

The Recapitalization of Detroit

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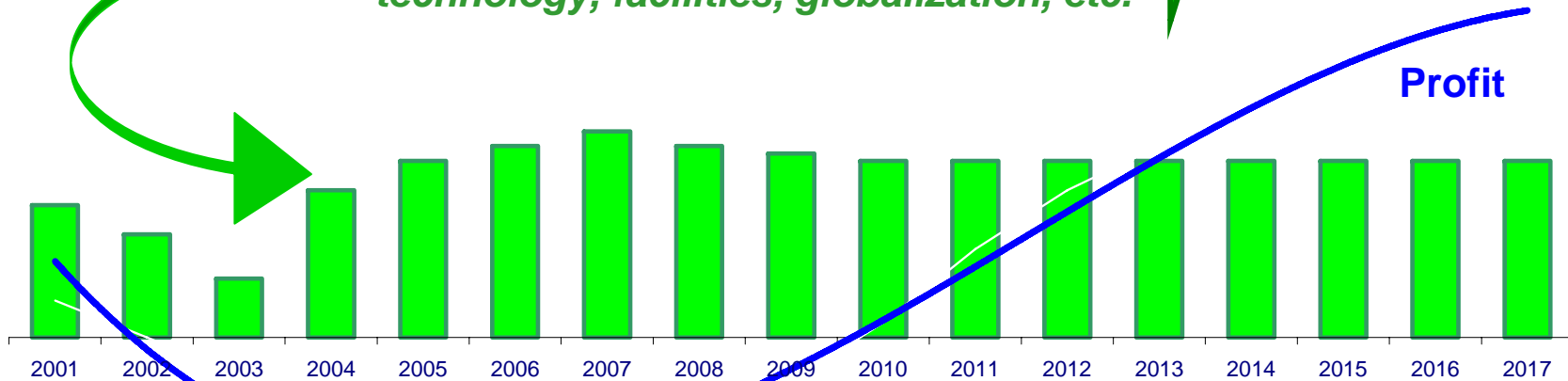
Management Briefing Seminars
Traverse City, Michigan
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Capital a Critical Enabler in Detroit's Transformation



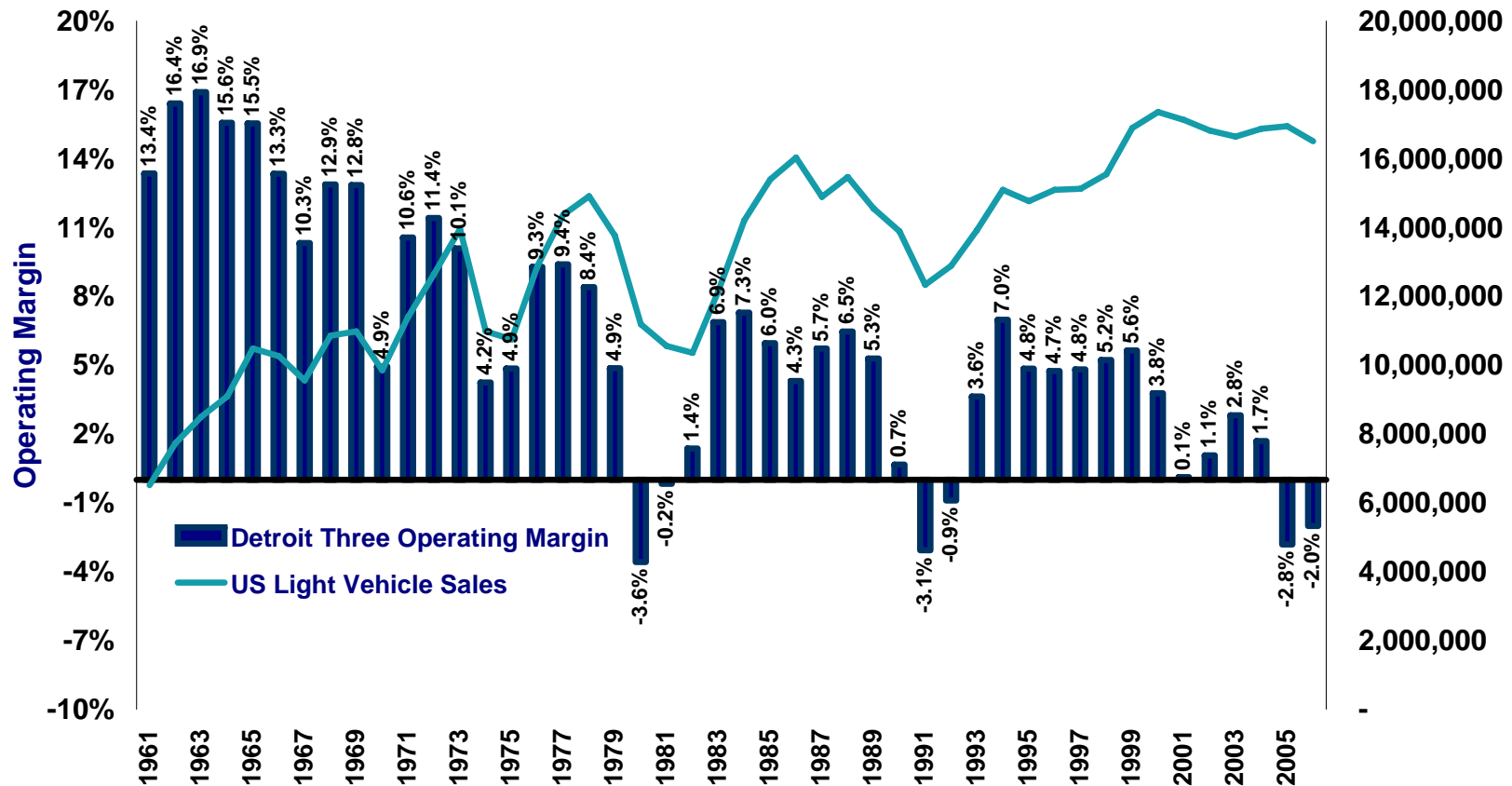
Capital for labor deals, new products, technology, facilities, globalization, etc.



