Seeking Alpha α

General Motors - Time For Activist Involvement

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by: Seven Corners Capital Management

Summary

- General Motors stock has missed out on almost 8 years of the current bull market and has significantly underperformed peers.
- We believe the underperformance is largely attributable to the lack of financial alignment between board/management and shareholders, as well as subpar corporate governance.
- An activist in GM shares could change the foregoing dynamic by forcing the board of directors to prioritize the interests of shareholders above those of management.
- If incentives were properly aligned, we believe GM's stock would re-rate much higher to approximately $64/share, representing 62% upside from the current $39.50 level.

The Problem: Persistent Share Price Underperformance

Common shares of General Motors (GM) (SEC filings here) have chronically underperformed the market since their November 2010 IPO, rising just ~16.5% plus dividends in almost 8 years versus the S&P 500 being up 135% plus dividends during same period, for a total underperformance of almost 120% (the difference is even greater after dividends, since GM did not initiate a dividend until 2014). Shockingly, were GM shares to reach our $64 target price immediately (or 10X 2018E earnings), they would still have underperformed the S&P since their IPO, evidencing just how poorly the owners of the company have fared during the current bull market. Below is the tale of the disappointing tape from November 2010 to the present (per Google Finance):

The Cause: Misalignment Of Financial Incentives And Poor Corporate Governance

One might ascribe various reasons to explain this poor performance. Perhaps GM simply has a bad business model and thus value never compounds for shareholders. We note, however, that competitors Toyota (TM) (SECs here) and Fiat Chrysler (FCAU) (SECs here) have not suffered despite having highly similar business models, as TM stock is up more than 65% since GM's IPO, while FCAU stock has more than tripled since late 2014, outgaining GM by 180% during that time frame:

So, GM's share price laggardness cannot be explained by the fact that it manufactures and sells autos. Nor can it rationally be explained by the threat of tariffs by the Trump administration or (in retaliation) by the Chinese government, as the vast majority of GM's GAAP profitability is generated within North America from pick-up truck and SUV sales (and is therefore not dependent on vehicle exports). Moreover, GM China is composed of joint ventures with domestic Chinese companies such as SAIC Motors and Wuling Motors, which one would expect to be minimally impacted by any China-imposed retaliatory tariffs.

Also note that there are not even any headwinds evident in GM's 2018 financial performance that could logically explain the share price malaise. For example, GM recently reported increased domestic sales numbers for the April-June period, with deliveries up 5% year over year, resulting in a half percentage point uptick in market share (see here). In addition, the company announced that first half 2018 vehicle sales in China were up 4.4% (see here). So, growth in GM's two largest and most profitable markets has been strong lately.

Could it be that GM has squandered massive amounts of money on unwise acquisitions since 2010? That does not seem to be the case either, as GM has not engaged in any large scale M&A transactions; rather, it has made apparently smart bolt-on deals. For example, in 2010, GM paid $3.5 billion for AmeriCredit (now GM Financial) (see here), in 2012, they paid $4.2 billion for Ally Financial's (NYSE:ALLY) international operations (see here), and in 2015, they bought a 35% stake in Ally's China operations for $700 million (see here). All of these were logical additions to the core business model of selling vehicles to retail customers. In addition, GM paid $500 million for a stake in Lyft in early 2016 (see here) and paid around $1 billion for Cruise Automation in March 2016 (see here). Softbank (OTCPK:SFTBF) recently committed to invest $2.25 billion in Cruise in exchange for 19.6% of the entity's equity, giving Cruise an implied valuation of $11.5 billion (see here). Concurrently, GM invested an additional $1.1 billion into Cruise. Thus, if we assume that GM has sunk an aggregate of $2.1 billion into the company for its 80% stake (now valued at approximately $9.2 billion), on paper, GM shareholders should be enjoying about $7 billion, or ~$5/share, in Cruise-related profits thus far. Meanwhile, Lyft's valuation has supposedly doubled over just the past year (see here), so GM's 2016 investment in the company should be firmly in the black. Yet GM's stock price is only up about $7/share since these investments were made, despite the company recording over $12/share in adjusted EPS since that time.

Could GM's share price doldrums be a result of stagnant earnings during this bull market? Again, no. Below are GM's 2009 through 2017 financial results, showing rising earnings from 2009 through 2016 and minimal 2017 earnings due solely to tax charges (without which earnings would have come in at $6.60/share) (sources here and here, respectively):

	Successor				Predecessor	
	Years Ended December 31,			July 10, 2009 Through December 31, 2009	January 1, 2009 Through July 9, 2009	Year Ended December 31, 2008
	2012	2011	2010			
Income Statement Data:						
Total net sales and revenue(a)	$ 152,256	$ 150,276	$ 135,592	$ 57,474	$ 47,115	$ 148,979
Reorganization gains, net(b)	$ —	$ —	$ —	$ —	$ 128,155	$ —
Income (loss) from continuing operations	$ 6,136	$ 9,287	$ 6,503	$ (3,786)	$ 109,003	$ (31,051)
Net (income) loss attributable to noncontrolling interests	52	(97)	(331)	(511)	115	108
Net income (loss) attributable to stockholders(c)	$ 6,188	$ 9,190	$ 6,172	$ (4,297)	$ 109,118	$ (30,943)
Net income (loss) attributable to common stockholders	$ 4,859	$ 7,585	$ 4,668	$ (4,428)	$ 109,118	$ (30,943)
GM $0.01 par value common stock and Old GM $1-2/3 par value common stock						
Basic earnings (loss) per share:(d)						
Net income (loss) attributable to common stockholders	$ 3.10	$ 4.94	$ 3.11	$ (3.58)	$ 178.63	$ (53.47)
Diluted earnings (loss) per share:(d)						
Net income (loss) attributable to common stockholders	$ 2.92	$ 4.58	$ 2.89	$ (3.58)	$ 178.55	$ (53.47)
Cash dividends per common share	$ —	$ —	$ —	$ —	$ —	$ 0.50
Balance Sheet Data (as of period end):						
Total assets(a)	$ 149,422	$ 144,603	$ 138,898	$ 136,295		$ 91,039
Automotive notes and loans payable(e)(f)	$ 5,172	$ 5,295	$ 4,630	$ 15,783		$ 45,938
GM Financial notes and loans payable(a)	$ 10,878	$ 8,538	$ 7,032			
Series A Preferred Stock(g)	$ 5,536	$ 5,536	$ 5,536	$ 6,998		$ —
Series B Preferred Stock(h)	$ 4,855	$ 4,855	$ 4,855	$ —		$ —
Equity (deficit)(i)(j)	$ 37,000	$ 38,991	$ 37,159	$ 21,957		$ (85,076)

(a) GM Financial was consolidated effective October 1, 2010.
(b) In the period January 1, 2009 through July 9, 2009 Old GM recorded Reorganization gains, net of $128.2 billion directly associated with filing of certain of its direct and indirect subsidiaries voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York, the 363 Sale of Old GM and certain of its direct and indirect subsidiaries and the application of fresh-start reporting.
(c) In the year ended December 31, 2012 we recorded Goodwill impairment charges of $27.1 billion, the reversal of deferred tax valuation allowances of $36.3 billion in the U.S. and Canada, pension settlement charges of $2.7 billion and GME long-lived asset impairment charges of $5.5 billion.

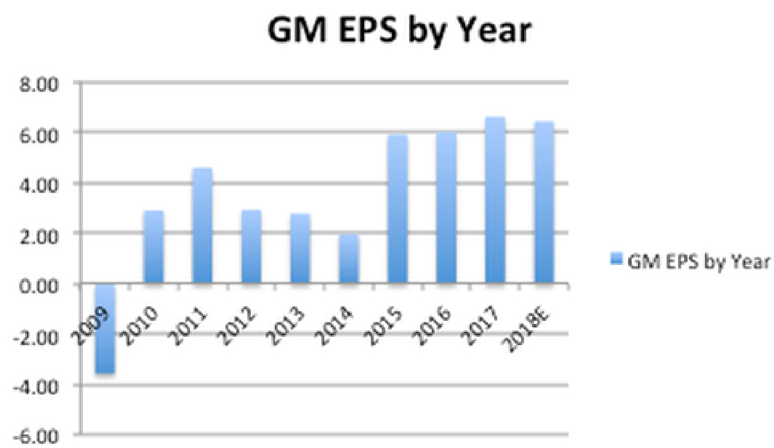
	At and for the Years Ended December 31,				
	2017	2016	2015	2014	2013
Income Statement Data:					
Total net sales and revenue	$ 145,588	$ 149,184	$ 135,725	$ 137,958	$ 138,792
Income from continuing operations(a)(b)	$ 330	$ 9,269	$ 9,590	$ 4,525	$ 5,960
Basic earnings per common share – continuing operations(a)(b)	$ 0.23	$ 6.12	$ 6.09	$ 2.06	$ 3.16
Diluted earnings per common share – continuing operations(a)(b)	$ 0.22	$ 6.00	$ 5.89	$ 1.95	$ 2.76
Dividends declared per common share	$ 1.52	$ 1.52	$ 1.38	$ 1.20	$ —
Balance Sheet Data:					
Total assets(c)	$ 212,482	$ 221,690	$ 194,338	$ 177,311	$ 166,231
Automotive notes and loans payable	$ 13,502	$ 10,560	$ 8,535	$ 9,084	$ 6,815
GM Financial notes and loans payable	$ 80,717	$ 64,563	$ 45,479	$ 29,304	$ 22,174
Total equity	$ 36,200	$ 44,075	$ 40,323	$ 36,024	$ 43,174

(a) In the year ended December 31, 2017 we recorded tax expense of $7.3 billion related to U.S. tax reform legislation, $2.3 billion related to the establishment of a valuation allowance against deferred tax assets that will no longer be realizable as a result of the sale of the Opel/Vauxhall Business, and charges of $460 million related to restructuring actions in India and South Africa. In the year ended December 31, 2015 we recorded the reversal of deferred tax asset valuation allowances of $3.9 billion in Europe and recorded charges related to the Ignition Switch Recall Compensation Program (Compensation Program) and for various legal matters of approximately $1.6 billion. In the year ended December 31, 2014 we recorded charges of approximately $2.8 billion in Automotive cost of sales related to recall campaigns and courtesy transportation, a catch-up adjustment of $0.9 billion related to the change in estimate for recall campaigns and a charge of $0.4 billion related to the Compensation Program.

