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Back to the Future – The General Motors Restructuring Plan

"If General Motors, Ford and Chrysler get the bailout that their chief executives asked for (…), you can kiss the American automotive industry goodbye. It won't go overnight, but its demise will be virtually guaranteed. Without that bailout, Detroit will need to drastically restructure itself. With it, the automakers will stay the course (…). Detroit needs a turnaround, not a check."

Mitt Romney, The New York Times, November 19, 2008

November 7th, 2008, 11:00am EST

Just before the trading of General Motors stocks halts, in anticipation of a major announcement concerning the company's financial situation, you and your team walk into GM Detroit's headquarters for a meeting with Rick Wagoner, Chairman and Chief Executive Officer of General Motors. On the agenda is a restructuring that should take place in the following months. Your specialized turnaround boutique is asked to quickly draw a plan which should serve as the basis for stakeholder negotiations in the next following weeks.

Due to time constraints company data available is limited. At the end of the afternoon a preliminary advice is already necessary as major stakeholders will be on the phone soon… The information presented below has been written down in a classified internal company report handed to you during the meeting.

The Company

General Motors Corporation, a U.S.-based company, has been in business for 100 years, has produced nearly 450 million vehicles globally, and operates in virtually every country in the world. While GM has recently enjoyed rapidly growing sales and revenues outside the United States, the U.S. remains the company's largest single market. GM is woven into the very fabric of America. It has been the backbone of U.S. manufacturing, is a significant investor in research and development, and has a long history of philanthropic support of communities across the country. The auto industry today remains a driving engine of the U.S. economy, employing 1 in 10 American workers, and is one of the largest purchasers of U.S.

steel, aluminum, iron, copper, plastics, rubber, and electronic and computer chips. Indeed, GM's Keep America Rolling sales campaign, following the September 11 attacks, is credited by many as having prevented an extended recession in 2001.

Like all domestic automobile manufacturers, GM has increasingly struggled over the last several years due to increased competition from foreign manufacturers with lower wage, healthcare and benefit costs (in part, due to having far fewer retirees to support in the U.S., and national healthcare structures in their home countries). GM has spent $103 billion over the last 15 years alone on these legacy costs, constraining investment in more advanced manufacturing and product technologies and significantly weakening the company's balance sheet. GM has made some erroneous decisions in the past in now untenable provisions from prior collective bargaining agreements, and scarce investment in smaller, more fuel-efficient vehicles for the U.S. Even so, GM still supplies one in five vehicles sold in the U.S. today. In fact, 66 million GM cars and trucks are on this country's roads today, 44 million more than Toyota.

GM has made substantial progress in narrowing the gap with foreign competition in quality, productivity and fuel efficiency. It is also noteworthy that in other markets, such as China, Latin America and Russia, and where GM does not have the burden of legacy costs, the company has recently grown rapidly and outperformed the competition. GM has never failed to meet a Congressional mandate in the important areas of fuel efficiency and vehicle emissions, and sets the industry standard for green manufacturing methods. Furthermore it is expected that the company's role in creating green technology and high paying jobs of the future will increase substantially.

The problem

General Motors is coping with the worst economic downturn, and worst credit market conditions, since the Great Depression. Significant failures have occurred in America's financial services sector — including two of America's five largest investment banks, the nation's largest insurance company, both Freddie Mac and Fannie Mae, and two of the ten largest banks — with financial institutions receiving total Government bailouts valued today at well over $2 trillion. Consumers have had to contend with illiquid credit markets, rising unemployment, declining incomes and home values, and volatile fuel prices. As a direct result, over the past few months, U.S. auto sales – across all manufacturers, foreign and domestic – have declined by more than 30% and are at their lowest per capita levels in half a century. This rapid decline is without parallel.

GM's financing arm, GMAC, cannot effectively access the secondary markets today. With each passing day, it is less able to finance the sale of GM vehicles, either for dealers or for the public. One year ago, GMAC was able to provide either installment or lease financing for nearly half of GM retail sales. That number has fallen to 6% today. In addition, GMAC is no longer able to buy contracts for customers with a credit score under 700, which excludes roughly half the buying population. All of this has been especially toxic to GM sales in the past two

months, with sales running about 40% behind year-ago levels. Last year, the company's restructuring plan, including a new collective bargaining agreement, coupled with the then current economic and market outlook, indicated adequate liquidity to sustain operations. However, the collapse of the industry and GM sales, caused by the current economic crisis, now makes it increasingly unlikely GM will be able to service its debt in a timely fashion.

The company's balance sheet, reflecting in substantial part the $103 billion in cash/assets used to fund U.S. post-retirement healthcare and pension funds in the last 15 years, includes a ($60) billion negative net worth position at September 30, 2008. Liquidity, at $16 billion, was above the $11-$14 billion minimum range required for GM's global operations, but continued cash burn and closed capital/credit markets threaten the company's ability to survive. Therefore, GM considers reluctantly, but necessarily, to turn to the U.S. Government for assistance. Absent such assistance, the company will probably default in the near term, very likely precipitating a total collapse of the domestic industry and its extensive supply chain, with a ripple effect that will have severe, long-term consequences to the U.S. economy. To avoid such a disastrous outcome, GM considers proposing loans from the Federal Government and the empowerment of a new Federally-created Oversight Board to help facilitate all the necessary changes for a successful workout and restructuring of the company.

Although unfortunately impacting approximately 50 hourly and salaried employees GM has already ceased all corporate aircraft operations.

Brands and channels

In the United States the Company currently focuses on the following major brands: Chevrolet, Cadillac, Buick and GMC. Of the remaining brands, Pontiac—which is part of the Buick-Pontiac-GMC retail channel— is a highly focused niche brand. Hummer, Saturn and Saab, stand-alone loss making retail channels and brands, are not considered core business. Over 90% of the Company's U.S. aggregate contribution margin (revenue less variable cost) currently is derived from core brands. Nameplates have declined from 63 in 2004 to 48 in 2008, and from marketing perspective could be reduced further to 36 by 2012. Further on long-term oil price outlooks predict higher oil prices combined with increasing fuel economy standards.

