General Motors Company – Divide and Prosper

Target Price Versus $38 PPS (as of 9/12/17) = $51.70 to $58.60

20% to 27.5% IRR for 2-year hold period (including receipt of $3.20 in dividends[1])

(See Section II.D herein for calculations)

General Motors Company (ticker: GM) is a company disrespected by the market. Currently trading just $5 per share above its November 2010 IPO price of $33, if one adds in the $5.24 in dividends paid since then, the company's stock has delivered a total return of $10.24 to shareholders in seven years, or 31%, representing a CAGR of just 4%. Such a return is the realm of high-quality bonds, not equities. And this is despite GM reporting nearly $12/share in GAAP net income in just the past two fiscal years alone, delivering $2.80/share in earnings the first half of 2017 and producing profits in each of the past seven fiscal years.

Something is clearly amiss here. What have GM shareholders done to deserve such anemic returns? Why has the market not rewarded the consistent operating performance of the company during this decade with a much higher stock price? Perhaps the fault, fellow shareholders, lies not in ourselves (or with the company itself), but in the C-suite. GM's senior management's close-minded reaction to Greenlight Capital's dual-share plan last year, which would have unlocked significant value for shareholders, is emblematic of the main problem—their interests simply are not aligned with those of the shareholders. However, we believe we have a plan for GM's leadership to redeem themselves and regain the market's trust, which we present more fully herein. If implemented, we believe the plan would result in a 36% to 54% increase in the company's market valuation in the next two years, representing an expected CAGR of between 20% and 27.5% (including dividends) vis-à-vis the current $38/share stock price.

[1] Note: Assumes payment of $1.52 in dividends over the next 12 months and $1.68 in dividends (representing a 10.5% increase in the annual dividend) in the succeeding 12 months.

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I. Diagnosing the Problem

A. GM's Management: Truly Aligned with Shareholders?

The main issue facing GM is not, in our view, the cyclicality of the auto market, the rise of Tesla or any of the other issues commonly cited to explain the company's flagging stock price. Of course these issues are important, however there is no apparent reason why the company cannot adequately deal with them. While the GM of the 1990s and 2000s obviously had serious fundamental problems (most notably the massive pension and healthcare obligations it owed to its retirees), these were decisively addressed with the company's 2009 bankruptcy reorganization. The GM that emerged from Chapter 11 that year and which IPO'd in 2010 was leaner and competitively much stronger[2]. With a track record of seven consecutive years of profitability now in the rearview mirror, what explains GM shares trading today at just 6.45X analysts' 2018 earnings estimate of $5.89/share?

We believe the real issue is management—specifically their lack of alignment with shareholders interests. It has been often remarked that incentives control all human behavior. Clearly, a corporate executive who has a large (in comparison with such person's overall net worth) and relatively permanent equity stake in his or her company will be keen to see that equity stake appreciate in value over time and will therefore be properly motivated to create long-term value. Conversely, an executive with virtually no skin in the game (or one who sells shares as soon as they vest) will be much less motivated to deliver value for shareholders. Investors pick up on these dynamics. They will reward a company led by shareholder-friendly, highly-motivated and deeply-invested CEO with a higher relative valuation than a company run solely for the benefit of insiders with no real skin in the game, reasoning that no matter how well the latter company performs, most of the economic gains will either be squandered through foolish capital allocation decisions and/or flow directly to insiders rather than the equity owners.

One need look no further than GM's own industry to see this dynamic at work. Many investors have recently been perplexed to see Tesla garner a market valuation higher than both GM and Ford, despite producing a tiny fraction of the vehicles of the Big Two Detroit manufacturers and burning through massive amounts of cash (whereas GM and Ford have been consistently profitable dividend payers). The key difference is obviously management: Investors know that Elon Musk has invested a huge percentage of his personal net worth in Tesla shares[3] and they therefore

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[2] According to one contemporary Reuters analysis, "The "new GM" that emerged from Chapter 11…is a much smaller and leaner firm which has shed tens of thousands of workers, closed factories, cut loose hundreds of dealerships (further reductions will be needed), ditched several brands, and – with union agreement – changed employment contracts so as to cut costs. *Under bankruptcy protection, GM has shed over $120 billion in liabilities. Its work force will also shrink dramatically, from around 90,000 at the start of this year to around 64,000 by the end of 2009*." (emphasis added)

[3] According to the New York Times, "Musk [said that in 2008] he put his last $35 million into Tesla, which [was then] on the edge of bankruptcy. That depleted virtually all [Musk's] 'cash reserves'".

believe in him and his long term vision for his company. Most importantly, they trust him implicitly to make intelligent decisions on their behalf, since he is Tesla's largest shareholder and is truly walking in the shoes of the company's owners, the shareholders.