Source: Casesa Shapiro Group

Legacy Business Model in Crisis

Profit collapse in Detroit is structural, not cyclical



Source: Company Reports, Merrill Lynch Estimates

Legacy Business Model in Crisis

Analogies in other industries are sobering

**1980's
Textiles**

**1990's
Steel**

**2000's
Airlines**

Depleted Balance Sheets

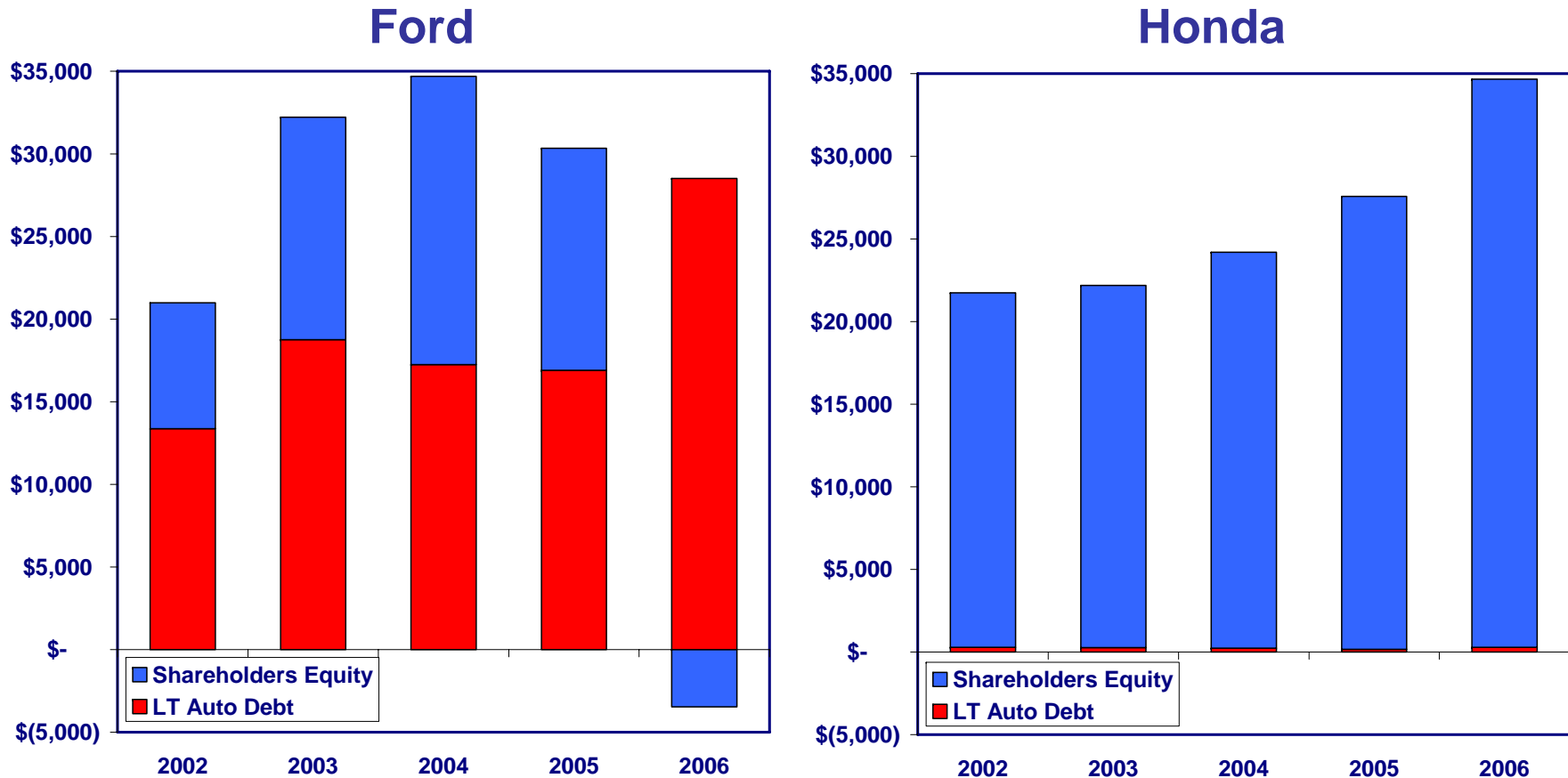


**Consolidation
Recapitalization**

Source: Casesa Shapiro Group

Legacy Business Model in Crisis

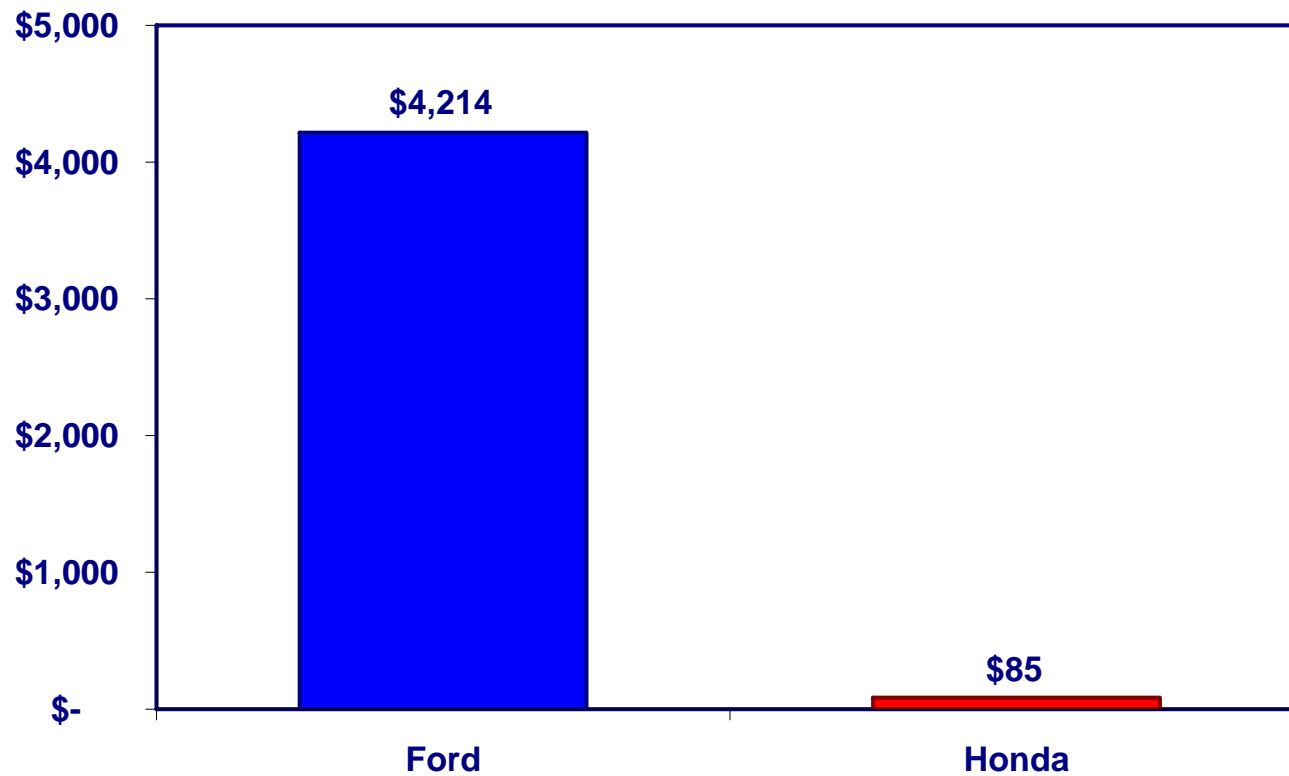
Ford vs. Honda: Balance Sheet Strength, \$ millions



