

## CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN DAIMLER AND CHRYSLER

In January 1998, Jürgen Schrempp, CEO of Daimler-Benz A.G., approached Chrysler Corporation's chair and chief executive officer (CEO), Robert Eaton, about a possible merger, acquisition, or deep strategic alliance between their two firms. As Schrempp argued:

The two companies are a perfect fit of two leaders in their respective markets. Both companies have dedicated and skilled work forces and successful products, but in different markets and different parts of the world. By combining and utilizing each other's strengths, we will have a preeminent strategic position in the global marketplace for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders.<sup>1</sup>

Schrempp recounted later:

I just presented the case, and I was out again. The meeting lasted about 17 minutes. I don't want to create the impression that he was surprised. When the meeting was over, I said, "If you think I'm naïve, this is nonsense I'm talking, just tell me." He smiled and said, "Just give me a chance. We have done some evaluation as well, and I will phone you in the next two weeks." I think he phoned me in a week or so.<sup>2</sup>

Independently, Eaton had concluded that some type of combination of Chrysler with another major automobile firm was needed. The firm was currently financially healthy, but industry overcapacity and huge prospective investment outlays called for an even larger type of global competitor. Before seeing Schrempp, Eaton had polled investment bankers for their ideas about a major automotive merger, and had spoken with executives from BMW on this topic.

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<sup>1</sup> Press release, Daimler-Benz A.G., 6 May 1998.

<sup>2</sup> "Gentlemen, Start Your Engines," *Fortune* (8 June 1998): 140.

Eaton replied positively to Schrempp's idea of an industrial combination. Now the task of forging the details of the agreement to combine lay ahead. Robert Eaton appointed a small task force of business executives and lawyers to represent Chrysler in the detailed negotiations. Eaton challenged this team on several counts: exploit the benefits of combination; preserve and strengthen the Chrysler brands; minimize the adverse effects of combination on employees and executives; and maximize shareholders' value. Eaton reflected on the variety of terms the Chrysler team might seek and immediately convened a meeting to begin planning the team's negotiation strategy. Eaton said,

My number-one criterion is that [any deal] has got to be a long-term upside with no negative short-term impact. It's got to be good for the shareholders. That's my—and my board's—fiduciary responsibility.<sup>3</sup>

### **Chrysler Corporation**

In 1920, Walter P. Chrysler, a multimillionaire and the president of Buick at age 45, stormed out of the head office of General Motors with the idea of starting his own car company. The Chrysler Corporation was officially launched in 1924 with the introduction of the Chrysler Six and rapidly grew to become the third largest automaker in America. While Chrysler managed to survive the Great Depression intact, labor problems and rampant mismanagement brought the company to the brink of financial ruin multiple times (for example: 1956, 1965, and 1993), but most notably in 1980. Under the leadership of Lee Iacocca and with the support of federal loan guarantees, Chrysler managed to turn itself around one more time, returning to profitability in 1982. While the late 1980s proved tough for the industry as a whole, the introduction and meteoric rise of the family minivan (a market controlled 47% by Chrysler as of 1996), coupled with the 1987 acquisition and subsequent exploitation of the Jeep brand name, left Chrysler the envy of the U.S. auto market by the mid-1990s. As *Fortune* magazine stated in late 1996, "If a vehicle is in demand and generates high profit margins, you can bet Chrysler's making it."<sup>4</sup> While Chrysler's success and relatively conservative management style attracted praise from industry observers, it also attracted the attention of Las Vegas billionaire Kirk Kerkorian, who with the help of retired Lee Iacocca, mounted a hostile bid for Chrysler in 1995. The (U.S. dollar) \$55 per share (\$27.50 today following a 2-for-1 stock split in 1996) not only failed to win the approval of Chrysler's board, but also turned out to be largely unfinanced, leaving Chrysler to continue under its current management.

### **Chrysler products**

Chrysler focused heavily on trucks in its product offering. In 1997, trucks, including minivans, accounted for about two-thirds of Chrysler's vehicle sales in the United States and cars accounted for about one-third. Chrysler's trucks included sport-utility vehicles, such as the Jeep

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<sup>3</sup> John Pepper, "Why Eaton Cut the Deal," *Detroit News*, 7 May 1998, <http://www.detnews.com>.

<sup>4</sup> Susan E. Kuhn, "Auto Stocks: Today's Big Steal," *Fortune* (25 November 1996): 204–205.

Wrangler, Jeep Cherokee, and the Dodge Durango; pick-up trucks such as the Dodge Ram; and minivans such as the Plymouth Voyager.

One of Chrysler's most successful products was the minivan, which Chrysler invented in 1983. Dodge Caravan/Plymouth Voyager, the world's most successful minivan, was first introduced in 1984. Chrysler dominated the segment from that time on. In 1997, minivans accounted for about one-third of Chrysler's truck sales. Chrysler's profitability was high in the sport-utility market despite increased competition from new products, especially at the top and bottom ends of the market.

Chrysler's cars were sold under the Chrysler, Dodge, and Plymouth brand names. Chrysler's larger cars (such as the Stratus) were priced similarly to those of Mercedes-Benz's lower-middle-class cars (in size), namely the C-Class. While Chrysler's cars were much larger and more powerful than the Mercedes version of comparable price, they lacked Mercedes's attention to detail in manufacturing and brand image. At the bottom end of the range, Chrysler offered the Dodge/Plymouth Neon.

### **Chrysler's product development and manufacturing strategy**

Chrysler was best known for its short cycle of concept-to-market for new products, low development costs, efficient plants, good supplier relations, and creative styling. Vehicle development time for Chrysler declined to 24 months in 1996 from 60 months in 1988. The efficiency in the product development process could be mainly attributed to platform teams—autonomous groups that consisted of all the professionals required to design and produce a new car—which were introduced by Chrysler in 1989. Chrysler's innovation was to put all the engineers and designers assigned to a specific project together on a single floor, along with the representatives of marketing, finance, purchasing, and even outside suppliers and to grant them considerable autonomy. Close contact kept the teams fast and efficient. The teams used target pricing, in which the cost of the car was determined at the beginning of the process, not at the end. Chrysler had consistently performed better than its targeted time and budget goals. The system worked so well that in 1991, Chrysler dissolved most of its functional groups and reassigned its members to four platform teams—small car, large car, minivan, and Jeep/truck. Harbour & Associates, a consulting firm in Troy, Michigan, estimated that Chrysler's research and development (R&D) cost per vehicle was \$550, compared to over \$2,000 per vehicle for Mercedes.

Since 1989, Chrysler had narrowed its supplier base from 2,500 companies to 1,140 and had fundamentally changed the way that it worked with those that remained. Suppliers were offered long-term contracts, were involved in the design process for new cars, and were encouraged to make cost-saving suggestions through an initiative called SCORE (supplier cost reduction effort) introduced in 1989. This initiative yielded \$2.5 billion in savings from its inception until the time of

this case.<sup>5</sup> As a result, Chrysler was the least vertically integrated of the big three U.S. automakers. It purchased 75% of its components, versus 50% at Ford and 30% at GM in early 1998.<sup>6</sup>

Unlike the other U.S. auto manufacturers, which had improved the bottom line almost entirely by cutting costs, Chrysler's profits surged by introducing new models. Its vehicle lineup was known as one of the most innovative in the industry. The LH series (Chrysler Concorde, Dodge Intrepid, and Eagle Vision), introduced in the 1993 model year, was Chrysler's first new car platform in a decade. These cars were very well received in the marketplace and were widely credited with contributing to Chrysler's latest financial turnaround.

### **Chrysler's international strategy**

In the 1990s, Chrysler substantially internationalized its sales. International vehicle sales (sales outside North America) rose from less than 50,000 units in 1990 to 237,060 units in 1997, but still accounted for less than 10% of Chrysler's total unit sales. The Jeep name was invaluable to Chrysler's gradual international spread, due to the appeal and name recognition that Jeep enjoyed in most parts of the world. Chrysler's American Motors acquisition in 1987 included Jeep.

Latin America was the focus of Chrysler's geographic expansion. Sales of its products increased by more than 100% in that region from 1996 to 1997. Venezuela, with retail sales of 20,716 units, was the number-one Latin American market for Chrysler, making Chrysler fourth in market share in that country behind Toyota, GM, and Ford. The automaker produced the Jeep Grand Cherokee, Cherokee sport-utility vehicles, and the Neon passenger car at its Carabobo Assembly Plant in Valencia, Venezuela, for local distribution and export to Colombia and Ecuador. In 1998, Chrysler planned to open a new 950,000-square-meter manufacturing facility in Curitiba, Brazil, to assemble the Dodge Dakota pickup truck, adding Jeep Cherokee production to the Cordoba plant in Argentina, opening a parts warehouse/technical training center in Buenos Aires, Argentina, and breaking ground on a \$500 million joint-venture engine plant with BMW in Brazil. The 40,000-square-meter engine plant was to be an adjacent facility to the Dodge Dakota assembly plant. Because the range of import duties for Venezuela, Argentina, and Brazil was 60% to 70%, Chrysler opted to produce vehicles in those countries, contrasting with the industry's general preference to establish an international presence via importing its domestically produced vehicles.

Chrysler had been completely absent from Europe for many years. Since it came back in 1990, it was very successful with the Voyager, which was built in Graz, Austria, for the European market. Chrysler was still far from the leadership position that it had held in the U.S. minivan market. Leading minivan manufacturers in Europe were Ford and Volkswagen (VW), which accounted for about one-third of European minivan sales in 1997, and Renault, which surpassed Ford and Volkswagen in 1998 by adding the stretched Grand Espace to its product

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<sup>5</sup> Debra Walker, "Supply Chain Collaboration Saved Chrysler \$2.5 Billion and Counting," *Supply Chain Management* (August 1998): 60.

<sup>6</sup> These data are drawn from a table titled "Estimated Levels of Integration and Production Parts Purchasing," *Automotive News Europe*, 19 January 1998.

line. Ford and Volkswagen sold three basically identical models—Ford Galaxy, VW Sharan, and Seat Alhambra—produced in a joint venture factory in Portugal. Chrysler's overall market share in Europe was still only 0.7% in 1997, partly due to the lack of car models for the European market. The Vision/Concorde/Intrepid was too large for Europe, the Stratus had attracted mainly buyers for the four- to five-passenger convertible, and the Neon had too many popular European competitors. Another primary reason for Chrysler's comparatively modest impact on the European market was its still rather thin sales network.

### **Daimler-Benz A.G.**

Gottlieb Daimler and Karl Benz were two German rival carmakers at the turn of the century. While both Daimler and Benz achieved individual success in the early 1900s, the challenge of rebuilding Germany after World War I, as well as competing with the burgeoning Ford Motor Company, led the two companies to merge in 1926 to form Daimler-Benz. While the company shifted to military production during World War II, Daimler began manufacturing cars again in 1947. By the 1980s, Daimler and its Mercedes brand had become synonymous with premier quality and craftsmanship. Flush with success, Daimler began a program of diversification in the mid-1980s, intending to transform the company into a self-described "integrated technology group" with product lines ranging from transportation to aerospace to microelectronics to white goods. Unfortunately, a string of largely unprofitable acquisitions in the late 1980s left Daimler unfocused and inefficient, culminating in a staggering (German deutsche marks) DEM5.7 billion loss for 1995 (the largest peacetime loss ever by a German company). Under the direction of new chief executive officer (CEO) Jürgen Schrempp, Daimler began to shed unprofitable business units, to return the company to its core business of making high quality automobiles, and to move towards a more "American style" of management designed to enhance shareholder value. By 1997, the company had returned to profitability with record sales.

### **Daimler-Benz diversification under Reuter**

Under Chair Edzard Reuter, who took office in 1987, Daimler undertook a series of acquisitions, amounting to an estimated \$6.2 billion, that turned Daimler-Benz into one of the world's biggest industrial conglomerates. Reuter reorganized the company into a holding structure with four separate companies in 1989: Mercedes for cars and trucks; Dasa for Aerospace; Daimler-Benz InterServices (Debis) for financial and computer services; and AEG for engineering. To refocus the company from defense to civilian aircraft, Dasa, under the leadership of Jürgen Schrempp, acquired 51% of the money-losing Dutch Fokker Company, a maker of short- and intermediate-range propeller and jet passenger planes, in 1993.

During Reuter's leadership, Gerhard Liener, Daimler's chief financial officer (CFO), pushed for a listing of the company on the New York Stock Exchange (NYSE), which necessitated publishing the company's returns under American accounting rules. These accounting rules required Daimler to report on current operations, which revealed a huge

operating loss of \$3.3 billion in 1993. Of the four holding companies, only Debis reported a profit. Reuter faced a barrage of criticism, especially as the new companies remained the loss-makers while Mercedes-Benz swung back to big profits in 1994. Jürgen Schrempp replaced Reuter as chair in 1995.

### **Jürgen Schrempp**

Jürgen Schrempp was born in the western German city of Freiburg in 1944. Following his school education, he joined Daimler as a motor mechanic apprentice at the Mercedes-Benz Freiburg branch in 1967. He later went to the university to train as an engineer and returned to Daimler-Benz. From 1967, Schrempp worked in a number of different areas at Daimler-Benz A.G. In 1974, he was appointed to the management team of the South African subsidiary, Mercedes-Benz of South Africa, initially in the Service Division and, after 1980, as the board member responsible for engineering. In 1982, Schrempp took over as the president of Euclid, Inc., of Cleveland, Ohio, at the time a 100% subsidiary of Daimler-Benz A.G. and manufacturer of heavy-duty trucks. Schrempp told headquarters that it would cost too much to fix the unit and recommended its sale. The board took his advice, and after Schrempp successfully divested the unit, he returned as vice president, in 1984, to Mercedes-Benz of South Africa. In 1985, he was appointed president of the South African subsidiary. Two years later, he was called back to Stuttgart, Germany, to join the Daimler-Benz management board and to head the Daimler-Benz aerospace subsidiary. He orchestrated the purchase of the Dutch aircraft maker Fokker, as part of Reuter's diversification program, a move that later on turned out to be a mistake.

### **Daimler-Benz restructuring under Schrempp**

When Schrempp took charge, cuts in defense spending were hurting the aerospace unit's military operations. Meanwhile, airlines were canceling commercial aircraft orders to be competitive in the deregulated airline market, thus effectively pinching the Airbus operation. More than 300 supposedly firm orders were cancelled in late 1994 and early 1995. This represented more than half of the company's backlog and the equivalent of about 30 months' production. The worldwide truck business was slumping and Mercedes auto operations had not yet recovered from the early 1990s onslaughts of Lexus and Infiniti.

During his tenure as chair, Schrempp proved to be a master of boardroom politics; he could make decisions quickly and was willing to take risks. He focused on shareholder value, something that was not typically done by European companies. Daimler's top executives were not in the habit of putting their stockholders first. To sell the idea of shareholder value, Schrempp started calling colleagues at random and asking them for Daimler's current stock price. At first, he said, "Seven did not know and three were wrong. Nowadays they can tell me." Schrempp instituted the rule that every single business at Daimler had to achieve a 12% return on capital (ROC) or be capable of achieving a 12% ROC in the foreseeable future. If it could not, it would be sold. Such a rule was very uncommon for German companies. This rule resulted in a reduction of the total number of businesses from 35 to 23. Major divestitures were the sale of the company's unprofitable electrical engineering business (AEG), and the closure of the aircraft

maker, Fokker. In addition, Schrempp demanded superior performance from the rest of the company's units. Despite the resistance of the strong German unions, he reduced the workforce by 10%.

