

Company Update — November 15, 2022

Autos and Auto Parts

General Motors Co. (GM)

GM: Will Investors Get Bullish on Long Term Given Near-Term Challenges?

Our Call

GM will host an Investor Day on November 17th. GM already hosted a special [Cruise event](#) and test drive in September; therefore, we expect the investor day to focus on its EV strategy. We also expect the company to provide some broad 2023 guidance and possibly provide mid-term margin guidance (vs. 2030 target last year). The [media](#) has already reported that GM will announce EVs will be profitable by 2025. We remain skeptical that EVs can be sustainably profitable by 2025 even with IRA help, though pricing & raw mat assumptions will be key. The timing of the event is pretty challenging, as GM will likely focus on long term, but investors are keenly focus on the near term. Moreover, we suspect near term color on 2023 might be more negative (pension, mix, etc). We remain UW.

More headwinds than tailwinds into 2023

Current consensus adj EBIT for 2023 is \$10.9B vs. 2022 guidance of \$13-15B and our \$9B estimate. GM is expected to provide some color on 2023 drivers, but not full guidance. We expect most updates will be headwinds as consensus still looks too high in our view. We are optimistic that production will rise in 2023 with improved semi supply, and GM will also benefit from the recent decline in raw material costs, which implies part of the \$5B in 2022 headwinds should reverse. That said, there are also numerous challenges into 2023 including likely price decline from record levels (see Exhibit 2), normalization of vehicle mix (see Exhibit 1), lower pension income (est. [\\$1B headwind](#)), continued EV investment costs, FX, and the UAW contract negotiations.

Can GM deliver on EV profitability by 2025?

At the last Investor Day, GM promised ICE like EV margins by 2030. Since then, battery raw material costs have dramatically spiked; therefore, it would be surprising if GM can still see EV profitability by 2025. While IRA is a meaningful help, we remain skeptical that EVs will be sustainably profitable by 2025. We estimate EV SUVs will be \$2,850 lower profit than a comparable ICE vehicle. More concerning, we estimate EV pickups will be \$12,375 lower profit than a comparable ICE pickup. Key factors to understand around EV profitability will be the pricing assumption vs. ICE, raw mat assumptions, and the inclusion of other costs (advertising, marketing, R&D, etc).

Mid-term guide posts

At the last investor day, GM guided to doubling sales & expanding margins to 12-14% (~9-10% pre-crisis) by 2030. Given investors were disappointed by the lack of mid-term guide posts, we expect GM to provide mid-term guides this year. We suspect any 2-3 year margin targets would be consistent with ~9-10% historic margin vs. long-term targets as it takes time for SaaS to scale.

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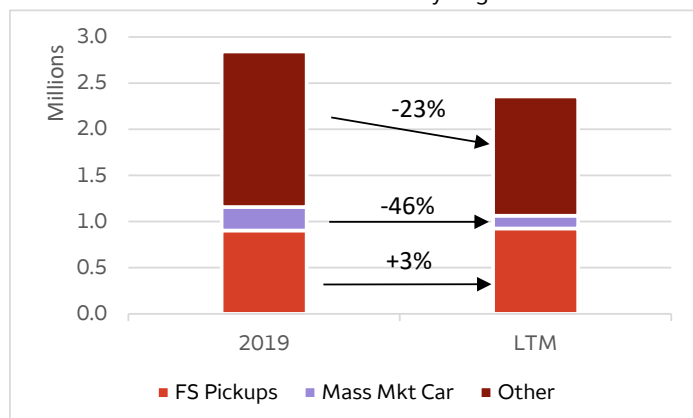
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Rating	Underweight
Ticker	GM
Price Target/Prior:	\$30.00/NC
Upside/(Downside) to Target	(25.5)%
Price (11/15/2022)	\$40.25
52 Week Range	\$30.34 - 66.56
Shares Outstanding	1,420,696,787
Market Cap (MM)	\$56,728
Enterprise Value (MM)	\$69,802
Average Daily Volume	3,581,380
Average Daily Value (MM)	\$143
Dividend (NTM)	\$0.00
Dividend Yield	0.0%
Net Debt (MM) - last reported	\$(4,645)
ROIC - Current year est.	7%
3 Yr EPS CAGR from current year (unless otherwise noted)	(16)%

