



Debt and desperation?



Though FCA is last among major global automakers in net cash/debt, CEO Sergio Marchionne points out that it started with nothing after Chrysler came out of bankruptcy in 2009. "All the money that [we] make now is a question of rebuilding equity."

* Industrial net cash/debt before post-retirement liabilities, 2014
Source: Sanford C. Bernstein & Co.

> ONLINE: Read Marchionne's case: autonews.com/capitaljunkie



The COMING SQUEEZE

AUTOMOTIVE NEWS ILLUSTRATION

Marchionne wants a partner but says FCA can survive alone 'in mediocrity'

Larry P. Vellequette and Luca Ciferri
lvellequette@crain.com

DETROIT — Compared with its larger and far richer global counterparts, Fiat Chrysler Automobiles faces a set of problems that appears almost insurmountable.

FCA trails its competitors in profit margin, r&d spending, fuel economy, hybrid technology, self-driving cars — you name it. At a time of unprecedented capital investment needs in the auto industry, FCA is the only major carmaker in the world with more debt than cash.

Ouch.

So what's the level of desperation? CEO Sergio Marchionne insists FCA is not desperate at all, that the company can survive on its own — "in mediocrity." Given a choice, he'd choose another path. He says FCA needs a partner and that it's a no-brainer who that partner should be: General Motors. (See Page 1.)

Marchionne acknowledges extreme challenges compared with larger global automakers. Many of them, he says, are because of the financial weakness and years of neglect as Chrysler was coming out of its 2009 bankruptcy.

Six years later, it is still feeling the effects, even with Jeep selling at stratos-

pheric levels and FCA overall ringing up over five years of consecutive monthly sales gains in the U.S.

Marchionne says if FCA continues "globalizing Jeep at the speed of light" and developing Alfa Romeo and other premium vehicles, it will have sufficient capital to survive for the long term.

...
Jeep "is the biggest insurance policy I have because that brand was the best part of Chrysler by a long, long stretch."

Sergio Marchionne



Jeep, he says, "is the biggest insurance policy I have because that brand was the best part of Chrysler by a long, long stretch." Analysts agree. They have pegged the value of Jeep at close to 60 percent of FCA's total value after Ferrari is spun off.

But to outsiders, including analysts, competitors and potential partners, FCA has issues. Lots of big issues.

■ Even after taking dramatic steps to increase its North American profit margin, including hiking wholesale prices in the U.S., the margin remains well behind those of competitors.

■ Among 23 cars, crossovers, SUVs, pickups and vans FCA US sells, only three, the Jeep Wrangler, Cherokee and Grand Cherokee, aren't outsold by a segment competitor.

■ Many of FCA's top-selling vehicles ride on platforms that would be considered out of date at other automakers. An example: The Dodge Charger and Challenger and Chrysler 300 are based on a Mercedes-Benz platform first used by DaimlerChrysler in the 2005 model year.

■ No single FCA platform underpins more than 1 million vehicles a year, increasing costs.

■ All FCA platforms are reworks of architectures Marchionne found when he joined Fiat in 2004 and took over bankrupt Chrysler in 2009. To meet crash standards, each new model had to be

see **SQUEEZE**, next page

SQUEEZE

continued from previous page

heavier than its predecessor. That means higher fuel consumption as competitors launch lighter models on new platforms. So over time, the weight disadvantage increases for FCA.

■ In 2014, FCA's U.S. fleet averaged 21.1 mpg, last among all volume automakers in corporate average fuel economy, trailing full-line leader Nissan by 5.7 mpg.

■ Today, with the exception of a \$1.4 million LaFerrari, you can't buy a hybrid from any of FCA's 11 brands. You can, however, purchase a battery-electric Fiat 500e in California and parts of Oregon, but if you do, FCA will lose about \$14,000 on the transaction, according to Marchionne.

■ While companies such as Toyota, Ford and Hyundai-Kia sell the same products in China, the U.S. and Europe, FCA is still the sum of four regional and marginally interconnected regions, with shrinking sales in economically stricken Brazil and a negligible presence in Asia-Pacific, at least for now.

