

Cost cuts have Wall Street upbeat about Fiat Chrysler-Renault merger

By Nora Naughton and Ian Thibodeau
(excerpt)

A potential merger between Fiat Chrysler Automobiles NV and Renault SA would create a massive global company, but it's the cost cuts proposed by FCA that has investment analysts optimistic about the deal.

The proposed 50-50 merger between the Italian-American Fiat Chrysler and France's Renault would create the third-largest automaker in terms of sales, behind Volkswagen AG and Toyota Motor Corp. It's a move that would also save some \$5.6 billion (5 billion euros) annually for the companies as they find ways to cut costs in manufacturing, purchasing and R&D.

It's not the first cost-cutting move Detroit has seen this year. General Motors Co. and Ford Motor Co. are executing global restructurings designed to reduce costs and divert capital toward expensive electrification and autonomy efforts — moves experts say are necessary to prepare for the next iteration of the automotive industry.

And as the global automotive market becomes more competitive and expensive, automakers that don't currently have the edge on electrification and autonomous vehicles — areas in which FCA is considered to be behind — will continue to forge tie-ups, said David Kudla, CEO of Grand Blanc-based Mainstay Capital Management LLC.

"It's a way to be competitive in this marketplace going forward," he said. "It ends up being a positive for all the players." ...

... Renault is expected move forward with FCA's proposal as soon as next week after Nissan and Mitsubishi were briefed on the matter, Bloomberg reported.

Renault is likely eyeing FCA's valuable footprint in the North America and leading position in the U.S. truck and SUV markets. After a series of successful new product launches, FCA is closing the gap between Ford and GM with its highly profitable and sought-after Jeep utes and Ram pickups.

FCA would look to Renault for its electrified vehicles and scale in Europe. Kudla said a no-barriers partnership like that currently being considered by FCA and Renault would be the best possible partnership for global automakers. It would allow both automakers to reap more benefits than a partnership on one facet of the company.

But if the deal goes through, Kudla doesn't expect to see many others like it.

"I don't think we'll get to the point where there are a few global oligopolies in the automotive space," Kudla said. "But it's so fiercely competitive. The more economies of scale you have, the better position you are in. It's really a much more efficient partnership (when) there are no lines drawn."