(b) In December 2014 we redeemed all of the remaining shares of our Series A Preferred Stock for $3.9 billion, which reduced Income from continuing operations by $0.8 billion. In September 2013 we purchased 120 million shares of our Series A Preferred Stock held by the UAW Retiree Medical Benefits Trust (New VEBA) for $3.2 billion, which reduced Income from continuing operations by $0.8 billion.

(c) Total assets includes assets held for sale of $20.6 billion, $20.0 billion, $17.8 billion, and $16.1 billion at December 31, 2016 through 2013, respectively.

If we adjust for certain one-time tax charges and pencil in $6.60/share in earnings for 2017, below is a chart showing 2009-2018E earnings trends for GM:



This hardly resembles a company whose business model is collapsing or about to collapse. In fact, just the opposite appears to be the case. Yet GM ranks close to the bottom of the entire S&P 500 in terms of forward P/E ratio (GM is expected to earn about $6.40/share in 2018, so its forward P/E is 6.2X). So, we conclude that neither GM's business model nor its financial performance nor acquisition track record logically explains why the company's shares have massively underperformed peers as well as the overall market since late 2010.

So, what is the real reason for the long-term underperformance? We believe that investors refuse to bid up GM shares because they believe that the interests of the board and management are not aligned with those of the shareholders, and, therefore, most of the economic benefits of GM's business model will never fully filter down to the true owners of the company. Why do we think shareholders believe this? Look at the following facts:

First, there is no true shareholder representative on the Board of Directors, so the owners of the company lack an advocate for their interests in the key decision-making body of the organization. Board members historically have bought only token quantities of stock on the open market and CEO Barra has only bought a minuscule 800 shares with her own money since 2010 (grand total spent: $26,400), despite receiving tens of millions of dollars in cash compensation (salary plus cash bonuses) since then. The following is the ONLY open market purchase of GM stock Barra has EVER made (source):

SEC Form 4

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934
or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Estimated average burden	
hours per response:	0.5

☐ Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

1. Name and Address of Reporting Person*
Barra Mary T
(Last) (First) (Middle)
300 RENAISSANCE CENTER
M/C: 482-C25-A36
(Street)
DETROIT MI 48265-3000
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
General Motors Co [NO SYMBOL]

3. Date of Earliest Transaction (Month/Day/Year)
11/23/2010

4. If Amendment, Date of Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
Director 10% Owner
X Officer (give title below) Other (specify below)
Vice President

6. Individual or Joint/Group Filing (Check Applicable Line)
X Form filed by One Reporting Person
Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/23/2010		P		800	A	$33	800	D	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				

Barra is Chairman of the Board - by far the most important director - yet is not financially aligned with shareholders and in our opinion runs the board to benefit primarily the members of the C-suite rather than the shareholders. GM attempts to claim the contrary in its 2018 Proxy Statement, with the lead independent director stating that "Your board holds management accountable" (see excerpt below); yet how can this possibly be when the board itself is chaired - and therefore basically controlled - by management (i.e., the CEO)???

Since 2016, Mary has been both the Chairman and CEO. With the two roles now combined, is the Board's voice truly independent? Is the current Board leadership structure in the best interests of shareholders?

TIM: Your Board holds management accountable. Ten of the Board's eleven directors are independent and together they have the right mix of expertise to oversee, guide, and challenge the leadership team. We are shaping and overseeing the Company's strategy. Strategy is a part of every Board meeting agenda, and every year the Board holds a multiday session devoted exclusively to GM's strategic plan. During these discussions, Board members engage in active debate and dialogue, challenge and validate management's assumptions, and shape various aspects of management's strategy and execution.

The Board does not believe there is a one-size-fits-all solution for board leadership structure or that combining or separating the Chairman and CEO roles is quite the black-and-white issue it is sometimes made out to be. Mary is the right person to lead your Board. GM's performance under her leadership demonstrates that this structure is the most efficient way to execute our strategic plan and create value for shareholders. It is important for shareholders to realize that the Board retains the flexibility to separate the positions at any time if circumstances change. On an annual basis, the Board carefully considers the appropriate leadership structure for GM and its shareholders and determines whether to combine or split these roles. In the past, the Board has decided that separating the roles of Chairman and CEO would best serve shareholders, and in the future we may again, but we are confident that combining the roles is in the best interests of shareholders right now.

The company further states above that "GM's performance under [Barra's] leadership demonstrates that [having her also serve as Board Chairman] is the most efficient way... to create value for shareholders". Does this statement make any sense at all given the fact that since Barra became chairman in early January 2016 (1) GM stock has vastly underperformed the S&P 500 and (2) the company has only raised the dividend by $0.02/share per quarter (with zero dividend increases since February 2016)?

In addition, below, we can see that the non-executive directors on GM's board (who supposedly are looking out for the shareholders' interests and overseeing management's activities) collectively own just 107,088 shares outright, or about one-thirteen thousandth (1/13,000th) of all outstanding shares (source):

Non-Employee Directors

Director(1)	Shares of Common Stock Beneficially Owned	Deferred Share Units(2)
Linda R. Gooden	1,000	11,994
Joseph Jimenez	32,330	21,248
Jane L. Mendillo	4,560	12,607
Michael G. Mullen	750	19,855
James J. Mulva	28,343	45,774
Patricia F. Russo	12,300	29,362
Thomas M. Schoewe	22,005	25,081
Theodore M. Solso	5,000	61,312
Carol M. Stephenson	800	51,093
Devin N. Wenig	—	—

Second, GM's board and management have consistently refused to take significant actions to benefit shareholders except under the duress of a proxy fight:

1. FCAU merger proposal - Back in 2015, Fiat Chrysler chairman Sergio Marchionne proposed a potential merger between FCAU and GM. However, instead of pursuing a combination that could have brought with it many billions of dollars in synergies (most of which would flow to the shareholders of the respective companies), GM CEO Barra rejected the idea out of hand. According to contemporary news accounts (sources here and here):

Fiat Chrysler's Sergio Marchionne Wanted To Merge With GM, But Got Shot Down By Mary Barra

> Marchionne sent an email to GM CEO Mary Barra in March [2015] suggesting that the two companies that a combination of the two automakers could cut billions of dollars in costs.... Barra discussed the pros and cons of a GM-FCA merger with her key staff and board members. However, in fairly short order, she sent Marchionne a rejection letter, denying his request for a face-to-face meeting on the matter.

So, Barra would not even discuss the matter with Marchionne, indicating a close-minded attitude toward any outside influence. Since rejecting the FCAU proposal out-of-hand for no apparent reason, FCAU's share price has almost doubled, meaning Barra potentially left billions in value on the table that could have accrued to GM shareholders (assuming the two entities had combined in a stock-for-stock merger).

2. Proxy Fights - In addition, CEO & Chairman Barra et al. have now been the subject of two separate proxy fights in just the past 3 years. The first was in early 2015 when Harry Wilson acted on behalf of a group of hedge funds advocating for better capital allocation at GM, which contest GM settled by agreeing to a large buyback (source):

> General Motors agreed Monday to buy back $5 billion in stock and put forth a new capital allocation plan, which offers investors a more transparent view of GM's cash investment proposals than previously disclosed. In exchange, Wilson dropped his bid to get a seat on GM's board.

The second was waged by Greenlight Capital last year. Greenlight proposed an ingenious dual-share structure for GM that would likely have raised the share price significantly. GM, in its infinite bureaucratic wisdom, decided to sabotage any hope that the plan could come to fruition by trashing it with the rating agencies (and, predictably, the ratings agencies soured on the proposal). We discussed this corporate governance debacle in detail in a previous Seeking Alpha article (see here). However, the impending threat of Greenlight's proxy fight was sufficient to spur GM management into finally divesting GM's European operations after racking up $20 billion in losses there over the previous 17 years. So, Greenlight's efforts had at least one beneficial result for the owners of the company (note that the troubled European car market is again stagnating this year).

Why The Stock Price Matters: Access To Cheap Capital

Frankly, we are a bit tired of hearing apologists for Mary Barra & Co. who insist the stock price doesn't matter, that it's all about the long term, etc. First, if it's "all about the long term", then why do the C-suite members get annual incentive bonuses based on achieving short-term (yearly) metrics (aka, the STIP)? If it's "all about the long term", then why do GM's illustrious C-suite denizens constantly exercise options and dump their shares on the open market as soon as they legally can (see, e.g., here, here, here and here)? But more than that, why the stock price matters is because the stock price partially determines a company's cost of capital - and the lower the cost of capital, the better able said company is to compete in the marketplace.

