

ISGAM AG, Beethovenstrasse 48, CH-8002 Zurich, Switzerland  
 T: +41 44 286 6060 F: +41 44 286 6065 E: enquiry@isgam.ch

## Stock Highlight for the Quarter to 30 June 2021

This quarter we would like to focus on General Motors Company, a century-old American automobile manufacturer company headquartered in Detroit, Michigan (General Motors Co. emerged from the bankruptcy of General Motors Corp. in 2009). General Motors is the largest U.S. auto manufacturer and one of the largest globally.

It manufactures, markets, and distributes cars, trucks, and vehicle parts, and provides financing services. General Motors has global manufacturing operations in six continents and sells its vehicles worldwide under well-known brands like Buick, Cadillac, Chevrolet, and GMC. General Motors has been part of the consumer discretionary sector of the Millennium portfolio since September 2013.

General Motors operates under four segments namely GM North America (GMNA), GM International (GMNI), GM Cruise, and GM Financial. The business divisions GMNA and GMI handle the automotive end of the business while General Motors Financial provides automotive financing products and services. Alternatively, General Motors is focusing on the future of transportation by developing batteries, electric vehicles, and autonomous vehicles via its GM Cruise business.

We added General Motors to the Millennium portfolio in 2013 after it has been re-included in the S&P 500 following a four-year absence, marking a major milestone for the automaker.



Historical performance (total return in %) Source: Bloomberg Finance L.P.

We always had strong conviction in General Motors because it is an innovative and well-managed company with a clear vision on how to shape the future of the transportation industry. Over the period September 2013 to June 2021, General Motors underperformed the S&P 500, but its market capitalization rose from \$50 billion to \$85.8 billion (as of June 30, 2021) making it the world's 182nd most valuable company by market capitalization.

The average annual dividend yield paid over the past 8 years is 3.7% and its shares are up 133.9% versus 40.8% for the S&P 500 over the past 12 months.

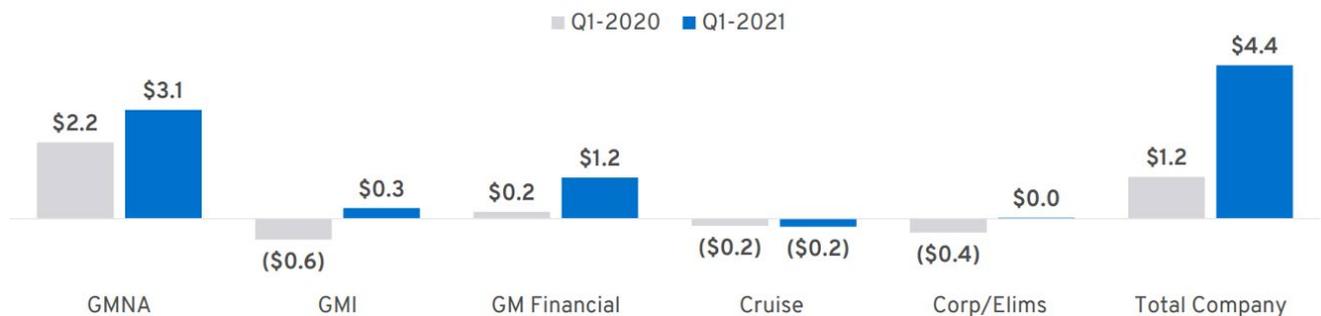
Year-to-date, General Motors is up 42.10% (as of June 30, 2021) and is part of our top 3 contributors to return of the Millennium portfolio and the best performing stock of the consumer discretionary sector of the Millennium portfolio.

Despite the Covid-19 pandemic and the semiconductors' shortage which has caused global automakers factory closures, General Motors reported strong quarterly results in the first quarter of 2021, well ahead of expectations, and more importantly, with a reiteration of its 2021 earnings guidance.

In Q1 2021, General Motors reported pretax adjusted earnings of \$4.4 billion up from \$1.2 billion a year earlier (please see the chart below) with especially strong positive contributions from the price/mix but with a drag from the volume/cost performance attributed to the semiconductors' shortage, higher material costs, and electric vehicles engineering.