In the beginning of 1997, Schrempp reorganized Daimler-Benz into five divisions that contained 23 business units. The divisions were passenger cars, commercial vehicles, aerospace, services, and directly managed businesses (rail systems, automotive electronics, MTU/Diesel engines).

Critics in Germany said that Schrempp was a renegade supporter of Anglo-Saxon corporate ethics, who put Daimler-Benz's share price before the welfare of workers and disrupted the long-standing social contract between employers and labor by destroying thousands of jobs and squeezing pay and benefits. Schrempp's relations with labor were difficult. His most famous clash with employees came over their sick benefits, which he attempted to cut back in 1996. The decision, not followed by other companies, triggered such an uproar he was forced to back down. On the other hand, Schrempp won praise from investors. So far, the results of the restructuring had been impressive. As shown in Table 1, after a record net loss in 1995 of \$3.17 billion, one of the biggest annual losses in European corporate history, Daimler posted profits of about \$1.6 billion for 1996 and \$1.8 billion before a tax credit in 1997.

Table 1. Daimler-Benz's operating profits and revenues by division.  
(in millions of DEM)

	1997		1996	
	Operating Profit	Revenues	Operating Profit	Revenues
Passenger cars	3,132	53,892	3,090	46,652
Commercial vehicles	481	39,140	(354)	32,152
Aerospace	432	15,286	(196)	13,053
Services	457	15,498	288	13,143
Directly managed businesses	(129)	7,555	(585)	8,014

**Daimler-Benz aerospace segment**

In the aerospace business, Daimler became more productive and efficient. Three of ten plants were closed, and new production methods helped to reduce cycle time between plane order and delivery by 50%. Schrempp also decided to stop financing the company's struggling Dutch airline maker, NV Fokker, and write off the entire investment. In the process, Schrempp proved to be a master of boardroom politics. He acknowledged his role in buying the company a few years earlier and asked for a vote of confidence from the board. The board backed him in full. "I am the first top man who has blown out DEM2.3 billion [by investing in 51% of Fokker]

and who says without a doubt, this was my fault. While other managers have been fired for DEM50 million, I'm still here. And I think I'm not even arrogant—just very self assured.”<sup>7</sup>

In addition, Airbus started a new effort to capture market share from the world leader Boeing. Key to that plan was to enlarge the Airbus family of planes, bringing out new models that ate into categories where Boeing now had an effective monopoly. This new strategy, combined with strong airline orders and the weak German deutsche mark, resulted in Airbus's recovery. In 1997, orders rose nearly 50% to an all-time high of 460 planes, valued at nearly \$30 billion, giving Airbus 45% of the world market. As a result, Daimler's Benz's aerospace division (DASA) reported 1997 operating profits of DEM432 million on revenues of DEM15.286 billion after posting losses in 1995 and 1996.

### **Daimler-Benz commercial vehicle segment**

When Schrempp took control, the truck business had been hurt by a combination of weak European markets, fierce price competition from Volvo and Scania, Daimler's outmoded truck and bus designs, and the company's high-cost production methods. In Europe, Daimler addressed these problems through the production of a series of new heavy-duty trucks, lighter trucks, and vans. In addition, the company went face to face with its unions, stretching the boundaries of Germany's collective bargaining agreements to the limit to negotiate productivity agreements on a plant-by-plant basis.

Many truck operations were relocated to places like Turkey and Brazil, so that roughly one-half of all Daimler truck production moved outside Germany. Daimler's U.S. truck operation, Freightliner, was in a different position. The company had been boosting market share since the early 1990s. Freightliner's share in the North American market in heavy-duty Class 8 tractor-trailer cabs rose from 23% in 1995, to 29% in 1996, and 30% in 1997. The aim was to increase the share to more than 40% by 2000. That effort was helped by the 1997 purchase of Ford Heavy Trucks. The decision to buy Ford's heavy-duty truck operations took only two weeks. “Under the previous system it would have taken six to eight months,” said Schrempp.<sup>8</sup>

### **Daimler-Benz passenger car segment**

The automotive division was hurt in the early 1990s by the new luxury cars introduced by Toyota's Lexus, Honda's Acura, and Nissan's Infiniti. These cars compared in quality, comfort, and styling to Mercedes cars, but they cost much less. Part of the price difference was due to exchange rates, which gave the Japanese a temporary advantage. Germany's high labor costs hurt Daimler too. At more than \$30 an hour plus benefits, the country's labor cost was the world's highest. Daimler also suffered from antiquated and inefficient production methods. By one account, while it took 20 hours to build a Lexus, it took between 60 and 80 hours to make a

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<sup>7</sup> Andrea Rothman and Rupert Spiegelberg, “Flamboyant Daimler Executive Is Famous for His Risk-Taking,” *Seattle Times*, 7 May 1998, D1.

<sup>8</sup> Greg Steinmetz and Brandon Mitchener, “Under Schrempp, Daimler Switches Focus to Cars, Profit,” *Wall Street Journal*, 7 May 1998, B1.

Mercedes. The wakeup call from Japan was not ignored by Mercedes, but there was considerable resistance to change at the top, and progress was slow. One of Schrempp's first moves after being appointed chair was, like the truck operations, to face down the powerful unions and hammer out new plant contracts that would boost productivity and cut costs.

### **Car-segment growth strategy and models**

Mercedes-Benz specialized in top-quality luxury vehicles, and even the company's middle-class cars were choice models, costing more than comparably sized competitors. Schrempp was convinced that, to survive, Mercedes had to grow. Growth, he figured, meant expanding downmarket. The basic aim was to lessen the company's dependence on pricey models like the S-class. Mercedes's strategy was not to enter the mass market, but rather to establish premium niches within every part of it—a niche for people who would pay premium prices for prestige and perceived quality. In essence, Mercedes was trying to enter the mass market without becoming part of it, a feat that the company had managed to pull off with its C-Class, which was unveiled in 1982. With that example in mind, Schrempp put his authority behind the M-class sport-utility vehicle, the A-class town car, and the Smart car joint venture with Swatch. In addition to that, he extended the existing product lines in the E-class, the C-class, and the S-Class by introducing new models. As Schrempp saw things, the common factor with all those cars was that they served not the mass market, but a niche of people who were prepared to pay extra for perceived quality and the Mercedes name. That, he figured, offered some protection from down auto cycles.

The M-class sport-utility vehicle, built in Mercedes's facility in Tuscaloosa, Alabama, and opened in 1997, had a list price starting at about \$35,000 and competed with the likes of the Ford Explorer and the Jeep Grand Cherokee. This facility was Mercedes's first major foray into car making outside Germany. The M-class was very successful from its launch in late 1997. In early 1998, a potential buyer had to wait up to eight months for delivery. There were plans to increase the production capacity of the Alabama plant by 20% in 1999, from 65,000 to 80,000 units a year, with some designated for export to Europe.

The A-class, a small commuter car that thus far had only been marketed in Europe, was surrounded by controversy from the beginning. It was the least expensive Mercedes to date (at about \$14,000), it was small, and had only an 82-horsepower engine. Most of the controversy stemmed from the fact that the car failed to pass the so-called Elk test performed by Swedish auto journalists: a no-brakes, high-speed, violent swerve to simulate avoiding a large animal that had wandered out on the highway. The front-wheel-drive car flipped over, threatening Daimler with a huge marketing disaster. At the news, Daimler's stock dropped by 25% to a low of \$63, and the company was forced to back down from blaming the journalists. Schrempp put together a task force of what he called "our most brilliant people" to come up with a solution. Nineteen days later, they released a plan that included a halt on all A-class sales and a change in the car design to lower the chassis, put on wider tires and install "electronic stabilizing runners" on the inside of the wheel, at a cost of \$200 million. By January 1998, after the changes had been made, the car passed the test and sales resumed. Daimler estimated that it could sell the 150,000 A-class cars that it could make

in a year. After Daimler fixed the problems with the A-class and posted healthy 1997 results, the shares recovered and resumed their ascent. Schrempp knew he was walking a tightrope: “If we make a mistake, it would not only affect the profitability of the A-class, it would have a negative impact on Mercedes generally.”<sup>9</sup> By 1999, Mercedes hoped to be producing 200,000 A-Class vehicles in Germany and another 70,000 in a new \$400 million plant in Brazil.

The Smart car, being built by Daimler, was the product of an 81/19 percent joint venture of Daimler-Benz and SMH A.G., the Swiss maker of Swatch watches. The car was a tiny two-seater designed for city use. It was never expected to sell in the United States. This car would be built in a new factory in France, with an annual capacity of 200,000 units.

Daimler had also introduced a stream of new models, including the new E-Class, wagons for the C-Class, and the new SLK, a small roadster, which had a steel roof that retracted into the trunk. This car, which sold for \$40,000, followed BMW’s Z3 and Porsche’s Boxster to open up a completely new sports car niche in the United States—somewhere between the \$20,000 Mazda Miata and a \$70,000 Porsche 911. The SLK pursued a more youthful image for Mercedes. Waiting lists for this car were as long as two years in the middle of 1997. In 1997, Daimler introduced its CLK coupe, followed by a CLK convertible. In 1998, Daimler expected to introduce an all-new luxury S-Class model, followed perhaps in 2001 or 2002 by the Maybach, an even more luxurious car that (the prototype suggested) could come with such features as a hot- and cold-drink bar, an in-car personal computer, and a large-screen TV.

Passenger car sales by model and by geographic area are shown in **Table 2**.

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<sup>9</sup> Paul Klebnikov, “Mercedes-Benz’ Bold Niche Strategy,” *Forbes* (8 September 1997): 68.

Table 2. Daimler-Benz passenger car sales, 1997.

	Units (000)	% Change from 1996	Price Category
World	715	11	
of which: A-Class	7		\$14,000
C-Class	349	24	\$35,000
of which: CLK	22		\$40,000
SLK	47		
E-Class	277	-5	
S-/SL-Class	63	-8	\$65,000
M-Class	16		\$34,000
G-Class	3	-23	
Europe	477	8	
Western Europe (excluding Germany)	194	11	
Germany	277	5	
North America	130	40	
USA (retail sales)	122	35	
Latin America	7	11	
Far East (excluding Japan)	28	-7	
Japan (new registrations)	42	2	
Middle East	9	1	
Republic of South Africa	12	-18	

In 1997, global automotive sales increased by only 3%; however, Daimler's sales increased by 11%, one of the biggest increases of any major automaker. This success was primarily due to the market success of the new vehicles and favorable exchange rates.

### Daimler-Benz car segment design and production

To achieve its goal of producing cheaper cars without penalizing profitability, Daimler was breaking the rules on how to succeed in the automobile business. Conventional wisdom suggested that automakers should reduce the number of different platforms on which they built their different chassis. That was what Toyota, Chrysler, and VW had done. But Mercedes was producing a new platform for each of its new car lines and expected money on each at a production level that was below the breakeven point for the bigger full-line manufacturers. By sharing platforms, "it is certainly cost-effective, but I don't think it's the way to do it. If you just put a different body on the same base, all you are doing is fooling customers. That's not the way

to win sales,” said Schrempp.<sup>10</sup> Daimler-Benz reduced its level of vertical integration, but at 40%, it was still more vertically integrated than Chrysler at 25%.

**Daimler-Benz car segment’s international strategy**

Daimler sold its cars worldwide and had a global distribution network. As depicted in **Table 3**, it was also increasingly locating automotive production outside Germany. More than two-thirds of Daimler’s total revenues originated outside Germany, and more than one-third of its stock was held internationally.

Table 3. Vehicle operations by geographic area.

	<b>Production Locations</b>	<b>Sales Organization Locations</b>	<b>Revenues (in millions DEM)</b>	<b>Personnel</b>
Europe	21	3,435	55,966	171,778
North America	10	655	19,190	15,321
South America	4	468	4,683	13,128
Africa	3	272	3,077	3,815
Australia/Oceania	1	186	1,044	682
Asia	7	931	7,672	2,618

**Ownership of Daimler-Benz’s equity**

Deutsche Bank had cut its interest in Daimler from 28% to 21.7%. Deutsche Bank had at times taken the lead in strategic decisions at Daimler. It engineered the appointment of Edzard Reuter as chair of Daimler’s management board in 1987, and supported Daimler’s diversification strategy in the 1980s. German institutional investors held about 48% of Daimler’s shares. The Emirate of Kuwait owned about 13%.

Unlike the single boards found in the United States, German companies had a management board (*Vorstand*), composed solely of executives charged with a company’s day-to-day operations, and a supervisory board (*Aufsichtsrat*), which represented a company’s largest shareholders and its workers and oversaw the management board. The system gave each board certain checks and balances so that neither dominated the firm.

**Daimler-Benz labor unions**

Germany had a dual system of worker representation. At the company level, workers had the right to participate in management’s decisions. Under the German system of codetermination, almost half of the seats of the *Aufsichtsrat* had to be filled with labor representatives in large enterprises. While they could be outvoted in the supervisory board, their access to information

<sup>10</sup> Jay Palmer, “Shake-Up Artist: Daimler-Benz Chairman Jürgen Schrempp Has Knocked the Dust off Mercedes, Restoring Hope for European Manufacturers,” *Barrons* (23 March 1998): 35.

and decision-making gave them a stronger hand in labor negotiations. Worker councils (*Betriebsräte*) also represented the interests of the workers at the company level. They had a voice in social and personnel matters.

At the national level, 17 large labor unions, which were organized on an industry basis, were primarily responsible for industry-wide collective bargaining of wages and salaries and other matters, such as shortening the workweek and vacation time. IG Metall, the powerful metalworkers' union, which had 2.7 million members, represented automobile industry workers.

Compared with other countries, the collective bargaining process for wages was accompanied by relatively few strikes in Germany. Reasons contributing to this low strike rate were the existing conflict-resolution mechanisms; German labor law, which obliged management and labor groups to seek peaceful solutions to conflicts; and generally cooperative relationships between capital and labor.

### **Executive Compensation**

Compensation for German executives was significantly lower than for their American counterparts. Executive pay in German firms had to be reviewed by the supervisory board of a company. In addition, German companies were not required to disclose executive pay to the same extent as U.S. companies (as required by the U.S. Securities and Exchange Commission). Daimler disclosed pay only on an aggregate basis, and reported that in 1997 the ten executives on the management board received total remuneration of DEM20 million,<sup>11</sup> or \$11.3 million at a recent exchange rate of DEM1.77 to the dollar. Schrempp currently made about \$2.5 million a year. By comparison, Chrysler chair and CEO Robert Eaton made \$16 million in 1997.

Under Schrempp, Daimler was the first German company to offer stock options to its executives. The union members on the supervisory board opposed Schrempp's decision to offer stock options to management, but Schrempp prevailed with an 11-to-9 vote within the board. Another proposal, to create an incentive pay plan that rewarded employees based on their contribution to overall profits, passed more easily. All 150,000 Mercedes workers would qualify for a bonus.