Sources: Casesa Shapiro Group, Company Reports

Legacy Business Model in Crisis

Ford vs. Honda: Long-term debt/unit, 2006, excludes financial debt



Sources: Casesa Shapiro Group, Company Reports

Legacy Business Model in Crisis

Near-term, conditions likely worse before better

Radical resizing of Detroit OEMs underway

Further shift in dealer capital toward growth brands

More share gains for Asian OEMs

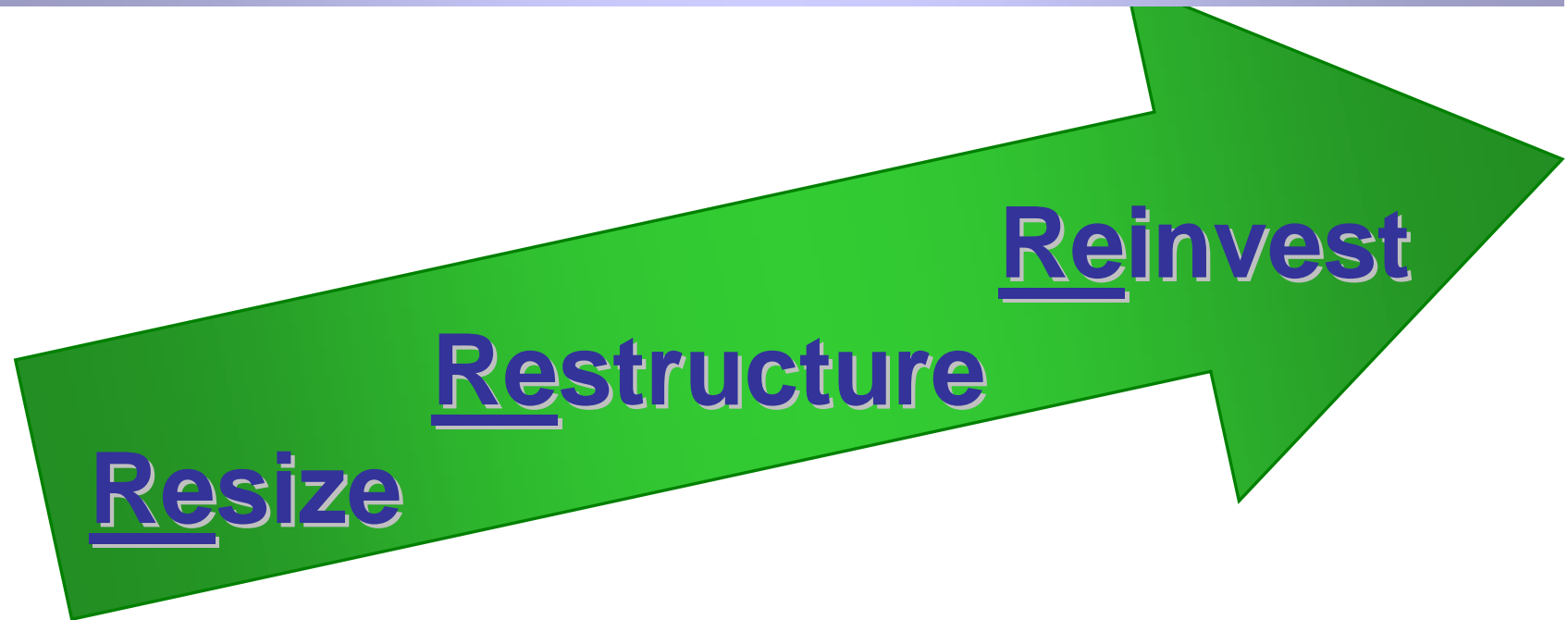
Supply base distress as more weak companies fail

