A corporate divorce on the cheap
Mark Landler

Nine years after they exchanged vows at a huge, lavishly choreographed news conference in London, Daimler and Chrysler signed their divorce papers Monday at a sparsely attended briefing in an auditorium at an aging Mercedes-Benz factory here.
As bookends, the two news conferences vividly illustrated the dashed dreams of the Daimler-Chrysler marriage.

At least for one partner, though, the sale of Chrysler to Cerberus Capital Management represents a potentially invigorating emancipation. Daimler, now largely free of its struggling American partner, can look ahead to what analysts generally agree is a promising future as a stand-alone maker of trucks and luxury cars.

“I’m very optimistic,” said Adam Jonas of Morgan Stanley in London. “Daimler is the largest truck company in the world and one of the most valuable premium car companies in the world.”

The price of freedom for the soon-to-be-renamed Daimler A.G. is $677 million in cash — its out-of-pocket outlay in the $7.4 billion transaction — for Cerberus to take Chrysler off its hands. It is also shedding nearly $18 billion in health care and pension liabilities. For a merger once valued at $36 billion, it was a humiliating comedown.

Nor are Chrysler’s long-term prospects clear. Cerberus dispatched its chairman, John W. Snow, the former secretary of the Treasury, to Stuttgart to drum up excitement about Chrysler’s future and to reassure managers and workers that the investment firm is not going to turn Chrysler inside out.

Among Daimler executives here, however, there was a sense that they got the good end of the bargain. The company’s businesses — trucks, buses and luxury cars — are among the fastest-growing and most profitable segments in the industry. And Mercedes-Benz, after a period in which it suffered from quality concerns and eroding profits, is on an upswing.

“There are more people with higher incomes,” said Garel Rhys, director of the Center for Automotive Industry Research at Cardiff University in Wales, “and they are living longer, so they have time to buy these cars.”

Though it will become much smaller, Daimler will have a stronger balance sheet, a hoard of cash and a clear focus. “The new Daimler will stand on a very solid foundation,” the chief executive, Dieter Zetsche, said.

None of this dispelled a palpable sense of regret on the part of Mr. Zetsche, who made his reputation running Chrysler and even lent his image to television commercials for its vehicles. The company will retain a 19.9 percent stake in Chrysler.

“We obviously overestimated the potential of synergies,” Mr. Zetsche said of the 1998 merger. “I don’t know if any amount of due diligence could have given us a better estimate in that regard.”

Daimler, he said, was not able to exploit the combination of its highly engineered Mercedes-Benz luxury cars with the mass-market vehicles of Chrysler because American motorists could not, or would not, pay a premium for a Chrysler equipped with Mercedes technology.

What Daimler encountered instead were the unforgiving vagaries of the American car market. Chrysler lost $1.5 billion last year, and the losses are expected to continue this year. Finally, Mr. Zetsche said, DaimlerChrysler could no longer bear the pressure on its profits or share price.

DaimlerChrysler stock closed up nearly 2 percent in Frankfurt trading on Monday, after jumping as much as 7.8 percent when news of the agreement with Cerberus was reported. It has risen 25 percent since Mr. Zetsche disclosed in February that the company was considering alternatives, including a divestiture.

Mr. Zetsche insisted that Chrysler did not drain cash from Mercedes. Despite its recent losses, it generated nearly $15 billion in cumulative profits during the years it was owned by Daimler. But analysts said Daimler could have found better uses for the cash it poured into Chrysler.

“They spent about $60 billion acquiring, restructuring and investing in Chrysler over the last nine years,” Mr. Jonas of Morgan Stanley said. “Just think where the next $60 billion could go if it was invested properly.”

Among other things, he said, Mercedes-Benz could introduce more innovative and alluring cars to compete with German brands like BMW and Audi. BMW, which has taken the mantle of the world’s top luxury carmaker in recent years, may feel new heat from its old rival.
Daimler’s residual stake in Chrysler means that it will continue to have close ties to the company. For all the difficulties between Mercedes and Chrysler, Mr. Zetsche said they had successfully cooperated in developing power trains, buying raw material and sharing logistics systems.
That work will go on, under the aegis of a joint automotive council. Mr. Zetsche portrayed the arrangement as a benefit, because Daimler will be able to capitalize on cost savings or new products that flow out of its collaboration without bearing health care liabilities. “We basically have all the upside potential without the downside risk,” Mr. Zetsche said.

Still, Daimler’s history as a minority shareholder is problematic. In 1999, it bought a stake in Mitsubishi Motors of Japan, thinking that the Japanese carmaker would be the third leg of its global stool. Management turmoil led Daimler to take control of Mitsubishi in 2002, and by 2004, it ended the alliance.

Keeping a stake in Chrysler could also subject Daimler to criticism at home if the new owner takes radical steps. German companies that dispose of operations can be vulnerable to charges of antisocial behavior, as the engineering giant Siemens learned last year when it sold its cellular phone operation to a Taiwan company, which later shut it down.

Some analysts maintain that Daimler’s 19.9 percent stake will be temporary — a sort of umbilical cord for Chrysler’s new proprietor. Executives at Cerberus said Monday that they welcomed Daimler’s continuing investment, viewing it as a way to “secure the transaction.”

Mr. Snow and others from Cerberus sought to allay fears that they planned wholesale changes at Chrysler. The firm has no immediate plans for layoffs, Mr. Snow said. And he disputed suggestions that Chrysler’s unionized workers had something to fear from Cerberus.

“It’s a mistake to think private equity companies are antagonistic,” Mr. Snow said in a brief interview. “Companies that don’t have the support of their workers can’t be successful.”

Mr. Snow said the deal was a landmark for private equity firms “in that this great symbol of American industry is returning to American shores, to American hands; that’s important.”

Other executives at Cerberus attributed their success in the bidding to their firm’s 51 percent stake in the General Motors Acceptance Corporation, G.M.’s lending arm. That investment, they said, gave Cerberus familiarity with the details of automotive finance.

They also credited the participation of Wolfgang Bernhard, a former president of Chrysler, who advised on the bid. Mr. Bernhard still has close ties with Mr. Zetsche, for whom he worked at Chrysler.

For its part, DaimlerChrysler said it was swayed by the fact that Cerberus could arrange financing and move swiftly to close the deal. While Mr. Zetsche said the price tag was

important, it was one of several factors in choosing the Cerberus offer over rival bids by the Blackstone Group, another private equity firm, and Magna International, a Canadian auto supplier.

Daimler's payments swell from $650 million to $1.5 billion if one includes $878 million for the company's redemption of long-term bonds issued by Chrysler. Bodo Uebber, Daimler's chief financial officer, said it did not consider that part of the cost of the transaction because it would have had to redeem the bonds eventually.

As Chrysler passes into private hands, Mr. Zetsche said he planned to stay in touch with its chief, Thomas W. LaSorda, to learn the tricks of managing under the gaze of private equity investors.

"It's always important that you learn in your life," he said.

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