### **Trends in the Global Automobile Industry**

As of early 1998, recent events suggested that the competitive landscape of the automobile industry had changed permanently. While the announcement of alliances and mergers was a steady occurrence over the years, the nature and frequency of these deals had become more intense. Price Waterhouse estimated that worldwide in 1997, auto firms struck 750 mergers or alliances with a total value of \$28 billion. Consistent with both the airlines and the telecommunications industries, there was a more assertive attempt to consolidate players in the

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<sup>11</sup> Daimler-Benz 1997 Annual Report, 80.

industry, thereby creating a new form of competition—the truly global car company. Only a small number of automakers, such as Toyota, Volkswagen, Ford, and GM, had the capability to go global without major acquisitions. These first-tier firms could pursue a worldwide strategy by buying smaller producers with recognized name brands. The mantra became, “If you wish to succeed, you have to be worldwide.” Standard & Poor’s DRI predicted that, over the next 10 years, there would be a reduction in the number of international producers, with the current 39 being reduced to about 20 major companies.

Car manufacturers had operated internationally for many years. They had exported models to other countries, assembled and engineered cars and trucks for foreign markets, and sourced from non-U.S. suppliers for years. In addition, these firms had taken equity stakes in numerous foreign partners. The list included, for example, Ford and Jaguar, Ford and Mazda, GM and Saab, GM and Suzuki, and BMW and Rover. Yet efforts to form truly global companies were different. Simply put, there were few successes at building and distributing a *global car*. The motivations driving Chrysler and Daimler-Benz extended beyond the development of a global car. Typically, consolidation was driven by a series of factors.

These factors were all responses to the pressures of a dynamic, changing industry. It was too simple to say that the world was changing. There were relentless cost and time pressures, where the design and introduction of new and innovative models had to be completed in shorter time periods and less expensively. Other factors adding to the complexity included: consumer tastes were changing; the Internet lowered barriers to information transfer; product introduction and commonality among processes and products became the path to the bottom line.<sup>12</sup> At the extreme, there was talk about the era of the virtual customer who was integrated into a manufacturing process that was fed by global suppliers and that fed into worldwide distribution. There were, however, a number of recent trends that appeared to lie at the heart of the recent consolidation wave.

### **Overcapacity**

The industry was plagued by excess capacity. Through consolidation, assembly plants could be rationalized, carmakers in Western Europe already had the capacity to produce 30% more cars than they could sell.<sup>13</sup> The result was idle equipment, wasted investments, underutilized workers, and subnormal returns. The tension around those conditions created the political pressure against shutting domestic plants, laying off workers, and searching for lower-cost labor and manufacturing sites in developing countries. Ironically, that movement of manufacturing toward developing countries partly exacerbated the problem of excess capacity. Many of the plants (for example, those in Asia) had been built with the government’s blessing as an attempt to promote manufacturing and to create fairly high-paying jobs, not to mention that a homegrown auto industry was a manner of national pride. Emerging economies, like Brazil, saw an automotive industry as a means to increase its ability to export products and stimulate internal

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<sup>12</sup> David Smith, “U.S. Automakers Take a New Spin; the World Has Changed and So Have They,” *Ward’s Auto World* 34, 3: 38.

<sup>13</sup> Anne Swardson, “European Carmakers’ Traffic Jam,” *Washington Post*, 10 September 1998, C1.

growth. Yet a number of the smaller companies in Asia particularly were at risk, like Kia and Hyundai. While not acquisition targets per se, both were likely to be sought as joint venture partners. Many believed that the consolidation would take out capacity, which in turn would reduce the pricing pressures caused by the worldwide excess production capacity.

### **Development costs**

The costs associated with all aspects of new model development made it very difficult for a small manufacturer to survive, since these costs were allocated over a smaller volume of cars. Development costs included design and tooling, emissions engineering, electronics, and manufacturing process design. Other nonproduction costs associated with manufacturing included the expense of linking suppliers and dealers electronically and on a global basis. Attempts to shorten the production and the design cycles would pay off over time but would also require a substantial initial investment. A dramatic redesign of a car could include the use of lighter weight materials, the use of alternative fuel sources, and changes to both the engine and the braking system. The price tag for those changes would worry even the largest companies.

### **Sourcing and supply-chain costs**

In part, the consolidation in the industry was driven by a desire to lower the costs of purchased materials by combining purchasing functions and exercising greater power as a result. Typically, firms attempted to reap price concessions from suppliers based on sheer volume. Beyond the savings that accrued through volume, there were gains to be made in the use of common parts. When Chrysler began purchasing the same air-bag part from Robert Bosch (who previously supplied Mercedes), the cost to both fell 40%, since Bosch could now justify dedicated production in Mexico. Smart sourcing also had a component that affected the revenue side of the equation. By working more closely with key suppliers, carmakers could leverage their suppliers' expertise and other sources of competitive advantages. Honda, for example, attributed significant gains in its ability to design and produce new models at lower costs to the input and expertise of its key suppliers.

### **Market access and product diversity**

The ability of niche manufacturers to survive over the long term was limited by both geography and the narrow focus of their product line. At the core of merger discussions in the automotive industry of the 1990s was the notion of complementarity and the potential partners' ability to fill gaps in both markets and products. One assumption was that only full product line, global producers would survive. Market access was affected by both existing distribution networks and the national policy dictating the manner in which a foreign automaker might enter the host country. In some instances, local production might be required, or there might be rules regarding a certain percentage of local content in the cars sold. Although the merger failed, part of the rationale for the Volvo-Renault marriage was a complementarity in market presence. In addition, the product lines did not overlap much and on the surface seemed to fill gaps in the other's offerings. BMW was attracted to Rover, because its products broadened its product

offering without diluting the upmarket BMW image with smaller cars and sports-utility vehicles. BMW's strategy was to encourage Rover's Britishness with big investments in the United Kingdom, while sharing parts and improving quality and distribution.<sup>14</sup>

### Legal and financial considerations

It was likely that the consolidation among companies would provide access to capital and capital markets that might have been limited because of either regional biases or size considerations. To be global in scope and size not only bestowed more favorable rates on the issuance of stock or debt, but also broadened the range of available financial markets. For instance, as a benefit of consolidation, a foreign-based company might trade in the United States as a global stock rather than through the use of ADRs that carry both complex regulatory issues and often added expense. The point was that such global firms set the pace for the globalization of the equity markets. In addition, a second-order effect was the governance structure of the newly consolidated company and the question of which country's laws would take precedence. There might be less governmental control over how the newly formed global firm behaved as compared to when the individual companies were separate entities. To some extent, competing on the world scene might reduce the regulatory power/influence of local national governments.

For Chrysler and Daimler-Benz, there were a number of gains to be achieved through their merger. **Table 4** summarizes the advantages to both. The question remained whether each gained equally. Although Schremp and Eaton contemplated a merger of equals, creating the third largest automaker in the world, Daimler-Benz might appear to be the more senior partner because of its size.

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<sup>14</sup> Brandon Mitchener, "BMW-Rover Deal Offers Clues to Future Daimler-Benz," *Wall Street Journal Interactive*, 29 May 1998.

Table 4. Potential benefits to both Chrysler and Daimler-Benz.

BENEFITS TO CHRYSLER	SHARED BENEFITS	BENEFITS TO DAIMLER-BENZ
<ul style="list-style-type: none"> <li>• Boosts nonexistent position in Europe</li> <li>• Improved quality from D-B engineering</li> <li>• Gives a European manufacturing base</li> <li>• Might gain from luster of Mercedes name plate</li> <li>• Broadens line to luxury end</li> <li>• Uses some production capacity around the world</li> <li>• Improved technical capability, lowers warranty costs</li> <li>• Improved safety features available</li> </ul>	<ul style="list-style-type: none"> <li>• \$1.4 billion in pretax cost savings, expected in 1999; expected to grow to \$3.0 billion in 2001 and to grow at rate of inflation thereafter</li> <li>• Purchasing power</li> <li>• Better capacity utilization</li> <li>• Technology transfer</li> </ul>	<ul style="list-style-type: none"> <li>• Expands manufacturing and dealership operations in U.S.</li> <li>• Creates opportunity for joint development at lower costs</li> <li>• Expands production ability in the U.S.</li> <li>• Combines with trucks, the lighter lines from Chrysler</li> <li>• Helps align cost structure</li> <li>• Borrows creative styling</li> <li>• Jeep adds to the image for SUV (urban and rugged)</li> </ul>

**Strategic Alternatives**

As companies examined the options available to them to join forces and attempted to accomplish goals that would be difficult to achieve alone, there were a number of alternatives to consider. The automotive industry in recent years had witnessed a number of alliances (some in which equity stakes were taken and others where there was no exchange of ownership), joint ventures, mergers, and acquisitions.

**Mergers**

In a merger, companies (such as Chrysler and Daimler-Benz) agreed to an exchange of stock that resulted in the joint ownership of a new company. Typically, the two companies, in a friendly exchange of stock, combined to achieve cost savings through the elimination of redundant facilities and other mechanisms through which cost savings were gained. In addition, they often pursued opportunities that would be hard to achieve alone. Schrempp and Eaton expected, for example, to realize pretax cost savings of \$1.4 billion in 1999 through the exchange of components and technology, combined purchasing, and shared distribution networks. Eaton's staff believed that those synergies would grow to \$3.0 billion by 2001 and grow at the rate of inflation in the U.S. dollar thereafter. (Those synergies are *not* reflected in the exhibits that accompany this case.) There were also a number of other benefits that resulted from learning by both partners from each other and incorporating the best practices of both in the merged company.

## **Alliances**

Unlike a merger, an alliance combined separate companies for the purposes of the collaborative efforts delineated by the partners. However, the separate organizations remained autonomous businesses with each retaining its own governance structure and operating processes and principles. Joint activities, shared decision making, coordination of activities, open lines of communications, etc., were all part of the glue that held the alliance together. An alliance was a quasi-organizational form in which separate and distinct firms joined to accomplish goals that would be difficult to achieve alone. The challenge was to develop a management process to encourage the joint cooperative efforts of the partners. To the extent that one entered an alliance with a traditional "command and control" mentality, one would find that it could be difficult to accomplish one's ends. One cannot control what one does not own. Alliances, if properly formed and nurtured, could accomplish the same goals as one might in a vertically integrated firm, without the added cost burden. Alliances were collaborative ventures in which companies acknowledged their interdependence and acted in the interest of the alliance. Unlike a merged or acquired entity, there remained the possibility of opportunistic behavior whereby one partner acted in its own self-interest to the detriment of the other. That is, alliance partners had multiple tasks. They worked together to accomplish joint goals, but also maintained their individual agenda and objectives. When those different goals conflicted, the alliance suffered and the proposed advantages were lost. In that regard, alliances were quite fragile and subject to pressures and tensions not found in ventures where two or more firms relinquished their sovereignty to become one centrally managed and controlled organization with one set of goals. Although alliance contracts were likely to be used to formalize the terms and conditions of the relationship, alliances were held together by trust and commitment to the shared vision of the alliance partners.

## **Joint ventures**

Joint ventures (JV) were another form of alliance in which partners joined selected assets and formed a separate entity, which became jointly owned by the partners. One primary difference between JV alliances and the alliance forms discussed previously was the degree of embeddedness between the partners. JV partners had committed resources (for example: people, factories, dollars, technology) and these assets became commingled in the joint venture; thus, their ability to exit the relationship was often more tedious. Also, joint ventures tended to have more formal agreements between partners, based mainly on the fact that partners had formally commingled assets in this newly formed separate entity. There was a joint governance structure for the JV that was jointly administered by the partners, depending on their equity-sharing agreement. While most managers believed that they would prefer to be the dominant shareholder (for example: equity interest in excess of 50%), there was a compelling argument for equal equity-sharing joint ventures. This argument was based on the belief that equal shares in the JV would lead to a greater commitment and a willingness on the part of the partners to work hard to overcome problems in the JV. Again, the elements of trust and commitment were important and served to complement the joint venture agreement that nominally set the structure of the relationship.

Joint venture partners sometimes struggled in their ability to determine equitably the value of each partner's contribution to the alliance. For example, one partner might bring hard assets to the JV while the other brought intellectual capability, such as innovations, technology, knowledge of markets. The problem became how to determine a fair exchange rate. Simply, the question might arise: How many new ideas equal a factory worth \$5 million converted for the needs of the joint venture?

### **Preferred relationships**

Of the four relationship types discussed here, preferred relationships was the least formal and therefore the most volatile in the sense that it was viewed as more transactional in nature and more subject to the whims of the partners. Ties and linkages tended to be loose and viewed as shorter term in nature. For instance, parties might decide to trade with each other, and might do so for many years. The level of communication and the content of information shared, however, never went beyond the transaction at hand. In an alliance, as opposed to these more arms-length dealings, partners tended to exchange information germane to longer-term plans and strategic requirements over time. Preferred relationships suggested that, all things being equal, partners would continue to interact but there was a much less episodic nature to the relationship. Commitment to the relationship tended to be lower than in any of the other relationships mentioned above. Those kinds of relationships were often found between buyers and suppliers where one was given the status of a preferred supplier by virtue of certain standards being met (for example: certification or ISO9002). In addition, there might exist a long-term relationship through which both parties shared a degree of comfort and trust. At the same time, the ability to disengage was relatively easy to do both because of the nature of the linkages and because of the fact that the psychological bonds between partners was relatively low. **Table 5** compares the various types of relationships discussed here.

Table 5. An array of relationships.

	<span style="display: inline-block; width: 100px; border-bottom: 1px solid black;"></span> <b>Low</b> <b>Ownership</b> <b>High</b> <span style="display: inline-block; width: 100px; border-bottom: 1px solid black;"></span>				
<b>Commitment HIGH</b> <b>Long-term focus</b>	Strategic sourcing		Joint ventures	Joint venture	Acquisition merger
↑	Evergreen contracts	Just-in-time (JIT) and standard outsourcing	R&D partnerships to codevelop	Co-manufacturing/production	
↓	Preferred suppliers	Reseller relationships	Shared info about markets, R&D		
<b>Commitment LOW</b> <b>Short-term focus</b>	Commodity purchasing order	Collaborative advertising			
<b>Degree of commitment</b>	Loose linkages	Standard resources	Shared funds	Shared equity	Wholly owned

Chrysler’s negotiation team would need to assess these alternative forms of combination, giving particular attention to the relative attractiveness of the outright acquisition of Chrysler by Daimler versus the other types of deals. Schrempp had specifically mentioned an acquisition. It was Robert Eaton’s expectation that the negotiating team would seriously explore this path as a first course of action. But ultimately, Chrysler’s board of directors would want some justification for why outright acquisition dominated other types of deals as a way to exploit the benefits of combination.

**History of the Merger Discussions<sup>15</sup>**

At the Detroit International Auto Show in mid-January 1998, Jürgen Schrempp, CEO of Daimler-Benz, visited with Robert Eaton, chair and CEO of Chrysler. Schrempp discussed with Eaton some of his thoughts about the likelihood of consolidation in the worldwide automotive industry and suggested it might be mutually beneficial if Daimler-Benz and Chrysler considered a merger. Eaton indicated that Chrysler had been conducting its own studies of the industry and held similar views. Eaton said that he would telephone Schrempp within the next couple of weeks. Toward the end of January, Eaton telephoned Schrempp to suggest a meeting early in February. On February 5, 1998, the Chrysler board was briefed on the discussion between Schrempp and Eaton.

