…
Issue # 1: How Will the U.S. Sales Recovery Unfold?

Source: Ward’s, Manheim and CIRA estimates.
Issue # 1: How Will the U.S. Sales Recovery Unfold?

Why Would Government Reconsider Another Auto Sales Stimulus?

- Because Evidences of Pent-Up Demand Exists!

- Why? Last Upturn Driven by Discretionary Demand, Lifting Saturation and Fleet Age…

Source: Polk, Conference Board and CIRA estimates.
Issue # 1: How Will the U.S. Sales Recovery Unfold?

Why Would Government Reconsider Another Auto Sales Stimulus?

- Great, So If Demand Exists; Why Are We Talking About Stimulus Potential?...
- Because Pent-Up Demand Won’t Last Forever; De-Stocking is a Major Industry Threat…
- So Why Isn’t This Pent-Up Demand Coming About Now? Simple…Who Wants Fixed Costs?
- Unlocking This “Confidence Gap” is a Critical Consideration for the Long-Term Outlook
- How Could One Unlock “Confidence Gap”?  
- Simple, A Solution Exists (Not Cash For Clunkers)…

Source: Polk, Conference Board and CIRA estimates.
Issue # 1: How Will the U.S. Sales Recovery Unfold?

Job Assurance Programs Have Been Very Effective, In Our View

(1) Turn a Fixed Payment into a Contingent Variable Payment…Directly Addresses “Confidence Gap”
(2) Applies to Everyone Who Wants and Can Buy a Car!
(3) Doesn’t Corrupt Price
(4) Protects Pent-Up Demand and Reduces De-Stocking Risk
(5) Very Limited Relative Cost

Bottom Line:
(1) Investors Consider Government Role as a Back-Stop Near-Term to Support Sales Recovery.
(2) The Existence of Powerful Sales Incentives Adds Comfort to the Outlook
(3) Most Hope New Government Stimulus Won’t Become Necessary

Source: Ward’s, company reports and CIRA estimates.
Issue # 2: Will Restructuring Lead to Structurally Higher Margins?

Key Topics Pertaining to Government Role:

(1) Day-to-Day Management Decisions

(2) Pricing Discipline

(3) Capacity Discipline

(4) Fuel Economy Regulations

2 FAQ Investor Questions:

(1) Will Politics Influence Sound Economic Decisions?

(2) How Are Future CAFÉ Policies Influenced by Government Role in Auto Companies?
Questions?