The Joint Venture that works

General Motors AvtoVaz

From VAZ 2121 NIVA

TO CHEVY NIVA...

GM-AvtoVaz

Introduction
- AVTOVAZ founded in 1971
- First NIVA (Vaz 2121) was produced in 1977

Before Joint Venture:
- Russian auto industry undeveloped
  - no direct competition due to few producers
  - cash only business

Forces pushing towards joint venture
- Western Automakers
- Russian Automakers

AvtoVaz: 1998 – 2002 Figures

AvtoVaz has 1.34% of world production
- Growth is picking up

<table>
<thead>
<tr>
<th>1998</th>
<th>2002</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>vehicle unit sales</td>
<td>591,000</td>
<td>768,030</td>
</tr>
<tr>
<td>net sales</td>
<td>62,982,000</td>
<td>119,432,000</td>
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<tr>
<td>Operating income (loss)</td>
<td>-11,661,000</td>
<td>5,962,000</td>
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GM

#1 Automobile Manufacturer Worldwide

Markets:
1. North America - GMNA
2. Europe - GME
3. Asia Pacific - GMAP
4. Latin America, Africa and Middle East - GMLAAM

Automobile Production Worldwide

<table>
<thead>
<tr>
<th>Year 2002 (in thousands)</th>
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<tbody>
<tr>
<td>Region</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>GMNA</td>
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<tr>
<td>GME</td>
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<td>GMLAAM</td>
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<tr>
<td>GMAP</td>
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<tr>
<td>Total Worldwide</td>
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Source: GM Annual Report 2002
Primary Goals of Joint Venture
- Introduction of higher quality
- Lower Costs
- Efficient systems
- Strengthen trust of western companies to Russian business
- Further attraction of investments in automotive industry in Russia

History of GM-Avtovaz
- Agreed on 30 July 2001
- $99.1M in cash & equipment (41.5%) (GM)
- AvtoVaz $99.1M in intellectual property, rights for Niva car, special buildings and facilities (41.5%)
- European bank of reconstruction & development put down $40 M in cash
- Total sum of investment = $338 M

Pros of Joint Venture for GM (con’t)
- Government support for increasing employment
- Friendly management who have paralleled interests with GM
- GM manager at the top of the venture (J.Milonas)
- Absence of tariffs
- Lower Exchange Risk since all production is made and sold in Roubles
- And all that for just $63 million!!!

Why Not Direct Entry?
- No distribution channels apart from the ones GM might have had in large cities
- Transportation expenses and tariffs making cars too costly
- Somewhat hostile treatment from government and people, anti-US sentiment (Multinational taking our people’s earnings and repatriating them to the US)

Why Not Buy a company?

- Not possible due to 50% local ownership regulation for key industrial units

Even if GM bought the Niva Division:
- Cultural shock with workers who have different mentality
- Total exposure to FOREX and economic risk, 1998 was not forgotten in 2001
- GM would not prefer to open a wholly-owned plant since Russia is still quite unstable in the eyes of foreigners.
- Total exposure to political risk, i.e. possible re-nationalization
Why Not Sell Auto-Kits?

- Transportation expenditure and control, import tariff expenditure
- Car would be too costly for Russian consumers.

Rouble Depreciation

- Russia was providing 30% interest rates and then defaulted
  [Repercussions felt around world (flee to quality)]
- Financial crisis cause RBL 11/$ → 25/$
- Russian companies enjoyed the strains on competitors
  - Russians had to buy autos at $10,000 or less

Hedging Strategy

- Forward Market Hedge – futures contract
- Money Market Hedge – loan agreement
- Options Market Hedge – Put Option
- Strategy Decided by:
  1. Risk Tolerance
  2. Speculation

General Motors Decision

- Many Western automakers have not ran successful operations in Russia
- GM is running a very risky business venture
- To eliminate risk GM can cover all transactions with forward contracts

Why is this JV interesting?

- This is one of the few international ventures that really worked
- It created an immediate and continuous increase in the stock price
- The cultures managed to blend together
- GM is optimistic about it and that may mean further expansion
- Venture would continue to do well because the trial period has already been successful

Q&A.
GM Europe (GME)
- sales operations in 26 countries
- ten production and assembly facilities in 7 countries

Brands
- Opel, Vauxhall, Saab, Cadillac, Chevrolet, Daewoo

GM Latin America/Africa/Mid-East (GMLAAM)
- manufacturing and assembly operations in 11 countries

Brands
- Buick, Cadillac, Chevrolet, GMC, Suzuki, HUMMER, Opel, Saab,

GM Asia Pacific (GMAP)
- Automotive facilities and sales operations in 15 countries.

Brands
- Buick, Cadillac, Chevrolet, Daewoo, Holden, Isuzu, Opel, Saab, Subaru, Suzuki, Wuling

GM North America (GMNA)
- Designs, manufactures and markets vehicles for the U.S., Canadian, Mexican, Puerto Rican, Central American, and Caribbean markets
- Aftermarket products and services
- 100 manufacturing, assembly and warehousing facilities

Brands
- Buick, Cadillac, Chevrolet, GMC, HUMMER, Oldsmobile, Pontiac, Saab, Saturn