Next consider GM. Although the company may claim in its proxy filing and public pronouncements that senior management is "fully aligned with shareholders", citing their ownership of stock (to a large extent in the form of options and restricted shares), what goes unmentioned is that virtually all of this equity was handed to GM's executives courtesy of the shareholders in the form of "incentive compensation", rather than purchased using their personal funds. To us, the idea that handing millions of dollars worth of free stock and options to executives somehow puts such people in the shoes of shareholders who actually have to pay for their stock with their own money seems dubious at best.

Below is an excerpt from GM's 2017 Proxy Statement providing the reasoning for granting $13 million worth of long-term stock grants to CEO Barra in fiscal 2016:

▶ Compensation Decisions for Mary T. Barra

Mary T. Barra, Chairman & Chief Executive Officer

Ms. Barra's performance for 2016 was directly aligned with the Company's 2016 strategic objectives:

Earn Customers for Life

- Twelve models launched achieved Consumer Reports' "Recommended" status in 2016
- Buick was the first domestic brand ever included in the top 3 Consumer Reports' 2016 Annual Auto Reliability Survey

Grow Our Brands

- Significantly improved brand momentum for Buick, Chevrolet, and GMC since 2014
- Increased sales to 10 million units globally

Lead in Technology and Innovation

- Launched the 2017 Chevrolet Bolt EV which received multiple car of the year awards including, 2016 Motor Trend Car of the Year, 2016 Green Car of the Year, and Car and Driver 10 Best
- Completed the acquisition of Cruise Automation and began real world testing of autonomous Bolt Electric Vehicles
- 12 million OnStar-connected vehicles on the road at year-end 2016

Drive Core Efficiencies

- Announced an increase of cost efficiency targets from $5.5 billion to $6.5 billion in material, logistics, manufacturing, information technology, and SGA costs by 2018 with $4 billion realized through 2016
- Achieved ROIC-Adjusted results of 28.9% for 2016

Culture to Win

- Returned $4.8 billion to shareholders in 2016 through share buybacks of $2.5 billion and dividends of $2.3 billion; since 2012, GM has returned more than $18 billion to shareholders
- Exceeded all budget commitments and continued to drive a culture with the mindset that "Everything can be made better"

Note how squishy the justifications for the long-term equity grants are: "Earn Customers for Life", "Significantly improved brand momentum", "Culture to Win", "Exceeded all budget commitments", etc. GM's stock price is never mentioned. Although vesting of 75% of the equity is subject to performance metrics, these include market share and ROIC-adjusted tests (the latter of which is akin to a self-graded exam, since any "inconvenient" cost or expense can be "adjusted out" when calculating ROIC). Notably, no total shareholder return (or TSR) threshold needs to be met to have the equity vest. Nor does the company even disclose in advance the market share test that must be met for vesting to occur(!) (see footnote (3) to the following table):

The 2016-2018 PSUs are awarded based on performance against the following Company measures: ROIC-Adjusted and Global Market Share over the three-year performance period. Our 20% ROIC-Adjusted target is an enduring one, based on our commitments to our shareholders and appropriate for the cyclical nature of our industry. The PSU performance measures were chosen to promote both efficient use of capital and long-term growth to create value for the shareholders. The following table shows the PSU performance measures and the leadership behaviors that each drives to make GM the world's most valued automotive company:

LTIP Measure	Weight	Target	Leadership Behaviors
ROIC-Adjusted (1)	100%	20%	Focus on making sound investments that follow the disciplined capital approach of driving 20% or higher returns in world-class vehicles and leading technology
Global Market Share (2)	Modifier	(3)	Focus on continuing to grow in the global marketplace