Dealers

Historically, the scope and size of the dealer body has been a strength of General Motors due to excellent customer access and convenience. As the industry has grown, so too has the competition. Due to the Company's long operating history and legacy locations, many GM dealerships now operate from outdated facilities that are also no longer in the prime locations required to succeed. As a result, the traditional strength of GM's broad dealer network in major markets has become a disadvantage for both the dealerships and the Company. Fewer, better located dealerships potentially increase dealer profits,

allowing for recruitment and retention of the best retail talent and more effective local marketing initiatives. From 2004 to 2008, GM dealerships declined by 15% (from 7,367 to 6,246). In metro and suburban markets dealership overcapacity is most prevalent estimated to be about 25%.

Historic overview dealerships (including plan 2009)

	2004	2006	2008	2009
Total GM Dealerships	7,367	6,917	6,246	5,750
Major market	4,062	3,884	3,513	3,100
Metro	*2,339*	*2,330*	*2,036*	*1,890*
Hubtown	*1,723*	*1,554*	*1,477*	*1,210*
Rural market	3,305	3,033	2,733	2,650

Product Development

In 2005, General Motors completed a long-term initiative to transform the Company‘s operations from a collection of semi-autonomous regions into a cohesive global enterprise. This change is enabling GM to reap enormous benefits from its significant global scale. Whereas, historically, each of the Company‘s four regions managed their own product development (PD) activities, GM now manages all product development activities globally. Working in concert with global purchasing and global manufacturing operations, the new PD organization has developed a succession of high-volume global vehicle architectures.

Vehicles and powertrains are now planned, designed, engineered and sourced once for all markets. The benefit of this approach is that it maximizes economies of scale, leverages the best and most experienced engineering talent for a given class of vehicle, and lowers PD costs for all regions. Each architecture is configured to meet the needs of all vehicles to be built from it, including specific regional variants. GM‘s global architectures are flexible to meet changing market conditions and allow for different sizes and classes of vehicles to share assembly tooling and be built in the same facility. Only four automobile companies appear to operate currently in this fashion, GM, Toyota, Honda and Volkswagen. Through the analysis related to a succession of potential cooperative ventures over the past 3 years, GM can confirm that the Company‘s capabilities and economies of scale achieved from managing product development globally appear to significantly exceed those of most competitors.

By 2012, over 50% of GM‘s U.S. passenger car sales will be derived from new, global architectures, and this increases to nearly 90% by 2014. The benefits to GM‘s U.S. operations include material cost savings, lower engineering and capital investment, and better and faster execution–all of which enable greater returns on investment. Examples of future product launches are shown in Exhibit I.

Productivity

General Motors is a leader in North American manufacturing productivity. According to an industry competitive assessment study, General Motors has overtaken Toyota in North American vehicle assembly productivity. From 26,75 hours per vehicle (2000) to 22,19 hours per vehicle (2008). In comparison, Toyota's productivity declined from 21.60 hours (2000) to 22.35 (2008).

The lower hours per vehicle combined with negotiated changes to the Company's labor agreements in 2005 and 2007, have reduced total labor cost per vehicle by 26% from 2004 to 2008. Despite this improvement, GM still has a competitive disadvantage. Legacy costs figure prominently in the competitive gap, due in part to the far greater number of retirees GM supports with pension and health care benefits. As stated before GM spent over $100 billion on retiree benefits over the past 15 years, while the foreign competitors' transplant operations have not had commensurate obligations or commitments. Other competitive gap factors include the higher mix of indirect and skilled trade employees, strict work rules as compared to competition and the lower percentage of GM workers earning lower, Tier II wages compared to competition. GM is also tied to the so-called JOBS program, which provides full income and benefit protection in lieu of layoff for an indefinite period of time.

Most GM production staff is united in the UAW - The International Union, United Automobile, Aerospace and Agricultural Implement Workers of America – which is one of the largest and most diverse unions in North America, with members in virtually every sector of the economy.

Between 2000 and 2008, GM has reduced the number of salaried employees in the U.S. by 40%. A further reduction in GM salaried employees, globally, by approximately 10,000 (14%) compared to year-end 2008 levels should be realizable. It will result in an average annual saving of $ 100.000 per employee laid off.

Fuel efficiency

General Motors is committed to meeting or exceeding all Federal fuel economy standards in the 2010-2015 model years. The Company plans to achieve this through a combination of strategies, including: extensive technology improvements to conventional powertrains, and increased use of smaller displacement engines and 6-speed automatic transmissions; vehicle improvements, including increased use of lighter, front-wheel drive architectures; increased hybrid offerings, and the launch of General Motors first extended-range electric vehicle, the Chevrolet Volt in late 2010 [see exhibit 1]; portfolio changes, including the increasing car/crossover mix, and dropping select larger vehicles in favor of smaller, more fuel-efficient offerings.

[%]	GM Fleet Average Fuel Economy – Planning					
	2010	2011	2012	2013	2014	2015
Car	31.0	32.5	33.7	36.8	38.6	38.6
Truck	24.0	23.6	23.8	25.4	26.8	27.6

Oil prices figure prominently in the attainment of these projected fleet average fuel economy results because they heavily influence consumer purchase decisions, as was evident in the second half of 2008 when oil prices soared to approximately $150/barrel. As the global economy faltered, and oil prices collapsed, consumer preferences shifted again, with truck purchases taking an increasing percentage of total sales. Nevertheless GM aims to become a long-term global leader in the development of fuel efficient and advanced technology vehicles. In so doing, GM will positively contribute to the development of this country's advanced manufacturing capabilities in line with the important, long-term emphasis on developing green economic growth.

Manufacturing

General Motors has significantly reduced and consolidated manufacturing facilities in the past 8 years. Reflecting further productivity and manufacturing flexibility improvements, GM probably should achieve further reductions over the next four years. The Company reduced the total number of powertrain, stamping and assembly plants by 12 in the U.S. (from 59 in 2000 to 47 at 2008 year-end), and should be able – if necessary – to close an additional 14 facilities by 2012.

In addition to these consolidations, General Motors has been implementing an integrated Global Manufacturing Strategy, based on common lean manufacturing principles and processes. Implementation of this Strategy provides the infrastructure for flexible production in its assembly facilities where multiple body styles from different architectures can be built in a given plant. Also, GM's flexible powertrain facilities are capable of building multiple unique engine variants and transmission variants on the same machining and assembly line. Assembly flexibility has tripled from 22% in 2000 to 60% in 2008, with a further increase to 82% planned by 2014.