\$	2021A	2022E	2022E	2023E	2023E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	2.25 A	2.09 A	NC	1.75 E	NC
Q2 (Jun)	1.97 A	1.14 A	NC	1.52 E	NC
Q3 (Sep)	1.52 A	2.25 A	NC	0.46 E	NC
Q4 (Dec)	1.35 A	1.60 E	NC	0.55 E	NC
FY	7.07 A	7.10 E	NC	4.30 E	NC
P/E	5.7x	5.7x		9.4x	

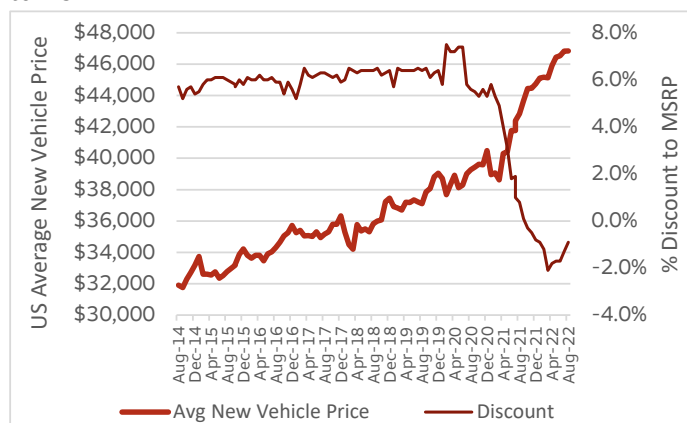
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Exhibit 1 - GM N American Production by Segment



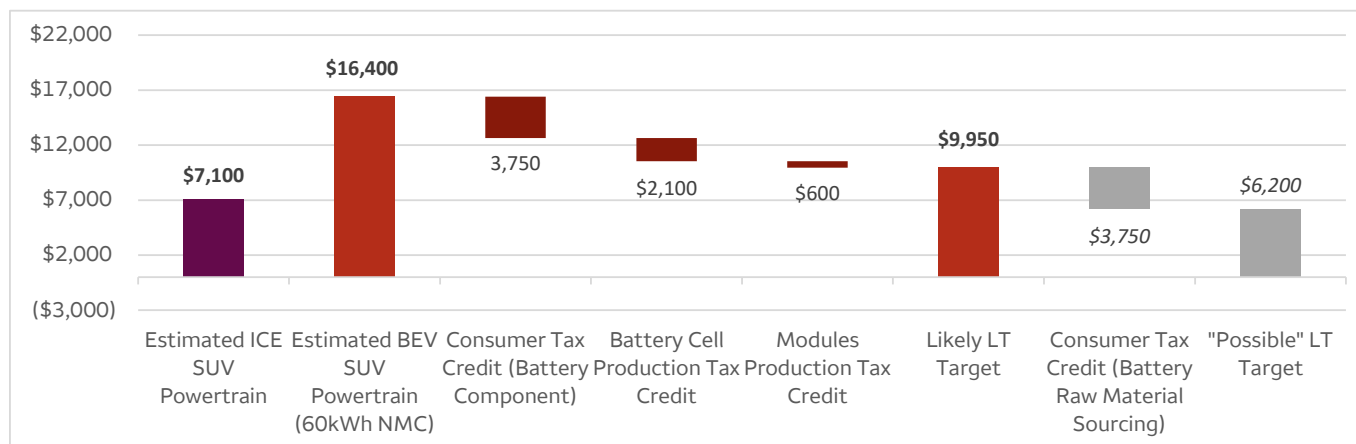
Source: Wards; Wells Fargo Securities, LLC