(1) *The three-year average ROIC-Adjusted target is 20% and performance shall be calculated using the GM average annual ROIC-Adjusted for calendar years 2016, 2017, and 2018, where ROIC-Adjusted is calculated as Total Company EBIT-Adjusted divided by Average Total Company Net Assets. EBIT-Adjusted is defined as earnings excluding interest income, interest expense, and income taxes as well as certain additional adjustments. A discussion of EBIT-Adjusted, supplemental detail of all adjustments, and a reconciliation of EBIT-Adjusted (on a consolidated basis) to net income attributable to shareholders is disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K. In addition, a reconciliation of GM's automotive segments' EBIT-Adjusted and GM Financial's EBIT-Adjusted, in each case, to total net sales and revenue is disclosed in Note 23 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Net Assets is determined based on the four-quarter average for the year, adding back average automotive debt and interest liabilities (except capital leases) and automotive net Pension and OPEB liabilities and excluding average automotive net income tax assets.*

(2) *The three-year average Global Market Share target range performance shall be calculated using the GM average annual global market share for calendar years 2016, 2017, and 2018 as reported by GM Global Sales Reporting and reflected in the Annual Reports on Form 10-K.*

(3) *The Performance Target for Global Market Share will be disclosed at the end of the three-year performance period, as future Global Market Share measures are not disclosed.*

Thus, by meeting a malleable "adjusted ROIC" test and not disclosing the market share threshold until after the fact, the CEO should be expected to quite easily bank her long-term equity grants for the 2016-2018 period, even if GM's TSR is negative for that period. This represents the prototypical "heads I win, tails I still win even if shareholders lose" compensation structure that only a captured or apathetic compensation committee could come up with (in other words, we believe that a bull's eye will carefully be drawn around wherever the arrow of GM's operational performance lands for this measurement period). Belatedly—and perhaps due to the pressure from the Greenlight proxy contest—GM finally agreed to apply a TSR test to 25% of long-term incentive compensation for the 2017-2019 performance period, stating that "[i]n 2017, our PSUs will measure both Relative ROIC-Adjusted and Relative TSR against the Company's OEM Peers to motivate our leaders to perform at the top of the industry regardless of business cycles." But shouldn't ***all*** of GM's long-term equity compensation be subject to a TSR test in order for its C-suite executives truly to be "aligned with shareholders"? We think so.

Unsurprisingly given the foregoing, GM's senior executives have felt little need to reach into their own pockets to buy company stock on the open market in the past 7 years, despite receiving tens of millions in cash compensation. Below we have summarized, based upon a review of GM's insider SEC filings, the lackluster (to put it mildly) record of insider open-market purchases of stock for this period for the top-4 current named executives in the 2017 Proxy Statement (Note: Alan Batey, EVP for North America, is excluded from this table since he only joined the company last year; in any event, he has not yet purchased any open market stock):

Name	***Current Position***	***Open Market Purchases***	***Shares Purchased***	***Funds Spent ($)***	***Date[s] Purchased***
Mary T. Barra	Chairman & Chief Executive Officer	1	800	26,400	11/23/10
Dan Ammann	President	0	0	0	N/A
Charles Stevens	Chief Financial Officer	0	0	0	N/A
Mark Reuss	EVP, Global Production Development	1	200	6,600	11/23/10
TOTAL	N/A	2	1,000	33,000	N/A

Yes, that is correct: GM's top-4 current C-suite executives have over the past 7 years ponied up a miniscule $33,000 to purchase a grand total of 1,000 GM common shares on the open market (and have made *zero purchases since late 2010*). Meanwhile, these same four executives have received *$42.8 million in cash compensation in just the past three years alone* ($14.9 million in salary and $27.9 million in cash bonuses (aka non-equity incentive compensation)), as shown in the table below (from page 62 of the 2017 Proxy Statement):