Manufacturing consolidation initiatives, along with other, enterprise-wide cost reduction activities have produced significant reductions in the Company's structural costs. GM's structural costs are perhaps still $3 - $6 billion too high. And despite an approximate 30% increase in factory unit sales over the 2010 calendar year level it seems that the costs should still be reduced. At least until 2014. At more normal levels of production and sales, the Company's structural cost — expressed as a percentage of revenue — should be approximately 24%, considerably lower than the roughly 30% level experienced in 2006 and 2007.

GM management currently targets breakeven operations (at an adjusted EBIT level) with U.S. industry volumes in the range of 12.5-13.0 million units, well below the 17+ million levels experienced for most of the past decade. With

further facility consolidations and other cost reductions the company should be able to lower – if necessary - its breakeven point to the equivalent of a U.S. industry SAAR (Seasonal Adjusted Annual Rate) of around 11.5-12.0 million units.

VEBA obligations and unsecured debt

GM is considering discussions with the UAW regarding restructuring GM's payment obligations under the VEBA (Voluntary Employees' Beneficiary Association) Settlement Agreement. These discussions should be focused mainly on re-timing approximately $10 billion in payments otherwise due in 2009 and 2010, including accelerating the date upon which responsibility for retiree medical coverage should be transferred from GM to the VEBA, and the possibility of contributing GM equity in place of a portion of the VEBA payment obligations.

A confidential draft term sheet for the conversion of both a substantial portion of the Company's VEBA obligations (50% or more) and current unsecured public debt (two-thirds or more) to equity is already written. Pursuant to these terms, unsecured public debt on the Company's current balance sheet would be converted to a combination of new debt and equity, for a net debt reduction of at least $18 billion. In addition, the current VEBA and retiree-Paygo healthcare obligations having a present value of $20 billion would be converted into a new VEBA contribution schedule covering one-half of the current obligations, with the other half to be met with an equity ownership in GM by the VEBA trust. Under the term sheet proposal, a substantial majority of the pro-forma equity in General Motors would be distributed to exchanging bondholders and the UAW-VEBA.

Role of GM and importance U.S. auto industry

Auto manufacturers directly provide approximately 334,000 U.S. jobs, nearly two-thirds of which are with GM, Ford, and Chrysler. Manufacturers indirectly support another 4.4 million jobs; nearly 0.7 million in parts manufacturing and 3.7 million in related fields such as auto dealers and auto repair & maintenance. This is one of the highest multipliers in the economy. For every manufacturer job there are nearly two jobs upstream in supplier industries and more than 10 jobs downstream. The auto industry is the heart and soul of U.S. manufacturing, where many of the nation's most advanced manufacturing concepts have been developed and perfected.

GM provides good jobs at good wages and one million U.S. employees, dependents, retirees and their spouses, as well as surviving spouses depend on GM health care benefits. Also GM is the largest private provider of health care in the U.S. More than 650,000 U.S. retirees and their dependents benefited from GM pension payments last year.

The estimated impact on the U.S. economy in case of a full or partial failure of the

domestic auto industry ("Detroit 3") is summoned in Exhibit II.

Economic and Industry assumptions

Since its peak the global auto industry has dropped 24% and U.S. auto industry 40%. Below forecasts of automotive markets are presented by volumes. Oil price forecasts by GM predict an increase to $ 130 per barrel by 2014. A more rapid rise in prices than the outside consensus. Rising oil prices are expected to drive a segment shift away from trucks towards cars and crossovers over the 2009-2014 period.

Global total industry forecast comparison									
Mil. Units	2006	2007	2008	2009	2010	2011	2012	2013	2014
GM (Baseline)	67,6	70,7	67,2	57,5	62,3	68,3	74,3	78,6	82,5
Global Insight	68,8	72,2	68,9	61,7	66,1	72,5	77,3	80,8	83,7
Difference	1,20	1,50	1,70	4,20	3,80	4,20	3,00	2,20	1,20

U.S. total industry forecast comparison							
	2008	2009	2010	2011	2012	2013	2014
GM Estimate (baseline)	13,5	10,5	12,5*	14,3	16,0	16,4	16,8
Global Insight	13,5	10,7	12,9	14,9	15,9	16,7	17,5
JD Power & Assoc.	13,5	11,7	13,7	15,0	15,8	16,6	17,0
Wall Street analyst consensus		11,5	13,2				
Consensus Blue Chip forecast		11,2	13,0				

* *GM downside scenario for 2010: 11.5m*

GM global metrics and funding requirement estimations 2009-2014

Baseline global metrics estimations are shown in the table below. The table includes among others Net sales, EBIT prognostications, structural costs and contribution margins.

GM Global Metrics	Actual			Projected		
$ billions	2006	2007	2008	2009	2010	2011
Industry volume (mil. units)	67,6	70.7	67,2	57,5	62,3	68,3
GM Wholesale Volume (mil. units)	8,4	8,3	7,2	5,4	6,3	6,9
GM market share	13,5%	13,3%	12,4%	12,0%	12,7%	12,7%
Net sales	171,2	178,2	Not yet known	111,2	130,1	142,4
Aggregate Contribution margin (ACM)	52,9	54,9		33,4	40,0	44,3
ACM as % of net sales	30,9%	30,9%		30,0%	30,7%	31,1%
Structural cost (SC)	52,9	53,5		43,3	40,0	39,6
SC as % of net sales	30,9%	30,1%		39,0%	30,8%	27,8%
Adjusted EBIT	0.8	1.2		(10.2)	0.3	5.1
Adjusted EBT	(1.6)	(0.7)		(14.2)	(5.0)	(0.1)
Adjusted OCF	(4.4)	(2.4)		(14.0)	(3.8)	(0.6)

GM Global Metrics (continued)	Projected		
$ billions	2012	2013	2014
Industry volume (mil. units)	74,3	78,6	82,5
GM Wholesale Volume (mil. units)	7,7	7,9	8,0
GM market share	13,0%	13,0%	12,6%
Net sales	158,1	160,6	162,1
Aggregate Contribution margin (ACM)	49,5	50,5	50,4
ACM as % of net sales	31,3%	31,4%	31,1%
Structural cost (SC)	40,2	40,4	40,3
SC as % of net sales	25,5%	25,2%	24,9%
Adjusted EBIT	9.4	10.3	10.6
Adjusted EBT	4.3	5.9	6.2
Adjusted OCF	6.6	6.5	6.4

Adjusted operating cash flows (OCF) approach breakeven levels in 2011, and improve to in excess of $6 billion in the 2012-2014 period reflecting both improving industry volumes and full-effect of the projected global restructuring

initiatives. While all regions are cash flow positive, on an adjusted basis, in this timeframe, GM's North American operations are the most significant contributor to this result.