Need a new business model

Source: Casesa Shapiro Group

Transformation

Resizing only first step in journey to new business model



Source: Casesa Shapiro Group

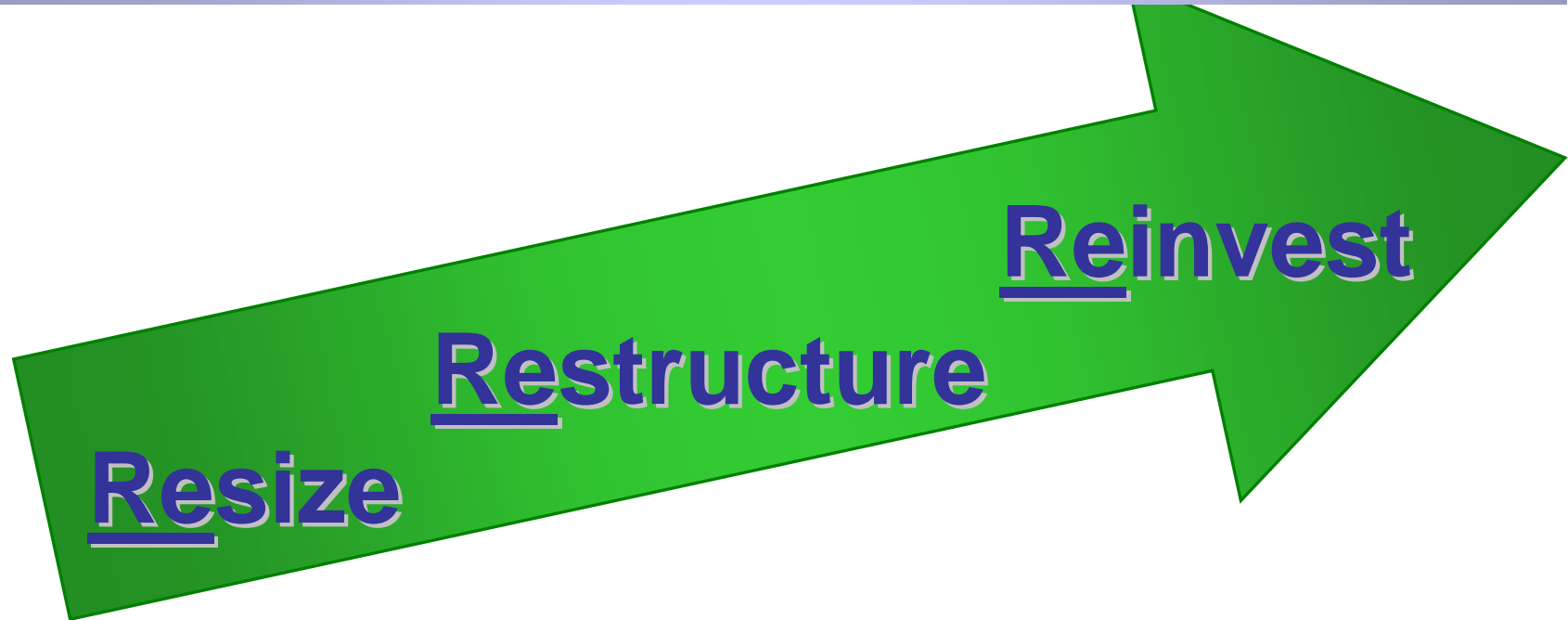
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Transformation

Resizing only first step in journey to new business model

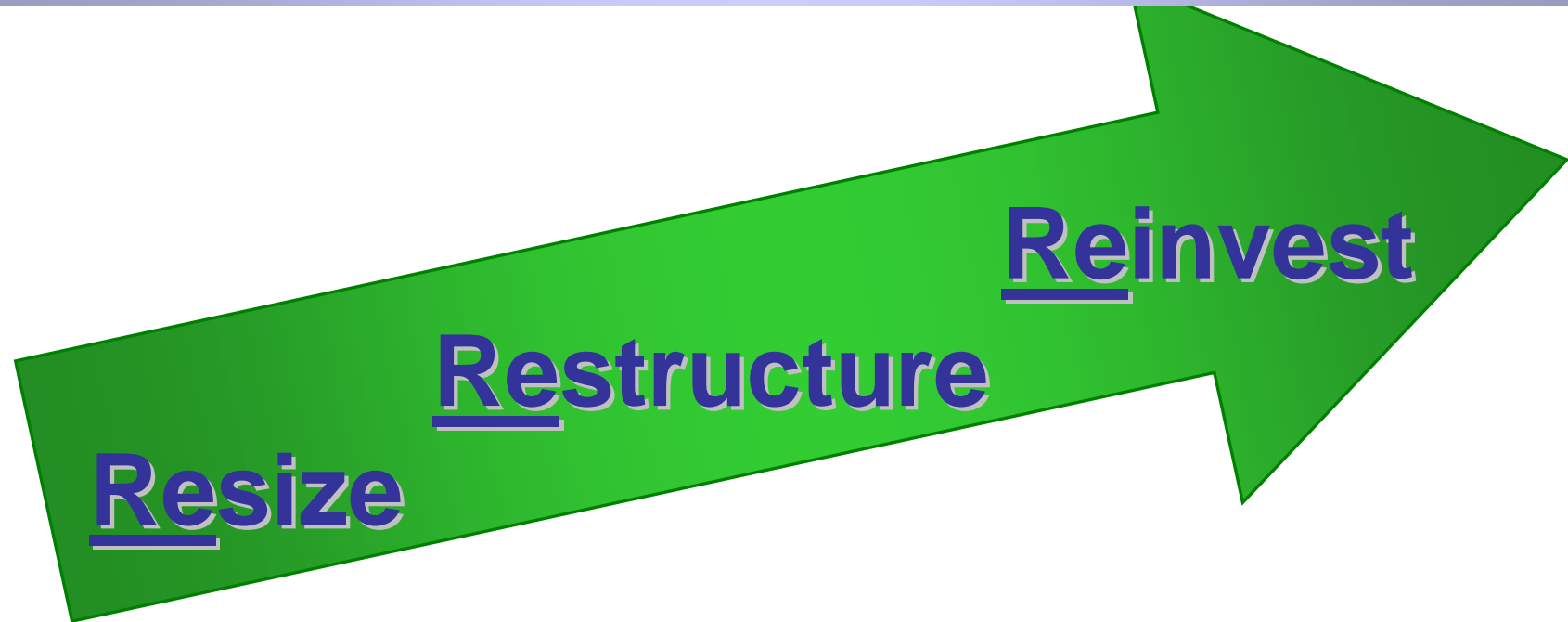


Capacity
Employment

Source: Casesa Shapiro Group

Transformation

Resizing only first step in journey to new business model



Capacity
Employment

Redefine Labor Relationship
Rationalize Brand Portfolios
Consolidate Distribution Network