Exhibit 2 - US New Vehicle Average Transaction Prices & Discount to MSRP



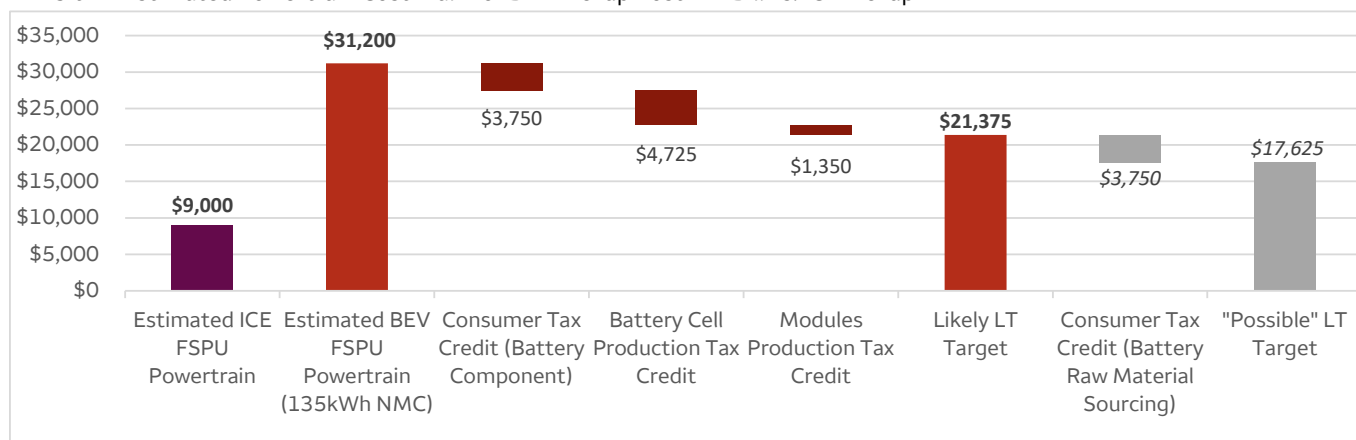
Source: Bloomberg; Wells Fargo Securities, LLC

Exhibit 3 - Estimated Powertrain Cost Walk for BEV SUV Post IRA Bill vs. ICE SUV



Source: Company Reports; Wells Fargo Securities, LLC estimates

Exhibit 4 - Estimated Powertrain Cost Walk for BEV Pickup Post IRA Bill vs. ICE Pickup