Annual Global Cash Flow 2009-2014

Base case, upside and downside scenarios regarding cash flow development and additional funding requirements are presented in Exhibit III. The *Italic* marked numbers are wanted but not (yet) granted funding requirements from government via U.S. TARP (*Troubled Asset Relief Program*). TARP is a program of the United States government to purchase assets and equity from financial institutions to strengthen its financial sector. The fund was created by a bill that was made law on October 3, 2008 with the passage of H.R. 1424 enacting the Emergency Economic Stabilization Act of 2008.

Enterprise value and Net Present Value (NPV)

Based on the Baseline Scenario financial projections and expectations, and solely for purposes of the GM Restructuring Plan, Evercore Group LLC ("Evercore") recently estimated that the Enterprise Value falls within a range of approximately $59 billion to $70 billion, with a midpoint of $65 billion. Evercore estimated that the Net Obligations fall within a range of approximately $54 billion to $57 billion, with a midpoint of $55 billion, implying an estimated NPV range of approximately $5 billion to $14 billion, with a midpoint of $9 billion. This NPV range does not reflect the incremental value that may be generated through balance sheet restructuring actions in Canada and Germany (Opel), which could have incremental positive effects on the NPV analysis. In addition, the current U.S. Hourly and Salaried Pension plans are reflected as a $8-9 billion liability in the NPV analysis.

NPV Analysis

Amounts in $ billions	**Range**	
Core Enterprise Value	57	68
Value of Unconsolidated Subsidiaries & Other Assets	12	12
PV of potential Restructuring Costs (including Delphi*)	(8)	(8)
Minority Interest	(2)	(2)
Enterprise Value Range	**59**	**70**
Net Debt	(25)	(25)
PV of Pension Contributions	(18)	(21)
PV of VEBA Obligations	(11)	(11)
Net Obligations	(54)	(57)
NPV	**5**	**14****

* Delphi is an important source of supply. In the short term this company needs liquidity support from GM.
** Rounded off number

In the Upside Sensitivity Scenario, in which global industry volumes return to historical trend line levels - U .S. industry growing to 18 million units by 2014 and the Global Industry volumes growing to 90 million units by 2014 - the NPV analysis yields a range of $30 billion to $41 billion. In the Downside Sensitivity Scenario, where the U.S. industry grows from 9.5 million units in 2009 to 15.3 million by 2014 and the Global Industry volumes grow from 52.3 million units in 2009 to 74.8 million units in 2014, the NPV analysis yields a negative value.

GM Balance sheet and capital structure

In exhibit IV the GM Consolidated Balance Sheet dated September 30, 2008 is presented. As of September 30, total liabilities amounted to approximately $170 billion, assets totaled $110 billion, and stockholders' deficit amounted to ($60) billion.

The $170 billion liability structure in the balance sheet reflects four significant forms of obligations. First, liabilities to trade creditors critical to remain in business, reserves for warranty coverage (a liability that benefits consumers over time and that directly impacts the company's brand and consumer reputation) accrued allowances for future expected sales incentives for products that have been sold by GM to dealers and are held in dealer inventories, and deposits from rental car companies relating to contracts with GM to repurchase the vehicles (this liability has a matching asset of roughly equal value). The total amount of such liabilities at September 30, 2008 amounted to $51.8 billion. The second category involves liabilities related to post-retirement healthcare benefits and pension liabilities or obligations that accrue for the benefit of current or future retirees. The total of such liabilities at September 30, 2008 amounted to $46.4 billion. The third category includes debt obligations of the Company, the total of which amounted to $45.2 billion (including secured and all overseas obligations). Fourth, and finally, are all other liabilities, including taxes, derivative obligations, plant closing reserves, deferred income, payrolls and many other smaller liabilities. Such liabilities generally are tied to the GM's production or sales cycles, as well as allowances for contingent liabilities. The total of such liabilities amounted to $26.0 billion.

Using the Company's September 30, 2008 liability structure as the starting point, the table below rolls forward and aggregates total expected liabilities and future cash claims that would be considered in a bankruptcy filing:

Total Liability Summary	
($ in billions)	
September 30, 2008 Total liabilities	**169**
New liabilities incurred in Q4 2008 (includes expected $4 billion U.S. Treasury Secured Debt (TARP)	7
December 31, 2008 Total Liabilities (preliminary)	176
Roll-Forward of 12/31/08 Liabilities (including expected Incremental U.S. Treasury Debt and Other Adjustments)	12
Liabilities to be considered in bankruptcy filing (preliminary)	**188**

Liability categories	
($ in billions)	
Operating/Trade related liabilities	72
Non-UAW VEBA-Related Other Postretirement Obligations (OPEB) and Pensions (Global)	39
Subtotal Operating and Retiree Related	**111**
U.S. Secured Debt*	21
Other Debt Including Foreign Subsidiary Debt	9
NPV of UAW VEBA Obligation**	20
U.S. Unsecured Debt	27
Subtotal Debt Obligations	**77**
Total	**188**

* Includes U.S. Government secured ($15.0) and secured revolver and term loan ($6.0)
** NPV of future obligations, exclusive of transferred VEBA assets; discounted at 9%

Reflecting the above, both out-of-court restructuring and the two possible accelerated bankruptcy strategies as presented below necessarily limit their impact to $47 billion of the liabilities, including $20 billion in VEBA-related obligations and $27 billion in unsecured debt. A 50% respectively 66,7% Debt-Equity-Swap is considered realizable (baseline scenario calculations based on this assumption).

Bankruptcy

In theory several options are available to deal with creditor issues. Below some bankruptcy scenarios are shown as alternative for an out-of-court restructuring.

