

The Boston Globe

REUTERS 

Kerkorian urges GM tie-up with Nissan-Renault



The 2007 Cadillac Escalade EXT makes its world debut on the show floor at the North American International Auto Show in Detroit, January 8, 2006. One of the largest investors in General Motors Corp. on Friday urged the world's largest automaker to consider a three-way partnership with Nissan Motor Corp. and Renault SA. (EDITORIAL USE ONLY REUTERS/General Motors/Tom Pidgeon/Handout)

By Jui Chakravorty | June 30, 2006

DETROIT (Reuters) - Billionaire investor Kirk Kerkorian urged General Motors Corp. on Friday to consider a three-way partnership with Nissan Motor Corp. and Renault SA, sending shares of GM higher on prospects for a speedier turnaround.

Through his investment arm, Tracinda Corp., Kerkorian pushed GM to form a committee to "immediately and fully explore" a partnership under which Nissan and Renault would buy a "significant minority interest" in the automaker. Renault, based in France, has a controlling 44-percent stake in Nissan of Japan. Tracinda's suggestions came in a letter to GM Chief Executive Rick Wagoner.

Renault and Nissan declined to comment. GM said it had received no offer from the other two automakers but that its board would consider Tracinda's request.

The proposal shocked analysts and investors and opened up the prospect of a cash infusion for GM, which has been facing heavy labor costs and declining market share in the United States as it undertakes a massive restructuring. The world's largest automaker lost \$10.6 billion in 2005.

Such a partnership also promises future cost savings on product development and a closer association with Carlos Ghosn, who is credited with driving Nissan's turnaround and now heads Nissan and Renault.

David Kudla, chief executive of Mainstay Capital Management, said the partnership could provide GM with \$3 billion dollar in cash and a "potentially rewarding" strategic alliance.

"GM could potentially benefit from Carlos 'Icebreaker' Ghosn ... depending on the level of his future involvement in GM," Kudla said.

Others were uncertain about the prospect of the success of the proposal, but said it demonstrated the activism of Kerkorian, who, owns about 10 percent of GM through Tracinda.

"I would call this a surprise," said Standard & Poor's equity analyst Efraim Levy. "This wasn't widely considered. Even if it isn't adopted, it shows that Kerkorian is pushing his ideas."

TRACINDA'S PUSH

Kerkorian's representative, Jerry York, sits on GM's board. Since January, the automaker has followed a number of his suggestions, including moves to cut executive pay and reduce GM's dividend.

GM shares rose 4.2 percent to \$28.61 on the New York Stock Exchange, easing from a gain of 11 percent before trading opened.

"We believe that participating in a global partnership-alliance with Renault and Nissan could enable General Motors to realize substantial synergies and cost savings and thereby greatly benefit the company and enhance shareholder value," Tracinda wrote in its letter.

The automaker is in the middle of a sweeping restructuring that includes slashing 30,000 jobs and closing 12 plants.

The letter comes after a quarter in which investors were growing more optimistic about GM's cost-cutting efforts.

In the letter, filed with the U.S. Securities and Exchange Commission, Tracinda said it has been in recent talks with Nissan CEO Carlos Ghosn.

Nicknamed "Le Cost Killer," Ghosn is credited with the turnaround of Nissan, which went from being billions of dollars in debt in 1999 to becoming profitable in 2001.

But Nissan's share price has fallen 20 percent since May, as the automaker has cut its sales targets for Japan and said first-half financial results will decline.

Nissan earlier this month cut production at two of its four final-assembly plants in Japan in response to an 18 percent decline in sales.

Some analysts have also questioned Ghosn's decision to move Nissan's U.S. headquarters from Los Angeles to Nashville, Tennessee, causing the loss of over half of its headquarters staff.

(Additional reporting by Poornima Gupta and Kevin Krolicki)■

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