For example, what company would have a greater advantage in selling cars: Company A, whose stock trades at a P/E multiple of 6.2X (or an earnings yield of 16%), or Company B, whose stock trades at a P/E multiple of 120X (or an earnings yield of 0.8%)? Obviously, other things being equal, Company B will have a great advantage over Company A because it will be able to raise equity capital with an earnings yield of just under 1% (far below the yield on, say, 30-year Treasuries). Moreover, a company that can raise cheap equity capital will also likely be able to issue cheap debt, since debtholders will take comfort in the company's strong "equity cushion". In other words, the higher the market cap, the more easily a company can raise both equity and debt (a competitive advantage).

Take Tesla, Inc. (TSLA) (SECs here) and its CEO, Elon Musk, for example. Say what you will about the man and his personality (and there are lots there to criticize), Musk inspires incredible loyalty and enthusiasm among his employees and investors. Musk's followers become passionate devotees to his causes (space exploration and green energy) because they simply BELIEVE in him 100%. This allows Tesla the option to fund ongoing losses and cash burn because Tesla's elevated stock price means that the capital markets remain wide open to the company. Onlookers consider Tesla's slavish investor devotion to be kooky (see here, for example). However, it is actually logical. First, Musk's followers are "all in" because Musk also is "all in" for the cause. Musk has invested virtually his entire net worth into Tesla and SpaceX (Musk currently owns 33.74 million TSLA shares, worth almost $11 billion). Thus, when TSLA's stock price falls, Musk literally feels the shareholders' pain, since he is the largest shareholder with a 20% stake. In fact, amidst the financial crisis in late 2008 Musk went as far as to put his last remaining $20 million of personal funds into Tesla in order to save the company from bankruptcy, as recounted by Wired in 2010 (source here):

Week after week through the fall of 2008, Musk watched Tesla's bank balance drop. His team had been able to bring down the cost of producing the Roadster to approximately $95,000 by renegotiating supplier contracts and redesigning parts to be simpler. Still, Tesla had presold the car in 2007 to hundreds of buyers at a discount price of $92,000. Costs were continuing to drop-they could make it to profitability if they didn't go out of business first-but by the end of the year, Tesla had less than $500,000 in the bank. They were in danger of not making payroll. Bloggers mounted a Tesla deathwatch.

Musk was down to the last $20 million or so of his personal fortune. Tesla and SpaceX had consumed the rest. If he held on to the $20 million, he could walk away and still be rich. He was 37 years old-he had plenty of time to try something less risky.

He called his younger brother, Kimbal, who had invested more modestly in Tesla, and told him that the company needed another cash infusion. The two had made millions together in 1999 when they sold Zip2, an online media services company, to Compaq. Kimbal, who lives in Boulder, Colorado, was about to order a coffee at Starbucks when his phone rang. He stepped outside into the cold to talk.

"You really think it's rational to put more money in?" Kimbal asked, implying that maybe it was time to move on.

"We're so close," Musk said. Kimbal could hear the stress in his brother's voice. Musk's marriage to novelist Justine Musk had just fallen apart, and one of his SpaceX rockets had recently failed to reach orbit in a botched launch. Still, Musk wanted to take on more risk.

"Daimler's almost there," he said. "The Roadster's almost there. We can't quit now."

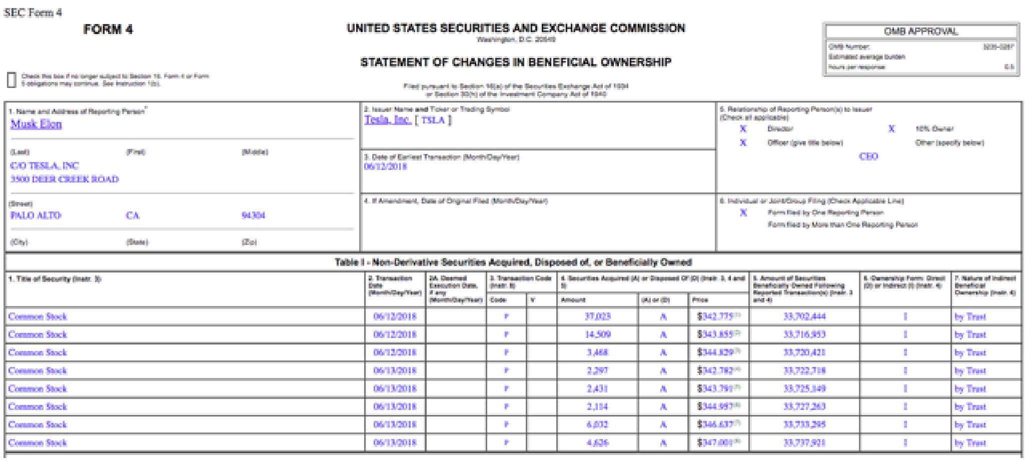
Musk knew what needed to happen: Make the Roadster profitable and build battery packs for Daimler, then use that revenue to stay alive long enough to get loans from the government and launch the Model S. He was ready to put the last of his money in, but if any one of those things didn't come through, it'd be over. It didn't matter. Musk was convinced he could pull it off. He had asked Drori to step down as CEO and took over the role himself. He was going all-in.

"Elon has huge steel balls," his ex-wife notes on her blog. "He truly does."

Kimbal actually found himself believing they could make it and agreed to put in more of his own money. Musk soon persuaded most of his other investors to pony up emergency funds, raising a total of $40 million. The company was going to have one last shot.

But underneath the bravado, Musk wondered if he would have to start over with nothing. He soon got a taste of what that would be like when he found himself borrowing money from friends to pay his living expenses. "At that point, every day was like eating glass and staring into the abyss of death," he says.

This is the type of commitment and financial alignment with shareholders that GM sorely lacks. While GM senior executives consistently dump their stock on the open market shortly after vesting, Musk has been buying Tesla stock recently at what many investors believe to be nosebleed valuations, indicating his total commitment to his company and its shareholders (source):



SEC Form 4

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

1. Name and Address of Reporting Person*: Musk Elon, C/O TESLA, INC, 3500 DEER CREEK ROAD, PALO ALTO CA 94304

2. Issuer Name and Ticker or Trading Symbol: Tesla, Inc. [TSLA]

3. Date of Earliest Transaction (Month/Day/Year): 06/12/2018

4. If Amendment, Date of Original Filed (Month/Day/Year):

5. Relationship of Reporting Person(s) to Issuer (Check all applicable): X Director; X 10% Owner; X Officer (give title below): CEO

6. Individual or Joint/Group Filing (Check Applicable Line): X Form filed by One Reporting Person

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1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8) Code	V	4. Securities Acquired (A) or Disposed Of (D) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock	06/12/2018		P		37,023	A	$342.775(1)	33,702,444	I	by Trust
Common Stock	06/12/2018		P		14,509	A	$343.855(2)	33,716,953	I	by Trust
Common Stock	06/12/2018		P		3,468	A	$344.829(3)	33,720,421	I	by Trust
Common Stock	06/13/2018		P		2,297	A	$342.782(4)	33,722,718	I	by Trust
Common Stock	06/13/2018		P		2,431	A	$343.791(5)	33,725,149	I	by Trust
Common Stock	06/13/2018		P		2,114	A	$344.957(6)	33,727,263	I	by Trust
Common Stock	06/13/2018		P		6,032	A	$346.637(7)	33,733,295	I	by Trust
Common Stock	06/13/2018		P		4,626	A	$347.001(8)	33,737,921	I	by Trust

To put it bluntly, we don't believe the GM's CEO Mary Barra (or any other senior GM executive for that matter) would ever be caught pulling all-nighters on the assembly line in order to make sure GM's production targets get hit (in fairness, she would probably respond that when you know what you are doing, all nighters aren't required). Musk, however, apparently will, which is probably one clue why TSLA trades at a 120X forward P/E multiple (source here), while GM trades at a measly 6.2X forward P/E multiple (source here).

The Remedy: Activism

Today, an activist in GM has an opportunity to make billions in profits by forcing board of directors to act in the shareholders' interests (rather than management's). If GM's board of directors were chaired and/or represented by directors who actually prioritized the interests of the shareholders (as the true owners of the company) and took the steps outlined below to increase shareholder value at GM, we believe that GM's stock could re-rate to as high as $64/share, or 10X 2018's estimated EPS of $6.40 (indicating shares could have up to 60% upside). Thus, an activist who amassed a 5% stake in GM (or 70 million shares) could make up to a $1.7 billion profit on a $2.8 billion initial investment. To repeat, that is a clear profit of $1,700,000,000 - not exactly chump change.

Does our $64 target price really make sense, though? After all, vehicle manufacturing is capital intensive and highly competitive. Below, we do a sum-of-the-parts (SotP) analysis as a second valuation check. In this respect, we noted in our "Divide and Prosper" Seeking Alpha article on GM from last September as follows:

> 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 leave 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, whose 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 $1.60/share yearly dividend using solely its domestic and non-China international cash flows (at $38, the yield is an enticing 4.2%), 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.