Source: Casesa Shapiro Group

Transformation

Resizing only first step in journey to new business model



Resize

Capacity
Employment

Restructure

Redefine Labor Relationship
Rationalize Brand Portfolios
Consolidate Distribution Network

Reinvest

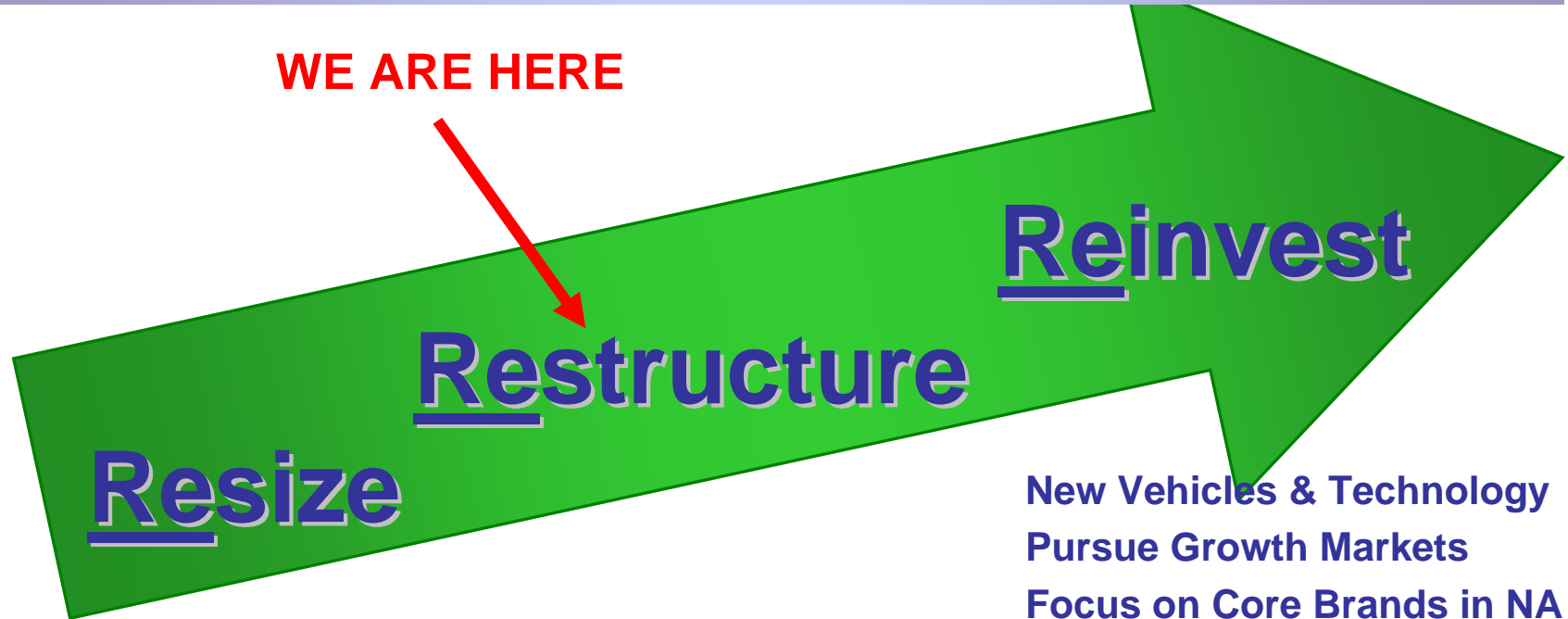
New Vehicles & Technology
Pursue Growth Markets
Focus on Core Brands in NA
Leverage Key Relationships
(Labor, Dealers, Suppliers)