■ The group appears to have made no progress in connected car and autonomous driving, which Marchionne calls a Pandora's box of problems.

■ Finally, of all major global automakers, only FCA has a net debt — \$8 billion. Every other company is in a net cash position.

Marchionne acknowledges FCA's challenges. Work to do on hybrids? "Absolutely true." Lower margins? "Absolutely true."

As for FCA's billions in net debt, Marchionne said the company still is climbing out of its Chrysler hole, having bought out the UAW's Voluntary Employees' Beneficiary Association with \$11 billion in cash and repaid its government loans. It also had to sink billions into modernizing "neglected" factories that it got from Chrysler's previous owner, Cerberus.

As for catching up with electrification? It's coming, he said, and largely "from the supplier base." Hybridization will be spread across the lineup, starting next year with the next-generation Chrysler Town & Country minivan.

Marchionne said FCA will be compliant with tougher emission standards and will continue to buy greenhouse gas credits as long as it is able. He said: "The emissions standards, the greenhouse gas emissions, CO2, all that stuff we have in the plan, and our portfolio will deliver compliance."

Alfa bet

And then, there is his big bet on Alfa Romeo.

FCA has committed about \$6 billion to a massive engineering project to resurrect the long-neglected Italian performance brand. Alfa Romeo boss Harald Wester has been asked to develop as many as eight new Alfas from scratch and grow a brand that sold just 68,000 vehicles globally in 2014 to 400,000 sales by 2018.

The first Alfa from Wester's project is



Bigland



Kuniskis



Manley



Palmer

Sergio may stay till 2020, hunts for next top leader

Larry P. Vellequette
lvellequette@crain.com

Sergio Marchionne is 63 and the first to admit that he won't stick around as CEO of Fiat Chrysler Automobiles forever. But he may remain a bit longer than expected.

In May 2014, Marchionne said he would remain in his role until 2018, but he told *Automotive News* in August that he could hang on until 2020.

"I can do this for another five years if you push me, right? Beyond that, I ain't gonna do it, and I don't want to," he said.

So who follows him into the hot seat at FCA?

Marchionne said he spends six weeks each year reviewing personnel files, on the lookout for talent in order to groom them for leadership.

"My purpose in life is to find the Kuniskises of the world, the Manleys, the Biglands, the Palmers," he said.

He was referring to his top lieutenants — Dodge brand head Tim Kuniskis, 48; Jeep brand boss Mike Manley, 51; U.S. and Canada sales

chief Reid Bigland, 48; and CFO Richard Palmer, 48.

"I've got a crew of kids that are growing properly," said Marchionne. "I think I will still be afraid today to let them alone into the woods because they'll come back with a [expletive] bloody nose and no legs, but there's going to be a point in time in which I'm going to have to let them go ... into the woods alone and see what they can find."

Marchionne recalled his first days as CEO of Fiat S.p.A., which had burned through a string of CEOs before his arrival in 2004. Stability in top positions is important, which is why he said he tries to "establish a culture where leadership matters."

He said part of growing a leadership class includes allowing people to make mistakes and take responsibility for them.

"I told them, 'One of you is going to do what I do one day. I don't know who that is, but one of you is going to do it.'"

"When you sit in my shoes," Marchionne said he told his underlings, "it's all your fault, all of it. I can't throw people under the bus." **AN**

FCA by the numbers

Global sales and revenue are on the rise at Fiat Chrysler.

	JAN.-JUNE 2015	CHANGE FROM JAN.-JUNE 2014	2014	CHANGE FROM 2013
Revenue*	\$63.9 billion	+22.3%	\$110.4 billion	+10.9%
Unit shipments	2.3 million	-0.26%	4.6 million	+5.9%

*\$1.15 to 1 euro exchange rate Source: FCAGroup

the next-generation Alfa Romeo Giulia that was unveiled in June and will go on sale in 2016.

"The big bet, and the one that's by definition the riskiest, is the relaunch of Alfa," Marchionne said. "And that's why I think we've gone underground for as long as we did with the car to make sure that we had a technological proposition for the marketplace that was ... unsailable.