Updating this 10-month-old analysis with today's 1,430,000,000 fully diluted outstanding share count and adding in the value of GM's stake in Cruise Automation and Lyft, we obtain the following updated SOTP for GM:

1. GM China --> worth $20 to $30 billion based on $2 billion average 3-year trailing net income and a 10X to 15X P/E multiple, or ~$14 to ~$21 per share
2. Cruise Automation Equity Stake --> worth $7 billion, or ~$5/share (as discussed above)
3. Lyft Equity Stake --> worth $1.5 billion, or ~$1/share
4. GM remainder of business --> worth $40/share, based on an increased $2/share annual dividend (see below) and a 5% dividend yield.
5. SotP --> $60 on the low end and $67 on the high end (note this aligns well with our above P/E derived $64/share valuation).

What about liquidity? Is there enough for a large activist to acquire a sufficiently large stake to effect change at the company? We note that in the past 6 months of trading, more than the entire outstanding share count has changed hands (see here). Thus, in order to acquire 70MM shares (a 5% position), an activist would only need to buy about 10% of the daily trading volume to build such a stake in about three months.

Who could be potential activists? The following:

1. Greenlight Capital - as noted above, Greenlight ran a proxy contest against GM just last year and as of the end of Q1 2018 owned 22.6 million shares, or about 1.6% of the outstanding stock (source);

2. Elliott Management - probably the top activist hedge fund, Elliott has around $34 billion in AUM (source), so could easily amass a large enough GM stake to make a proxy contest worthwhile;

3. Appaloosa - Appaloosa Management, founded by David Tepper, is one of the most successful hedge funds of recent decades (source); Appaloosa was involved as an activist in the 2015 proxy contest and could potentially go for a second round of activism in light of GM's recent sagging stock performance;

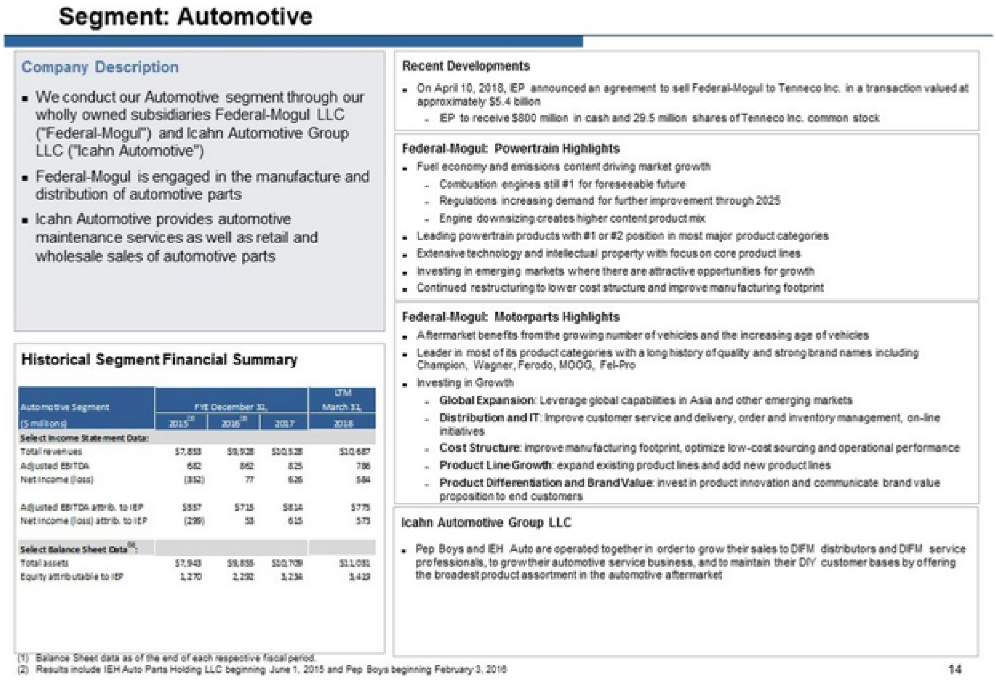
4. Jana - Jana Partners had a 1.3 million share position in GM at the end of Q1 2018 (source) and is a noted activist investor in major companies such as Whole Foods (see here);

5. Starboard Value - Starboard is a large and successful activist hedge fund; they take concentrated positions and advocate aggressively for change at their investee companies. In addition, Starboard has experience in the auto/industrial manufacturing space, with recent positions in Advance Auto Parts (NYSE:AAP) and Cars.com (NYSE:CARS) (see here) and prior industrial-company activist campaigns such as that concerning Wausau Paper Corp. (see here);

6. Pershing Square - Pershing Square is a well-known activist outfit which is now apparently on the rebound from several investment misfires; chief investment officer Bill Ackman tends to focus on alignment of incentives, which is clearly the biggest problem at GM. Note that Pershing held a significant position in GM as of the end of 2010, so they should be familiar with the company (source);

7. Trian - Trian, headed by Nelson Peltz, has activist experience with industrial companies such as General Electric (NYSE:GE) (currently holding over 70 million shares, source here), thus they could be a future activist with respect to GM; and

8. Carl Icahn - Carl Icahn currently has an entire auto-related business segment under the aegis of his holding company Icahn Enterprises, consisting of the following (thus being an activist in GM could make logical sense for him) (source):



Segment: Automotive

Company Description

- We conduct our Automotive segment through our wholly owned subsidiaries Federal-Mogul LLC ("Federal-Mogul") and Icahn Automotive Group LLC ("Icahn Automotive")
- Federal-Mogul is engaged in the manufacture and distribution of automotive parts
- Icahn Automotive provides automotive maintenance services as well as retail and wholesale sales of automotive parts

Historical Segment Financial Summary

Automotive Segment ($ millions)	FYE December 31, 2015[2]	FYE December 31, 2016[2]	FYE December 31, 2017	LTM March 31, 2018
Select Income Statement Data:				
Total revenues	$7,853	$9,928	$10,528	$10,687
Adjusted EBITDA	682	862	825	786
Net income (loss)	(352)	77	626	584
Adjusted EBITDA attrib. to IEP	$557	$715	$814	$775
Net income (loss) attrib. to IEP	(299)	53	615	573
Select Balance Sheet Data[1]:				
Total assets	$7,943	$9,855	$10,709	$11,081
Equity attributable to IEP	1,270	2,292	3,234	3,419

Recent Developments

- On April 10, 2018, IEP announced an agreement to sell Federal-Mogul to Tenneco Inc. in a transaction valued at approximately $5.4 billion
  - IEP to receive $800 million in cash and 29.5 million shares of Tenneco Inc. common stock

Federal-Mogul: Powertrain Highlights

- Fuel economy and emissions content driving market growth
  - Combustion engines still #1 for foreseeable future
  - Regulations increasing demand for further improvement through 2025
  - Engine downsizing creates higher content product mix
- Leading powertrain products with #1 or #2 position in most major product categories
- Extensive technology and intellectual property with focus on core product lines
- Investing in emerging markets where there are attractive opportunities for growth
- Continued restructuring to lower cost structure and improve manufacturing footprint

Federal-Mogul: Motorparts Highlights

- Aftermarket benefits from the growing number of vehicles and the increasing age of vehicles
- Leader in most of its product categories with a long history of quality and strong brand names including Champion, Wagner, Ferodo, MOOG, Fel-Pro
- Investing in Growth
  - **Global Expansion**: Leverage global capabilities in Asia and other emerging markets
  - **Distribution and IT**: Improve customer service and delivery, order and inventory management, on-line initiatives
  - **Cost Structure**: improve manufacturing footprint, optimize low-cost sourcing and operational performance
  - **Product Line Growth**: expand existing product lines and add new product lines
  - **Product Differentiation and Brand Value**: invest in product innovation and communicate brand value proposition to end customers

Icahn Automotive Group LLC

- Pep Boys and IEH Auto are operated together in order to grow their sales to DIFM distributors and DIFM service professionals, to grow their automotive service business, and to maintain their DIY customer bases by offering the broadest product assortment in the automotive aftermarket

(1) Balance Sheet data as of the end of each respective fiscal period.
(2) Results include IEH Auto Parts Holding LLC beginning June 1, 2015 and Pep Boys beginning February 3, 2016

14

The following are steps we believe an activist must make GM's board take:

1. Increase the dividend - the current payout ratio, at ~25%, is far too low. The dividend should be increased to $2/share per year, representing a payout ratio of approximately 33% (which is still conservative). GM shares would yield a healthy 5% at current price levels.

2. Repurchase stock based on share price & P/E ratio (buy more when lower, less when higher) - we think it was a questionable decision in March of this year to buy $1.59 billion worth of shares owned by the UAW Retiree Medical Benefits Trust at nearly $40/share (see here), when GM could have bought a similar amount of stock 10% or so lower in price on the open market. As a general rule, however, as long as the company's forward P/E remains under 10X, repurchasing shares makes a lot of sense.

3. Tracking Stocks - GM should issue tracking stocks for GM China and GM's New Ventures (Cruise Automation and its Lyft stake) or, alternatively, spin off these equity stakes to shareholders. If this were done, GM would be much more likely to trade according to the sum of its constituent parts, meaning the respective parts should accurately reflect their underlying cost of capital. Why, for example, should Cruise Automation, clearly a tech business, suffer from the suboptimal cost of capital attributed to an auto manufacturer, a capital-intensive industrial business? Shouldn't Cruise Automation be able to raise capital via the public markets in a manner similar to the recent Softbank investment (i.e., at a high valuation)? In addition, the compensation of GM's employees could be much better targeted using trackers or spin-offs, since individuals working for the tracked or spun-off entities would be compensated with the equity currency of such entities instead of the holding company.