Name	***Year***	***Salary***	***Stock Awards***	***Option Awards***	***Non-Equity Incentive Comp***	***Change in Pension***	***All Other Comp***	***Total***
Mary T. Barra	2016	2,000,000	13,000,036	—	6,760,000	181,777	640,246	22,582,059
	2015	1,750,000	12,000,004	11,167,029	3,062,500	12,012	597,118	28,588,663
	2014	1,567,803	11,760,567	—	2,072,000	349,926	412,532	16,162,828
Charles K. Stevens, III	2016	1,100,000	3,450,007	—	2,673,800	135,146	244,132	7,603,085
	2015	1,000,000	2,875,049	2,675,437	1,375,000	—	176,738	8,102,224
	2014	691,667	3,177,354	—	647,500	265,201	113,110	4,894,832
Daniel Ammann	2016	1,450,000	4,700,032	—	3,513,100		560,852	10,223,984
	2015	1,200,000	4,500,021	4,187,636	1,650,000	—	262,420	11,800,077
	2014	990,530	6,310,564	—	925,000	—	263,252	8,489,346
Mark L. Reuss	2016	1,200,000	3,900,018	—	2,905,000	134,777	272,866	8,412,661
	2015	1,100,000	3,825,012	3,559,495	1,515,000	—	199,629	10,199,136
	2014	846,212	7,458,881	—	786,300	275,588	110,796	9,477,777
TOTAL COMPENSATION		**14,896,212**	**76,957,545**	**21,589,597**	**27,885,200**	**1,354,427**	**3,853,691**	**146,536,672**

To sum up: Since 2014, $42,800,000 in cash compensation (plus salary received thus far in 2017); $0 of open market purchases of stock[4]. So much for the supposed "alignment of interests" with GM shareholders.

B. Greenlight Proxy Contest: The Symptoms of the Disease Manifest Themselves

When David Einhorn's Greenlight Capital presented its dual share plan earlier this year, GM's management, led by CFO Stevens, was quick to attack the messenger and

[4] Note that GM's ten current non-management directors (many of whom clearly have high net worths, based on their respective employment histories) collectively have purchased only 103,258 shares on the open market, or 7/1000th of one percent of the 1.457 billion outstanding shares as of July 17, 2017 (per the company's Q2 2017 10-Q filing). In other words, these directors as a group have purchased, using their own money, just 1 out of every 14,145 currently outstanding shares.

try to discredit the plan. In our opinion, they did everything humanly possible to defeat Einhorn not because his plan made no sense, but rather because these GM executives didn't come up with the plan in the first place (and it therefore threatened their power and prestige). If one reads between the lines, "Not invented here, not wanted here" was clearly their internal mantra, betraying a close-minded, bureaucratic mentality. GM's C-suite spent millions of shareholder money opposing Greenlight's plan and, according to Greenlight, sabotaging the plan by mischaracterizing it to the rating agencies, thereby ensuring that the agencies would take a dim view of the plan's effect on the company's investment grade ratings. A May 2017 Reuters news report describes this more fully:

> ***Greenlight says documents show GM tried to undermine dual-share plan*** – May 4, 2017
>
> (Reuters) - Greenlight Capital escalated its battle against General Motors Co (GM.N) on Thursday, posting credit ratings documents that it said the automaker inappropriately changed to undermine the hedge fund's proposal to create two classes of GM stock.
>
> Greenlight, which owns 3.6 percent of GM shares, has said its dual share plan would boost GM's value by creating a dividend class and a regular stock class known as capital appreciation shares.
>
> *In its proxy statement last month, Greenlight said GM substantially altered the plan's term sheet before it was presented to credit rating agencies, a move the hedge fund said was meant to turn the agencies against the structure.* [emphasis added]
>
> On Thursday, Greenlight posted (www.unlockgmvalue.com) its original term sheet, which it said was given to the agencies, along with an annotated document highlighting the changes.
>
> "Our plan does not have cumulative dividends," Greenlight said in one of the annotations - pointing out a key sticking point in the debate over the plan. In another annotation, Greenlight highlighted a change from the original and said GM invented a term to misrepresent its plan.

