GM Conducted Dealer Network Analysis to Establish the Size of a Viable Dealer Network

- GM's Approach to Dealer Network Planning
  - Competitive Dealer Throughput
  - Competitive Dealer Return on Investment
  - Customer Convenience better than targeted competitor (drive time analysis)
  - Market Demographics and how they change over time
- From this data we created an "Ideal" Dealer Blueprint
  - This analysis yielded an "ideal" dealer blueprint of 3,380 dealers
  - We determined that a subjective process of eliminating dealers to achieve this optimal footprint would not be fair or consistent with our past business practices
  - Therefore, we selected objective dealer performance criteria to stratify the dealers between performing dealers that we would want in our long-term dealer network and those dealers that are underperforming in today's market
  - Using this objective performance criteria yielded approximately 4,100 dealers vs. 3,380

Dealer Network Restructuring

- Plan enables competitive dealer throughput and Return on Assets (ROA) opportunity in the metro markets
- Despite reductions GM would maintain extensive hubtown (i.e. 25-50k population) and small town footprint as strategic advantage
- Chrysler plan rejected and immediately terminated a portion of the dealers
- GM's plan offers a "wind-down" agreement to facilitate vehicle and parts inventory sell-down, and customer migration in an orderly way over the next 12 – 17 months
- Dealers not accepting the "wind-down" agreements will be rejected (similar to Chrysler). It is highly unlikely that any GM dealers will fall into this category.
- GM is responsible for vehicle inventory of terminated dealers who are floored through GMAC (approximately 80% of inventory)
- Approximately 4,100 dealers will be offered a continuing assignment agreement to include:
  - Sales, inventory, and image performance
  - Essential brand elements (requirements)
  - No non-GM duals
  - Waive right to protest
- It is projected that 3,500 – 3,800 dealers will accept the continuing assignment agreement and move forward with the new GM

Dealer Performance Score

Overall Score

Each of the four Category Scores is added together to total an *Overall Score* for the portfolio (DPS Score). The Category Minimums are listed as a reference for each of the four specific measurement categories and the overall performance. Dealers with a DPS score less than 70 received a wind-down agreement.

They include:

- Sales – Weighted at 50% measured against appropriate average for size of market (i.e. measuring relative share performance against dealers in similar size markets in the state)
- Customer Satisfaction Index – Weighted at 30% measured against regional average (GM has 5 regions in U.S.)
- Capitalization – Weighted at 10% measured against dealer's needed working capital standard
- Profitability – Net profits before taxes weighted at 10%
- Overall – A score of 100 is average; below 100 indicates a performance issue with 70 or below indicating extremely poor performance

Note: Wind-down agreements were given to stores with sales less than 50 per year. Additional wind-downs may have included dealers with Non-GM Brands under the same roof and performance issues, phased out brands such as Pontiac or dealers in an unprofitable position 3 years in a row with inadequate working capital

Wind Down Dealers by State

State	# Dealers	State	# Dealers	State	# Dealers
Alabama	33	Louisanna	10	Ohio	79
Alaska	0	Maine	14	Oklahoma	17
Arizona	11	Massachusetts	29	Oregon	21
Arkansas	17	Maryland	21	Pennsylvania	90
California	65	Michigan	58	Rhode Island	3
Colorado	15	Minnesota	39	South Carolina	24
Connecticut	11	Missouri	38	South Dakota	16
Deleware	2	Mississippi	14	Tennessee	30
Florida	35	Montana	16	Texas	55
Georgia	24	Nebraska	21	Utah	6
Hawaii	2	Nevada	3	Vermont	8
Idaho	8	New Hampshire	6	Virginia	26
Illinois	66	New Jersey	33	Washington	18
Indiana	48	New Mexico	10	West Vergina	25
Iowa	46	New York	60	Wisconsin	50
Kansas	29	North Carolina	36	Wyoming	6
Kentucky	23	North Dakota	6		

What a Dealer Gets if Dealer Agreement is Rejected in Bankruptcy Proceedings

- In a nutshell, the dealer has a general unsecured claim which likely is valueless
- If the rejection is approved by the bankruptcy court, dealer agreement is terminated and the dealer has to abruptly shut down the dealership operations because it no longer has a license or the legal ability to sell or service vehicles
  - Once rejected, the manufacturer is not required to repurchase the new vehicles, parts and tools under the dealer agreement because the agreement no longer exists
  - Thus, the dealer is stuck with vehicles and parts it can not sell to customers in the normal course of business and must find a way to dispose of at wholesale or distressed prices -- probably at huge discounts from what the dealer paid
  - In addition, the dealer would have to address its employees
  - While obviously harsh this would be the normal outcome in bankruptcy proceedings as we are observing with Chrysler. It is exactly because of these harsh outcomes that GM is offering wind-down agreements to GM dealers.
- For GM dealers that floorplan with GMAC, if the dealer agreement is rejected we expect that the dealer would turn-in its new vehicle inventory to GM-GMAC which GM would then re-distribute.