4. Fix GM's corporate governance - GM should allow for proxy access for holders (or groups of aligned holders) of a 1.5% stake (which currently would amount to about $840 million worth) + 2 year hold period, as opposed to the 3% + 3 years status quo.

In addition, the company must split the CEO and chairman roles and onboard as the new chairman a representative of a large shareholder (which would likely be a designee of one of the aforementioned activists).

5. Fix GM's senior executive compensation system - we outlined the flaws in GM's compensation system in our last GM Seeking Alpha article (see here). The current system is in dire need of reform, which changes an activist would be poised to effect.
6. Additional Items - an activist would be able to draw upon their own prior experience in proposing additional shareholder-friendly changes at GM. Perfection should always be the goal, therefore pressure constantly needs to be on the board and management to improve and perfect things over time.

Note that many activists operate behind the scenes as the most effective way to influence boards and management. Thus, just because a Greenlight or a Jana may not be attempting in public view to effect one or more of the above-outlined steps to increase shareholder value doesn't mean that they are not doing so privately.

Conclusion

In reviewing GM's 2018 proxy statement, we were not surprised to discover on page "i" the following statement:

> During 2017, members of the Board met in person with shareholders representing approximately 25% of our outstanding common stock.

The fact that a full three-quarters of the holders of GM's common equity did not have any contact with GM's CEO or the company's other directors last year shows how out of touch GM's senior leadership is with the true owners of the company. We believe that this, combined with GM's subpar corporate governance, lack of financial alignment between board/management and shareholders, severely flawed senior executive compensation system and anemic dividend payout, has caused the massive underperformance of GM shares versus the S&P 500 as well as peers (such as Toyota and Fiat) during the current lengthy bull market. We further believe that the obvious solution to GM's problems lies in shareholder activism. If a large activist obtains a significant stake in GM, we think such an activist could potentially make billions in profits if shares were to reach our $64 target price. Given such an enticing opportunity and clear path to value creation, we think that additional activism in GM's future is simply a question of when, not if.

Disclosure: I am/we are long GM.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Comments (90)

mjrein

Good article I have been buying stock based on hope change in management will come Potential is tremendous!

20 Jul 2018, 09:42 AM

Tomtom2
I bought it as a trade the DAY before it's last jump. I felt so lucky, I dumped it. I put a toe back in about a week ago. It is too cheap... famous last words.

20 Jul 2018, 10:09 AM

ARG1
He wrote the same article the last time promoting the the division of GM stock that was roundly defeated by shareholders. I would ignore this guy because this is an old issue and not worth repeating.

20 Jul 2018, 10:13 AM

Seven Corners Capital Management, Contributor
Author's reply » Arg = defeatist. He/she apparently wishes all GM shareholders to be as poor as possible.

If you like being poor, fellow shareholders, the best way to achieve that end is to adopt such a defeatist attitude.

20 Jul 2018, 12:58 PM

ARG1
You supported Einhorn's dumb idea'. It was really stupid idea:
www.sevencornerscapital.com/...

The shareholders thought it was stupid and overwhelmingly voted against it:

www.investopedia.com/...

These childish remarks :

Arg = defeatist. He/she apparently wishes all GM shareholders to be as poor as possible.
If you like being poor, fellow shareholders, the best way to achieve that end is to adopt such a defeatist attitude.

I will not bother with. Surely there is a better way to spend your time.

20 Jul 2018, 04:42 PM

asdfadsfdsaf
Einhorn has been shorting amazon and google, and lost the majority of his investors lol

20 Jul 2018, 05:46 PM

ARG1
Einhorn is the one that Seven Corners hangs his hat on for his ideas.

20 Jul 2018, 05:49 PM

mauicarpenterjf
BRK = 3.25% of gm. If Warren Buffet wanted things to change they would.

21 Jul 2018, 09:21 AM

jraskib
Still Seven.. is right about management neglecting stock price, and not being on board with investors: Barra owns 1000 shares? There is something wrong here, isn'it?

21 Jul 2018, 12:21 PM

ca7711
She does not just own 1000 shares. She only bought 800 on the open market. As part of her compensation package she has accrued almost 700k shares, or a cool 27 million dollars, as of Feb 2018 according to yahoo finance. Why she would continue to buy shares given the concentration of risk of already having substantial money tied up in GMs stock? I think the more salient point is I don't believe she has sold a share over the previous couple of years.
(Edited)

21 Jul 2018, 04:16 PM

Tdot
" I think the more salient point is, I don't believe she has sold a share over the previous couple of years."

Actually anyone can see Barra's "insider trading" activity - it is required public information. Plenty of Barra selling going on for the last 2 years:
www.nasdaq.com/...
www.nasdaq.com/...

But note that this is not in any way unusual. Many top executives receive the majority of their compensation in the form of shares, and options to buy more shares at a discount price, usually about half market price.

Those share awards are taxed as income, and are subject to withholding like any other, thus these executives may be forced to sell half or more their share awards just to pay the taxes. Same when they execute options to buy shares at a discount relative to the market. So you see a lot of activity like this:

Insider Relation Last Date Transaction Type OwnerType Shares Traded Last Price Shares Held

BARRA MARY T Officer 02/11/2018 Acquisition (Non Open Market) direct 477,834 0.0000 909,331

BARRA MARY T Officer 02/11/2018 Disposition (Non Open Market) direct 223,524 41.4600 431,497

22 Jul 2018, 07:16 PM

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ca7711
Tdot,
Certainly different kinds of selling.
It looks like yahoo finance excludes those dispositions.

(Edited)

22 Jul 2018, 09:53 PM

Tdot
Oh? I suppose "it depends on what the meaning of the word 'is' is"?

22 Jul 2018, 10:31 PM

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kman042018
Hope is not how you invest, GM will continue it's decline and at best will only move sideways. No growth. Move along.

20 Jul 2018, 10:11 AM

Qinsp
Whoever wins the race to the autonomous car, will dominate the auto industry.

Watch what happens over the next 18 months. Waymo has not bought an automaker yet, and their software could not handle San Francisco reliably. They are purchasing inferior technology in the hope throwing money at the problem fixes it. TSLA fell into the same trap.

There are only 2 viable players, GM and Waymo, and GM is leading. Everyone else is now so far back as to be pointless in the AV race.

20 Jul 2018, 08:37 PM

Microcap Growth Investor, Contributor
I Agree, AV's are the future. But it won't be only Waymo and GM dominating.

Based on multiple studies, ridesharing (Uber and Lyft) popularity has actually increased congestion in cities where they operate, all while neither of them have ever made a penny in profit. Early on, AV's will likely have the same effect (increasing congestion) with one or two riders per vehicle (especially in GM's Chevy Bolt - which isn't equipped to pack in lots of riders at the same time). Thus, it stands to reason, that there will be plenty of time for more operators to get their technology into the field, as the traffic problem isn't going to be solved by AV's anytime soon.

www.usatoday.com/...

Yep, there is a reason Lyft has a new strategy for its ride-sharing service, it needs to eventually become profitable...It can't be done moving one or two passengers at a time...

"Lyft has a new goal: By 2020, it wants 50 percent of its trips to be shared."

www.wired.com/...

Only Ford is coming with a AV business strategy that will
Take congestion off the roads - using its Transport Van platform as the AV, which seats up to 14 people - which is estimated to take 8 to 10 cars off the road. Thats why Ford is working closely with Lyft. Its Transports vans will eventually be the backbone of Lyft's ride-sharing service. Ford will probably partner with Uber at some point too.

20 Jul 2018, 09:08 PM

Qinsp
GM is taking a small dose of poison now so it does not risk being irrelevant in 2025.

You note that Toyota has better market performance. Toyota has invested very little money in AV or EV automotive technology or ridesharing. It is more profitable this quarter to pretend technology is not in an upheaval.

Companies that do not invest in that direction are going to be horse carriage manufacturers. Technology moves on. Mary Barra as an engineer with an MBA and experience in all areas of automotive production knows that perhaps better than CEO in the auto industry. Even Elon Musk is not as invested in AV and rideshare technology as Barra is. Super Cruise, Lyft, Maven, EVs, EREVs, China, AV network starting in 2019, etc. GM is literally "bleeding edge".

So if you want to flip the company and watch the US auto industry dissolve, focus you thoughts on the next 90 days. If you've watched the parade over the years, you will start your changeover to the new personal transportation systems.

20 Jul 2018, 10:18 AM

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jsantmyer
Yep, sounds like a long to me. Come on in, the water's fine...

20 Jul 2018, 10:29 AM

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dotheopposite
Barra is one of the best out there. The choice is simple...take a long term view with an intelligent manager, or short term view with pump and dump activist.

20 Jul 2018, 10:34 AM

Seven Corners Capital Management, Contributor
Author's reply » Absolutely false. Barra gets an "A" for automative operations but gets an "F" for corporate governance. Corp gov at GM is abysmal.

BTW, are all the GM senior execs who constantly dump their shares at 6X earnings taking the "long-term view"??? Why are they constantly so eager to sell their stock?

20 Jul 2018, 12:39 PM

Andrew Shapiro, Contributor

By its very nature activist investing is far longer term than most institutional investors who average holding period isn't even a single year. The accumulation of a meaningful stake, holding such stake throughout a campaign, which often lasts for more than a year, and enjoying the fruits of one's activism before divesting of part or all of ones' position is a multi-year process. Far longer time horizon that much of management's incentive bonuses are measured. Slapping the term "pump and dump" to activism, is not only ignorant, its just swallowing the red herring that entrenched managements and board toss out to stay entrenched.