The proxy advisory firms all sided with GM's management and against Greenlight, most likely because of the rating agencies' negative reaction to the plan and the potential political blowback risked by siding with a dreaded "hedge fund" against an iconic company like GM[5]. Institutional holders (think index funds and mutual funds) will normally automatically vote their shares in accordance with the proxy firm recommendations. Moreover, based on the comments to our prior writeup regarding GM posted on Seeking Alpha, we believe that many retail retiree shareholders mistakenly thought that somehow GM's dividend would be threatened by Greenlight's plan (retirees rely on the dividend to pay their bills and go into a defensive crouch at the mere thought of a potential cut). Predictably, when the

[5] As a somewhat amusing aside, according to the book King Icahn by Mark Stevens, when Carl Icahn was systematically raiding companies in the 1980s his chief analyst suggested a possible raid against GM. Icahn's response was to reject the suggestion out of hand, stating "They'll hang us".

proxy contest reached a vote, GM "won" by a landslide. In actuality GM's management won and the shareholders lost. The fact that senior executives at the company have bought virtually no shares over the past eight years on the open market might explain why they were so unmotivated to make Einhorn's plan workable with the various stakeholders and the ratings agencies.

II. Proposing A Solution

A. Step One: Properly Align Management's Interests With Shareholders

Fortunately, there is still an opportunity for GM management to go from zeros to heroes, provided they do several things. First, senior management should purchase a significant amount of GM stock on the open market using their own money. Not just a significant amount in layman's terms, but as a proportion of their overall net worth. For example, we believe that CEO Mary Barra should lead the way by purchasing a minimum of $5 million worth of shares, which represents approximately 30% percent of the $17 million of cash compensation (including non-equity bonuses) she has received over the past three years. Other senior executives such as President Dan Ammann and CFO Chuck Stevens should invest a similar percentage of past 3-year cash compensation in GM stock through open-market purchases. Once these purchases are complete, these executives would truly be "walking in the shoes of shareholders" and aligned with the interests of the true owners of the company. In addition, as stated above, we believe that receipt of *all* long-term equity compensation (not just 25% of it) should be predicated on meeting a three-year rolling TSR hurdle versus company peers.

B. Step Two: Force the Market to Value the Sum of GM's Parts

Second, GM management can still obtain the benefits of Einhorn's plan without the supposed drawbacks (such as rating agency downgrades) they cited in the Greenlight proxy contest. To see how this is possible, let's first travel back to the year 2000. At the time there was a public company with a relatively stable business (which we can call MatureCo) and a growth business (GrowthCo) housed under a single corporate structure. Shareholders of this company had become increasingly frustrated that the value of GrowthCo was not reflected in the company's market valuation. To its credit, the company's management came up with an ingenious solution to the problem: namely, have MatureCo issue a new class of stock that would solely track the economic performance of GrowthCo—otherwise known as a "tracking stock". On the date the plan was announced, the market cheered and bid the company's stock price up 6%. Moreover, the stock price had already been rising in previous months in anticipation of the plan. What was this mystery company? None other than General Motors. Below is an excerpt from a news report regarding this tracking stock issuance:

> ***GM Board Clears Swap of $8 Billion Of Hughes Unit's Tracking Stock***—Updated Feb. 2, 2000 1:40 a.m. ET
>
> DETROIT -- After watching the market value of its satellite-communications unit eclipse that of its core auto business, General Motors Corp. decided to give its shareholders a bigger piece of the action.
>
> GM's board of directors approved a plan to offer shareholders $8 billion in tracking stock in the Hughes Electronics Corp. unit and to contribute an additional $7 billion of the securities to retirement-benefit plans.
>
> "These actions enable GM to realize $15 billion of the value of Hughes, and improve GM's financial flexibility to pursue business and growth initiatives in our automotive and financial-services businesses," GM Chairman John F. Smith, Jr. said.
>
> *Investors, who had been bidding GM shares up in recent months in anticipation of this kind of announcement, welcomed the confirmation. In heavy trading, GM shares were up $4.6875 at $85.25 at 4 p.m. Tuesday on the New York Stock Exchange, adding $2.9 billion to GM's market value*. Analysts said the transactions could add as much as an annualized $2.50 a share, or 30%, to GM's earnings this year by significantly reducing both the number of shares outstanding and benefits expenses….
>
> *By going ahead, GM's board accepted what the market had been telling it for months—that investors would never give GM full credit for a Hughes locked inside the auto maker*. Although GM said it plans to keep full ownership of Hughes -- the GMH tracking stock reflects Hughes' earnings performance alone -- the move is a clear sign the auto maker is loosening its grip….
>
> GM Vice Chairman Harry Pearce told reporters the combination of a strategic realignment at Hughes, which shed manufacturing operations to focus on the communications-service business, the completion of GM's share-repurchase program and the appreciation of Hughes stock made the time right.
>
> "It seemed as if all the stars came together," he said….
>
> GM officials said the deal should improve the market for Hughes stock in the long-term by improving liquidity. That also would make it easier for Hughes to raise capital in the future. [emphases added]