<sup>15</sup> This section draws details from the F-4 registration statement made by the Chrysler Corporation and submitted to the U.S. Securities and Exchange Commission (SEC).

On February 12 1998, Eaton and Gary Valade, executive vice president and chief operating officer (COO) of Chrysler, met with Schrempp and Eckhard Cordes, the Daimler-Benz board member responsible for corporate development and directly managed businesses, to discuss the possibility of combining the two companies. Following that discussion, they decided to consult with their respective financial advisers and to meet again on February 18, 1998.

On February 17 and 18, 1998, Cordes and representatives of Goldman Sachs (the merger adviser to Daimler) met with Valade and representatives of Credit Suisse First Boston (the merger adviser to Chrysler) to discuss various transaction structures. During the course of these discussions, Valade stated that it was important to Chrysler that any potential transaction maximize value for its stockholders; that it be tax-free to Chrysler's U.S. stockholders, and tax-efficient for DaimlerChrysler A.G.; that it have the post-merger governance structure of a merger of equals; that it have the optimal ability to be accounted for as a pooling of interests; that it result in the combination of the respective businesses of Daimler-Benz and Chrysler into one public company. Cordes indicated that it was important to Daimler-Benz that any potential transaction maximize value for its stockholders; that it be tax-free to Daimler-Benz's German stockholders and tax-efficient for DaimlerChrysler A.G.; and that the surviving entity of any combination be a German stock corporation, thereby enhancing the likelihood of acceptance of the transactions by all important constituencies of Daimler-Benz. During those meetings, various tax, corporate, and management issues were discussed with the view toward developing a transaction structure that would accommodate the parties' objectives.

Valade and Cordes were scheduled to meet again in the first week of March, to discuss their working teams' progress. At that time, Valade requested that Daimler-Benz provide Chrysler with its preliminary thoughts on the valuation.

### **Valuation and Earnings per Share (EPS) Analysis**

**Exhibits 2 through 9** present forecasts of financial statements for both companies, as well as discounted cash flow (DCF) valuations using the free cash flow/weighted-average cost of capital (WACC) approach. The analysts' financial model actually estimated value using three DCF approaches (WACC, adjusted present value, and equity residual), and used two ways to estimate terminal values (constantly growing perpetuities and multiples of earnings). Analysts could also consider the firms' current stock price, latest book value, and valuations based on various industry average multiples. **Table 6** summarizes the estimates of the value of Chrysler and Daimler shares in U.S. dollars.

Table 6. Key valuation results.

	US\$/Share	
<b>Valuation of Chrysler's Equity</b>		
Recent share price	\$40.75	
Book value per share	\$16.82	
DCF estimates with terminal values using:	Multiples <sup>1</sup>	Constant Growth <sup>2</sup>
WACC approach	\$64.53	\$64.34
Equity residual approach	\$60.71	\$60.67
Adjusted present value (APV)	\$70.34	\$70.34
Multiples estimates using industry averages (see case Exh. 13):		
Price/earnings (P/E) times forward EPS	\$76.76	
Price/cash flow times forward cash flow from operations	\$101.58	
Market/book value times book value	\$38.00	
<b>Valuation of Daimler's Equity</b>		
Recent share price	\$99.63	
Book value per share	\$68.03	
DCF estimates with terminal values using:	Multiples <sup>1</sup>	Constant Growth <sup>2</sup>
WACC approach	\$86.95	\$86.12
Equity residual approach	\$55.79	\$57.20
Adjusted present value	\$82.84	\$82.84
Multiples estimates using industry averages (see case Exh. 13):		
Price/earnings times forward EPS	\$60.06	
Price/cash flow times forward cash flow from operations	\$85.21	
Market/book value times book value	\$153.71	

<sup>1</sup> Terminal value multiples for Chrysler are 4 times earnings before interest, taxes, depreciation, and amortization (EBITDA) for the WACC and APV approaches, and 8.5 times earnings for the P/E approach. For Daimler, the multiples are 6.5 and 16.

<sup>2</sup> Constant growth rates used in estimating terminal values are 3% for Chrysler, and 4% for Daimler.

The Chrysler deal team would also need to consider the financial reporting impact of any deal structure. Merely for illustration, **Exhibit 10** summarizes the calculations of earnings per share dilution that might result from a share-for-share exchange. This illustration assumes an exchange ratio of one share of Daimler stock per one share of Chrysler stock, and reveals earnings dilution of 25.6% in 1997 for Daimler, followed by earnings accretion in subsequent years. In contrast, if the merger were accounted for as a purchase, Daimler's earnings dilution for 1997 would be 34.2%. **Exhibit 10** also shows that Chrysler would contribute 46.9% of Newco's revenues, and 60.8% of its EBITDA.

**Exhibits 11 and 12** present the longer-term financial and stock-price histories of both companies in the form of reports from *Value Line Investment Survey*. **Exhibit 13** gives information on peer firms in the automobile manufacturing industry. **Exhibit 14** gives the recent stock price history of both firms, as well as estimates of their betas and sigmas, or percentage

volatility of their stock prices, based on trading on the New York Stock Exchange (NYSE). **Exhibit 15** presents details on the debt capitalization of both firms. **Exhibit 16** gives information on recent mergers and acquisitions activity; **Exhibit 17** offers details on a selection of acquisitions in the automobile industry. **Exhibit 18** presents data on recent macroeconomic trends in the United States and Germany. **Exhibit 19** gives information on capital market conditions prevailing in the United States and Germany at the end of February 1998.

### Negotiation of Detailed Acquisition Terms

Gary Valade and the Chrysler negotiating team contemplated a variety of dimensions for the deal.

- *Price or value.* How much value should Chrysler shareholders receive in consideration for the sale of their firm?
- *Form of payment.* Initially, Eaton and Schrempp contemplated a stock-for-stock transaction. However, once the negotiators got into the detailed deal design, there was the possibility that the deal could be structured in terms of cash for stock or fixed income securities for stock. Indeed, some sort of contingent payment could be included in the consideration given for Chrysler's shares. If a stock-for-stock deal were proposed, the two sides would need to state an explicit *exchange ratio* indicating how many shares of Daimler were to be received for one share of Chrysler. A separate ratio might indicate the exchange of employee stock options for the buyer's shares, although ordinarily this was based on the assumption of the option into stock, and therefore was not necessarily required. A related issue was whether the exchange ratio was to be fixed, or could vary within limits as the stock prices of Daimler and Chrysler varied up to the date of closing. It might take six months to consummate an acquisition this size, once the merger announcement was made. These limits, popularly called a *collar*, defined the range within which the stock prices of the two firms would be allowed to vary before any adjustment in the deal terms might be made. If the negotiators agreed to a collar, it would be necessary to specify the limits within which the stock prices could vary without triggering an adjustment in the exchange ratio, and the adjustments to be made if the stock prices exceeded those limits.
- *Merger or acquisition.* The transaction could be structured as a merger of equals, or as an acquisition of one firm by another. The Chrysler side was mainly interested in a merger of equals. Shareholders might be influenced in their voting by the appearance of one firm dominating the other, regardless of the economic reality of the deal.
- *Need for shareholder vote.* Shareholder voting provisions influenced deal design in that they affected the speed with which the deal could be closed and the possibility for interference by large shareholder groups. In the United States, a vote of the shareholders required the distribution of a prospectus and proxy statement, and the scheduling of a special shareholders' meeting. The concern about interference was typically important for acquirers, who feared second-guessing by investors or outsiders. Two types of deals

would require Daimler shareholders' votes. The first was where a large number of new shares would be created, as in a large stock-for-stock acquisition. The second was a statutory merger in which both firms would be extinguished and an entirely new firm (Newco) would emerge—this required a vote of both firms' shareholders.

- *Accounting treatment.* In the United States, merging firms could account for the merger on a *purchase* basis or on a *pooling-of-interests* basis. Generally, pooling accounting resulted in higher earnings per share for the new firm, because it did not entail the creation of goodwill that had to be amortized under U.S. generally accepted accounting principles (GAAP). In order for the transaction to be accounted for on a pooling basis, it had to meet several tests, of which the primary ones were (1) continuity of ownership interests (at least 80% of the previous shareholders of the acquired firm had to remain as shareholders of the new firm); (2) equal size of the two firms; (3) each entity must have been independent of the other for two years prior to the deal; (4) the combination must be effected in a single transaction—contingent payouts were not permitted in pooling transactions; (5) the acquiring firm must issue only common stock in exchange for substantially all the voting common stock of the other company (for example: 90%); and (6) the new firm must not dispose of a significant portion of the firm's assets within two years after merger.
- *Treatment for major shareholders.* Deutsche Bank, the largest German financial institution, held a 21.7% interest in Daimler-Benz. Deutsche Bank held several seats on (and the chair of) Daimler's board, and was instrumental in appointing Jürgen Schrempp as CEO in 1994 in a push for shareholder value maximization. Also, the Emirate of Kuwait held 13% of Daimler's stock. Kirk Kerkorian held approximately 14% of Chrysler's stock through his holding company, Tracinda Corporation. In 1994 and 1995, Kerkorian had threatened Chrysler with a hostile takeover attempt, claiming the firm underperformed and that it sat on too much cash (\$8 billion). Chrysler fended off Kerkorian's advances with promises to increase the dividend, accelerate share repurchases, and relax the poison pill trigger from 10% to 15% of shares outstanding. While Kerkorian had agreed to postpone his attempts to take over the firm, his interest was large enough to influence other investors in any Chrysler shareholder vote on a deal. Kerkorian was known as a sophisticated investor who probably favored a tax-deferred deal. Deutsche Bank, the Emirate of Kuwait, and Kerkorian would emerge from a stock-for-stock acquisition as significant shareholders in the new firm. Therefore, it would be advisable to obtain advance support from those interested parties.
- *Tax treatment.* Some deal structures could trigger an immediate tax liability for the selling (Chrysler) shareholders, on the difference between the cost basis of their shares and the consideration received. Other structures would defer this liability. Generally, the tax-deferred deals (or "tax-free" deals, they were popularly called) entailed the acquisition of the target firm's stock with the stock of the buyer, or the buyer's subsidiary. Deals that entailed payment with cash or notes, or that entailed the purchase of assets, would trigger an immediate tax liability. An opinion of a tax adviser and, ultimately, a ruling, or letter, from the U.S. Internal Revenue Service (IRS) would confirm whether any contemplated structure was to be taxable or tax-free.

- *Applicable law.* The new corporation could be incorporated in Germany or the United States. If incorporated in Germany, it would be subject to German law. If incorporated in the United States, then U.S. law would apply.
- *Governance.* The merger agreement needed to specify the location of headquarters, treatment of workers (especially, the distribution of board seats to Daimler's principal labor union, IG Metall, or to the United Auto Workers), the election of directors generally, and the individual to be named as the CEO of the firm. Under the German Co-Determination Law of 1976, a firm of Daimler's size would have a supervisory board (much like an American board of directors) and a management board. German law required a supervisory board of 20 members, 10 of whom were appointed by shareholders and the rest by employees—German law specifically required that corporations have 49% labor representation on their supervisory boards. The terms of the deal could specify in advance whether and how the Daimler and Chrysler sides were to divide up the 10 supervisory directors, as well as the size and composition (Daimler versus Chrysler) of the management board.
- *Union recognition.* Daimler operated a nonunionized factory in Alabama. In a combination between Daimler and Chrysler, it was likely that Chrysler's union, the United Auto Workers (UAW), would require that it be recognized as the bargaining agent for that plant.
- *Official language.* It was customary in cross-border mergers and acquisitions for the deal terms to specify the official language for the firm, postconsummation.
- *Executive compensation.* The contract might also specify any senior executive compensation for the foreseeable future. This would be important if the analysts sought to equalize the compensation across the newly merged firm.
- *Listing on stock exchanges.* Considering the combined shareholders of both companies, a stock-for-stock deal would leave American and German shareholders with a major interest in a multinational firm. If shares were listed outside the home country of the shareholders, it would make those shares somewhat less liquid and less attractive. Agreeing in advance on where the shares were to be listed would influence the shareholders in their vote on any merger or acquisition.

Exhibit 1

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Chrysler Corporation Unit Sales Trends

	<u>1997</u>	<u>1996</u>	<u>Change</u>
U.S. retail market:			
Car sales	\$736,530	\$832,633	\$(96,103)
Car market share	8.9%	9.7%	-0.8%
Truck sales (including minivans)	\$1,567,258	\$1,618,193	\$(50,935)
Truck market share	21.7%	23.4%	-1.7%
Combined car and truck sales	\$2,303,788	\$2,450,826	\$(147,038)
Combined car and truck market share	14.9%	15.9%	-1.0%
Minivans only	\$518,445	-	N.A.
Minivan market share	44.4%	-	N.A.
U.S. and Canadian retail market:			0.0%
Combined car and truck sales	\$2,559,950	\$2,690,340	\$(130,390)
Combined car and truck market share	15.1%	16.1%	-1.0%
North America:			
Combined car and truck sales	\$2,649,542	-	N.A.
Combined car and truck market share			
Worldwide:			
Combined car and truck sales	\$2,886,981	\$2,958,800	\$(71,819)
International shipments (outside North America)	\$237,000	\$224,000	\$13,000