Source: Company Reports; Wells Fargo Securities, LLC estimates

Financials

Exhibit 5 - GM Financial Outlook

\$ in millions, except per share data												
INCOME STATEMENT												
	FY 2019A	FY 2020A	FY 2021A	Q1 '22A	Q2 '22A	Q3 '22A	Q4 '22E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Net Sales	122,797	108,772	113,690	32,849	32,639	38,728	39,770	143,986	154,072	162,157	173,989	168,547
Cost of Sales	(110,224)	(97,003)	(99,946)	(28,422)	(29,286)	(33,726)	(35,513)	(126,947)	(140,663)	(149,016)	(156,155)	(152,600)
Gross Profit	12,573	11,769	13,744	4,427	3,353	5,002	4,256	17,038	13,409	13,141	17,834	15,947
Selling, General & Admin.	(8,491)	(7,038)	(8,554)	(2,504)	(2,294)	(2,477)	(2,585)	(9,860)	(10,015)	(10,540)	(11,309)	(10,956)
Operating Income	4,082	4,731	5,190	1,923	1,059	2,525	1,671	7,210	3,425	2,631	6,556	5,022
% Margin	3.3%	4.3%	4.6%	5.9%	3.2%	6.5%	4.2%	5.0%	2.2%	1.6%	3.8%	3.0%
Interest Expense	(782)	(1,098)	(950)	(226)	(234)	(259)	(250)	(969)	(1,000)	(1,000)	(1,000)	(1,000)
Equity in Affiliates	1,102	527	1,100	238	(95)	323	273	739	788	1,338	1,358	1,822
GM Financial	2,104	2,702	5,036	1,284	1,107	910	711	4,012	3,330	3,388	3,408	3,429
Interest Income	429.0	241.0	146	50.0	73.0	122.0	100.0	345	200	200	200	200
Other Income	1,040	1,644	2,895	467	222	476	250	1,415	1,000	1,000	1,000	1,000
Pretax Income	7,975	8,747	13,417	3,736	2,132	4,097	2,755	12,752	7,743	7,557	11,522	10,473
Income Taxes	(957)	(1,608)	(2,927)	(750)	(490)	(845)	(496)	(2,581)	(1,774)	(1,731)	(2,643)	(2,402)
Tax Rate	12.0%	18.4%	21.8%	20.1%	23.0%	20.6%	18.0%	20.2%	22.9%	22.9%	22.9%	22.9%
Non Controlling Interest	65	106	74	131	50	53	110	344	480	480	480	480
Convert/Prd Add Back	(151)	(180)	(182)	(42)	(26)	(27)	(45)	(140)	(180)	(180)	(180)	(180)
Net Income	6,932	7,065	10,382	3,075	1,666	3,278	2,324	10,375	6,270	6,126	9,179	8,371
Basic Shares	1,424	1,433	1,451	1,458	1,458	1,448	1,448	1,453	1,448	1,448	1,448	1,448
Diluted Shares	1,439	1,442	1,468	1,470	1,465	1,457	1,457	1,462	1,457	1,457	1,457	1,457
Diluted EPS	\$4.82	\$4.90	\$7.07	\$2.09	\$1.14	\$2.25	\$1.60	\$7.10	\$4.30	\$4.20	\$6.30	\$5.75
Dividends	1.52	0.10	0.00	0.00	0.00	0.09	0.09	0.05	0.09	0.09	0.09	0.09
Adjusted EBIT	8,393	9,710	14,295	4,044	2,343	4,287	3,015	13,720	9,023	8,837	12,802	11,753
BALANCE SHEET												
ASSETS												
Cash and Cash Equivalents	17,317	22,271	21,617	17,664	17,908	22,987	23,711	23,711	26,086	30,274	35,882	41,299
Receivables	6,614	7,951	7,553	11,617	11,460	12,691	12,815	12,815	13,815	13,144	13,685	13,604
Inventory	10,398	10,236	12,990	14,839	16,861	16,369	16,967	16,967	19,099	18,963	19,443	19,414
Other Noncurrent Assets	5,204	3,653	5,475	6,753	6,073	5,459	6,708	6,708	7,551	7,497	7,687	7,675
Total Current Assets	39,533	44,111	47,635	50,873	52,302	57,506	60,201	60,201	66,550	69,878	76,697	81,993
Net Property, Plant & Equipment	38,374	37,325	40,858	41,460	41,706	42,563	45,244	45,244	48,690	51,183	53,799	56,245
Investments and Advances	7,107	6,825	7,960	8,623	7,972	8,205	8,205	8,205	8,205	8,205	8,205	8,205
Goodwill	3,348	3,152	3,012	2,978	2,945	2,908	2,908	2,908	2,908	2,908	2,908	2,908
Deferred Taxes	24,582	23,853	21,653	21,282	20,935	20,386	20,386	20,386	20,386	20,386	20,386	20,386
Other Noncurrent Assets	7,665	7,985	11,538	12,154	12,004	11,432	12,239	12,239	13,867	14,594	15,659	15,169
Total Auto Assets	120,609	123,251	132,656	137,370	137,864	143,000	149,183	149,183	160,606	167,154	177,654	184,906