Source: Casesa Shapiro Group

Transformation

Resizing only first step in journey to new business model

WE ARE HERE



Resize

Capacity
Employment

Restructure

Redefine Labor Relationship
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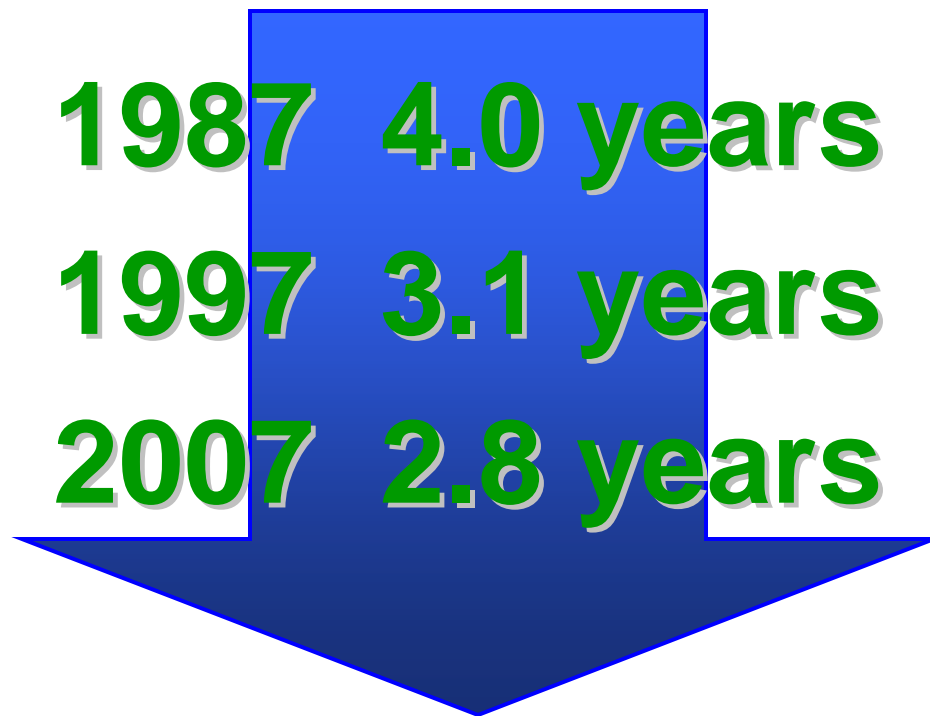
Reinvest

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Source: Casesa Shapiro Group