With respect to the current iteration of GM, we propose that, as an initial step, GM should issue to its shareholders a tracking stock for its China operations (possible ticker: GMC), leaving the remainder of the company’s operations allocated to the current GM common shares (ticker: GM). GM China is the perfect candidate for the initial tracking stock because its operations are held through joint ventures and are accounted for using the equity method of accounting. This means that the financial statements for GM China can be easily separated from the existing financials for the remainder of GM’s global operations (all that needs to happen is the removal of the China-related line item for Equity Income). In our view, a GMC tracking stock has the following beneficial attributes:

1. GM would be able to force the market to value GM China separately through the use of the tracking stock, since it would trade via a separate stock symbol (as if it were a total separate company).

2. GM could tailor its executives' compensation more accurately. For example, an executive who is assigned to the company's China operations could receive just GMC tracking stock (rather than GM shares) as compensation, more closely aligning that executive's pay with the performance of GM China. On the flipside, such executive would not be penalized if (for example) GM's operations in North America performed poorly, since this would be unlikely to negatively affect the value of GMC shares.

3. Since the issuance of a tracking stock does not involve any legal split, there would be no expected dis-synergies, negative ratings implications or bond covenant issues (in other words, the type of issues that GM's management raised during the Greenlight proxy contest) resulting from a GMC tracking stock. The legal structure of General Motors Company would remain exactly the same both before and after the issuance of the GMC shares.

4. There are typically no adverse tax consequences for issuing tracking stock, because the tracked assets are not legally divested when the tracking stock is issued.

We also note that GM China's recent sales performance has been positive, indicating that it would be a good candidate for a separate tracking stock:

GM Sales Soar In China

Sep. 6, 2017 5:03 AM ET | 14 comments | About: General Motors Company (GM), Inclu...

Donn Bailey
Long-term horizon, portfolio strategy, growth at reasonable price, contrarian

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Summary

- Better mix and improved product line reaping rewards.
- Chinese sales set new records in August.
- 2017 sales on record pace.

General Motors (GM) is soaring in China in 2017. News released yesterday confirms analyst expectations that GM is on a roll. Monthly Chinese sales hit a new record in August of 328,425 units for a YoY increase of 12%. Buick, Cadillac, and Baojun had their best month's ever in China.

As expected sales of SUVs led the gains with sales increasing 51% over 2016. Even the CT6 luxury sedan enjoyed a YoY sales jump of 81%.

This brings year-to-date Chinese sales through August to 2,381,834 units, also a new record. Despite a slow start earlier in 2017 the summer was very good for GM. Its major U.S. rival, Ford Motor Company (F), has not been as fortunate. As of July sales were down 7% both for the month and to date in 2017.