20 Jul 2018, 07:27 PM

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pikefitter2

Management have decided to go to a quarterly sales report, furthering their isolation from the public and shareholders, now they only have to come out once every three months from their private sweets, and they never do any thing in between the quarter report to boost the stock price. I think management and board have too much back room private control without realizing the shareholders is the owner of this company. Some one must make them realize we the shareholders are the owner of this company and they are employees

20 Jul 2018, 10:41 AM

Seven Corners Capital Management, Contributor

Author’s reply » Totally correct - Barra acts like she and her C-suite buddies own the company, rather than the shareholders. Untrue!

20 Jul 2018, 12:39 PM

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ca7711

You guys are crazy.... another savvy operational move by Mary and her team IMO. Informational advantage is at least a temp competitive advantage. Imagine knowing what your competitors are doing well or badly at while they do not know anything about your results...

21 Jul 2018, 04:24 PM

Steve in Seattle

7. Make better cars.

20 Jul 2018, 10:49 AM

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russclehman

They make very good cars now, but it's hard to shake a reputation. Granted they made some pretty garbage cars in the 80s and early 90s, but that is close to 30 years ago now. The Korean car companies are in a similar boat in that regard.

20 Jul 2018, 10:58 AM

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jsantmyer

So the bottom line is activism- that’s all you got?

It is obvious that your short team goals of “what have you done for me lately”do not match up well with the long term goals of the company to position itself for a successful future.

Sounds like a perfect mismatch. Liquidate your position and move on. It sure beats the heartache of trying to become the next corporate Che Guevara.

Power to the affluent people!

20 Jul 2018, 10:51 AM

Seven Corners Capital Management, Contributor

Author’s reply » "So the bottom line is activism- that’s all you got?"

Read the article. Somebody has to take control of the BoD back from management. That somebody must be an activist to do so.

"short team goals of “what have you done for me lately”do not match up well with the long term goals of the company to position itself for a successful future"

Again, read the article - the actions we advocate for STRENGTHEN the long-term ability of GM to compete in the marketplace.

"Liquidate your position and move on."

No thanks.

20 Jul 2018, 12:41 PM

Microcap Growth Investor, Contributor

This is a great article! There is clearly much room for improvement wrt GM management making GM far more shareholder friendly. As pointed out and to Barra's and mgt's credit, GM has operationally been doing well in its two biggest markets and has made some very intelligent moves in the auto mobility space, including investing in LYFT and bringing Softbank on as an investor in Cruise. I agree on pretty much ALL of your 6 remedies, its about time that GM shareholders get paid. I think its coming.

One thing to consider, is the fact that "value" stocks have been severely lagging vs growth stocks in this entire market cycle. It doesn't explain ALL of GM's (or Ford's) underperformance, but it certainly its responsible for some of it. Investors have pushed growth stocks to incredible valuations, while value stocks have been left to die on the vine. Eventually that phenomenon will change and smart money will seek the left-for-dead value names.

20 Jul 2018, 10:55 AM

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ivan0034

Microcap, very well said but I truly believe that the lions share of the share price stagnation is plain old conventional wisdom. Hope your correct about the sea of change in regards to value stocks. We'll, thats why diversification is the best strategy.

21 Jul 2018, 01:03 PM

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russclehman

I think they were wise to stay away from FCA. FCA's shares might be up, but Dodge Trucks, their largest margin vehicle are losing market share to GM trucks, and FCA has a pretty poor reputation for quality. Look at the new Alfa, or the absolute garbage vehicle that is the Fiat 500. I don't think merging with FCA would have been good for GM, it might have been really good for FCA though.

20 Jul 2018, 10:56 AM

Microcap Growth Investor, Contributor

I agree, it was a good "non-decision" by Barra : FCA = brand dilution. If she's going to spend the co's cash, it should be on mobility technology. In my opinion, AV's are the future of the auto industry and she has GM well positioned to be a leader in that space. Although, I don't think the company will realize any significant profits from AV's until 2024 on.

Having said that, I think its Barra's responsibility to get the stock price up in the more near term. I think its on the cusp of happening, as investor fatigue and dour sentiment on the auto stocks will begin to turn soon.

20 Jul 2018, 11:08 AM

Seven Corners Capital Management, Contributor

Author's reply » Not saying merging with FCAU would have been the right move. Rather, the right move would have been seriously considering whether it made sense or not - instead, Barra immediately rejected it. Why dismiss something potentially value enhancing out-of-hand without adequate consideration? That's just plain stupid (unless all you care about is entrenching yourself).

20 Jul 2018, 12:44 PM

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russclehman

@ Seven Corners. Perhaps Barra has her ear to the ground on one of her biggest competitors in the pickup and SUV market. Perhaps she has engineers doing a tear down of FCA products to see how well they are built and what they might be doing. I think she didn't need much consideration because she already has all kinds of intel on the company. I think she was 100% right to discard it out of hand. FCA has nothing to offer them except Ferrari, and since Ferrari is more or less it's own company I don't think they'd gain anything there either. FCA is behind in every thing, Driver assist, engine tech, technology integration, you name it.

20 Jul 2018, 01:47 PM

J38765
Some folks think Jeep is valuable.....just saying

20 Jul 2018, 02:03 PM

russclehman
@J38765, Jeep and Ram Trucks are the only thing keeping FCA on life support at this point. Maybe GM buying Jeep would make some sense, but even then it's mostly the branding at cult following that keeps people buying Jeeps, except for the some of their crazy Hellcat powered models and the Wrangler Jeep doesn't have anything compelling, and the Wrangler price keeps ballooning every year, If they aren't careful they are going to price the Wrangler out of the demographic that is most likely to buy them.

20 Jul 2018, 02:07 PM

J38765
Russ I wasn’t advocating for GM to buy anything. I was just pointing out that FCA has some very valuable assets. By the way, in the real world Jeep is smoking hot and it is stocked with very compelling offerings that command huge ATPs. The sales numbers tell the story.....

20 Jul 2018, 05:21 PM

ivan0034
J38765, and then there is the Bronco. This will get interesting.

21 Jul 2018, 01:06 PM

hijlehhw
I agree 100%, Jeep's are outrageously priced IMO. You could buy a rubicon, small and with mediocre interior for the same price as a Silverado LTZ fully decked out. The jeeps are small and the interiors IMO feel cheap and low quality. Im speaking from the experience of working with a group of 6 guys who are in a Jeep club in our area and all have over $50k into their Jeeps, one has a Hemi conversion done, not to mention each of these guys is putting $10k to $20k in accessories on these things. The prices for accessories are outrageous as well and they all pay it.

Anyway, average customers can't pay those prices, its unrealistic, and many of the 4x4 crowd (there are exceptions) are not high income earners. As for Ram, they have a grand slam with the Cummins partnership, and I think they will sell quite a few trucks due to the ultra large touch screen in the new ones alone, but the rest of the trucks IMO are lacking. I hear about them all, everyone at work has a new one very year (but me) so I hear the pros and cons of all the big three. Dodge consistently and significantly have more issues than the others. And the 3/4 ton with the Cummins, the engine is bulletproof and the rest of the truck has issues. My coworker bought a brand new truck and had it back in the shop 2 times for front end work and finally traded off when they told him the transfer case went, this was a 50+k truck with the cummins and had less than 20k miles on it!

Anyway where I am going with this, yes I think Jeeps are ridiculously overpriced, BUT they have a ridiculously loyal following and it could be a decent acquisition although unlikely because its one of the only things FCAU has going for them. As for the trucks, the cummins partnership is golden, and they are the first to offer the large screen in the center control area (smart) but the rest IMO is junk. Im very glad GM didn't partner with FCAU.

24 Jul 2018, 07:26 PM

Tdot
That's the key - Jeep fans consider their favorite higher priced vehicles to be aspirational, and will save up to get one, and upgrade over time.

24 Jul 2018, 09:11 PM

Pat Stout, Marketplace Contributor
GM had activists in it, that forced the Management/Board to go on a stock buying binge and has spent $10.6 Billion, at an average price of $35.21 through March 31, 2018. First batch of shares repurchased at an average price of $38.03 in March 2015.

Clearly the GM share repurchases have failed the 20% ROIC test.

Pat

20 Jul 2018, 11:57 AM

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jraskib
Seven corners..: Fair article and fair criticism of the Management.
True: Why Barra doesn't invest in stock?
Why all these activists, you mentioned, haven't done and not doing much (except Green light)?
I also for long time thought that increasing dividends every Q, just by a penny, or something like this, on consistent bases, would move the stock significantly. What, we ordinary investors, can do?
Very long, and getting tired, GM.

20 Jul 2018, 12:02 PM

Seven Corners Capital Management, Contributor
Author's reply » "Why all these activists, you mentioned, haven't done and not doing much (except Green light)?"

Barra and her minions do everything possible to block activists. They spend gobs of our money on high-priced advisors to sabotage ideas presented by activists (perhaps all that $$$ wasted by Barra et al. could have been used to increase our dividend--but no). Look what they did to Greenlight last year.