Capital Needed for Product Investment

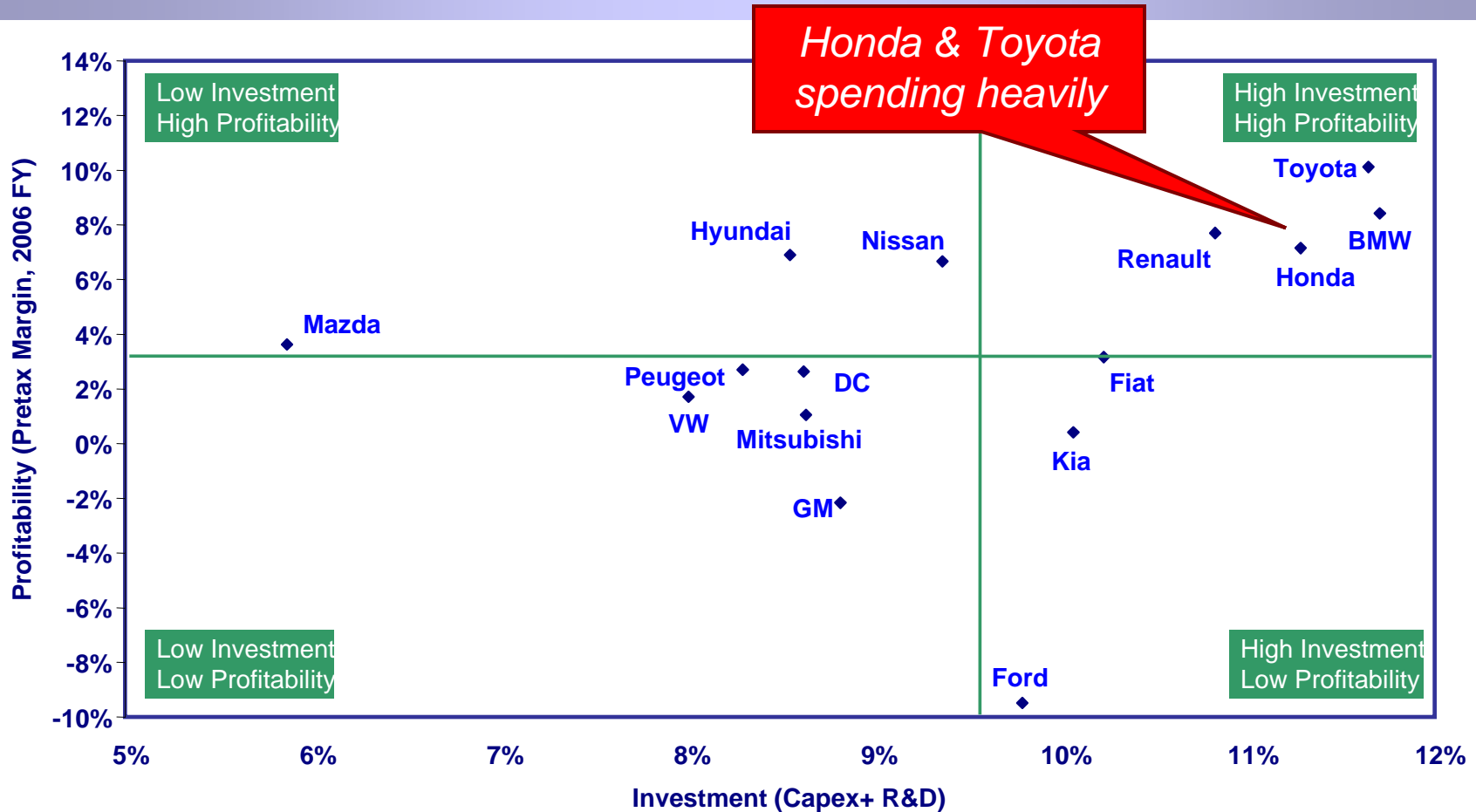
Average Showroom Age, US Market



Source: Merrill Lynch

Capital Needed for Product Investment

Profitability vs. Product Investment



Sources: Casesa Shapiro Group, Company Reports

Capital Needed to Pursue Growth Markets

Production by Region

Units in 000's	2005	2020	Change	CAGR	# Plants
North America	15,670	16,838	1,168	0.5%	5
Mercosur	2,515	4,010	1,495	3.2%	6
Western Europe	16,000	15,902	(98)	0.0%	(0)
Eastern Europe	4,219	11,044	6,825	6.6%	27
Japan	9,975	9,536	(439)	-0.3%	(2)
Asia/Pacific	12,850	35,967	23,117	7.1%	92
Other	2,213	3,959	1,746	4.0%	7
World	63,442	97,256	33,814	2.9%	135
<i>Memo: China</i>	<i>5,071</i>	<i>20,852</i>	<i>15,781</i>	<i>9.9%</i>	<i>63</i>

Source: Casesa Shapiro Group

Capital Needed to Defend Against New Entrants

SAIC's Roewe W2 Concept

Bright Silver

DCI Proposed Color
4M09 Silver



Capital Needed to Defend Against New Entrants

SAIC's Roewe W2 Concept



Capital Needed for New Technology

Clean car revolution at hand

April 2, 2007

Court Rebukes Administration in Global Warming Case

By REUTERS

WASHINGTON (Reuters) - In a defeat for the Bush administration, the Supreme Court ruled Monday that a U.S. government agency has the power under the clean air law to regulate greenhouse gas emissions that spur global warming.

The nation's highest court by a 5-4 vote said the Environmental Protection Agency "has offered no reasoned explanation for its refusal to regulate carbon dioxide and other emissions from new cars and trucks that contribute to climate change."

The ruling came in one of the most important environmental cases to reach the Supreme Court since 1997. It was a court decision in a case involving global warming.

Greenhouse gases occur naturally and are also emitted by cars, trucks and factories. They trap heat close to the earth's surface like the glass walls of a greenhouse.

Such emissions have risen steeply over the past few decades, and scientists have linked this rise and an increase in global average temperatures and a related increase in extreme weather events to global warming. The court said that the damage to the environment.