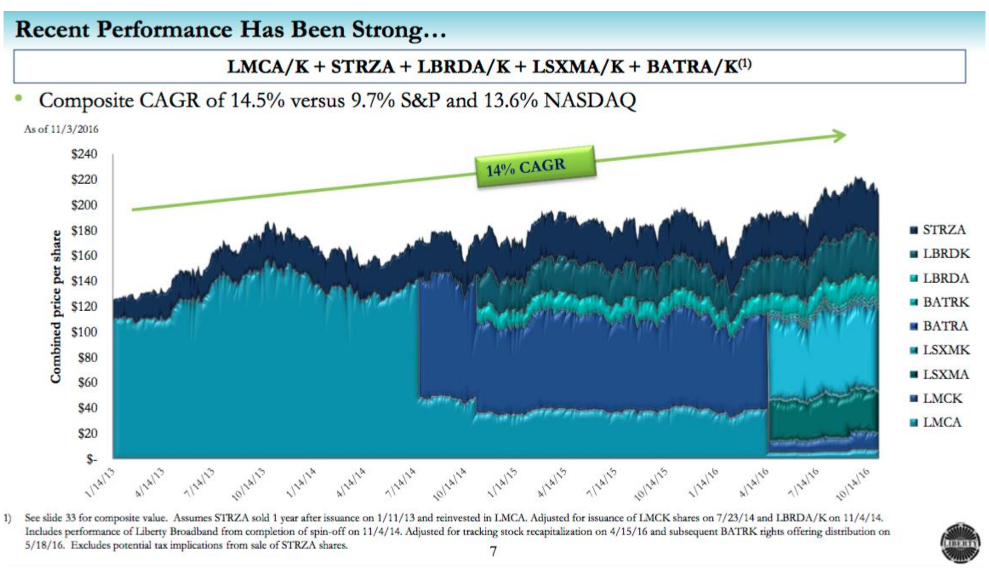
C. Recent Tracking Stock Precedents

The Dell Technologies acquisition of EMC in 2016 provides a useful recent precedent for a GM China tracking stock. As part of this transaction, Dell issued a tracking stock (ticker: DVMT) representing Dell's equity interest in VMware, which stake had previously been owned by EMC. The key terms for this tracking stock were summarized in a FAQ disseminated by Dell and EMC, including the following excerpts:

> Q: What is the [DMVT] common stock (the tracking stock)?
>
> A: The tracking stock is a class of common stock…issued by Dell Technologies. The [DMVT] common stock is intended to track the performance of a portion of Dell Technologies' economic interest in the VMware business. Dell Technologies issued a number of shares of [DMVT] common stock at the closing of the Dell-EMC merger such that shares of [DMVT] common stock currently have a one-to-one relationship with approximately 65% of the shares of VMware common stock owned by Dell Technologies. Dell Technologies issued approximately 223 million publicly traded shares of [DMVT] common stock to the former EMC stockholders.
>
> Q: Was the issuance by Dell Technologies of [DMVT] common stock dilutive to VMware's common stock?
>
> A: No. The issuance of the [DMVT] common stock by Dell Technologies did not change the ownership of VMware Class A common stock owned by public stockholders of VMware (which currently amounts to approximately 19% of the outstanding shares of VMware common stock) or the total number of shares of VMware common stock outstanding.
>
> Q: What interests do Dell Technologies' stockholders have in VMware?
>
> A: Dell Technologies currently owns approximately 343 million shares of VMware common stock (consisting of 43,025,308 shares of Class A common stock and 300,000,000 shares of Class B common stock that are convertible one-to-one for shares of Class A common stock at any time). The shares of VMware common stock owned by Dell Technologies currently represent approximately 81% of the outstanding shares of VMware common stock. Repurchases of VMware common stock under its publicly announced stock repurchase program will increase the percentage of VMware common stock owned by Dell Technologies.

The performance of the DVMT tracking stock has been quite positive since its issuance a year ago, as shown in the chart below:

In addition, John Malone's Liberty Media group of companies has similarly employed tracking stocks in numerous instances to enhance shareholder value in recent years (see the following tickers: STRZA (fka Liberty Starz, now Lions Gate), FWONA (Formula One tracker), BATRA (Liberty Braves tracker), LBRDA (Liberty Broadband Tracker), and LSXMA (Liberty Sirius Tracker)). Below is a chart showing the collective performance of these tracking stocks over time, taken from Liberty Media's 2016 Investor Day presentation:



D. Analysis of Investment Opportunity

1. Valuation Case 1 – Sum of the Parts

Employing a tracking stock structure, GM should be able to force the market to value the company based on the sum of the values of its constituent parts, rather than as a conglomerate of disparate global manufacturing operations. If GM were to issue a tracking stock for its China operations and left the remainder of its operations allocated to the currently outstanding GM shares, we believe that GM's aggregate market cap would increase by a minimum of $20 billion (or $13.70/share based on 1.46 billion shares outstanding, per the company's most recent 10-Q filing). Our valuation for GM China is based on a minimum 10X multiple of GM's 51% share of this entity's net income, which share in recent years has averaged approximately $2 billion annually, as shown below from page 60 of GM's 2016 10-K filing:

Note 7. Equity in Net Assets of Nonconsolidated Affiliates

Nonconsolidated affiliates are entities in which an equity ownership interest is maintained and for which the equity method of accounting is used due to our ability to exert significant influence over decisions relating to their operating and financial affairs. Revenue and expenses of our joint ventures are not consolidated into our financial statements; rather, our proportionate share of the earnings of each joint venture is reflected as Equity income.