20 Jul 2018, 12:46 PM

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gf735243
Smart move on Ms Barrs's part to reject Marchione's offer. While I think there things GM should do(repurchase stock, increase dividend)...certainly " activism" is not the answer. Activists tend to benefit short term shareholders and end up destroying companies, generating huge unemployment and affecting entire communities and long term shareholders

20 Jul 2018, 01:20 PM

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russclehman
It almost destroyed NUCOR.

20 Jul 2018, 02:04 PM

Seven Corners Capital Management, Contributor
Author's reply » Eight years of massive underperformance versus the S&P 500 - how's that for "long term"?

20 Jul 2018, 05:13 PM

Seven Corners Capital Management, Contributor
Author's reply » Many more companies have been saved by activists than killed. Look at Berkshire Hathaway - Buffett was an activist there. Would Berkshire have been better off with in 1965 with a CEO insisting that the future lay with doubling down on domestic textile manufacturing? Or were Berkshire stakeholders better off allowing Buffett to take over the company in 1965?

20 Jul 2018, 05:16 PM

ARG1
Great company. Like the CEO. Even Einhorn and Buffett are keeping their shares. I am long GM.

20 Jul 2018, 05:22 PM

Seven Corners Capital Management, Contributor
Author's reply » Barra is a fine operational CEO. Barra is an absolutely terrible BoD Chairman.

GM's BoD desperately needs a new chairman to (A) make sure the shareholders' interests are represented at the highest level (the BoD) and (B) force management to preserve, protect and defend the shareholders first and foremost (and not prioritize lining their own pockets, scheduling their private jet itineraries, adorning their palatial offices with works of art, etc). Why? BECAUSE THE SHAREHOLDERS (NOT MANAGEMENT) OWN THE COMPANY, THAT'S WHY.

20 Jul 2018, 06:03 PM

Tdot
I was just thinking - this is probably why Ford separated the Chairman position from the CEO position, when Bill Ford "fired" himself as CEO. But he did sort-of create the "Executive Chairman" position for himself, which sort of allows him to have a hand in the executive-level operating of the company, alongside the Chief Executive.

21 Jul 2018, 09:57 AM

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gf735243
I believe the story of " activists" doesn't fare well when you look at the last 10/15 years when they become more active(unfortunately). You need to look at the whole of all parts and not just share price- which as we know is influenced by a lot of things). I do not disagree with separating the CEO role from the Chair role and that a few things need to be done immediately(dividend raise, buybacks, etc). I also don't disagree that major shareholders should have a director(Buffett's group?).
I also believe the executive como is not the issue. Options yes...management benefits from low price at grant but then then it really has to go up(share price) as to have them in the money. Restricted and performance as we know the higher the price if the share the more money management (and everyone)does. It is true that at grant the lower the price the more units of everything they get- unless they put "collars" around the numbers of those. In any event: I
Think the idea of management" managing " this to get higher units at grant doesn't have merit in my opinion, specially when they would have to "manage"this up again to get money out of the options, etc. I think low prices(same as high=lower units at grant) are circunstancial. My view goes towards better/smarter use of cash flow and investments....in the meantime I remain confident in them.

22 Jul 2018, 02:09 PM

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asdfadsfdsaf
Doesn't WB own it?

20 Jul 2018, 01:50 PM

ARG1
GM Warren Buffett as of 2018-03-31 owns 50,000,000shares and he drives a Cadillac.

David Einhorn as of 2018-03-31 owns 22,614,400 shares

20 Jul 2018, 05:27 PM

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monkeyofaustria
I am long GM and I think your article is just loughable. On the one hand you praise Barra's management team's operating achievements, on the other hand you blame them for the development of the share price.
I think the management has made tremendous improvements in the business and that they are not responsible for Mr. Market's irrational behaviour.
I strongly support Mrs. Barra's leadership. Being a value investor requires patience, not (financial) activism.
Just add more shares and wait!

20 Jul 2018, 02:16 PM

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asdfadsfdsaf
The longer the price is low the more shares you can accumulate...

20 Jul 2018, 02:17 PM

Seven Corners Capital Management, Contributor

Author's reply » Of course management and the board are responsible for the share price. They control the company operations, they control communications with Wall Street and their investors, they control whether they buy back a large amount of shares or not, they control what the dividend size is, etc etc etc. For any company the board and management are ALWAYS ultimately responsible for whether the stock is appropriately priced.

20 Jul 2018, 05:10 PM

LoStInvestor
This is an interesting take. I am long GM and think the fundamentals and strategic outlook for the company look absolutely fantastic. However it is an indisputable fact that stock price has lagged dramatically and is not performing despite rock solid fundamentals.

I'm not sure that I necessarily agree with the author on all of his points, but its interesting food for thought. Thank you for writing this.

20 Jul 2018, 02:27 PM

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jraskib
Still, why not to do something to increase stock price? It seems to be good for all, including the management, doesn't it? After all. it's really strange the management doesn't invest in stock. Never mind it do well operationally, and doesn't believe in company.
Take Icohn, he invests in own company (IEP) all the way, so you can invest along during bad time and good.

20 Jul 2018, 04:16 PM

Seven Corners Capital Management, Contributor
Author's reply » Management wants the stock low so they get more RSUs and options with lower strike prices (meaning they get options on a larger # of shares). The interests of management are NOT aligned with the interests of the shareholders. That is the whole reason why activism is required here and why we need a shareholder representative on the board of directors!

20 Jul 2018, 05:06 PM

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pearls before swine
The article compares GM's price performance to that of other manufacturers--including TM and FCAU.

Perhaps a better comparison would be Ford (F). Same country, almost the same size.

Its performance is no better than GM's.

21 Jul 2018, 08:23 AM

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ivan0034
Worse, with the exception of the dividend.

21 Jul 2018, 01:13 PM

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carsons7
I'm a buyer at $35.70. We will get there before the end of this year..

21 Jul 2018, 08:42 AM

475F
Well, just put "Bezos" and "GM" together in all your references. Earnings seem meaningless for either, but only one is in vogue.

21 Jul 2018, 11:33 AM

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jraskib
Next time I'll vote against Barra as a Cheirman of the Board. Probably against some directors as well. We have to show to them that ordinary shareholders aren't happy with the wtock performance.
Again, my question is why big shareholders don't tell Management that something must be done to move the stock? I read that Buffet reduced his holding in GM.

Any idea?
Long GM and warrants.

21 Jul 2018, 12:31 PM

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bobpaulo
The low P/E is the result of ongoing belief that we are past peak in auto sales, and an ongoing sales decline will play out for the next several years. Investors have also been drawn into FANG and related growth stocks, as they continue to read and hear about how they must stay clear of auto stocks.
However, it's also important to realize that tech advancements in safety, as well as hundreds of new functional features, are helping to drive new vehicle sales. The ongoing transition toward more crossovers, is also helping new vehicle sales.
I continue to look at GM's product line, and the mix continues to get much better. The new Crossovers are selling very well, because they are way better than the outgoing models. Customers read the reviews, test drive the vehicles, and look at the style and functional improvements, and buy these new vehicles, at much higher transaction prices than the outgoing models.
The new pickups have far more engineering with truck bed design, than all of the competition, (just to name one improvement of many). Due out in a month or so.

No more old outdated vehicles at GM. Look at how GM China continues to churn out dozens of newly designed models.
All that said, the profit picture at GM looks great and I'd expect an easy beat with potential for a revision to their full year earnings forecast.
We are now at a point where earnings should start to drag up the share price, as GM's cash and book value continue to mount.

21 Jul 2018, 01:08 PM

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ivan0034
Just a thought, if you look at GM or Fords market cap it seems inexplicable that the investment community has such low regard for either company. Ford Credit should as a stand-alone company be worth anywhere from 12 to 18 billion in market cap. Adam Jonas has placed the F Series franchise at 150% of Ford's total value. Even if you assign a negative value of say 10 billion to Fords overseas operations those two cash machines should have Ford at about a 70 billion dollar market cap or 17+ a share. GM is a similar story. They are both extremely under valued.

21 Jul 2018, 01:37 PM

Steve in Seattle
My first post wasn't a joke, although it may have seemed funny. Russ's reply underscores my comment. They made garbage cars for decades. Now their cars are perhaps good, at BEST. That's not enough to shake the stigma. GM has been sitting on a river of cash flow for years and done nothing with it. In contrast, Elon comes along and with a couple of billion makes a great car from scratch (I'm talking about the Model S), and ends up with a company worth more than GM yet with negative cash flow.

I like that they're finally getting serious about electric, but they're playing catch-up. Sure, I think the author's point that board members don't have enough skin in the game is well taken. But, nothing would improve stock performance more than introducing a blockbuster new line up.

21 Jul 2018, 03:00 PM

> **Pat Stout, Marketplace Contributor**
> @Steve in Seattle,
>
> Agree, but that might require a shift from financial engineering to mechanical engineering and product design. I am surprised GM didn't take the Corvette platform for its electric car to compete with Tesla. And like it or not GM will be tarnished (low valuation versus peers) due to the government bailout, and its low tax rate as a result.
>
> Maybe General Motors needs a name change to shake the Government Motors impression.
>
> Pat
>
> 21 Jul 2018, 03:10 PM

> **Microcap Growth Investor, Contributor**

Had Musk never started TSLA, and F and Gm pioneered the modern electric car, it would have never taken off like it has. EV's needed a entrepreneur that is a bold risk-taker with a clean sheet of paper vision and a flair for salesmanship. All talents that GM and F aren't great at, which is the big reason why they couldn't have pioneered the modern electric vehicle.