Justice John Paul Stevens said the EPA's decision was "arbitrary and capricious." He said the administration's argument that it lacked the power to regulate such emissions. He said the court's decision was "inconsistent with law."

In sending the case back to the lower court, Justice Stevens said the high court did not decide which policy the EPA must follow. "We hold only that EPA must provide a reasoned explanation for its decision," he wrote.

The Bush administration has recently rejected capping greenhouse gas emissions as bad for business and U.S. workers.

The court's four most conservative members -- Chief Justice John Roberts and Justice Samuel Alito, both appointees of President Bush, and Justices Antonin Scalia and Clarence Thomas -- dissented.

GREATER PRESSURE TO DEVELOP NEW TECHNOLOGY

Conclusions

Companies made promises
they can no longer keep
Detroit historically cost-driven
more than revenue-driven
Must offer a compelling,
credible business plan
*Motivated by shrinking
balance sheets*



Source: Casesa Shapiro Group

MBS, Traverse City, August 8, 2007

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Conclusions

Labor's model at risk as much as companies'

Competing against Japan, Korea, China, India, not management

2007 a key contract: share losses & attrition will contract union by 2011

Motivated by shrinking membership



Source: Casesa Shapiro Group

Conclusions

Investors still have abundant capital, notwithstanding recent hiccup

Institutional debt market likely to slow, not stop investments, unless consumer pinched

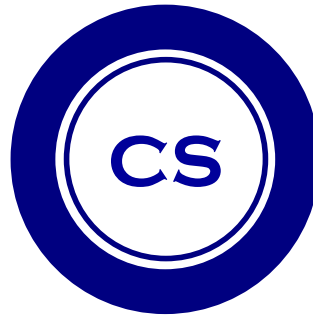
Market encouraged by labor deals in other industries & expecting progress in Detroit

Willing to pay for transition costs (buyouts, etc.) & reinvestment (product, technology, facilities)

Private equity filling vacuum of strategic buyers

Restructuring painful, but better to happen when there's money around

Source: Casesa Shapiro Group



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