Source: Chrysler Corporation Annual Report

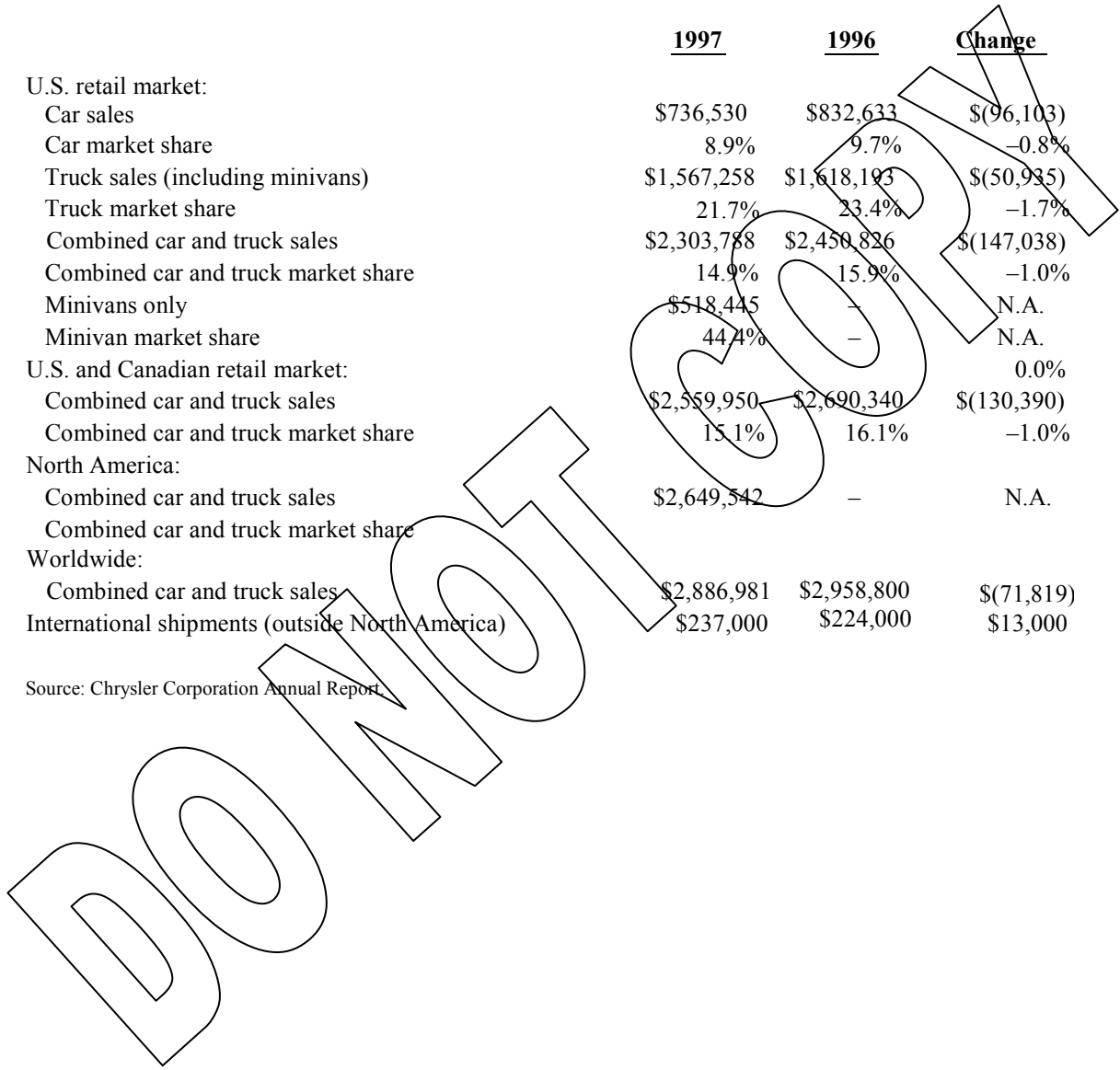


Exhibit 2

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Chrysler Corporation Income Statement  
(values in millions of U.S. dollars, except per-share amounts)

	1995	1996	1997	1998	1999	Projected 2000	2001	2002
Revenues	\$53,195.0	\$61,397.0	\$61,147.0	\$64,815.8	\$68,704.8	\$72,827.1	\$77,196.7	\$81,828.5
Cost of good sold (COGS) (excluding depreciation)	41,304.0	45,842.0	46,743.0	49,547.6	52,520.4	53,671.7	59,012.0	62,552.7
Selling, general, and administrative expenses	5,227.0	6,144.0	6,145.0	6,813.7	6,904.5	7,318.8	7,757.9	8,223.4
EBITDA	6,664.0	9,411.0	8,259.0	8,754.5	9,279.8	9,836.6	10,426.8	11,052.4
Depreciation	2,220.0	2,312.0	2,696.0	3,194.7	3,406.7	3,631.4	3,869.7	4,122.2
Amortization of goodwill and intangibles	0.0	0.0	0.0	39.3	38.3	37.4	36.4	35.5
Other expense (income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4,444.0	7,099.0	5,563.0	5,520.5	5,834.8	6,167.8	6,520.7	6,894.7
Interest (income)	0.0	0.0	0.0	(412.3)	(437.0)	(463.2)	(491.0)	(520.5)
Interest expense—straight debt	995.0	1,007.0	1,006.0	1,014.4	995.3	963.8	932.4	900.9
Interest expense—convertible debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense—revolver	0.0	0.0	0.0	(11.7)	(66.2)	(147.9)	(225.6)	(305.6)
Pretax income	3,449.0	6,092.0	4,557.0	4,930.1	5,342.7	5,815.1	6,304.9	6,819.9
Income taxes	1,328.0	2,372.0	1,752.0	1,893.2	2,051.6	2,233.0	2,421.1	2,618.9
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary item (income)	96.0	191.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	2,025.0	3,529.0	2,805.0	3,037.0	3,291.1	3,582.1	3,883.8	4,201.1
Straight preferred dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible preferred dividends	21.0	3.0	1.0	0.0	0.0	0.0	0.0	0.0
Net income to common	\$2,004.0	\$3,526.0	\$2,804.0	\$3,037.0	\$3,291.1	\$3,582.1	\$3,883.8	\$4,201.1
Earnings per share:								
Basic	\$2.68	\$4.83	\$4.15	\$5.02	\$5.44	\$5.92	\$6.42	\$6.95
Fully diluted	\$2.56	\$4.74	\$4.09	\$4.77	\$5.17	\$5.63	\$6.10	\$6.60

Exhibit 3

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

**Chrysler Corporation Balance Sheets**  
(values in millions of U.S. dollars, except per-share amounts)

	1995	1996	1997	1998	1999	Projected 2000	2001	2002
Cash and equivalents	\$8,125.0	\$7,752.0	\$7,848.0	\$8,318.9	\$8,818.0	\$9,347.1	\$9,907.9	\$10,502.4
Accounts receivable	2,003.0	2,126.0	1,646.0	1,744.8	1,849.4	1,960.4	2,078.0	2,202.7
Inventory	4,448.0	5,195.0	4,738.0	5,022.3	5,323.6	5,643.0	5,981.6	6,340.5
Other current assets	14,608.0	14,268.0	15,711.0	16,653.7	17,652.9	18,712.1	19,834.8	21,024.9
Total current assets	29,184.0	29,341.0	29,943.0	31,739.6	33,644.0	35,662.6	37,802.3	40,070.5
Property, plant, and equipment	20,468.0	23,052.0	27,082.0	31,082.3	35,322.6	39,817.3	44,581.7	49,632.0
Accumulated depreciation	7,873.0	8,147.0	9,114.0	12,308.7	15,715.4	19,346.8	23,216.5	27,338.6
Net property, plant, and equipment	12,595.0	14,905.0	17,968.0	18,773.6	19,607.2	20,470.5	21,365.2	22,293.3
Goodwill and other intangibles	2,082.0	1,995.0	1,573.0	1,533.7	1,495.3	1,457.9	1,421.5	1,386.0
Equity in income of affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term assets	9,895.0	9,943.0	10,934.0	10,934.0	10,934.0	10,934.0	10,934.0	10,934.0
Total assets	\$53,756.0	\$56,184.0	\$60,418.0	\$62,980.9	\$65,680.5	\$68,525.0	\$71,523.1	\$74,683.8
Accounts payable	\$8,290.0	\$8,981.0	\$9,512.0	\$10,082.7	\$10,687.7	\$11,328.9	\$12,008.7	\$12,729.2
Other current Liabilities (excluding short-term debt)	7,032.0	8,864.0	9,717.0	10,300.0	10,918.0	11,573.1	12,267.5	13,003.5
Total current liabilities	15,322.0	17,845.0	19,229.0	20,382.7	21,605.7	22,902.0	24,276.2	25,732.7
Straight debt	14,193.0	13,396.0	15,485.0	15,485.0	15,029.8	14,574.7	14,119.5	13,664.4
Convertible debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revolver				(377.9)	(1,759.2)	(3,013.1)	(4,263.2)	(5,595.9)
Total debt	14,193.0	13,396.0	15,485.0	15,107.1	13,270.6	11,561.5	9,856.3	8,068.5
Deferred taxes	0.0	0.0	0.0	1,537.2	2,566.2	3,268.4	3,761.4	4,120.8
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	13,282.0	13,372.0	14,342.0	14,342.0	14,342.0	14,342.0	14,342.0	14,342.0
Total liabilities	42,797.0	44,613.0	49,056.0	51,369.1	51,784.5	52,074.0	52,235.8	52,264.0
Straight preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common stock (par + APIC)	4,679.0	2,742.0	757.0	(1,043.0)	(1,043.0)	(1,043.0)	(1,043.0)	(1,043.0)
Retained earnings	6,280.0	8,829.0	10,605.0	12,654.8	14,939.0	17,494.0	20,330.3	23,462.8
Total liabilities & stockholders' equity	\$53,756.0	\$56,184.0	\$60,418.0	\$62,980.9	\$65,680.5	\$68,525.0	\$71,523.1	\$74,683.8

Exhibit 4

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Chrysler Corporation Discounted Cash Flow Valuation  
(values in millions of U.S. dollars, except as noted)

<u>Discounted Cash Flow Analysis: WACC Method</u>	Projected				
	1998	1999	2000	2001	2002
Net income	\$3,037.0	\$3,291.1	\$3,582.1	\$3,883.8	\$4,201.1
Interest expense	1,002.7	929.1	815.9	706.8	595.2
Tax effect of interest expense	(385.0)	(356.8)	(313.3)	(271.4)	(228.6)
After-tax interest expense	617.6	572.3	502.6	435.4	366.7
Net Operating Profit After Tax (NOPAT)	3,654.6	3,863.4	4,084.7	4,319.2	4,567.7
Depreciation	3,194.7	3,406.7	3,631.4	3,869.7	4,122.2
Amortization	39.3	38.3	37.4	36.4	35.5
Deferred taxes	1,537.2	1,029.0	702.2	492.9	359.4
Minority interest	0.0	0.0	0.0	0.0	0.0
Income from affiliates	0.0	0.0	0.0	0.0	0.0
Other noncash items	0.0	0.0	0.0	0.0	0.0
Changes in net working capital (NWC)	2,676.0	(182.3)	(193.2)	(204.8)	(217.1)
Cash flow from operations	11,101.8	8,155.1	8,262.5	8,513.4	8,867.8
Capital expenditures	(4,000.3)	(4,240.3)	(4,494.7)	(4,764.4)	(5,050.3)
Other	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>7,101.6</b>	<b>3,914.8</b>	<b>3,767.8</b>	<b>3,749.0</b>	<b>3,817.5</b>
Terminal value (perpetuity)	0.0	0.0	0.0	0.0	59,696.5
<b>Total Free Cash Flows to Capital Providers</b>	<b>\$7,101.6</b>	<b>\$3,914.8</b>	<b>\$3,767.8</b>	<b>\$3,749.0</b>	<b>\$63,514.0</b>
<u>Valuation</u>					
Firm value	56,227.4	54,297.2	55,178.6	56,432.3	57,957.7
Plus: excess cash	2,848.0	3,318.9	3,818.0	4,347.1	4,907.9
Less: debt outstanding	15,485.0	15,107.1	13,270.6	11,561.5	9,856.3
Less: minority interest	0.0	0.0	0.0	0.0	0.0
Less: preferred stock	0.0	0.0	0.0	0.0	0.0
Equity value	43,590.4	42,508.9	45,726.0	49,217.9	53,009.4
<b>Value per Share, Beginning of Year</b>	<b>\$64.53</b>	<b>\$70.28</b>	<b>\$75.60</b>	<b>\$81.37</b>	<b>\$87.64</b>
<u>WACC Calculation</u>					
Debt/market equity	35.5%	35.5%	29.0%	23.5%	18.6%
Relevered beta	0.91	0.91	0.88	0.86	0.84
K <sub>E</sub>	11.1%	11.1%	10.9%	10.8%	10.6%
WACC	9.2%	9.2%	9.3%	9.5%	9.6%

## Exhibit 5

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Daimler-Benz A.G. Income Statement

(values in DEM millions, except per-share amounts)

	Projected							
	1995	1996	1997	1998	1999	2000	2001	2002
Revenues	DEM 102,985.0	DEM 106,339.0	DEM 124,050.0	DEM 133,974.0	DEM 144,691.9	DEM 156,267.3	DEM 168,768.7	DEM 182,270.1
COGS (excluding depreciation)	75,581.0	77,816.0	91,422.0	98,735.8	106,634.6	115,165.4	124,378.6	134,328.9
Selling, general, and administrative expenses	26,203.0	21,534.0	23,096.0	24,943.7	26,939.2	29,094.3	31,421.9	33,935.6
EBITDA	1,201.0	6,989.0	9,532.0	10,294.6	11,118.1	12,007.6	12,968.2	14,005.6
Depreciation	8,661.0	4,908.0	5,198.0	3,826.8	4,241.6	4,689.6	5,173.4	5,696.0
Amortization of equip. on operating leases	2,444.0	2,018.0	2,323.0	2,807.7	2,339.7	1,949.8	1,624.8	1,354.0
Other expense (income)	(1,742.0)	(1,402.0)	(1,620.0)	(2,679.5)	(2,893.8)	(3,125.3)	(3,375.4)	(3,645.4)
EBIT	(8,162.0)	1,465.0	3,631.0	6,339.6	7,430.7	8,493.6	9,545.3	10,601.1
Interest (income)	(2,113.0)	(1,368.0)	(1,589.0)	(1,830.2)	(2,175.0)	(2,469.1)	(2,737.7)	(2,997.2)
Interest expense—straight debt	1,184.0	865.0	933.0	2,215.2	2,207.4	2,207.4	2,207.4	2,207.4
Interest expense—convertible debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense—revolver	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax income	(7,233.0)	1,968.0	4,287.0	5,954.6	7,398.2	8,755.3	10,075.6	11,390.8
Income taxes	(1,620.0)	(712.0)	(1,074.0)	2,381.8	2,959.3	3,502.1	4,030.2	4,556.3
Minority interest	116.0	(89.0)	189.0	0.0	0.0	0.0	0.0	0.0
Extraordinary item (income)	0.0	0.0	(2,908.0)	0.0	0.0	0.0	0.0	0.0
Net income	(5,729.0)	2,769.0	8,080.0	3,572.8	4,438.9	5,253.2	6,045.4	6,834.5
Straight preferred dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible preferred dividends	0.0	7.0	38.0	0.0	0.0	0.0	0.0	0.0
Net income to common	DEM 5,729.0	DEM 2,762.0	DEM 8,042.0	DEM 3,572.8	DEM 4,438.9	DEM 5,253.2	DEM 6,045.4	DEM 6,834.5
Earnings per share:								
Basic	nmf	DEM 5.37	DEM 15.59	DEM 6.91	DEM 8.59	DEM 10.17	DEM 11.70	DEM 13.23
Fully diluted	nmf	DEM 5.35	DEM 15.30	DEM 6.80	DEM 8.45	DEM 10.00	DEM 11.51	DEM 13.01

Exhibit 6

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Daimler-Benz A.G. Balance Sheets  
(values in DEM millions)