## First Quarter EBIT-adjusted

In \$B



Source: General Motors Company

We have strong conviction in General Motors because it is a well-managed company under the leadership of Mary Barra, the CEO of General Motors since 2014. She started to work for General Motors in 1980 and has spent all her career in the company. Barra is the first woman to lead one of the big three automakers in the U.S. As a CEO, Barra changed the corporate culture by focusing on three factors; customers, relationships, and excellence; with customer satisfaction being at the center of everything. General Motors' vehicles are now of the best quality and design in decades.

General Motors's long-term business strategy is the result of Barra's vision of a world with zero crashes (to save lives), zero emissions (to allow future generations to inherit a healthier planet), and zero congestion (to give back to customers a precious commodity – time). She is focused on improving the customer experience and strengthening General Motors's core vehicle and services business, while also working to lead the transformation of personal mobility through advanced technologies like connectivity, electrification, and autonomous driving.

For instance, General Motors decided to increase its electric vehicle and autonomous vehicle investments to \$35 billion through 2025 to boost its transformative strategy to become the market leader in electric vehicles in North America and to become the global leader in battery and fuel cell technology through its Ultium battery platform and Hydrotec fuel cells. With 30 new electric models set to be launched by 2025, General Motors is targeting annual global electric vehicles sales of more than 1 million. Other initiatives relate to the charging infrastructure for which General Motors has signed agreements with seven of the largest charging providers to further accelerate widespread electric vehicles adoption.

We also like the fact that General Motors's business future is deeply rooted into environmental values. For instance, General Motors aims to be carbon neutral in their global products and operations by 2040. Its emission reduction targets were approved by the Science Based Targets Initiative (SBTi) and are aligned with the Paris Agreement.

Besides, General Motors aspires to eliminate tailpipe emissions for new light-duty vehicles by 2035 and to source 100% of power from renewable sources by 2035, and by 2030 in the U.S. The firm also committed to reduce operational water intensity by 35% by 2035 against a 2010 baseline.

Of course, General Motors is exposed to downside risks through potential weaker than expected global economic conditions due to the ongoing uncertainty and challenges related to the Covid-19 crisis. General Motors could be affected by unfavorable foreign currency movements, gasoline prices, raw material costs, and semiconductors shortage. It could face pressures from competitors leading to slower than expected sales or to experience less than anticipated demand from key countries impacting sales volumes and margins. Furthermore, the auto industry is so cyclical that in bad times even the best automakers cannot avoid large declines on return on invested capital and profit.

As a conclusion, we believe General Motors is well positioned to play a significant role in transforming the transportation industry. General Motors's aggressive electrification and autonomous driving strategy, combined with steering most of its capital towards these solutions could ultimately give it a strong market position in Autos 2.0 and new ways to monetize it.

Lately, the firm even made considerable progress in disrupting the autonomous driving sector by being selected to be the exclusive provider of self-driving taxis in Dubai through 2029.

Furthermore, in the last few years, General Motors showed its ability to overcome cyclical downturns via structural improvements to the balance sheet and profitability. General Motors anticipates a strong year 2021 as the temporary semiconductor shortage should not impact growth and electric vehicles initiatives. In fact, the global semiconductors' shortage and the lower available supplies have led to higher profits per vehicle, allowing it to continue to perform well despite the shortage. In addition, it continues to benefit from a robust North America market, with strong pricing and mix benefits. Thus, strong end market demand is translating into robust financial performance, and with the ongoing next-generation mobility trend continuing to unfold for General Motors, we remain bullish on the stock.

In subsequent quarterly reports we will bring you further case studies in our "Highlights" series.

As always, please do not hesitate to contact us if you have any questions or comments, about the contents of this report or your portfolio in general.

**Portfolio Management Team, ISGAM AG**

---

This document is prepared for educational and informational purposes ONLY, by ISGAM AG. Please [click here](#) for the important information. It is not intended nor should it be considered an invitation or inducement to buy or sell a security or securities noted within nor should it be viewed as a communication intended to persuade or incite you to buy or sell security or securities noted within. The information provided is not to be treated as advice. It has no regard for the specific investment objectives, financial situation or needs of any specific person or entity. Past performance is not a reliable indicator of future performance.