

GM selling Allison for \$5.6 billion

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General Motors Corp. said on Thursday it will sell its Allison Transmission unit for \$5.6 billion to private equity firms Carlyle Group and Onex Corp., sending the automaker's shares to their highest level in 2-1/2 years.

GM shares rose as much as 3.3 percent, hitting their highest level since January 2005, as analysts speculated the automaker could use the proceeds from the sale to fund a cost-cutting deal on health care in upcoming talks with the United Auto Workers (UAW) union.

The negotiated price was more than some Wall Street analysts had expected GM to get for the business, which makes transmissions for commercial trucks, buses and military vehicles. GM had said in January it was looking to sell Allison.

GM, the world's No. 2 automaker by volume behind Toyota Motor Corp., said the sale would include almost all of Allison's assets, including seven manufacturing plants in Indianapolis and the unit's worldwide distribution network.

The sale is expected to close as soon as the third quarter, GM said, provided it is approved by the UAW and regulators.

Other bidders for Allison had included Blackstone Group LP and Centerbridge Capital Partners, according to sources familiar with the matter.

The agreement comes as GM heads into crucial contract talks with the UAW in which the automaker will seek concessions to lower its labor costs.

SHEDDING PROFITABLE UNIT

"This move monetizes Allison's revenue stream, increasing General Motor's liquidity, but sheds yet another profitable division of the company," David Kudla, chief executive of Mainstay Capital Management, said.

The Allison agreement is the latest in a string of asset sales by GM over the past two years as it restructures and cuts costs.

It spun off a 51 percent stake in its former finance arm GMAC to private equity firm Cerberus Capital Management for \$14 billion last November.

GM has also sold stakes in Suzuki Motor Corp., Isuzu Motors Ltd. and Fuji Heavy Industries Ltd..

GM, trying to turn a profit after losing more than \$10 billion in the past two years, is in the midst of a sweeping restructuring that includes slashing more than 34,000 jobs and closing 12 plants.

"This is another important step to strengthen our liquidity and provide resources to support our heavy investments in new products and technology," GM Chief Executive Rick Wagoner said in a statement.

JP Morgan analyst Himanshu Patel said in a note to clients the agreement valued Allison at almost nine times trailing cash flow, a higher multiple than he had expected.

Patel said GM could use the proceeds to fund a one-time payment to set up a trust fund for union workers' health care, similar to a deal negotiated by Goodyear Tire & Rubber Co. and the United Steelworkers union.

"We suspect GM would look to sell this highly profitable unit to line up financing for a (Goodyear)-style health-care deal," he said.

Shares of GM have gained more than 29 percent this month on growing expectations that the company could win sweeping changes in its contract with the UAW that would lower hourly labor costs.

The stock was up 77 cents, or 2 percent, at \$38.19 Thursday on the New York Stock Exchange. It rose as high as \$38.66 during the session.

GM tried to sell Allison for \$525 million in 1993 to German supplier ZF Friedrichshafen AG, but ended talks after U.S. antitrust regulators sued to block the sale.

GM said it would retain a Baltimore plant now under Allison that makes conventional and hybrid transmissions for the automaker's pickup trucks and sport-utility vehicles.