Also: Why would Ford or GM go fully into electrification prematurely while that niche is unprofitable and required tons of investment resources without any promise of an ROI - again, thats not what they are good at.

However, now that the EV industry has momentum, I expect F and GM to successfully shift their product mix toward electrification over the next 5 years or so.

23 Jul 2018, 10:26 AM

Tdot
Yes indeed - it looks like EVs just might finally break the 1% market share in the US this year, with Tesla owning a whopping two-thirds of the products that 99% of Americans don't want enough to pay a 50% premium over a similar sized ICE vehicle.

So far, in June the market share was 0.77%, and 0.74% in the first half compared to 0.53% last year. Such enormous growth in EV market share is absolutely stunning - everyone should be jumping in for a chance to lose more money along with Tesla.

As you say, maybe in 5 years it will be a viable business, manufacturing EVs. Supposedly Ford has something coming in a year two, hopefully they will have cracked the code for an affordable and profitable EV for the mass market. They say they do anyway, nobody else has though... electrek.co/...

23 Jul 2018, 11:52 AM

Microcap Growth Investor, Contributor
Yep, There's lots of pieces to this puzzle,

The 3 Biggies are;
1. affordability of the technology (more specifically, battery prices coming down through mass production, substitution of less expensive materials, etc),
2. Infrastructure of charging stations
3. Charging time

There have been and continue to be significant developments and progress that show that EV's, over time, will be very competitive with ICE. But certainly we are not there yet.

23 Jul 2018, 02:55 PM

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shortoptimism
GM is famous for their Board of Bystanders. Did you ever read Robert Farrago when he ran The Truth About Cars in the 00’s? With a few exceptions, they are the trusty generic motors brand that’s always there as a fallback. At this point you really can’t expect more. They’ve innovated by committee as much as they can. The past 8 years have passed them because the country is feeling more flush and affluent. They can afford better. You can’t change GM, so buy an exciting car company instead. And stay off GM’s lawn.

22 Jul 2018, 12:02 AM

Compounding Cash, Contributor
It's fair to point out some failings in GM's management. However I'm quite happy as a small shareholder that it's not run like Tesla. Making highly leveraged bets with no margin for error always looks smart until it doesn't.

Einhorn's proposal seemed a bit strange too. It could have been profitable for him, but creating one class of shares that pays dividends and another than doesn't seems more like a way to distribute the value unevenly between shareholders rather than an actual improvement in the business or the governance.

For much the same reason I avoid most of the income-focused share structures (such as MLPs) that have historically been a way for management to separate assets and cashflow from unsuspecting investors.

23 Jul 2018, 03:27 PM

Nir Nabar, Contributor
Is WB cashing out of GM. This article says so.

madison.com/...

Buffett could be getting a bit nervous about the U.S. auto market. He's owned General Motors shares since 2012, but in Q4 the Oracle of Omaha reduced his stake in General Motors by 16.7%, or 10 million shares. If history's any gauge, he probably plans to sell more of his remaining 50 million shares in 2018.

Buffett hasn't said much publicly about his decision to sell GM shares, but, reading the tea leaves, it wouldn't surprise me if he's becoming less enthusiastic because U.S. auto sales posted their first post-recession year-over-year decline last year. As a result, GM's North American adjusted operating profit slipped to $11.9 billion from $12.4 billion in 2016.

It may also concern him that GM's profitability is increasingly reliant on its finance division, something that could become a problem if defaults increase because U.S. auto debt has swelled in the past few years. Or perhaps he's simply booking his profit. After all, General Motors' shares were trading at post-recession highs last October.

It could also be that Buffett's starting to view General Motors as a technology company. Historically, Buffett's avoided owning technology stocks because he doesn't understand them well enough. Undeniably, trucks and cars are becoming rolling computers and competitors, including Tesla, are forcing GM to spend more money on technology initiatives, including autonomous driving. Buffett may feel like he doesn't understand GM's future as clearly as he did before. Another disincentive to owning GM stock is that there's supply chain uncertainty associated with President Donald Trump's desire to renegotiate NAFTA, which could impact vehicle imports from Mexico.

Only Buffett knows what he plans on doing with his remaining General Motors stock, but his selling is reminiscent of when he began selling some of his other former blue chip holdings, including Walmart and General Electric. If I'm right and this is the start of him unwinding his entire stake, then General Motors's shares will probably remain risky to own, at least until he's finished selling.

24 Jul 2018, 02:04 AM

Jim Kimmelman, Contributor
I want them to buyback shares at this valuation before increasing the dividend. They need to authorize another $5-8B to buy back in the next 4 quarters.

24 Jul 2018, 03:39 PM

Pat Stout, Marketplace Contributor
@Jim Kimmelman,

Why would you want GM to spend (waste) another $5-$8 billion on top of the $10.6+ billion they have already spent buying stock without increasing the market capitalization? First batch of shares were purchased at an average price of $38.03 in March 2015. The shares closed today at $39.48, therefore the first shares repurchased have gained $1.45 or 3.8%. GM spent $6.60 per Jan 2015 outstanding shares. Spending $6.60 to increase the share price $1.45 isn't a good investment is it?

24 Jul 2018, 08:47 PM

Jim Kimmelman, Contributor
Now trading at 6x earnings. I'd rather had them buyback which is not a taxable event. Another 6B will shrink the float by more than 10%.

25 Jul 2018, 09:25 AM

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ca7711
absolutely. Put that FCF to work.

25 Jul 2018, 12:41 PM

Pat Stout, Marketplace Contributor
Many buyers of (new) GM stock don't have to worry about a taxable event, as the share price has declined from when GM began buying stock in March 2015.

Owners of (old) GM stock were wiped out, as the old GM could not service its debt and declared bankruptcy, right? How did the (old) GM share repurchases add value?

25 Jul 2018, 10:05 PM

Jim Kimmelman, Contributor
Dividends are taxable events. Buybacks are not. You can sell shares if you need current income. At this P/E, they could buyback nearly half the company in 3 years.

Same reason at this price I like MU buying back shares than starting a dividend.

26 Jul 2018, 08:45 AM

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ainjibi
GM is a great company with an excellent work environment. They are innovating a lot ....better than Tesla certainly. If only the stock uce would move up ....

25 Jul 2018, 01:11 AM

Microcap Growth Investor, Contributor
Less than 1 month ago, Softbank acquired ~20% of Cruise at a $11B valuation. If you subtract that out from GM's market cap, GM is trading at a valuation of ~$40B right now (ex Cruise). And, GM's legacy business will still do $6 in EPS this year. Insane, no one cares about value stocks at this time. All the love goes to disruptors like TSLA, NFLX, GOOG, Uber, Lyft, etc., etc.

This should force GM and F's hand to attempt some daring moves to keep themselves relevant in the new world of autos. If they can't find a way to be at the center of AV's and electric vehicles in the next few year or so, its gonna be a tough slog for investors.

Personally, I think they will both pull the transition off, but market doesn't seem to think so - at least not yet.

25 Jul 2018, 01:42 PM

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asdfadsfdsaf
I like GM, BMW and Daimler, but the thing is i don't like about Ford because i don't like their cars...

That 6% is getting attractive, but i just don't think their products are any good...Hard choice, as i want to buy some at 10 but just can't

25 Jul 2018, 05:09 PM

Microcap Growth Investor, Contributor
You don't like Ford cars?

Well, Ford isn't really going to be a "car" company any more, its a SUV and truck company + Commercial vehicles (i.e. Ford Transit). At least that is where all there profits come from and in the U.S. they are dumping their car line-up (except Mustang). Based on todays conference call, it looks like they will be getting out of low/negative margin cars globally (over the next 3 to 5 years), once the current product cycle runs its course (which is a great decision, I wholeheartedly applaud the new direction).

25 Jul 2018, 07:09 PM

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asdfadsfdsaf
No i do not, i prefer GM's for american cars. Ford kinda reminds me of Chrysler. GM has better self driving tech and has luxury brands like Cadillac.

Also if oil ever shoots up, that will end the truck craze. Their are cycles between big and small cars and trucks...not a good idea to get out completely, even if it is lower margin right now...

25 Jul 2018, 07:12 PM

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asdfadsfdsaf
@Microcap Growth Investor

What is going on with Ford? I read they are now keeping investors in the "dark" lol

26 Jul 2018, 06:45 PM

Microcap Growth Investor, Contributor
They are in the penalty box, but bigger picture is they are redesigning the entire company, as it Ford's operations are very inefficient and slow to change.

In the end, I think they will come through the transformation a winner in the auto space. But will take time. Investors need to look toward 2020 and beyond.

26 Jul 2018, 07:49 PM

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asdfadsfdsaf
Sounds risky, but good luck!

26 Jul 2018, 07:50 PM

Microcap Growth Investor, Contributor
The risk for Ford is maintaining the status quo and doing nothing. Its a long time coming that they have needed to completely revamp their business, and now they FINALLY have a CEO that is up to the challenge. I could not be more bullish on the company.

27 Jul 2018, 09:59 AM

AutoTech
The author is on to something --- reality is the mindset at F, GM, etc is stubborn, meat-headed and while each has dipped its toes into "Silicon Valley" initiatives (at great cost and even greater doubtful returns on invested $), they still don't get it.

Time to clean house at GM and at F with the latter being completely mismanaged by the Ford Family Dinosaurs.

26 Jul 2018, 09:55 AM