	Years Ended December 31,		
	2016	2015	2014
Automotive China JVs equity income	$ 1,973	$ 2,057	$ 2,066
Other joint ventures equity income	309	137	28
Total Equity income	$ 2,282	$ 2,194	$ 2,094

At a multiple of 15X, GM's aggregate market cap would be expected to increase by $30 billion (or $20.50/share). In addition, we believe that GM's existing shares would not decline in value, since the company could maintain its $1.52/share yearly dividend using solely its domestic and non-China international cash flows (at $38, the yield is an enticing 4.0%), due to the fact that GM generated $16.5 billion in operating cash flow in 2016 but paid out just $2.37 billion in dividends. Adding the above referenced range of $13.70 to $20.60 per share for the GM China tracker to the current $38 GM stock price would produce a combined value of $51.70 to $58.60 per share in total for GM shareholders.

2. Valuation Case 2 – Price-to-Earnings

We believe that GM's P/E ratio would increase if the company were to take some or all of the steps outlined herein, as the market would have increased confidence in management (after all, a P/E ratio is simply a gauge of overall market confidence). If we assign a value to GM shares of just 8.5X the company's $6.00/share 2016 earnings, which we believe to be fairly conservative and which takes into consideration the auto industry's cyclicality, GM's stock would be $51/share; at 10X, it would be $60/share. This range is quite close to the sum-of-the-parts valuation outlined above in Valuation Case 1. As a market check, we note Toyota (ticker: TM) currently trades at 10X its 2016 earnings (note also that investors appear to assign no auto cyclicality discount—or any kind of discount whatsoever—to Tesla). We also assume that GM should produce approximately $3/share in trough earnings in a severe downcycle for automakers (similar to the company's 2010 earnings), so our $51 to $60 per share price target would represent a P/E of 17X to 20X trough earnings (in line with the S&P 500's forward P/E of nearly 19X). Our P/E valuation range thus indicates that GM shares currently have expected upside of 34% to 58% (not including dividends).

III. Risk Factors

A. Tracking Stock Risks

Although a tracking stock tracks the ownership of specific assets within a larger corporate structure, the parent company which issues the tracking stock retains legal title to all such assets. In addition, a tracking stock structure does not limit the parent's legal responsibility, or that of parent's other subsidiaries, for the liabilities included in any set of financial statement schedules. Thus, holders of GM China tracking stock would not have any special legal ownership rights related to the specific assets held by GM's China joint ventures (other than those currently flowing to shareholders courtesy of their ownership of GM's common shares). If General Motors Company were ever to experience severe financial distress, GM's debt-holders would have the same legal rights regarding GM's China joint ventures that they currently have (and holders of a tracking stock would have no unusual blocking rights with respect to these assets).

B. GM-Specific Risk Factors

Because a tracking stock does not legally separate company assets the way a spin-off of the assets would, investors should be thoroughly apprised of all of the general risks regarding GM common shares that are set forth in the company's 2016 10-K filing (for which see this link).

IV. Conclusion

While GM's senior management, in our opinion, completely dropped the ball (and a golden opportunity to increase shareholder value) in the Greenlight proxy fight earlier this year, they can still become heroes to shareholders. First, they should purchase substantial amounts of GM stock on the open market to show that their interests are truly aligned with those of shareholders. Simply being granted free stock as "incentive compensation" is hardly enough to accomplish this goal. In addition, going forward *all* of their long-term incentive compensation (not just 25%) should be subject to a strict total shareholder return hurdle. Finally, the company should issue a tracking stock with respect to GM China to force the market to use a sum-of-the-parts valuation instead of using the current conglomerate discount. Once this tracking stock has been issued, management could think about future tracking stocks, such as one for the company's next-generation tech investments in Lyft and Cruise Automation. We believe that if the foregoing steps are taken, GM's overall market capitalization should rise by approximately $20 to $30 billion, or a 36% to 54% increase in the next two years, representing an expected CAGR of between 20% and 27.5% (including dividends received) vis-à-vis the current $38/share stock price.

V. Disclaimer

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