

GM Sells Allison Transmission for \$5.6B

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DETROIT (AP) -- Shares of General Motors Corp. hit a two-year high Thursday after the automaker said it had agreed to sell its Allison Transmission commercial and military business to an investment conglomerate and a private equity firm.

The deal adds funds to GM's coffers as it gears up for crucial contract negotiations with unionized workers, although it also means losing a profitable division.

GM shares rose 74 cents, or 2 percent, to \$38.15 Thursday after climbing as high as \$38.66.

The sale to Onex Corp. and The Carlyle Group includes seven manufacturing plants in Indianapolis and its global distribution network and sales offices. A production facility in Baltimore, which makes conventional and hybrid transmissions for pickup trucks and sport utility vehicles, will remain with GM.

The Detroit automaker said the deal, expected to close as early as the third quarter of 2007 pending union and regulatory approval, is part of an effort to raise money and focus on its core business. It said in January it was considering a sale of Allison.

"This is another important step to strengthen our liquidity and provide resources to support our heavy investments in new products and technology," GM Chairman and Chief Executive Officer Rick Wagoner said in Thursday's statement. "At the same time, this sale will position Allison for growth with strong partners in Carlyle and Onex, which have well-established track records of working effectively with their management teams, unions and employees."

Pete Hastings, an auto industry corporate bonds analyst with Morgan Keenan & Co. in Memphis, Tenn., said GM likely viewed the business as nonessential and decided it would rather have the cash as it approaches contract negotiations later this year with the United Auto Workers. Key to those talks will be striking a deal for health care and other benefits for current employees and retirees, which many manufacturers say hinders their ability to compete against foreign rivals with cheaper labor costs.

"They've already got a war chest of sorts, and I think they're adding to it just to take care of what I would call a critical issue," Hastings said. "It's one of the remaining big items that they need to take care of."

In a note to investors, JPMorgan analyst Himanshu Patel said proceeds from Allison came in higher than anticipated and said the move may indicate that GM wants to create a retirees' health care fund similar to one approved by the United Steelworkers at Goodyear Tire & Rubber Co. late last year.

In that pact, Goodyear created a \$1 billion retirees' health care fund that gets it off the hook for future health insurance benefits.

GM leaders, including Wagoner, previously have expressed interest in the Goodyear deal, but the company wouldn't directly comment Thursday on the speculation.

"We are looking at a variety of alternatives to address the health care burden," said GM spokesman Dan Flores. "We aren't going to speculate on the options we are exploring, but our focus is on working with the UAW to develop solutions together."

Indianapolis-based Allison designs and builds commercial-duty automatic transmissions, hybrid propulsion systems and parts for trucks and buses, off-highway equipment and military vehicles. The company boasts an 80 percent market share of all medium- and heavy-duty commercial transmissions, with annual revenues of more than \$2 billion.

The Carlyle Group is a Washington, D.C.-based private equity firm, and Onex Corp. is a Toronto-based investment conglomerate. The two will be equal partners in the deal, both sides said.

Greg Ledford, Carlyle's managing director, said the new owners aim to eventually take Allison public. He said Carlyle and Onex would assume all UAW contracts for employees from GM, although he would not comment on any possible changes during collective bargaining later this year. The firms have no plans to close any of the seven plants, he said.

"I think it's the best automotive industrial company that I've ever seen," Ledford said.

David Kudla, chief executive of Mainstay Capital Management, said in a note to investors Thursday that the new ownership "could create synergies in the military and government business units resulting in more military contracts."

In a telephone interview, Kudla said the deal increases GM's short-term liquidity and helps it finance its North American turnaround plan, but it also constitutes the shedding of another of the automaker's profitable divisions. GM sold 51 percent of its GMAC financing arm last year to a consortium of investors.

"It's debatable as to whether transmissions are considered core or noncore to an automotive company, but certainly from a business analysis, it's a division you'd like to have," he said.