Pre-solicited or Pre-packaged Chapter 11. Under this scenario tendering bondholders would be required to vote affirmatively to accept a Chapter 11 Plan of Reorganization. If possible (because the Plan of Reorganization received the requisite votes) and necessary (because the out-of-court process failed), the

exchange plan would be implemented in bankruptcy, binding 100% of the bondholders to accept consideration equivalent to that contemplated an out of court exchange. However, this scenario requires an agreement in advance regarding the treatment of VEBA liabilities acceptable to bondholders, as well as a commitment for government financing. No other creditor would be impaired. Existing shareholders would be almost entirely diluted. This scenario is assumed to require approximately 60-65 days to achieve confirmation of the plan and exit from Chapter 11.

Pre-negotiated Cram-Down Plan. Under this option, which is more aggressive than a consensual pre-packaged Chapter 11 approach, GM could seek a larger conversion of debt to equity. This strategy could take many forms, including: (A) complete conversion of the bonds to equity; (B) reduction in obligations from impairing additional classes of claims (including potentially litigation liabilities, dealer claims and contract rejection damages); and (C) greater to perhaps complete equitization of the VEBA obligations. This scenario is assumed to require a minimum of 90 days for its least aggressive variant, up to as long as six months or more for more aggressive variants, such as converting a portion of other liabilities to equity. If GM were to pursue a larger or complete conversion of the VEBA to equity, the assumption is that this would be a vigorously contested, endangering resolution with the UAW and potentially forcing GM into an extended traditional Chapter 11 case or "free-fall bankruptcy".

Traditional Chapter 11 Case. Under this scenario, the objective would be to accomplish a more comprehensive restructuring of the liability portion of the balance sheet, along with substantial asset dispositions, using all of the tools traditionally available to debtors to restructure through a court supervised process. This process could be expected to require 18-24 months. Financially, while the traditional bankruptcy process allows for greater liability reduction potential, incremental funding requirements surge close to a $100 billion or more, reflecting revenue reduction impact as well as wholesale (i.e. dealer) financing requirements and supplier support. GM management's assumption is that the revenue impact during this type of bankruptcy will be severe, with a substantially delayed recovery time and significant potential for permanent, significant damage.

The financial impacts of the scenarios are presented below.

Total financing requirement ($ billions)	**Out of court work out**	**Pre-solicited Process**	**Cram down process**	**Traditional process**
Liability reduction potential	47	47	47	> 100
Liabilities reduced	28	33	37	41-78
NPV – Equity Value (midpoint)	9	6	0-(16)	(25)-(28)
Government support*				
U.S. Financing requirement	23	25	29-37	42-53
Wholesale support	0	2	7	14
Supplier support	4	8	9-10	13-17
Delphi	0	1	1	2
Total U.S. Government	**27**	**36**	**46-55**	**71-86**
Non-U.S. financing requirement	6	9	11-15	15-17
Total financing requirement	**33**	**45**	**57-70**	**86-103**

* Government support defined as peak borrowing requirements from 2009-2011

The key assumption in each of the first three columns of the table is that the objective for the shortest possible time spent in Chapter 11 limits debt reduction strategies to the $47 billion in U.S. unsecured debt and VEBA. The 60-day (pre-solicited) process involves a 100% participation in the proposed bond exchange, rather than the minimum of 80% proposed in the out-of-court process, reducing debt by an additional $5 billion, in effect eliminating the hold out risks in the out-of-court process. Government financing requirements could increase (on both temporary and, to a lesser degree, long-term bases) by $12 billion.

The "Daewoo Experience"

Daewoo Motor sales in Korea permanently dropped over 40% following its bankruptcy. Considering these experiences the following estimates can be made for GM.

60-day bankruptcy
- 35% loss; initial sales decline
- 10% loss; sales loss rate goes from 35% to 10% after 60 days
- 5% loss; sales are 5% below pre-bankruptcy levels 4 months after exiting bankruptcy and do not recover

90-day bankruptcy
A. Consumer reaction
- 50% loss; initial sales decline
- 20% loss; sales loss rate goes from 50% to 20% 90 days after exiting bankruptcy
- 10% loss; sales are 10% below pre-bankruptcy levels 1 year after exiting bankruptcy and do not recover

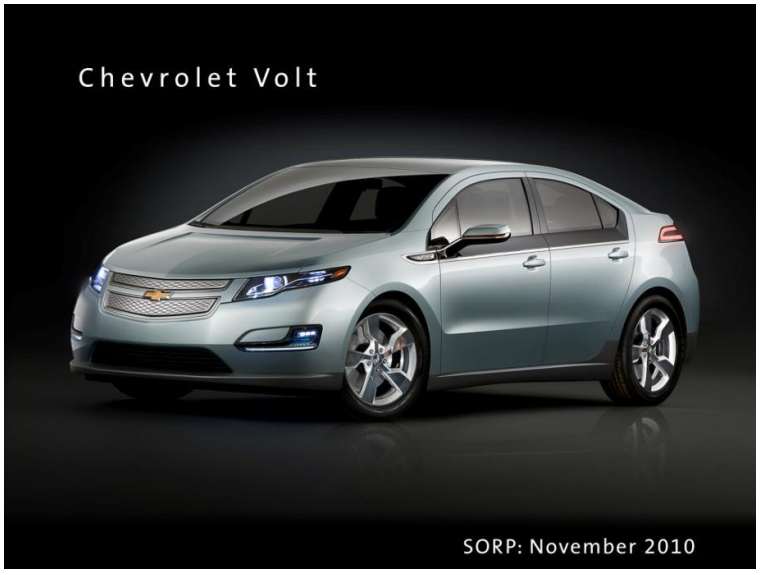
B. "Stronger" consumer reaction
- 50% loss; initial sales decline (increased incentives required)
- 40% loss; sales loss rate goes from 50% to 40% 90 days after exiting bankruptcy
- 20% loss; sales are 20% below pre-bankruptcy levels 2 years after exiting bankruptcy and do not recover

2-year bankruptcy
A. "Daewoo experience" consumer reaction
- 50% loss; initial sales decline that is maintained throughout bankruptcy
- 40% loss; sales are 40% below pre-bankruptcy levels 6 months after exiting bankruptcy and do not recover