What a Dealer Gets if Dealer Signs Participation Agreement

- If a dealer signs this agreement they are assigned to NewCo
- If for whatever reason the dealer later decides to voluntarily terminate the dealer agreement, all the repurchase obligations of the dealer agreement would apply requiring GM to repurchase eligible new vehicles (current model year) parts and tools

What Dealer Gets if Dealer Signs Wind-Down Agreement

- The Dealer's Wind-Down Agreement would be assumed by NewCo
- In return for the money paid and the assignment to NewCo, the dealer waives all future termination assistance rights under the dealer agreement with respect to new vehicles, parts and tools
- Dealer is allowed up to 16 months in order to wind down its business and to sell its existing inventory to retail customers at normal transaction prices
  - Dealer participates in GM's normal marketing support programs
  - Dealer may not order new vehicles
- Existing parts inventories can be used during this period to do warranty and other service
- The dealer should make money on these operations plus receiving GM's payments to assist in the wind down of operations
- Dealer will have access to the GM auction to acquire used vehicles which are a tremendous source of profit
- Dealer will be able to plan and work with involved employees to transition from employment over time
- GM's wind down agreements are significantly better for the dealers than in normal bankruptcy proceedings where there is an abrupt rejection with no financial assistance, time to plan or ability to make money in a wind down mode

History of Direct Dealer "Support" Programs

- Historically, during the time period when GM experienced annual market share and volume increases, the dealer network expanded to support the growing demand for GM vehicles
  - Dealers enjoyed vigorous margins and profits, and direct dealer support payments were not necessary
- During the 70's and 80s', GM witnessed a consistent and steady decline in market share, but the size of the dealer network contracted little
  - Dealer profitability began to suffer
  - Direct dealer support programs were introduced
- Although the last few decades saw further gradual reductions in the number of dealers, it was at a significantly slower pace than the rate of GM market share decay, thereby creating intense pressure on dealer profitability
  - Currently, a majority of GM dealers are unprofitable despite the highest–ever level of dealer support payments
- **Dealer attrition in 2009 is averaging 80 GM dealers per month. This rate would imply attrition of 1,280 dealerships through October, 2010 or approximately the same number of dealers that have been offered wind-down agreements.**

Direct Dealer "Support" Savings Potential

- A right-sized dealer network will allow GM to systematically reduce virtually all direct dealer support programs, which today cost GM approximately $2.1* Billion
  - Gross savings potential of $928,000 per rooftop completely phased out from GM's network (through wind-down, attrition, or brand sale or phase-out)

• Dealer Margin (1% Market Support)	~$810 M
• Incentives Paid Directly to Dealer	~$380 M
• Standards For Excellence	~$350 M
• New Vehicle Inspection	~$350 M
• Factory Wholesale Floorplan Support	~$140 M
• Fuel Fill	~$120 M
Total	~$2,150 M
Estimated number of rooftops no longer in GM's dealer network	~2,300
Direct Dealer Incentive Savings per Closed Rooftop	~$928,000

* Based on 3.1M GM Sales Volume

Direct GM Structural Cost Savings Potential

- In addition, dealer network reductions enable an estimated $415M in GM gross structural cost savings potential
  - Gross savings of $180,000 per rooftop no longer in GM's dealer network

• Local Dealer Advertising Assistance	~$200 M
• Funding for Dealer Channel Network Alignment	~$125 M
• Number of Sales & Service Consultants	~$40 M
• Funding for Dealer Website & Lead Mgmt Tools	~$30 M
• Dealership Employee Product & Service Training	~$10 M
• Funding for Dealer IT Systems & Support	~$10 M
	Total ~$415 M
Estimated number of rooftops no longer in GM's dealer network	~2,300
Direct GM Structural Cost Savings per Rooftop	~$180,000