

## GM board expected to approve looking into deal

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By Jui Chakravorty

DETROIT (Reuters) - General Motors Corp.'s <GM.N> board, at a crucial meeting on Friday, is likely to approve further discussions on a possible alliance with Nissan Motor Co. Ltd. <7201.T> and Renault SA <RENA.PA>, analysts said.

But senior GM management, including Chief Executive Rick Wagoner, is expected to argue against a tie-up -- opposition that could either kill any deal or set the stage for a later boardroom showdown, the analysts said.

"I think the board will agree to place a team together to research it," said Brad Rubin, a senior credit analyst at BNP Paribas.

An alliance is favored by billionaire investor Kirk Kerkorian, GM's largest individual shareholder.

"Kerkorian's view is that this adds shareholder value. If the board disagrees without a study, that wouldn't be proper due diligence, and Wall Street wouldn't like it that much."

The proposal has increased pressure on Wagoner, who has been spearheading a turnaround at GM, which lost \$10.6 billion in 2005 and has seen its U.S. market share dwindle.

**"The debate over the merits of the alliance has elevated the comparisons between Rick Wagoner and Carlos Ghosn, the automotive industry's 'icon of change,' " said David Kudla, chief executive of Mainstay Capital Management.**

Nicknamed "Le Cost Killer," Ghosn, chairman of both Japanese automaker Nissan and French automaker Renault, is given credit for Nissan's turnaround from billions of dollars in debt in 1999 to profitability in 2001.

**"This puts more pressure on Rick Wagoner to hasten the turnaround at GM," Kudla said.**

Some analysts said Wagoner will have to provide more specific and aggressive targets for GM's return to profitability, just as Ghosn did with Nissan.

While Wagoner got an unusual vote of confidence from the board in April, a source close to Kerkorian said some board members have expressed support for the proposed three-way alliance.

Wagoner has already asked GM Chief Financial Officer Fritz Henderson to create a team to study the pros and cons of an alliance ahead of Friday's meeting, a source close to the situation said.

#### SKEPTICISM REMAINS

Some analysts are skeptical about the proposed alliance, saying any possible synergies would take years to materialize. Also, Renault competes fiercely with GM in Europe.

"The ability of all three parties to structure, agree on and execute manufacturing, purchasing and other benefits -- given the obvious complexity -- is suspect," credit ratings agency Standard & Poor's wrote in a research note on Thursday.

The proposal by Kerkorian, who owns 9.9 percent of GM's shares, is also seen by some analysts as an effort to bring Ghosn closer to GM.

"Kerkorian may not be as concerned about the best match-up of automakers for an alliance as he is in the leaders of the companies involved," Kudla said.

"Kerkorian's goal may be merely to get Carlos Ghosn closer to running GM. This alliance could further that goal, especially if Ghosn were to lead the alliance or is given a seat on GM's board as part of the deal."

Wagoner's restructuring efforts have included slashing 30,000 jobs, the planned closure of 12 plants, cutting executive pay, and halving the company's dividend.

But Kerkorian feels Wagoner has been "reactive" rather than "proactive" in his turnaround plan, a source close to the situation said earlier this week.

"I think Kerkorian is trying to light a little bit of a fire under management to realize the severity of the situation and accelerate the turnaround," Argus Research analyst Kevin Tynan said.