B. "Stronger" consumer reaction
- 80% loss; initial sales decline that is maintained throughout bankruptcy
- 70% loss; sales are 70% below pre-bankruptcy levels 6 months after exiting bankruptcy and do not recover

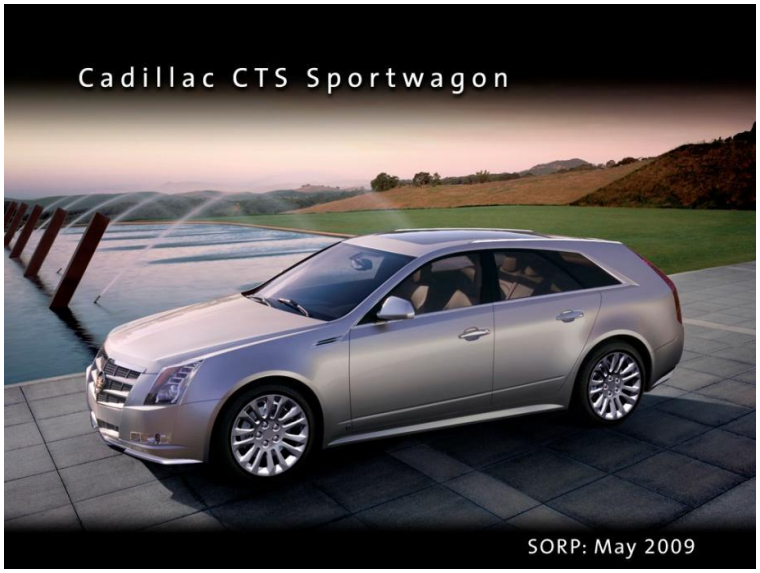
Time for a cup of coffee…

Exhibit I: Examples of future product launches



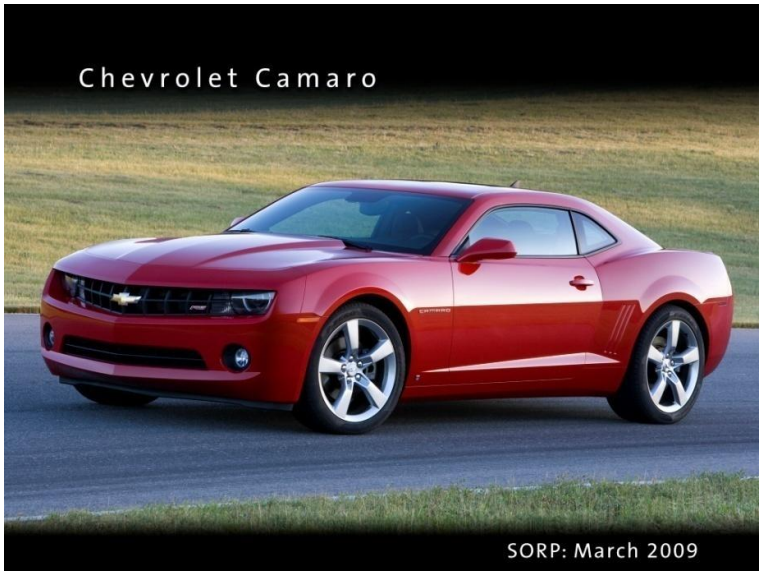
Start of production: 2010

Location of production facility: Detroit, Michigan
Powertrain with best fuel economy: 1.4L E-Flex



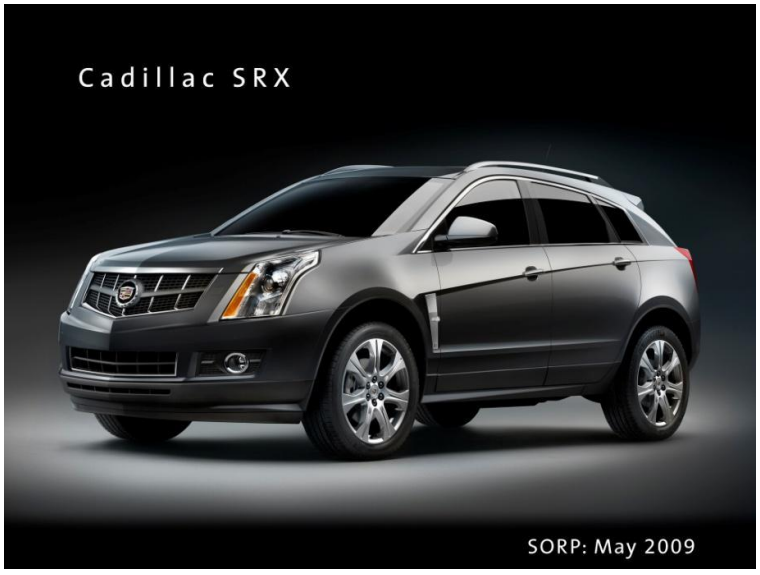
Start of production: 2009

Location of production facility: Lansing, Michigan
Powertrain with best fuel economy: 3.6L V6, 6-speed auto



Start of production: 2009

Location of production facility: Oshawa, Canada
Powertrain with best fuel economy: 3.6L V6, 6-speed auto



Start of production: 2009

Location of production facility: Ramos Arizpe, Mexico
Powertrain with best fuel economy: 3.0L V6, 6-speed auto

Exhibit II: Estimated impact of full or partial failure of "Detroit 3"

Source	Estimated impact	Comments
Anderson Economic Group/BBL	1.2 jobs lost in first year and 0.6 million in second year	Based on bankruptcy and eventual liquidation of two of the Detroit 3
Center for Automotive research	First scenario: 3.0 million jobs lost in first year dropping to 2.5 in second year Second scenario: 2.5 million jobs lost in first year dropping to 1.5 million in second year	First scenario reflects 100% decline in all domestic production in first year with partial recovery at foreign owned automakers in second year; second scenario assumes 100% drop in domestic production of Detroit 3 and 50% in second year, with 50% drop for foreign owned automakers for both years
Global insight	Push up the national unemployment rate from a projected 2009 level of 8.5% to 9.5%, translating into approximately 1.5 million jobs lost	Spending for benefits such as unemployment insurance and new measures to revive the economy would cost the government $200 billion should GM be forced to liquidate
Inforum Model, University of Maryland	Peak year (2011) job losses of 826,000 to more than 2.2 million Practical worst-case scenario: 1.5 million jobs lost in peak year, and net average loss of just under 1.0 million jobs through 2014	Range reflects retirement of 20% to 60% of Detroit 3 production, with practical worst-case at 40%
White House fact sheet	Approximately 1.1 million job losses. More than 1% reduction in real GDP growth.	