	1995	1996	1997	1998	1999	Projected 2000	2001	2002
Cash and equivalents	12,176.00	14,340.00	20,520.00	25,235.09	29,139.40	32,588.81	35,853.25	39,075.81
Accounts receivable	10,581.00	10,864.00	12,006.00	12,966.48	14,003.80	15,124.10	16,334.03	17,640.75
Inventory	14,329.00	13,602.00	14,390.00	15,541.30	16,784.50	18,127.26	19,577.44	21,143.63
Other current assets	14,188.00	15,009.00	20,838.00	22,509.04	24,305.44	26,249.88	28,349.87	30,617.86
Total current assets	51,274.00	53,815.00	67,754.00	76,247.81	84,233.14	92,090.05	100,114.59	108,478.05
Property, plant, and equipment	63,983.00	65,231.00	69,376.00	77,057.74	85,354.02	94,314.00	103,990.78	114,441.70
Accumulated depreciation	47,407.00	47,006.00	48,720.00	52,546.75	56,788.32	61,477.89	66,651.29	72,347.25
Net property, plant, and equipment	16,576.00	18,225.00	20,656.00	24,510.99	28,565.70	32,836.11	37,339.49	42,094.46
Goodwill and other intangibles	10,330.00	13,892.00	16,846.00	14,038.33	11,698.61	9,748.84	8,124.04	6,770.03
Equity in income of affiliates	4,813.00	3,536.00	3,453.00	3,453.00	3,453.00	3,453.00	3,453.00	3,453.00
Deferred taxes and other	19,105.00	22,993.00	28,390.00	28,390.00	28,390.00	28,390.00	28,390.00	28,390.00
Total assets	102,098.00	112,461.00	137,099.00	146,640.13	156,340.45	166,518.00	177,421.11	189,185.54
Accounts payable	7,378.00	9,027.00	11,079.00	11,965.32	12,922.55	13,956.35	15,072.86	16,278.69
Other current liabilities (excl. short-term debt)	16,703.00	17,160.00	20,230.00	21,848.40	23,596.27	25,483.97	27,522.69	29,724.51
Total current liabilities	24,081.00	26,187.00	31,309.00	33,813.72	36,518.82	39,440.32	42,595.55	46,003.19
Straight debt	22,285.00	28,850.00	39,302.00	39,302.00	39,302.00	39,302.00	39,302.00	39,302.00
Convertible debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revolver	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total debt	22,285.00	28,850.00	39,302.00	39,302.00	39,302.00	39,302.00	39,302.00	39,302.00
Deferred taxes	3,460.00	2,253.00	2,003.00	6,293.44	9,841.88	12,936.13	15,762.77	18,442.90
Minority interest	1,324.00	936.00	1,170.00	1,170.00	1,170.00	1,170.00	1,170.00	1,170.00
Other long-term liabilities	28,088.00	27,842.00	28,230.00	28,230.00	28,230.00	28,230.00	28,230.00	28,230.00
Total liabilities	79,238.00	86,068.00	102,014.00	108,809.16	115,062.70	121,078.45	127,060.32	133,148.09
Straight preferred stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Convertible preferred stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common stock (par + APIC)	6,589.00	7,360.00	8,577.00	8,577.00	8,577.00	8,577.00	8,577.00	8,577.00
Retained earnings	16,271.00	19,033.00	26,508.00	29,253.97	32,700.75	36,862.55	41,783.79	47,460.45
Total liabilities & stockholders' equity	102,098.00	112,461.00	137,099.00	146,640.13	156,340.45	166,518.00	177,421.11	189,185.54

## Exhibit 7

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Daimler-Benz A.G. Discounted Cash Flow Valuation  
(values in millions of U.S. dollars)

	Projected				
	1998	1999	2000	2001	2002
<b>Discounted Cash Flow Analysis: WACC Method</b>					
Net income	\$2,030.0	\$2,565.9	\$3,090.1	\$3,598.4	\$4,117.2
Interest expense	1,258.6	1,276.0	1,298.5	1,313.9	1,329.8
Tax effect of interest expense	(503.5)	(510.4)	(519.4)	(525.6)	(531.9)
After-tax interest expense	755.2	765.6	779.1	788.4	797.9
Net operating profit after tax (NOPAT)	\$2,785.2	\$3,331.4	\$3,869.2	\$4,386.8	\$4,915.0
Depreciation	\$2,174.3	\$2,451.8	\$2,758.6	\$3,079.4	\$3,431.3
Amortization	1,595.3	1,352.4	1,146.9	967.1	815.7
Deferred taxes	2,437.8	2,851.1	1,820.1	1,682.5	1,614.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Income from affiliates	0.0	0.0	0.0	0.0	0.0
Other noncash items	0.0	0.0	0.0	0.0	0.0
Changes in net working capital (NWC)	(723.9)	(795.3)	(874.1)	(955.3)	(1,044.1)
Cash flow from operations	\$8,268.6	\$8,391.4	\$8,720.7	\$9,160.6	\$9,732.4
Capital expenditures	(\$4,364.6)	(\$4,795.5)	(\$5,270.6)	(\$5,760.0)	(\$6,295.7)
Other	0.0	0.0	0.0	0.0	0.0
<b>Unlevered Free Cash Flow</b>	<b>3,904.0</b>	<b>3,595.9</b>	<b>3,450.1</b>	<b>3,400.6</b>	<b>3,436.7</b>
Terminal value (EBITDA multiple)	0.0	0.0	0.0	0.0	54,841.3
<b>Cash Flows to Capital Providers</b>	<b>\$3,904.0</b>	<b>\$3,595.9</b>	<b>\$3,450.1</b>	<b>\$3,400.6</b>	<b>\$58,278.0</b>
<b>Valuation</b>					
Firm value	\$50,083.3	\$50,460.4	\$51,235.2	\$52,267.4	\$53,492.3
Plus: excess cash	8,818.2	11,696.6	14,199.6	16,421.9	18,586.3
Less: debt outstanding	22,330.7	22,717.9	23,118.8	23,394.0	23,675.9
Less: minority interest	664.8	676.3	688.2	696.4	704.8
Less: preferred stock	0.0	0.0	0.0	0.0	0.0
<b>Equity Value</b>	<b>\$35,906.0</b>	<b>\$38,762.8</b>	<b>\$41,627.8</b>	<b>\$44,598.9</b>	<b>\$47,697.9</b>
Price per share	\$69.48	\$75.01	\$80.56	\$86.31	\$92.30
Price per share (DEM)	DEM 122.29	DEM 129.77	DEM 136.95	DEM 145.00	DEM 153.22
<b>WACC Calculation</b>					
Debt/market equity	62.2%	58.6%	55.5%	52.5%	49.6%
Relevered beta	1.06	1.04	1.03	1.01	1.00
K <sub>E</sub>	11.9%	11.8%	11.7%	11.6%	11.6%
<b>WACC</b>	<b>8.7%</b>	<b>8.8%</b>	<b>8.8%</b>	<b>8.9%</b>	<b>8.9%</b>

## Exhibit 8

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Daimler-Benz A.G. Income Statements  
(values in millions of U.S. dollars)

	1995	1996	1997	1998	1999	Projected 2000	2001	2002
Revenues	\$71,517	\$68,606	\$69,302	\$76,122	\$83,637	\$91,922	\$100,458	\$109,801
COGS (excluding depreciation)	52,487	50,204	51,074	56,100	61,639	67,744	74,035	80,921
Selling, general, and administrative	18,197	13,893	12,903	14,173	15,572	17,114	18,703	20,443
EBITDA	834	4,509	5,325	5,849	6,427	7,063	7,719	8,437
Depreciation	6,015	3,166	2,904	2,174	2,452	2,759	3,079	3,431
Amortization of equip. on op. leases	1,697	1,302	1,298	1,595	1,352	1,147	967	816
Other expense (income)	(1,210)	(905)	(905)	(1,522)	(1,673)	(1,838)	(2,009)	(2,196)
EBIT	(5,668)	945	2,028	3,602	4,295	4,996	5,682	6,386
Interest (income)	(1,467)	(883)	(888)	(1,040)	(1,257)	(1,452)	(1,630)	(1,806)
Interest expense	822	558	521	1,259	1,276	1,298	1,314	1,330
Pretax income	(5,023)	1,270	2,395	3,383	4,276	5,150	5,997	6,862
Income taxes	(1,125)	(459)	(600)	1,353	1,711	2,060	2,399	2,745
Minority interest	81	(57)	106	0	0	0	0	0
Extraordinary item (income)	0	0	(1,625)	0	0	0	0	0
Net income	(3,978)	1,786	4,514	2,030	2,566	3,090	3,598	4,117
Preferred dividends	0	5	21	0	0	0	0	0
Net income to common	(\$3,978)	\$1,782	\$4,493	\$2,030	\$2,566	\$3,090	\$3,598	\$4,117
Shares outstanding (avg.-basic)	513,000	513,900	515,700	516,748	516,748	516,748	516,748	516,748
Earnings per share (basic)	nmf	\$3.47	\$8.71	\$3.93	\$4.97	\$5.98	\$6.96	\$7.97

nmf = not a meaningful figure.

Exhibit 9  
**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
 DAIMLER AND CHRYSLER**

Daimler-Benz A.G. Balance Sheets  
 (values in millions of U.S. dollars)

	1995	1996	1997	1998	1999	Projected 2000	2001	2002
Cash and equivalents	\$8,456	\$9,252	\$11,464	\$14,338	\$16,844	\$19,170	\$21,341	\$23,540
Accounts receivable	7,348	7,009	6,707	7,367	8,095	8,897	9,723	10,627
Inventory	9,951	8,775	8,039	8,830	9,702	10,663	11,653	12,737
Other current assets	9,853	9,683	11,641	12,787	14,049	15,441	16,875	18,444
<b>Total current assets</b>	<b>35,607</b>	<b>34,719</b>	<b>37,851</b>	<b>43,323</b>	<b>48,690</b>	<b>54,171</b>	<b>59,592</b>	<b>65,348</b>
Property, plant, and equipment	44,433	42,085	38,758	43,783	49,338	55,479	61,899	68,941
Accumulated depreciation	32,922	30,326	27,218	29,856	32,826	36,163	39,673	43,583
<b>Net property, plant, and equipment</b>	<b>11,511</b>	<b>11,758</b>	<b>11,540</b>	<b>13,927</b>	<b>16,512</b>	<b>19,315</b>	<b>22,226</b>	<b>25,358</b>
Goodwill and other intangibles	7,174	8,963	9,411	7,976	6,762	5,735	4,836	4,078
Equity in income of affiliates	3,342	2,281	1,929	1,962	1,996	2,031	2,055	2,080
Deferred taxes and other	13,267	14,834	15,860	16,131	16,410	16,700	16,899	17,102
<b>Total assets</b>	<b>\$70,901</b>	<b>\$72,555</b>	<b>\$76,592</b>	<b>\$83,318</b>	<b>\$90,370</b>	<b>\$97,952</b>	<b>\$105,608</b>	<b>\$113,967</b>
Accounts payable	\$5,124	\$5,824	\$6,189	\$6,798	\$7,470	\$8,210	\$8,972	\$9,806
Other current liabilities (excl. short-term debt)	11,599	11,071	11,302	12,414	13,639	14,991	16,383	17,906
<b>Total current liabilities</b>	<b>16,723</b>	<b>16,895</b>	<b>17,491</b>	<b>19,212</b>	<b>21,109</b>	<b>23,200</b>	<b>25,354</b>	<b>27,713</b>
Straight debt	15,476	18,613	21,956	22,331	22,718	23,119	23,394	23,676
<b>Total debt</b>	<b>15,476</b>	<b>18,613</b>	<b>21,956</b>	<b>22,331</b>	<b>22,718</b>	<b>23,119</b>	<b>23,394</b>	<b>23,676</b>
Deferred taxes	2,403	1,454	1,119	3,576	5,689	7,609	9,383	11,110
Minority interest	919	604	654	665	676	688	696	705
Other long-term liabilities	19,506	17,963	15,771	16,040	16,318	16,606	16,804	17,006
<b>Total liabilities</b>	<b>55,026</b>	<b>55,528</b>	<b>56,991</b>	<b>61,823</b>	<b>66,510</b>	<b>71,223</b>	<b>75,631</b>	<b>80,210</b>
Common stock (par + APIC)	4,576	4,748	4,792	4,873	4,958	5,045	5,105	5,167
Retained earnings	11,299	12,279	14,809	16,622	18,902	21,684	24,871	28,591
<b>Total liabilities &amp; stockholders' equity</b>	<b>\$70,901</b>	<b>\$72,555</b>	<b>\$76,592</b>	<b>\$83,318</b>	<b>\$90,370</b>	<b>\$97,952</b>	<b>\$105,608</b>	<b>\$113,967</b>

Exhibit 10

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

EPS and Dilution Analysis, Pooling-of-Interests Transaction

**Merger Scenario: Pooling of Interests** (100% Stock)

Transaction Assumptions

Target name Chrysler  
Acquirer name Daimler-Benz

Transaction type (1 = pooling; 2 = purchase) 1

% cash (input % for all transaction types) 0.0%

Refinance target debt (1 = yes; 2 = no) 2

Refinancing rate:  
Yield to maturity on 10-year Treasuries 5.4%  
Spread 0.7%  
Refinancing rate 6.1%

Current weighted-average cost of debt  
(interest expense / debt balance) 6.5%

Effective tax rate 38.4%

Base year for combination 1997

Note: Combination model excludes effect of transaction expenses (i.e., legal, banking, accounting fees).

Current Valuation

	Chrysler	Benz
Price per share	\$40.75	\$99.63
Merger price	\$99.63	
Implied premium	144.5%	
Exchange ratio	1.0000	

Shares outstanding (in millions) 648.4 516.7

Options, stock appreciation rights, convertibles 31.7 7.51

Total postdeal shares 680.1 524.3

	1997	1998E	1999E
<u>Earnings per Share (basic)</u>			
Chrysler Corp.	\$4.15	\$5.02	\$5.44
Daimler-Benz A.G.	\$8.71	\$3.93	\$4.97
Source of projections	Model		

1997 Financial Data (in millions of U.S. dollars)	Chrysler	Daimler-Benz
Revenues	\$61,147.0	\$69,301.7
EBITDA	8,259.0	5,325.1
EBIT	5,563.0	2,028.5
Net income to common	\$2,804.0	\$4,492.7

Existing goodwill amortization	\$0.0	\$1,297.8
Total cash & equivalents	7,848.0	11,463.7
Excess cash	2,848.0	8,670.4
Goodwill	1,573.0	9,411.2
Total assets	60,418.0	76,591.6
Total debt	15,485.0	21,956.4
Preferred equity	0.0	0.0
Common equity	\$11,362.0	\$19,600.6

Exhibit 10 (continued)

**Transaction Adjustments**

<u>Pro Forma Net Income (diluted)</u>	1997	1998E	1999E	<u>Goodwill Created</u>	
Daimler-Benz A.G.'s net income	\$4,492.7	\$2,030.0	\$2,565.9	Cost of equity acquired	na
Chrysler Corp.'s net income	2,804.0	3,037.0	3,291.1	Plus: liabilities assumed	na
Unadjusted combined	\$7,296.7	\$5,066.9	\$5,856.9	Less: excess cash	na
<u>Adjustments to Net Income: Expenses (-), or Credits (+)</u>				Total consideration	na
Goodwill amortization	\$0.0	\$0.0	\$0.0	Less: adjusted value of assets	na
New interest income (expense)	748.3	748.3	748.3	Goodwill created in transaction	na
Refinancing adjustments	0.0	0.0	0.0	Goodwill amortization period	na
Assumed combination synergies	0.0	0.0	1,400.0	<u>Adjusted Asset Value</u>	
Pretax adjustments	748.3	748.3	2,148.3	Total assets	na
Income taxes on adjustments	(287.7)	(287.7)	(825.9)	Less: goodwill	na
After-tax adjustments	\$460.6	\$460.6	\$1,322.4	Less: excess cash	na
Adjusted net income	\$7,757.3	\$5,527.5	\$7,179.3	Plus: assumed asset write-up	na
Pro forma EPS	\$6.48	\$4.62	\$6.00	Adjusted value of assets	na