"The Germans can all look at this [and say] this is another one of those mine-strome solutions. This car is better than a German car. I've been driving German cars all my life. That car technically is better."

Still, 400,000 is a big number.

"It's a big stretch," Marchionne said. "The fastest recovery of Alfa is going to be out of Europe. I can afford to [miss] by X number of cars in the U.S. and still make it back up in Europe."

Alfa "is risky ... because a lot of good people have tried to do this stuff, and by definition



see **SQUEEZE**,
Page 30

The Alfa Romeo Giulia's new platform can be used globally.

THE QUOTABLE MARCHIONNE

Recalls

"I had a very tough conversation with our people yesterday as a result of some of the decisions that were taken out of [Vehicle Recall Committee] ... we sat on bad leadership choices when people would not respond properly to the challenge at the right time and with the right speed. Nothing criminal, but not at our standard. I told them, 'If you sit on this, right, you're going to pay the price, and so you need to go back in and you need to identify those weak spots, and if you can't convert them, you need to change them.'"

North America

"Do I feel good about NAFTA? I do. Do I think that we're going to go through disastrous conditions going forward? The answer is probably not. But certainly not stellar, and I don't see sort of phenomenal improvements in earnings going forward."

Tesla CEO Elon Musk

"I underestimated Elon. I like him a lot. I like him, and I think he's the real deal as a disruptor. I think he sees things that other people don't see. Do I think everything he says ... will materialize on his time frame with the kind of industrial dynamics that he sees? I think the chances are less than 50 [percent] ... but his value to me as an industry participant is that he's a phenomenal disruptor, and this industry needs disruption — as much as we all worry about that disruption."

Disruptors and disruption

"I think it's healthy. I think it may break a couple of bones, but it will reconstitute a much stronger organism. And so I invite them in. I invite the Apples, I invite Uber, I invite Google. They should all come, and we're talking to them all."

not everybody's going to be successful. I think we have put in all the safeguards into that bet that we can, including the fact that I can stop the investment cycle if I want to."

The Giulia carries impressive performance numbers but, more important for FCA, rides on a new platform that

INDUSTRY ON TRIAL ONLINE

Follow the entire series at autonews.com/industryontrial

- > **Aug. 3:** Six thinkers explore Sergio's thesis — a two-hour conversation, including video
- > **Aug. 10:** The capital crisis ... and its implications
- > **Aug. 17:** R&D spending: How much is wasted?
- > **Aug. 24:** The case for consolidation
- > **This week:** A matter of life or death for FCA?
- > **Sept. 7:** Four alternatives to mergers

SQUEEZE

continued from Page 5

can be used globally to underpin different rear-wheel-drive cars, crossovers and SUVs for several brands.

For example, at a dealer show in Las Vegas last week, Dodge showed a next-generation Charger and a convertible Barracuda that will be developed off the Giulia's platform.

Most of those future products — for Dodge, Jeep, Maserati and Chrysler, as well as Alfa — are still years away. For now, Marchionne must run FCA as it is and wait to see if his Alfa bet pays off.

Regional problems

Waiting for Alfa might prove difficult. Since Fiat and Chrysler's shotgun wedding in 2009, the combined company hasn't seen a quarter when all of its global regions were firing on all cylinders. Early on, the North American Free Trade Agreement area was weak as the automaker dumped billions into its lineup and its factories to restore years of neglect from Chrysler's former owners. But just as North America was turning the corner, Europe collapsed.

“All the money that I make now is a question of rebuilding equity. If I went to the public market and I raise 10 billion, 15 billion, debt levels would go down. But I've got a significant shareholder [the Agnelli family] who's got a 30 percent stake in FCA.”

Sergio Marchionne

Now, as Europe stabilizes, Marchionne said FCA is “walking on eggs” because of a potential political vacuum in Brazil, its largest market in Latin America. And in Asia-Pacific and China in particular, sales of its high-end imported Maserati luxury cars are slowing substantially.

If he goes it alone, Marchionne's global response plan is simple. It's Jeep, which last year sold over 1 million vehicles for the first time in its history and this year is on track to hit 1.2 million.

