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G.M. Offering Price Gave Treasury a Tough Call

By BILL VLASIC AND MICHAEL J. DE LA MERCED

Emile Wamsteker for General MotorsGeneral Motors executives, including the chief executive, Daniel F. Akerson, at the stock exchange after the the automaker's I.P.O.

Fred Prouser/Reuters Ron Bloom of the Treasury had to weigh raising the initial G.M. price.

12:08 p.m. | Updated For more than 16 months, the Obama administration had been waiting for the day it could start selling off the government's 61 percent stake in General Motors.

But on the afternoon of Nov. 15, with its initial public offering set to take off in just three days, a crucial decision had to be made on pricing. And Ron Bloom, the Treasury Department's point man on autos, faced a quandary.

He dialed into a conference call with Daniel F. Akerson, G.M.'s chief executive, and his bankers, who had a pitch to make. G.M.'s top two executives were calling from the back seat of a Buick stuck in traffic in London. James B. Lee Jr. of JPMorgan Chase, a senior G.M. adviser sitting in the front seat of the car, and bankers from Morgan Stanley told Mr. Bloom over a speakerphone that there was huge demand from investors — more than $150 billion worth of orders at that point. They wanted to increase the offering price to as high as $33 from an earlier estimate of $26 to $29 a share.

That good news, however, created a conundrum: a higher price would mean more payback for taxpayers. But it also risked driving some potential investors away from the offering. Worse, the shares could tank soon after their debut. Given that taxpayers would still own more than a quarter of the company, he could not be seen as just playing for the short term.

For Mr. Bloom, the decision over G.M.'s public offering price was a gamble that could define the success or failure of the government's $50 billion bailout.

"Keeping it at the low end would not give us a fair price," he later recalled in an interview. "So we coalesced at $32 to $33."

After just 15 minutes, the stage was set for the largest initial stock offering in United States history.

What began in the spring as cautious discussions under the code name Project Dawn would become on Nov. 18 a $23.1 billion stock offering. It began with Mr. Akerson ringing the opening bell at the New York Stock Exchange. The roar of a Chevrolet Camaro engine over loudspeakers followed.

How the offering took shape is the tale of a recovering company, a reluctant owner and investors eager to cash in on a revival of the American auto industry. It survived a change of chief executives at G.M., a tug of war on the deal's size and delicate decisions on overseas investors.

The tone for the offering was set on April 21, when G.M. repaid the last $5.8 billion of its $8.1 billion in loans from the United States and Canadian governments.

G.M.'s chief executive at the time, Edward E. Whitacre Jr., announced the repayment at an auto plant in Kansas City, Kan., and then flew to Washington to meet Treasury Secretary Timothy F. Geithner. Mr. Whitacre was so eager to get there that he personally paid for a private jet, avoiding government restrictions on G.M. to travel on commercial flights.

At Treasury, Mr. Whitacre laid down a challenge on a public offering. "We ought to do this right, make it big, real big," he told Mr. Geithner.

But the Treasury team headed by Mr. Bloom was wary of setting too high a target. "If you commit yourself on the front end, it's bound to go down," he said.

The negotiations between Treasury officials and company executives would soon be shaped by the arrival of bankers to prepare the offering. In May, top Wall Street executives, including John J. Mack of Morgan Stanley and Jamie Dimon of JPMorgan, traveled to Washington to pitch their firms, eager to win a plum assignment in running the offering. The two chiefs even submitted to nearly one-hour question-and-answer sessions.

Nearly a month later, the banks were told they had won the contest to be the lead underwriters for the offering. But there was a catch: in an earlier pitch to Treasury, Goldman Sachs had proposed taking a 0.75 percent underwriting fee, a fraction of what banks would normally earn. (Morgan Stanley and JPMorgan said yes.)

Leading the JPMorgan team were Mr. Lee, the firm's chief deal-maker and vice chairman, and Bill Contente, a top capital markets banker. Heading the Morgan Stanley team were Dan Simkowitz, chairman of global capital markets, and Will Dotson, its lead industrials banker.

In talks through the summer, the bankers and G.M. executives pushed Treasury for the biggest offering possible, but Mr. Bloom pushed back. A secret goal of $10 billion was agreed on, which would reduce government ownership by at least 20 percent.

Then, without giving Treasury or the bankers any warning, Mr. Whitacre lobbed a bombshell. At an auto conference in northern Michigan on Aug. 5, he told reporters that the offering should be big enough to sell the taxpayers' entire stake. "We want the government out — period," he said.

His comments set off alarms in Washington.

"It wasn't the best day of my life," Mr. Bloom later conceded. Even so, he approved of Mr. Whitacre's enthusiasm for a megadeal. "He's not selling the shares. We are," he said. "But I want my salesman to find as many buyers as they can."

Another surprise came a week later when Mr. Whitacre abruptly announced he was resigning as chief executive and would be replaced by Mr. Akerson, a G.M. director. G.M.'s board had pressed Mr. Whitacre to commit to another year to gain investor confidence in the stock offering, but he declined. With Mr. Akerson now at the helm, the automaker geared up to start wooing investors.

In September, a coterie of top G.M. executives went to Asia and the Middle East to drum up interest from investors, including sovereign wealth funds. At some meetings, G.M. executives would be in the same room with more than a dozen investors at one time. Interest proved very strong. The company's Chinese partner, SAIC Motors, was especially keen on buying into the deal. (On Sept. 17, Treasury issued "guidelines" limiting international participation to "what is typical in similar transactions" — usually less than 10 percent.)

It was the beginning of an intense stretch for G.M. and its bankers. On one trip, a group led by Christopher P. Liddell, the chief financial officer, returned from Kuwait to Washington, only to have three shuttle flights to New York canceled. Exhausted, they ran to catch an Amtrak train.

On Oct. 13, about 100 people representing G.M., the banks and the two other big G.M. shareholders — the Canadian government and the United Automobile Workers health care trust — gathered in the West Gables Room at Treasury to plan a strategy on price and size. Three weeks later, G.M. announced it was starting a $13 billion offering of preferred and common stock, which it planned to sell at $26 to $29 a share.

The G.M. road show kicked off the first of 87 investor meetings on Nov. 5. Two teams of executives were formed: Team G was headed by Mr. Akerson, and Team M by Stephen J. Girsky, G.M.'s vice chairman and a former Wall Street auto analyst.

Both teams held packed meetings with investors in Manhattan on Nov. 8. Afterward, the G.M. contingent bonded over dinner at Mr. Girsky's home in Westchester County, where Timothy E. Lee, head of G.M.'s international operations, was forced to wear Mr. Girsky's New York Jets jersey all night because he lost their bet on the Jets-Detroit Lions football game.

With orders swarming in by the weekend, the executives were pressing Treasury to increase the price and the size of the deal. On Nov. 15, Mr. Bloom made the call to raise the range's high end to $33.

The next day, the underwriters closed the order books. That night, Team G celebrated with steaks and wine at a Wolfgang's restaurant in TriBeCa.

On Nov. 17, the day before trading would start, Mr. Akerson and Mr. Liddell visited JPMorgan's offices in New York, where they received a standing ovation on the trading floor. Then they walked into the Morgan Stanley offices a few blocks away, again to applauding traders, each wearing blue-and-white T-shirts bearing a slight variation on the new G.M.'s mission statement to build the world's best vehicles.

The T-shirts said “G.M.” on the front, and “Design, Build and Sell the World’s Best I.P.O.” on the back.

Bill Vlasic reported from Detroit, and Michael J. de la Merced from New York.