GM Financial Assets	108,881	113,410	113,207	115,312	116,807	118,917	120,701	120,701	128,107	129,393	130,692	132,004
Eliminations	(1,452)	(1,467)	(1,145)	(1,190)	(1,154)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)
Total Assets	228,038	235,194	244,718	251,492	253,517	260,530	268,496	268,496	287,326	295,160	306,959	315,523
LIABILITIES AND STOCKHOLDERS' EQUITY												
Short Term Debt	2,397	1,674	624	857	794	626	626	626	626	626	626	626
Accounts Payable	21,101	19,928	20,065	24,968	25,724	26,808	29,594	29,594	33,311	33,075	33,913	33,862
Other Liabilities & Deferred Revenue	22,493	18,751	16,879	16,538	15,655	17,205	18,407	18,407	20,396	21,607	22,642	22,127
Other Current Liabilities	192	226	397	1,383	1,153	938	938	938	938	938	938	938
Total Current Liabilities	46,183	40,579	37,965	43,746	43,326	45,577	49,566	49,566	55,272	56,246	58,119	57,553
Long-term Debt	12,507	16,193	16,348	16,149	16,115	18,326	18,326	18,326	18,326	18,326	18,326	18,326
Other Long Term Liabilities	29,124	30,864	26,800	25,903	25,388	24,932	24,932	24,932	24,932	24,932	24,932	24,932
Total Liabilities	87,814	87,636	81,113	85,798	84,829	88,835	92,824	92,824	98,530	99,504	101,377	100,811
GM Financial Liabilities	95,679	99,324	98,918	99,808	101,459	103,315	105,099	105,099	112,505	113,791	115,090	116,402
Eliminations	(1,412)	(1,443)	(1,128)	(1,177)	(1,146)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)	(1,387)
Total Liabilities	182,081	185,517	178,903	184,429	185,142	190,763	196,536	196,536	209,648	211,909	215,080	215,826
Total Stockholders' Equity	45,957	49,677	65,815	67,063	68,375	69,767	71,961	71,961	77,678	83,252	91,878	99,697
Total Liabilities and Equity	228,038	235,194	244,718	251,492	253,517	260,530	268,496	268,496	287,326	295,160	306,959	315,523
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CASH FLOW												
Net Income	5,844	4,975	7,774	2,550	1,167	3,030	2,324	9,071	6,239	6,095	9,148	8,340
Depreciation & Amortization	6,711	5,507	5,861	1,643	1,624	1,548	1,548	6,363	6,554	6,751	6,953	7,162
Other Non-Cash Charges	(75)	945	2,282	(265)	(86)	153	0	(198)	0	0	0	0
Net Earnings Adjusted for Non-cash Char	12,480	11,427	15,917	3,928	2,705	4,731	3,872	15,236	12,793	12,845	16,101	15,502
Working Capital Adjustment	(5,088)	(3,908)	(6,224)	(2,292)	763	1,771	1,211	1,453	104	1,106	(402)	44
CFO	7,392	7,519	9,693	1,636	3,468	6,502	5,083	16,689	12,897	13,952	15,698	15,546
Capital Expenditures	(7,485)	(5,251)	(7,389)	(1,645)	(2,072)	(2,054)	(4,229)	(10,000)	(10,000)	(9,243)	(9,569)	(9,607)
Marketable Securities, Derivatives, Lease	2,447	(3,592)	973	(1,506)	19	211	0	(1,276)	0	0	0	0
Net Sales & Acquisitions	(540)	66	(1,758)	(3,681)	(803)	464	0	(4,020)	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
CFI	(5,578)	(8,777)	(8,174)	(6,832)	(2,856)	(1,379)	(4,229)	(15,296)	(10,000)	(9,243)	(9,569)	(9,607)
Changes in Debt	321	2,999	(835)	(31)	(20)	2,033	0	1,982	0	0	0	0
Payments for Purchase of Treasury Stock	(48)	0	0	0	0	(1,514)	0	(1,514)	0	0	0	0
Dividends paid	(2,199)	(547)	(1)	0	(8)	(130)	(130)	(268)	(521)	(521)	(521)	(521)
Other	(161)	(316)	(37)	(161)	(142)	(29)	0	(332)	0	0	0	0
CFF	(2,087)	2,136	(873)	(192)	(170)	360	(130)	200	(521)	(521)	(521)	(521)
FX - Auto Only	(1)	(139)	(97)	41	(121)	(99)	0	(179)	0	0	0	0
Increase (Decrease) in Automotive Cash	(274)	739	549	(5,347)	321	5,384	0	0	0	0	0	0
Increase (Decrease) in Total Cash	(554)	739	549	(3,563)	(264)	3,785	724	1,414	2,376	4,188	5,608	5,418
Free Cash Flow	(93)	2,268	2,304	(9)	1,396	4,448	854	6,689	2,897	4,709	6,129	5,939