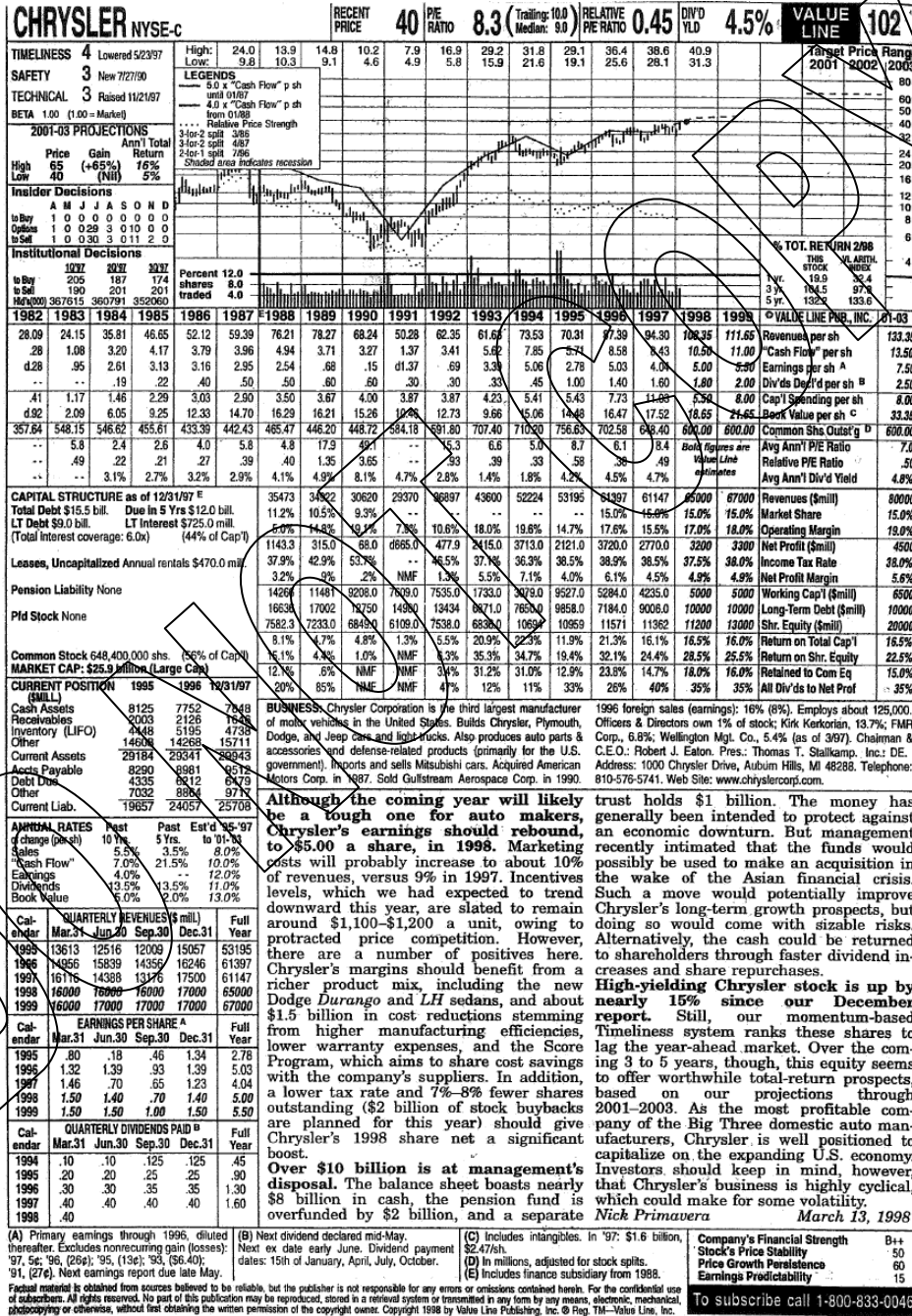
**Summary Outputs - Pooling of Interests (100% Stock)**

<u>Pro Forma Earnings Impact</u>	1997	1998E	1999E	<u>1997 Contribution Analysis</u>	<u>Chrysler Corp.</u>	<u>Daimler-Benz A.G.</u>
Daimler-Benz A.G.'s stand-alone EPS	\$8.71	\$3.93	\$4.97	Revenues	46.9%	53.1%
NewCo's combined EPS	\$6.48	\$4.62	\$6.00	EBITDA	60.8%	39.2%
Accretion (dilution)	-25.6%	17.6%	20.8%	NewCo shares	680.1	516.7
Additional pretax synergies				% ownership	56.8%	43.2%
Required for no dilution	4,336.9	0.0	0.0			

Exhibit 11

CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN DAIMLER AND CHRYSLER

Value Line Report on Chrysler Corporation



Source: Value Line Investment Survey (used with permission).

Exhibit 12  
**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
 DAIMLER AND CHRYSLER**

Value Line Report on Daimler-Benz A.G.

<b>DAIMLER-BENZ</b> (ADR)	NYSE-DAI	RECENT PRICE <b>85</b>	P/E RATIO <b>22.8</b>	Trailing 21.7 Mediat.NMF	RELATIVE P/E RATIO <b>1.23</b>	DIVD YLD <b>0.8%</b>	VALUE LINE <b>103</b>
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<b>TECHNICAL</b> Lowered 12/19/97 New 12/17/93 Raised 3/1/96 Beta .90 (1.00 = Market)	<b>2001-03 PROJECTIONS</b> Price Gain 125 (+46%) High Low 59 (-5%) Annt Return 11% N/A	<b>U.S. Institutional Decisions</b> Buy 21 Hold 16 Sell 13 Not Traded 9655	High: 54.2 Low: 36.4 46.7 33.8 50.9 31.8 48.8 32.3 55.3 43.3 51.8 43.1 68.8 50.8 97.1 63.1 84.9 66.3	Target Price Range 2001 2002 2003 160 120 100 80 64 48 32 24 20 16 12 8
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On Oct. 3, 1993, Daimler-Benz AG became the first German company listed on the New York Stock Exchange, after it agreed to report its results under U.S. generally accepted accounting principles (GAAP). Deutsche Bank, the biggest shareholder, sold 15 mill. American Depository Receipts at \$46.75 in Daimler's first secondary offering on Jan. 27, 1994. Daimler issued rights permitting holders of common shares & ADRs to subscribe for stock equal to 10% of holdings, at a 20% discount to market price, DM 640/share (\$38.35/ADR).	<b>CAPITAL STRUCTURE as of 6/30/97</b> Total Debt \$17896 mill. Due in 5 Yrs \$14000 mill. LT Debt \$6896 mill. LT Interest \$650.0 mill. (Total interest coverage: 6.5x) Liases, Uncapitalized \$591.6 mill. Pension Liability None in '96 vs. \$8949 mill. in '94 Pfd Stock None Common Stock 515,396,362 mil. shares (30% of Cap) MARKET CAP: \$43.8 billion (Large-Cap)	<b>1988-1999</b> 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 96.61 103.79 122.74 134.41 131.03 108.13 130.89 139.99 139.99 137.80 144.40 151.55 -- -- 8.79 12.27 10.63 6.21 11.19 16.70 22.21 19.25 11.80 12.35 .68 .71 .80 .85 .80 .41 .71 -- -- .71 .70 .85 -- -- 7.82 8.67 8.92 5.81 6.69 7.40 8.36 7.55 7.96 7.70 429.80 435.50 464.38 482.06 464.27 465.93 512.98 513.89 575.40 676.00 676.00 678.00 -- -- 36.8 12.0 31.2 -- 44.8 -- 1.81 7/18 16.2 21.5 -- -- 2.73 .77 2.1 -- 2.94 -- 1.91 7/18 21.8 21.8 -- -- 1.7% 2.1% 1.4% 1.0% 1.4% 1.3% .9% 1.2% 1.2%	<b>VALUE LINE PUB. INC. 1988-1999</b> Trans. Rate (ADR) 1.80 Revenues per ADR 181.75 Cash Flow per ADR 15.10 Earnings per ADR 3.75 Gross Divs Decl'd ADR 1.20 Cap'l Spending per ADR 8.55 Book Value per ADR 48.10 Avg Annt P/E Ratio 21.0 Relative P/E Ratio 1.50 Avg Annt Div'd Yield 1.2%
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<b>CURRENT POSITION 1995 1996 6/30/97</b> Cash Assets 7340 9312 9473 Receivables 12733 19429 19393 Inventory (Avg Cost) 10947 8933 2474 Other 6685 5818 2402 Current Assets 35705 43391 34033 Accounts Payable 5018 5400 11864 Debt Due 6396 3991 4020 Other 6389 3402 3139 Current Liab. 22802 27886 25063	<b>BUSINESS:</b> Daimler-Benz AG is Germany's largest ind'l co. Major businesses: Mercedes-Benz, the world's leading maker of luxury cars (34 unit sales: 645,000) and commercial vehicles (340,700 units); Daimler-Benz Aerospace, aircraft, space systems, defense prods., 38% stake in Airbus consortium; Daimler-Benz Inter-Systems (Debs), info. technology, fin'l services. Other businesses: rail systems, microelectronics, diesel engines. Labor costs: 26% of '96 revs.; R&D, 5.2%; '96 deprec. ratio 10.6%. Has 230,000 emples, 450,000 shares. Major shldrs: Deutsche Bank, 23%; govt of Kuwait, 13% ('96 annual report). Chmn.: Jürgen Schramm, Inc.; Germany. Addr: 70546 Stuttgart, Germany. U.S. office: 375 Park Ave., New York, NY 10152. Tel: 212-909-9727.
--	--

<b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Excl'd 1941-96 of change (per ADR) 10 Yrs. 5 Yrs. 10 Yrs. 5 Yrs. Sales -- 2.5% 4.3% Cash Flow -- 5% 4.0% Earnings -- 20.5% NMF Dividends -- -9.5% NMF Book Value -- -2.5% 5.0%	<b>SEMIANNUAL REVENUES (\$ mill.)</b> Cal. Year Full Year Jun.30 Dec.31 Jun.30 Dec.31 1985 33359 88550 71909 1986 28984 80193 69057 1987 31051 86949 68000 1988 34500 40000 74500 1989 35500 42000 78500	<b>EARNINGS PER ADR</b> Cal. Year Full Year Jun.30 Dec.31 Jun.30 Dec.31 1985 02.13 0.17 02.30 1986 .99 2.48 3.47 1987 1.07 2.63 3.70 1988 1.70 2.65 3.75 1989 2.80 3.95	<b>GROSS QUARTERLY DIVS PAID</b> Cal. Year Full Year Mar.31 Jun.30 Sep.30 Dec.31 1984 -- .48 -- -- .48 1985 -- .78 -- -- .79 1986 -- .64 -- -- .65
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<b>Commercial vehicle sales are likely to continue to improve as well. New products and aggressive pricing helped Mercedes increase its market share in Europe last year. In North America, the acquisition of Ford's heavy-truck business should boost sales and income in what is likely to be the world's strongest market for commercial vehicles.</b>	<b>The aerospace division is benefiting from rising demand for civil aircraft. New orders were up nearly 15% at the end of December, pointing to another year of double-digit sales growth. Plus, profitability has improved as the mark has slipped against the dollar.</b>	<b>This ADR is ranked to trail the year-ahead market. Out to 2001-2003, its appreciation potential falls short of the Value Line median.</b>	<b>Sales at Mercedes-Benz are likely to grow by about 10%. Demand for the new M-Class sport-utility vehicle is far outpacing supply. Production will increase 20% this year. To meet demand, Mercedes will also boost production of the new CLK and SLK roadsters and most of the models in the core C-, E-, and S-Class lines. Meanwhile, the company's venture into smaller cars has hit another snag. The introduction of the Smart car, a micro-compact that Daimler is producing in a joint venture with Switzerland's SMH Swiss Corp., will be delayed until October. The delay follows the stability problems in Mercedes' new subcompact car, the A-Class, which the company has agreed to rectify at a cost of over \$100 million this year.</b>
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<b>Company's Financial Strength</b> B+ <b>Stock's Price Stability</b> 75 <b>Price Growth Persistence</b> 25 <b>Earnings Predictability</b> NMF	Sales (and Operating Margins*) by Business Line 1996 1997 1998 1999 Auto & Trucks 486782.6% 450004.0% 510005.0% 540005.0% Aerospace 348281.5% 30001.0% 30002.0% 36002.0% Info & Fin Svcs 70102.7% 30003.0% 37003.0% 30003.0% Other 48967.7% 45003.0% 53003.0% 60003.0% Company Total 690572.1% 680003.5% 745004.0% 785004.0% *After depreciation
---	---

(A) At year-end. (B) Diluted earnings, based on U.S. acctg. Excl. nonrecurring gains/losses: '81, '77-81, '82, '86, '93, '95, '94, '24, '95, '95, '97. Next qtrs. report early April.  
 (C) Before 10% German withholding tax. Next div'd mtg. early April. Goes ex-div'd May. Div'd pmt. date: May 23. Excl. proceeds from sale of rights: '83, '83, '85, '94, \$9.50.  
 (D) Incl. intangibles: In \$2.48/ADR.  
 (E) In millions. Each ADR represents one common share.  
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Source: Value Line Investment Survey (used with permission).

Exhibit 13

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Comparable Automobile Manufacturers  
(values in millions of U.S. dollars, except as noted)

	Price	1997	1997	1997	1998E	1997	Trailing	Forward	Price/	Shares	L-T	Debt /	Mkt./Bk.	
	Feb-98	Revenues	Profits	EPS	EPS <sup>1</sup>	CF/Shr	P/E	P/E	CF	Out	Debt	Total Cap.	Value	Beta <sup>2</sup>
<u>U.S.</u>														
Ford Motor	37 9/16	\$ 153,627	\$ 6,920	\$5.75	\$5.38	\$11.97	6.5	7.0	3.1	1,194	\$ 80,245	64%	1.51	0.86
General Motors	68 15/16	\$166,445	\$6,276	\$8.70	\$7.97	\$22.82	7.9	8.6	3.0	721	\$41,972	46%	2.67	0.96
Chrysler	40 3/4	\$61,147	\$2,804	\$4.15	\$5.01	\$8.43	9.8	8.1	4.8	648	\$9,006	25%	2.33	0.85
Navistar	30 3/8	\$6,321	\$150	\$1.65	\$2.60	\$3.33	18.4	11.7	9.1	72	\$1,316	37%	2.83	1.03
Average: United States						\$11.64	10.67	8.86	5.03			43%	2.33	0.93
<u>Japan</u>														
Honda Motor	70 3/8	\$45,111	\$1,960	\$4.02	\$4.40	\$6.39	17.5	16.0	11.0	487	\$5,096	13%	4.55	0.80
Nissan Motor	8 7/8	\$49,358	\$382	\$0.30	\$0.55	\$3.34	29.6	16.1	2.7	1,257	\$12,554	53%	0.92	0.66
Toyota Motor	54 7/8	\$87,807	\$3,416	\$1.79	\$2.35	\$3.81	30.7	23.4	14.4	1,902	\$16,006	13%	2.70	0.63
Average: Japan						\$4.51	25.92	18.49	9.36			26%	2.72	0.70
<u>Europe</u>														
Daimler-Benz	99 5/8	\$68,951	\$1,764	\$3.38	\$3.75	\$11.50	29.5	26.6	8.7	517	\$9,564	16%	2.69	0.86
Volvo	27 1/8	\$23,118	\$400	\$0.88	\$2.20	\$2.99	30.8	12.3	9.1	442	\$2,913	20%	1.59	0.71
BMW	DEM 1,475	60,137	1,246	50.63	59.50	412.99	29.1	24.8	3.6	25	10,516	22%	3.59	0.88
Peugeot-Citroen	FRF 867	86,785	(2,768)	(55.24)	48.20	336.97	nmf	18.0	2.6	50	17,004	28%	0.82	0.88
Fiat	ITL 6,292	89,658	2,417	459.90	379.60	2,141.76	13.7	16.6	2.9	5	10,938	25%	1.35	0.73
Audi	DEM 1,450	22,410	367	85.35	125.00	536.28	17.0	11.6	2.7	4	0	0%	2.93	0.68
Renault	FRF 212	207,912	5,427	22.79	16.00	48.88	9.3	13.3	4.3	238	30,760	38%	1.16	0.78
Average: Europe						nmf	21.57	17.59	4.84			21%	2.02	0.79
Average: All Firms							19.22	15.29	5.86			29%	2.26	0.81

nmf = not a meaningful figure.

