General Motors Company

Ten key factors beyond 2024 that could drive value for GM – thoughts on strategy

Industry Overview

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Global
Autos/Car Manufacturers

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Ten factors/strategies beyond 2024 that could drive value

Despite recent stellar results and the likelihood of much more in 2024+, GM's stock has been stalled. It appears there is a high level of skepticism of what could be next for GM other than lower earnings and potential obsolescence. Therefore, we highlight ten potential positive factors/strategies for 2024+, but believe there could more.

Powertrain progression from ICE=> EV=> PHEVs

On the 4Q:23 call, GM pivoted towards introducing PHEVs in NA. With slower EV adoption, GM will try to bridge consumers to EVs with an interim PHEV step.

Future may be in Fuel Cells 10+ years out

GM continues to invest in hydrogen fuel cells. There are many expensive hurdles that are similar to those facing EVs, but fuel cells don't recreate a dependence on foreign entities of concern the way EVs do, which means the cost may be far lower.

Exit China before it is too late

Profits in China have become challenged and domestic competition is only getting tougher. GM should considering monetizing its Chinese assets while there is still value.

Leverage core truck business

GM derives the majority of its profits from NA trucks where it has a loyal customer base and real competitive advantage. We think it should focus even more on this segment.

Develop a strategy for light commercial business

We believe GM has an opportunity to formalize its light commercial truck business with an already strong product set. This should drive incremental and stable profits.

Develop/monetize LT connection with vehicle/customer

The majority of auto value chain revenue and profits are realized after the new vehicle sale, but not captured by GM or its dealers. Connected car technology/OnStar could be key to allowing GM and its dealers to directly participate in this lost profit pool.

Cruise is still a tremendous opportunity

We believe the Cruise tech provides an opportunity over the long-term as a "stand-alone" business for robotaxis in the order of magnitude of $1bn in EBIT/major city. The tech could also be leveraged to differentiate GM's core retail/fleet products.

GM defense has material potential

GM re-established its defense business in 2017, which could be profitable on a standalone basis and potentially seed technology across the auto business.

Leverage well-funded US pension plan and run buyouts

Given a well-funded US plan, we see an opportunity for GM to resize its US workforce by buying out more tenured workers, accelerating natural attrition by 2-to-5 years. This could dramatically lower ongoing labor costs by as much as $1bn.

Capital deployment just beginning

With strong free cash flow and a stalwart balance sheet, GM should continue to return meaningful value to shareholders via buybacks and dividends.

We discuss these points in more detail below.

Acronyms:
EV: Electric vehicle
GM: General Motors
ICE: Internal combustion engine
MY: Model year
NA: North America
OEM: Original equipment manufacturer
PHEV: Plug-in hybrid electric vehicle

Refer to important disclosures on page 5 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 3. **12653080**

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Ten key fulcrum points beyond 2024 that could drive value

Despite recent stellar results and the likelihood of more in 2024+, GM's stock has been stalled in a range from roughly $30 to $40. It appears that there is a high level of skepticism of what could possibly be next for GM other than lower earnings and potential obsolescence. We think the 2024+ reality for GM is far brighter than most fear, but do believe that strategy will need to materially evolve. Therefore, we highlight ten potential positive factors/strategies for 2024+, but believe there could be other angles.

1. **Powertrain progression from ICE=>EV=>PHEV in the next 5-10 years** – During the 4Q:23 earnings call, GM pivoted towards the idea of introducing PHEVs in the North American market. The company already has the capabilities to produce these vehicles in other geographies such as China, however, up until now it did not offer PHEVs in North America as the sole focus was on the ramp up of the Ultium platform. As EV adoption is slower than previously expected, GM will try to bridge consumers from ICE vehicles to EVs with an interim PHEV step, similar to what Ford is doing. In addition, we highlight that management hinted to the fact that PHEVs are also key for regulatory compliance in terms of emission standards, which are likely to become more stringent starting with MY2026.

2. **Future may be in Fuel Cells as majority 10+ years out** – Although GM is investing heavily in EVs, it also continues to invest in hydrogen fuel cells. This is currently being done in a cooperation with Honda (Fuel Cell System Manufacturing LLC) and commercial production has just begun under the brand "Hydrotec." There is a very large and relatively quiet contingent in the auto industry that believes hydrogen fuel cells are the ultimate solution to the industry's powertrain conundrum, with plug-in-hybrids and EVs being interim steps. This quiet contingent is led most publicly by Japanese OEMs and by many engineers at other OEMs including GM. Remember GM made a meaningful investment in Nikola for a reason. Admittedly, there are many expensive hurdles such as fuel cell development, scaling production, and the build out of a hydrogen distribution network, all of which sound eerily similar to the hurdles for EVs. In a very different way, fuel cells don't recreate a dependence by GM / auto industry / US in aggregate on foreign entities of concern the way EVs will, which means the ultimate cost may be far lower.

3. **Exit China before it is too late** – For years profits in China have become increasingly challenged as domestic automakers have become more capable, especially in EVs. This, combined with China domestic OEMs leveraging their cost advantage while rapidly ramping production, puts GM and other Western OEMs in an increasingly uncompetitive position. Price competition in China is only getting tougher and exports are ramping up as well (now almost 5mm units vs. nothing about 4 years ago). As a result, we believe GM should consider monetizing its Chinese assets where there is still value to be had. In addition, other markets should be thoroughly reviewed (i.e., South America).