Source: Company reports; Wells Fargo Securities, LLC estimates

Investment Thesis, Valuation and Risks

General Motors Co. (GM)

Investment Thesis

We rate GM as Underweight. GM is the largest US automaker by market share and actively invests in autonomous technology, electric vehicle development, and connected car capabilities. However, we believe that the rise in battery raw material costs has negatively impacted the outlook for BEV profitability, and consequently, GM's profitability. Moreover, US fuel economy regulations will likely force automakers to sell BEVs to meet targets. Overall, we see limited near-term catalysts as the normalization of new vehicle pricing and higher input costs likely offset expected volume increases. In addition, we also see headwinds from the 2023 UAW contract negotiations.

Target Price Valuation for GM: \$30.00 from NC

Our \$30 price target is based on 2.0x 2023E core EBITDA and \$10B for its Cruise stake. Our base case reflects an ~5% y/y increase in FY 2022E global production (12% N America, -6% Europe, & 4% China).

Risks to Our Price Target and Rating for GM

Notable upside risks to our price target and rating include:

- 1) A meaningful decline in battery raw material prices.
- 2) Faster-than-expected easing of semiconductor and supply chain challenges.
- 3) New vehicle pricing sustaining its current record strength for longer than expected.
- 4) The successful launch of key EV products such as the Cadillac Lyriq, GMC Hummer EV, Chevy Silverado / GMC Sierra EV, Chevy Equinox EV, and Chevy Blazer EV.
- 5) Successful expansion of Cruise's autonomous rideshare technology across the US.

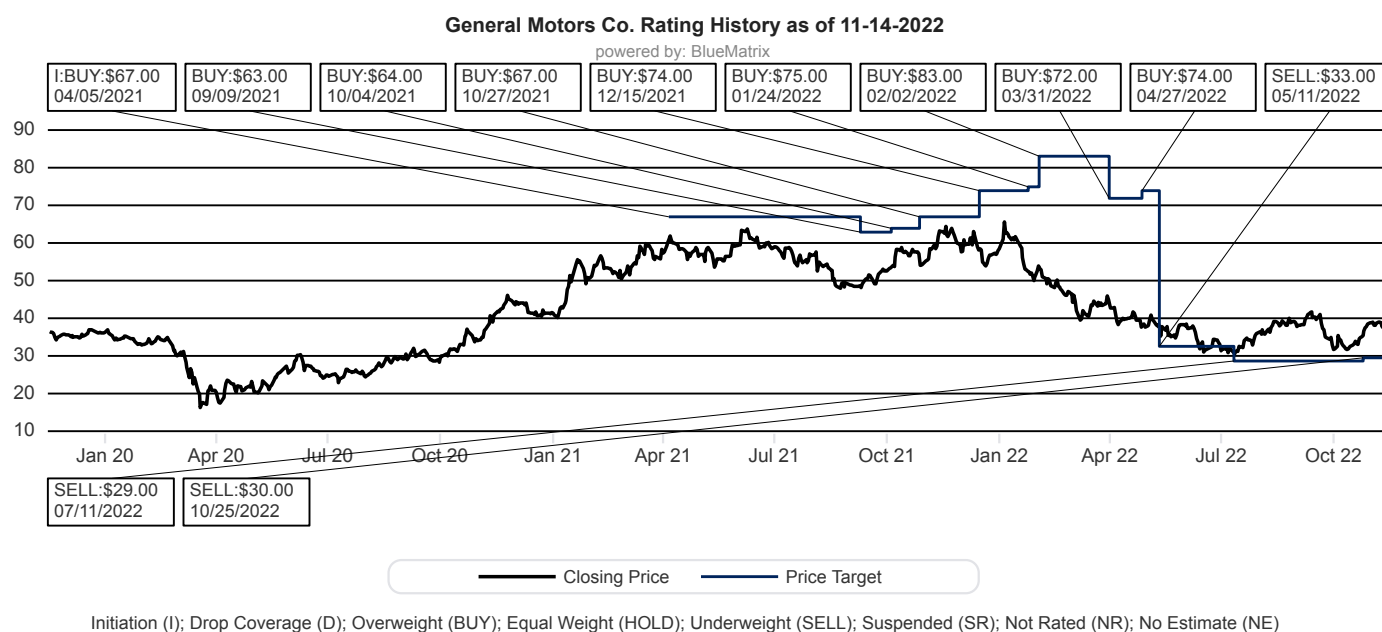
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2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

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As of November 14, 2022

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