Note: Data is taken from *Value Line Investment Survey* and Bloomberg, and may not match exactly with other data given in the case.

<sup>1</sup> Domestic EPS estimates are taken from Nelson's; international EPS estimates are taken from Value Line and I/B/E/S.

<sup>2</sup> Beta is calculated against the S&P in all cases and is based on weekly observations between March 1996 and February 1998.

Exhibit 14

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Recent Stock Price Information for Chrysler Corporation and Daimler-Benz A.G.

<b>Chrysler Corporation</b>		<b>Daimler-Benz</b> (ADR in millions of U.S. dollars)		<b>Ratio of Chrysler to Daimler</b>
<b>Month</b>	<b>Stock Price</b>	<b>Month</b>	<b>Stock Price</b>	
May-96	\$33.31	May-96	\$53.50	0.6227
Jun-96	\$31.25	Jun-96	\$53.00	0.5896
Jul-96	\$28.38	Jul-96	\$53.13	0.5341
Aug-96	\$29.25	Aug-96	\$54.25	0.5392
Sep-96	\$28.63	Sep-96	\$58.25	0.4914
Oct-96	\$33.63	Oct-96	\$64.50	0.5213
Nov-96	\$35.50	Nov-96	\$67.31	0.5274
Dec-96	\$33.00	Dec-96	\$71.00	0.4648
Jan-97	\$34.88	Jan-97	\$71.13	0.4903
Feb-97	\$34.00	Feb-97	\$76.00	0.4474
Mar-97	\$30.00	Mar-97	\$73.13	0.4103
Apr-97	\$30.00	Apr-97	\$78.00	0.3846
May-97	\$31.88	May-97	\$80.13	0.3978
Jun-97	\$32.88	Jun-97	\$82.13	0.4003
Jul-97	\$37.19	Jul-97	\$73.50	0.5060
Aug-97	\$35.13	Aug-97	\$80.75	0.4350
Sep-97	\$36.81	Sep-97	\$67.31	0.5469
Oct-97	\$35.25	Oct-97	\$69.44	0.5077
Nov-97	\$34.31	Nov-97	\$71.00	0.4833
Dec-97	\$35.19	Dec-97	\$68.75	0.5118
Jan-98	\$34.81	Jan-98	\$79.75	0.4365
Feb-98	\$38.75	Feb-98	\$99.63	0.3890
High:	\$38.75	High:	\$99.63	0.6227
Low:	\$28.38	Low:	\$53.00	0.3846
Average:	\$33.36	Average:	\$70.25	0.4835

Adjusted Beta<sup>1</sup>: 0.85

Volatility<sup>2</sup>: 25.83%

Adjusted Beta<sup>1</sup>: 0.97

Volatility<sup>2</sup>: 29.39%

ADR = American depositary receipt.

<sup>1</sup> Beta was calculated relative to the S&P 500 Index from weekly data over the period 5/03/96 to 3/01/98 and adjusted for beta's tendency to converge to 1, per the formula: Adjusted beta = (0.67) × Raw beta + (0.33) × 1.00.

<sup>2</sup> Volatility was calculated from daily data for the 260 most recent trading days.

Source of data: Bloomberg Financial Service

Exhibit 15

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Long-Term Debt Structure as of December 31, 1997  
(values in millions of U.S. dollars)

**Chrysler Corporation**

	<u>1997</u>	<u>1996</u>	<u>LTD Repayment Schedule</u>	
Chrysler Corp. debentures due 2027–2097	\$1,588.0	\$265.0		
Chrysler Corp. notes due 1999–2020	689.0	1,467.0	1998	\$2,638.0
Chrysler Finance Corp. senior notes due 1999–2018	9,335.0	8,437.0	1999	3,423.0
Chrysler Finance Corp. mortgage notes and capital leases	32.0	13.0	2000	2,263.0
<b>Total</b>	<b>\$11,644.0</b>	<b>\$10,182.0</b>	2001	431.0
Less current portion	<u>2,638.0</u>	<u>2,998.0</u>	2002	470.0
<b>Total long-term debt (LTD)</b>	<b>\$9,006.0</b>	<b>\$7,184.0</b>	Thereafter	<u>2,319.0</u>
				<b>\$11,644.0</b>

**Daimler-Benz A.G.**

	<u>1997</u>	<u>1996</u>	<u>LTD Repayment Schedule</u>	
Bonds and notes due 1999–2007	\$5,619.0	\$4,720.0		
Long-term bank loans due 1999–2019	3,769.3	3,261.3	1998	\$669.8
Liabilities to affiliated companies due 1999–2004	309.5	245.2	1999	1,315.1
Capital leases and residual value guarantees	589.9	370.3	2000	1,750.8
<b>Total</b>	<b>\$10,287.7</b>	<b>\$8,596.8</b>	2001	1,553.6
Less current portion	<u>669.8</u>	<u>313.5</u>	2002	1,426.3
<b>Total long-term debt</b>	<b>\$9,617.9</b>	<b>\$8,283.2</b>	Thereafter	<u>3,572.1</u>
				<b>\$10,287.7</b>

Source: Chrysler Corp. and Daimler-Benz A.G. 1997 annual reports.

Exhibit 16

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Recent Acquisition Activity in the United States  
(values in billions of U.S. dollars, except as noted)

	2nd Quarter 1997		3rd Quarter 1997		4th Quarter 1997		1st Quarter 1998	
	# Deals	Value	# Deals	Value	# Deals	Value	# Deals	Value
<u>All Activity:</u>								
U.S. acquisitions	1,365	\$167.6	1,581	\$178.1	1,719	\$172.6	1,420	\$162.7
Non-U.S. acquisitions	141	19.10	174	18.00	205	25.10	138	18.50
U.S. acquisition, non-U.S.	<u>287</u>	<u>22.10</u>	<u>279</u>	<u>17.80</u>	<u>256</u>	<u>23.40</u>	<u>256</u>	<u>25.10</u>
Total	1,793	\$208.8	2,034	\$213.9	2,180	\$221.1	1,814	\$206.3
# reporting price	739		877		1,051		809	
Divestitures only <sup>1</sup>	613	\$51.9	666	\$43.0	686	\$72.4	505	\$76.3
# reporting price	271		336		402		286	
Leveraged buyouts only <sup>1</sup>	23	\$2.1	25	\$0.6	22	\$1.8	16	\$0.5
# reporting price	9		10		9		8	

<sup>1</sup>Included in all activity.

**Twelve Month Moving Average Stock Premiums**

	1 Month Before Announcement	1 Week Before Announcement
2Q97	35.31%	2Q97 29.53%
3Q97	47.97%	3Q97 39.61%
4Q97	36.51%	4Q97 28.34%
1Q98	37.11%	1Q98 31.61%

**Mode of Payment**

	Combined <sup>2</sup>	Cash	Stock
2Q97	18%	54%	29%
3Q97	17%	57%	26%
4Q97	15%	59%	26%
1Q98	17%	58%	24%

<sup>2</sup>"Combined" includes mixture of cash and stock

**Sales<sup>3</sup> Volumes of  
Target Companies  
4/1/97 to 3/31/98**

Sales	# Firms
\$1-\$5	154
\$5.1-\$10	144
\$10.1-\$15	103
\$15.1-\$25	184
\$25.1-\$35	103
\$35.1-\$50	107
\$50.1-\$75	104
\$75.1-\$100	65
\$100.1-\$500	301
\$500-	179

<sup>3</sup>Sales are in millions.

Source: *Mergers & Acquisitions*, July/August 1998.

Exhibit 17

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Recent Jumbo M&A Activity Greater than U.S. \$10 Billion  
(in millions of U.S. dollars, except as noted)

**Nonfinancial Companies**

<u>Acquiror</u>	<u>Target</u>	<u>Date</u>	<u>Value</u>	<u>P/E</u>	<u>Premium to Stock Price One Week Prior</u>	<u>Outcome</u>
Tracinda Corporation	Chrysler	Apr-95	\$21,618	5.40	37.50%	Withdrawn
Walt Disney	Capital Cities/ABC	Jul-95	18,837	25.40	25.20%	Completed
SBC Communications	Pacific-Telesis	Apr-96	16,490	15.50	36.20%	Completed
WorldCom	MFS Communications	Jan-97	13,596	nmf	60.00%	Completed
CSX Corporation	Conrail	Jun-97	10,436	58.40	60.30%	Withdrawn
Bell Atlantic	NYNEX Corporation	Aug-97	21,346	19.50	0.40%	Completed
Boeing Corporation	McDonnell Douglas	Aug-97	13,359	nmf	22.70%	Completed
CUC International	HFS Incorporated	Dec-97	11,343	40.30	3.00%	Completed
Lockheed Martin	Northrup Grumman	Feb-98	11,831	28.00	41.20%	Withdrawn
Starwood Lodging	ITT Corp.	Feb-98	\$13,748	24.70	98.30%	Completed

**Financial Companies**

<u>Acquiror</u>	<u>Target</u>	<u>Date</u>	<u>Value</u>	<u>P/E</u>	<u>Premium to Stock Price One Week Prior</u>	<u>Outcome</u>
Chemical Banking Corp.	Chase Manhattan Corp.	Mar-96	\$10,446	10.70	7.50%	Completed
Wells Fargo	First Interstate Corp.	Apr-96	10,930	13.10	36.30%	Completed
Dean Witter Discover Co.	Morgan Stanley	Feb-97	10,573	10.70	12.80%	Completed
Nationsbank	Barnett	Jan-98	\$14,822	25.00	43.90%	Completed

nmf = not a meaningful figure.

Source: Securities Data Company, Bloomberg.

Exhibit 18

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**

Recent Economic Data for Germany and the United States

	<u>Unemployment</u>			<u>Inflation (CPI)</u>			<u>Annual GDP Growth</u>			<u>Industrial Production</u>		
	<u>(Total)</u>	<u>(West)</u>		<u>(Total)</u>	<u>(West)</u>		<u>(Total)</u>	<u>(West)</u>		<u>(Total)</u>	<u>(West)</u>	
	<u>U.S.</u>	<u>Germany</u>	<u>Germany</u>	<u>U.S.</u>	<u>Germany</u>	<u>Germany</u>	<u>U.S.</u>	<u>Germany</u>	<u>Germany</u>	<u>U.S.</u>	<u>Germany</u>	<u>Germany</u>
<b>1991</b>	7.30%		5.70%	3.10%		4.20%	0.39%		3.30%	0.30%		-0.10%
<b>1992</b>	7.40%		6.50%	2.90%	3.30%	3.40%	3.70%	0.98%	0.30%	4.40%		-5.00%
<b>1993</b>	6.50%	9.60%	8.10%	2.70%	4.20%	3.30%	2.40%	-0.20%	-0.90%	3.80%		-1.50%
<b>1994</b>	5.40%	9.30%	8.20%	2.70%	2.50%	2.50%	3.30%	3.40%	2.70%	6.80%		6.80%
<b>1995</b>	5.60%	9.90%	8.60%	2.50%	1.80%	1.50%	2.10%	0.00%	-0.20%	2.30%		-4.90%
<b>1996</b>	5.30%	10.80%	9.50%	3.30%	1.40%	1.40%	3.90%	2.10%	1.90%	4.70%		3.10%
<b>1997</b>	4.70%	11.80%	9.90%	1.70%	1.80%	1.70%	3.80%	2.30%	2.50%	5.70%		3.20%
<b>1998</b>	4.50%	11.00%	9.30%	1.70%	1.20%	1.10%	3.60%	2.50%	2.60%	3.20%		1.60%

CPI= consumer price index; GDP = gross domestic product  
Source: Bloomberg Financial Service.

Exhibit 19

**CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN  
DAIMLER AND CHRYSLER**  
Current Capital Market Conditions

<u>Prime Rates on Senior Bank Loans</u>			<u>Recent Money Rates (February 27th, 1998)</u>				<u>Stock Market Indexes</u>		
	<u>Germany</u>	<u>U.S.</u>		<u>Germany</u>	<u>U.S.</u>	<u>Germany</u>	<u>U.S.</u>		
						<u>(DAX)</u>	<u>(S&amp;P 500)</u>		
1988		10.50%				1988	1,328	278	
1989		10.50%	LIBOR	3.76%	5.78%	1989	1,790	353	
1990		10.00%	3-mos. T-bill	3.43%	5.30%	1990	1,398	330	
1991		7.50%	6-mos. T-bill	3.48%	5.31%	1991	1,578	417	
1992		6.00%	1-yr. T-bill	3.66%	5.39%	1992	1,545	436	
1993		6.00%	3-yr. T-note	4.15%	5.53%	1993	2,267	467	
1994		8.50%	5-yr. T-note	4.49%	5.57%	1994	2,107	459	
1995		8.75%	10-yr. T-bond	4.93%	5.61%	1995	2,254	616	
1996		8.25%	30-yr. T-bond	5.49%	5.91%	1996	2,889	741	
1997	6.75%	8.50%				1997	4,250	970	
Jan-98	6.62%	8.50%				Jan-98	4,440	980	
Feb-98	6.55%	8.50%				Feb-98	4,710	1,049	
			<u>U.S. Corporate Bond Ratings &amp; Yields<sup>1</sup></u>						
				<u>AAA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>		
			Dec-97	6.17%	6.44%	6.62%	7.85%		
			Jan-98	5.90%	6.21%	6.49%	7.64%		
			Feb-98	6.06%	6.37%	6.58%	7.76%		

LIBOR = London interbank offering rate.

<sup>1</sup>Based on 10-year yields from the Bloomberg Index for selected industrials.

Source: Bloomberg, Federal Reserve Bulletin.