4. **Leverage core truck business** - As GM demonstrates its ability to continue to deliver large profits in North America trucks, we think it should focus even more on this market segment. GM has a loyal customer base for its high margin trucks and, together with Ford and Stellantis, has a real competitive advantage as other global OEMs have not been able to crack the code on the US truck buyer.

5. **Develop a light commercial strategy** –Similar to Ford Pro, we believe GM has an opportunity to formalize its light commercial truck business in North America and maybe globally as well. GM already has a strong product portfolio that can serve the commercial market, which could drive incremental stable profits and returns.

6. **Develop/monetize a longer-term connection to the vehicle/customer** – It is no secret that the majority of revenue and profits are realized after the point of sale and not captured by GM or its dealers. However, connected car technology / OnStar could be leveraged to further develop a relationship with the customer, drive the vehicle back to GM dealers to realize more parts & service (P&S) profit / more trades of the Used vehicles, protect residuals, and drive more financing profit (including insurance) over the life of the vehicle. This is currently a lost opportunity that is far larger than the current profit pool GM and its dealers participate in.

7. **Cruise is still a tremendous opportunity** – Although Cruise had some material missteps in 2023, we continue to believe the technology provides an opportunity over the long-term as a “stand-alone” business for robotaxis in the order of magnitude of $1bn in EBIT/major city. In addition, the technology could be leveraged to differentiate GM’s core retail / fleet products.

8. **GM defense has material potential** – GM re-established the defense business in 2017. There are many applications from the core truck portfolio, powertrain tech, connectivity, autonomy that could be further developed with defense customers. This could be very profitable on a stand-alone basis and potentially seed technology across the auto business.

9. **Leverage well-funded US pension plan and run large buyouts** – Given a well-funded US plan that should be able to support more retirees, we see an opportunity for GM to resize its US workforce by buying out more tenured workers, accelerating natural attrition by 2-to-5 years. This could dramatically lower ongoing labor costs by as much as $1bn.

10. **Capital deployment just beginning** – With strong free cash flow and a stalwart balance sheet, GM is now more aggressively returning capital to shareholders via an Accelerated Stock Repurchase plan along with a dividend. As long as free cash flow stays strong (we’d expect this through 2028), GM should continue to return meaningful value directly to shareholders via buybacks and dividends (potentially supplemental).

Price objective basis & risk

General Motors Company (GM)

Our price objective of $75 is based on an EV/EBITDAP multiple (EV/EBITDA adjusted for pension) of roughly 4x on our 2024 estimates. This valuation methodology reflects a multiple within GM's historical range (3-6x). We believe a multiple at this level is warranted considering the timing of the cycle and as GM's Core business is being well managed even amidst a choppy macro, while the accelerating focus on Future-proofing the business with the development of the necessary components of the future of mobility services, including an autonomous electric vehicle fleet (Cruise Anywhere) and connectivity (OnStar), may provide upside.

Downside risks: 1) a more swift and/or material downturn in US auto sales, 2) a sharp and sustained rise in input costs, 3) disruption in the supply base, 4) significant increase in gas prices, 5) new vehicle pricing deteriorates, 6) market share losses pressure results, 7) unwillingness of dealers to shoulder inventory risk, 8) suppliers gain significant pricing power, 9) stress in capital markets makes borrowing more expensive, 10) key members of management leave.

Upside risks: 1) continued strength in US auto cycle, 2) growth in China remains robust, which benefits GM through its established market position, 3) mix and pricing remain favorable, 4) capital allocation is directed towards shareholder returns (share repurchases, etc.).

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US - Automotives Coverage Cluster

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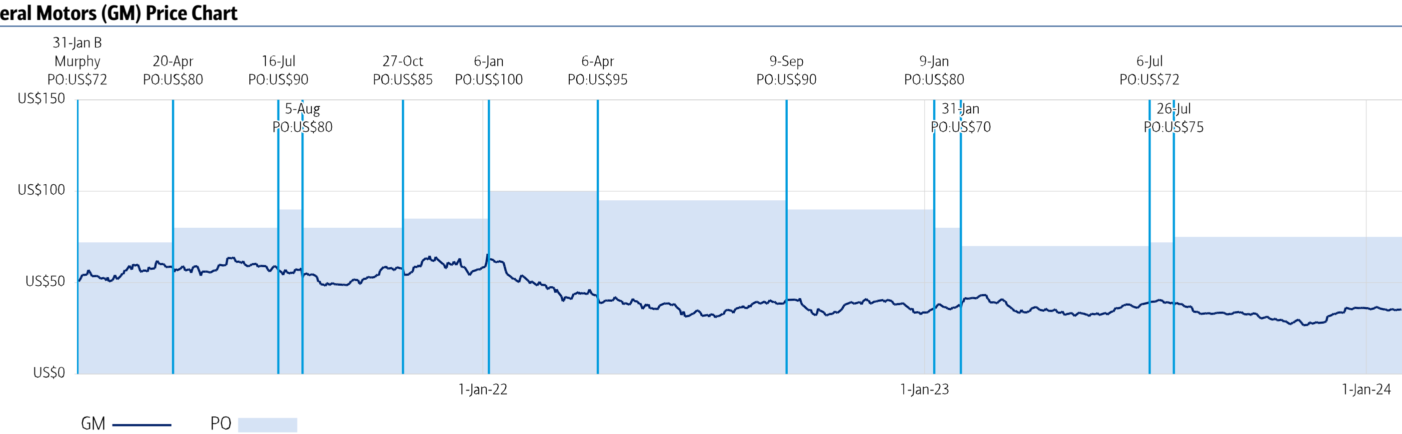
General Motors (GM) Price Chart



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Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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