This summer, workers in Brazil began producing the Renegade subcompact SUV in a massive new plant in Pernambuco. FCA expects the Renegade to drive revenue and profit in Brazil.

And later this year, Jeep and Chinese joint venture partner Guangzhou Automotive will begin building Cherokees for the Chinese market. Meanwhile, the Indian market soon will have locally produced Renegades.

In the end, it comes down to resources, which is why Marchionne wants a partner. FCA is still in a financial hole.

“All the money that I make now is a question of rebuilding equity,” said Marchionne.

“If I went to the public market and I raise 10 billion, 15 billion, debt levels would go down. But I've got a significant shareholder [the Agnelli family] who's got a 30 percent stake in FCA.

“If I went to him,” Marchionne said, “and I said, ‘By the way, let's go out there and raise 20 billion so I can cure all those ills,’ he's going to look at me and say, ‘That's really nice, but ...’” **AN**



FCA CEO Sergio Marchionne, left, says his relationship with UAW President Dennis Williams will help the two sides reach a new labor agreement. He also said all automakers have abused the UAW in the past.

BLOOMBERG

A shared view on wealth sharing

Larry P. Vellequette
lvellequette@crain.com

Sergio Marchionne said he believes his straightforward relationship with UAW President Dennis Williams will help Fiat Chrysler reach a new labor agreement with its union.

The Fiat Chrysler Automobiles CEO said the two men have a mutual understanding that will make a difference as the two sides negotiate a new contract before the current one expires Sept. 14.

Marchionne said although he and Williams are not personally close, “we share a view about the fact that, in some fashion, to the extent that we are successful in creating wealth out of these car companies, real wealth, then we should be able to distribute that.”

And in colorful language, Marchionne said all automakers have abused the UAW in the past. “To be perfectly honest, we've all [expletive] with the UAW, right? We were threatened by them, so we took all the pickup trucks that we sell — and 90 percent of those pickup trucks are sold in this country, right — we took it away, and then we delocalized them” in Mexico, Marchionne said.

“If you move the truck back here, which is [the UAW's] domain, with all the cars that we get killed on somewhere else, we could actually make sense of this bloody industry and actually increase the number of people employed in this country, right, and really share wealth because we are making money,” he said.

The CEO added: “What a wonderful idea, distributing cash when you have it.” **AN**

Jeep helping to power FCA in Europe

Luca Ciferri
lciferri@crain.com

Thanks to a strong start for the Jeep Renegade and its sibling, the Fiat 500X, Fiat Chrysler's sales in Europe are recovering faster than the overall market.

In the first half of 2015, FCA sales rose by 13 percent to 472,825 vehicles in a market that includes the 28 countries of the European Union, plus Switzerland, Iceland and Norway. The overall market grew 8.2 percent to 7.4 million units.

The Renegade added 27,590 sales in the first half, while the 500X — launched early this year — accounted for 30,436 buyers in the same period, according to JATO Dynamics.

But FCA has far to go to regain the ground lost in the last decade due to lack of new-product launches. Last year, FCA was surpassed by Hyundai-Kia, sliding to the No. 8 spot among auto groups in Europe.

Back in 1988, Fiat Auto was fighting head-to-head with Volkswagen Group to be Europe's No.1 automaker. Last year, FCA sales were less than a fourth of what VW sold — 767,858 vs. 3,313,435.

Adding brands from the former Chrysler Group in 2011 did little to help Fiat's fortunes in Europe, where only Jeep sells a significant volume. Indeed, in the last nine months, Jeep has been the fastest growing brand in the region — up 174 percent in the first half of 2015 alone.

Ram and Dodge are not sold in Europe, while the Chrysler brand is being discontinued after an ill-fated combination with Lancia.

Fiat, FCA's flagship brand in Europe, also has a lot of ground to regain.

The Fiat brand ranked ninth in the first half, behind Audi, BMW and Mercedes-Benz and marginally ahead of VW Group's value brand, Skoda. **AN**



Jeep Renegade sales in Europe hit 27,590 in the first half.