Exhibit III: Annual Global Cash Flow Baseline-Upside-Downside

Annual Global Cash Flow 2009-2014 - BASELINE						
$ billions - rounded off	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Automotive Adjusted OCF before special items	**(14.0)**	**(3.8)**	**(0.6)**	**6.6**	**6.5**	**6.4**
Special items*	(4.1)	(1.4)	(0.5)	(0.3)	(5.8)	(6.3)
Automotive Adjusted After Special Items	**(18.1)**	**(5.1)**	**(1.1)**	**6.3**	**0.7**	**0.2**
GMAC Asset Carve-out Cash flows	1.0	0.5	-	-	-	-
GMAC Distributions & Other GMAC Flows	(0.8)	0.1	1.4	0.2	0.2	0.2
Adjusted Cash flow after GMAC Related Flows	**(17.9)**	**(4.5)**	**0.3**	**6.5**	**0.9**	**0.3**
VEBA Contributions	*-*	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*
Debt financing / foreign government financing / maturities	*2.3*	*1.7*	*(5.3)*	*(3.2)*	*(3.6)*	*(2.7)*
U.S. Government (TARP) funding	*12.0*	*2.0*	*4.5*	*(3.0)*	*(2.9)*	*(2.9)*
U.S. Pension funding	*-*	*-*	*-*	*-*	*5.9*	*6.4*
Government loan for GMAC Equity rights offering	*0.9*	*-*	*(0.9)*	*-*	*-*	*-*
*Section 136 loans***	*2.0*	*2.0*	*1.8*	*1.4*	*0.5*	*(0.0)*
Other non-operating cash flows	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Net cash flow	**(0.8)**	**(0.0)**	**(0.7)**	**0.5**	**(0.4)**	**(0.0)**

Cash balance	13.3	13.3	12.6	13.1	12.7	12.7
Debt balance	45.3	51.1	51.2	46.3	46.2	47.0
Net liquidity	**(32.0)**	**(37.8)**	**(38.6)**	**(33.2)**	**(33.5)**	**(34.3)**

Funding requirements memo						
U.S. TARP funding support	*16****	*18.0*	*22.5*	*19.5*	*16.6*	*13.7*
U.S. Pension funding	*-*	*-*	*-*	*-*	*5.9*	*12.3*
U.S. Gov't GMAC Rights offering loan	*0.9*	*0.9*	*-*	*-*	*-*	*-*
U.S. Gov't Warrant Notes Payable	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*
Section 136 Loan Principal	*2.0*	*4.0*	*5.8*	*7.2*	*7.7*	*7.6*
Total U.S. Government funding	***19.6***	***23.7***	***29.1***	***27.5***	***30.9***	***34.4***
*Incremental funding requirements*****	*4.0*	*6.0*	*6.0*	*4.0*	*3.0*	*1.5*
Total funding requirements	**23.6**	**29.7**	**35.1**	**31.5**	**33.9**	**35.9**

* Including anticipated asset sales, cash restructuring costs and U.S. pension contributions
** U.S. Department of Energy program loan to support the development of advanced technology vehicles
*** $ 4.0 billion anticipated to be granted end of 2008, $ 12.0 billion in 2009 (see cash flow estimation above).
**** From foreign governments or other sources

Annual Global Cash Flow 2009-2014 - UPSIDE SENSITIVITY						
$ billions - rounded off	2009	2010	2011	2012	2013	2014
Automotive Adjusted OCF before special items	**(8.9)**	**1.2**	**3.8**	**11.5**	**11.5**	**11.4**
Special items*	(4.1)	(1.4)	(0.5)	(0.3)	(5.8)	(6.3)
Automotive Adjusted After Special Items	**(13.0)**	**(0.2)**	**3.3**	**11.2**	**5.7**	**5.2**
GMAC Asset Carve-out Cash flows	1.0	0.5	-	-	-	-
GMAC Distributions & Other GMAC Flows	(0.8)	0.1	1.4	0.2	0.2	0.2
Adjusted Cash flow after GMAC Related Flows	**(12.8)**	**0.5**	**4.7**	**11.4**	**5.8**	**5.3**
VEBA Contributions	-	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*
Debt financing / foreign government financing / maturities	*1.3*	*(0.3)*	*(7.3)*	*(2.2)*	*(2.6)*	*(1.2)*
U.S. Government (TARP) funding	*8.0*	*(1.5)*	*2.5*	*(9.5)*	*(2.5)*	*(1.7)*
U.S. Pension funding	-	-	-	-	-	-
Government loan for GMAC Equity rights offering	*0.9*	-	*(0.9)*	-	-	-
*Section 136 loans***	*2.0*	*2.0*	*1.8*	*1.4*	*0.5*	*(0.0)*
Other non-operating cash flows	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Net cash flow	**(0.7)**	**(0.5)**	**(0.3)**	**(0.1)**	**0.1**	**1.2**

Cash balance	13.4	12.8	12.6	12.5	12.6	13.8
Debt balance	40.3	40.6	36.7	26.3	21.7	18.8
Net liquidity	**(27.0)**	**(27.7)**	**(24.1)**	**(13.8)**	**(9.1)**	**(4.9)**

Funding requirements memo						
U.S. TARP funding support	*12.0****	*10.5*	*13.0*	*3.5*	*1.0*	-
U.S. Pension funding	-	-	-	-	-	-
U.S. Gov't GMAC Rights offering loan	*0.9*	*0.9*	-	-	-	-
U.S. Gov't Warrant Notes Payable	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*	-
Section 136 Loan Principal	*2.0*	*4.0*	*5.8*	*7.2*	*7.7*	*7.6*
Total U.S. Government funding	***15.6***	***16.2***	***19.6***	***11.5***	***9.4***	***7.6***
*Incremental funding requirements****	*3.0*	*3.0*	*1.0*	-	-	-
Total funding requirements	**18.6**	**19.2**	**20.6**	**11.5**	**9.4**	**7.6**

* Including anticipated asset sales, cash restructuring costs and U.S. pension contributions
** U.S. Department of Energy program loan to support the development of advanced technology vehicles
*** $ 4.0 billion anticipated to be granted end of 2008, $ 8.0 billion in 2009 (see cash flow estimation above)
**** From foreign governments or other sources

Annual Global Cash Flow 2009-2014 - DOWNSIDE SENSITIVITY						
$ billions - rounded off	2009	2010	2011	2012	2013	2014
Automotive Adjusted OCF before special items	**(18.0)**	**(6.7)**	**(5.6)**	**1.5**	**1.4**	**1.5**
Special items*	(4.1)	(1.4)	(0.5)	(0.3)	(5.8)	(6.3)
Automotive Adjusted After Special Items	**(22.2)**	**(8.1)**	**(6.1)**	**1.2**	**(4.4)**	**(4.8)**
GMAC Asset Carve-out Cash flows	1.0	0.5	-	-	-	-
GMAC Distributions & Other GMAC Flows	(0.8)	0.1	1.4	0.2	0.2	0.2
Adjusted Cash flow after GMAC Related Flows	**(22.0)**	**(7.4)**	**(4.7)**	**1.4**	**(4.3)**	**(4.6)**
VEBA Contributions	-	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*	*(1.1)*
Debt financing / foreign government financing / maturities	*5.3*	*1.7*	*(2.3)*	*(1.2)*	*(2.6)*	*(0.2)*
U.S. Government (TARP) funding	*14.0*	*4.0*	*7.0*	*(0.5)*	*1.6*	*(0.4)*
U.S. Pension funding	-	-	-	-	*5.9*	*6.4*
Government loan for GMAC Equity rights offering	*0.9*	-	*(0.9)*	-	-	-
*Section 136 loans***	*2.0*	*2.0*	*1.8*	*1.4*	*0.5*	*(0.0)*
Other non-operating cash flows	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Net cash flow	**(0.1)**	**(1.0)**	**(0.2)**	**(0.1)**	**(0.0)**	**0.0**
Cash balance	14.2	13.3	13.1	13.0	13.0	13.0
Debt balance	50.3	58.1	63.7	63.3	68.7	74.5
Net liquidity	**(36.1)**	**(44.8)**	**(50.6)**	**(50.3)**	**(55.7)**	**(61.5)**

Funding requirements memo						
U.S. TARP funding support	*18.0****	*22.0*	*29.0*	*28.5*	*30.1*	*29.7*
U.S. Pension funding	-	-	-	-	*5.9*	*12.3*
U.S. Gov't GMAC Rights offering loan	*0.9*	*0.9*	-	-	-	-
U.S. Gov't Warrant Notes Payable	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*
Section 136 Loan Principal	*2.0*	*4.0*	*5.8*	*7.2*	*7.7*	*7.6*
Total U.S. Government funding	***21.6***	***27.7***	***35.6***	***36.5***	***44.4***	***50.4***
*Incremental funding requirements*****	*7.0*	*9.0*	*12.0*	*12.0*	*12.0*	*13.0*
Total funding requirements	**28.6**	**36.7**	**47.6**	**48.5**	**56.4**	**63.4**

* Including anticipated asset sales, cash restructuring costs and U.S. pension contributions
** U.S. Department of Energy program loan to support the development of advanced technology vehicles
*** $ 4.0 billion anticipated to be granted end of 2008, $ 14.0 billion in 2009 (see cash flow estimation above)
**** From foreign governments or other sources

Exhibit IV: Balance sheet GM - September 30, 2008

Balance sheet GM - Unaudited
($ in millions)

Current Assets	
Cash and cash equivalents	15,831
Marketable securities	67
Total cash and marketable securities	15,898
Accounts and notes receivable, net	9,461
Inventories	16,914
Equipment and operational leases, net	4,312
Other current assets and deferred income taxes	3,511
Total current (operational) assets	*50,096*
Financing and insurance operation assets	
Cash and cash equivalents	176
Investment in securities	273
Equipment on operational leases, net	2,892
Equity in net assets of GMAC LLC	1,949
Other assets	2,034
Total financing and insurance operations assets	*7,324*
Non-current assets	
Equity in and advances to nonconsolidated affiliates	2,351
Property, net	42,156
Goodwill and intangible assets, net	949
Deferred income taxes	907
Prepaid pension	3,602
Other assets	3,040
Total non-current assets	*53,005*
Total assets	**110,425**

Current liabilities	
Accounts payable (principally trade)	27,839
Short term borrowings and current portion of long-term debt	7,208
Accrued expenses	33,959
Total current liabilities	*69,006*
Financing and insurance operations liabilities	
Debt	1,890
Other liabilities and deferred income taxes	768
Total financing and insurance operations liabilities	*2,658*
Non-current liabilities	
Long-term debt	36,057
Post retirement benefits other than pensions	33,714
Pensions	11,500
Other liabilities and deferred income taxes	16,484
Total non-current liabilities	*97,755*
Total liabilities	**169,419**
Minority interests	**945**
Preferred stock	0
Common stock	1,017
Capital surplus (principally additional paid-in-capital)	15,732
Accumulated deficit	(61,014)
Accumulated other comprehensive loss	(15,674)
Total stockholders' deficit	**(59,939)**
Total liabilities, minority interests and stockholders' deficit	**110,425**

About the author

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About Turnaround Powerhouse®

Turnaround PowerHouse® is an innovative global think-tank focusing on proactive change and turning around. We are dedicated to reinventing and building exciting businesses.

Our unique Turnaround Power™ philosophy has been embraced around the world, including enthusiasts in London, Brussels, Michigan, Pristina and Bratislava.

Described as "hands-on, modern and fresh" we work to identify new opportunities and define vision to turn your company into growth and prosperity.

Website: www.turnaroundpowerhouse.com

Twitter: turnaroundpower

Resources and disclaimer

This case is solely based on public information. Actual facts are presented based upon and derived from GM's restructuring plans dated December 2, 2008 and February 17, 2009 as well as a number of journalistic articles. Sometimes simplifications have been made and not all information available was used due to constraints regarding the objective of the case. The information contained in this case is for **educational purposes only**. No warranty is offered on the accuracy of this information.