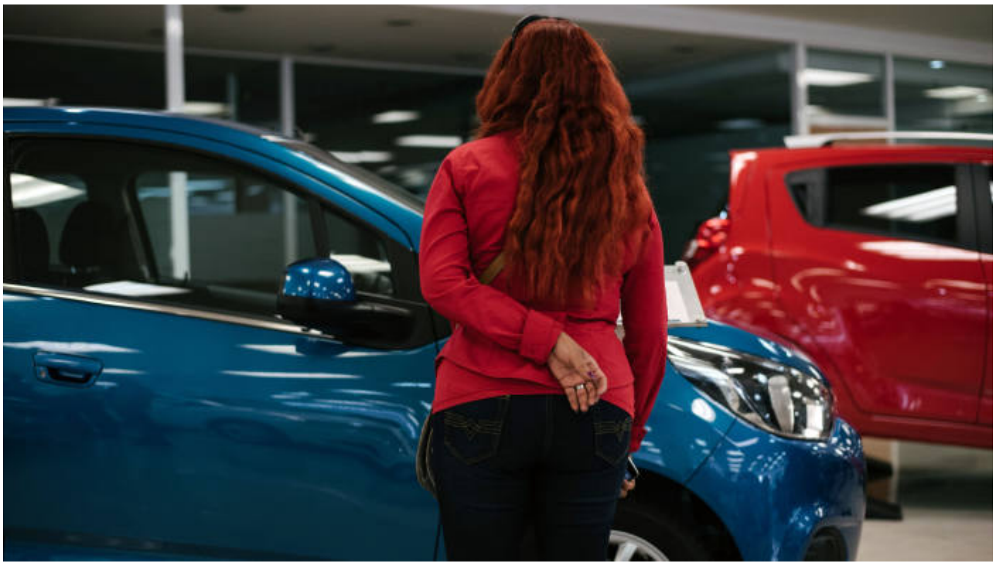
Opinion **Lex**

General Motors: Cruzing for a bruising

Carmaker is a private-sector company facing social sector demands



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YESTERDAY

When only shareholders matter, there is only one constituency to disappoint. As capitalism tilts slowly to recognise other stakeholders, General Motors is showing the way in how to let multiple interested parties down. GM is set to close its Lordstown, Ohio plant, manufacturer of the Chevrolet Cruze model, a sedan that has fallen out of favour. The resulting job losses have united President Donald Trump, Democrats and organised labour in outrage.

Shares are only up 17 per cent since the big US carmaker emerged from a bailout in 2010. That has left Wall Street feeling frustrated too. At present, GM is not pleasing any of the people, any of the time.

This week advocacy group Hedge Clippers in conjunction with the US teacher's labour union, AFT, blamed job and factory cuts on GM's allegiance to not just to shareholders generally, but hedge funds only interested in "short-term payoffs". It is an odd charge given that GM's largest shareholders include long-only institutions such as Capital Group, passive funds like Vanguard and BlackRock, and Berkshire Hathaway. Even the United Auto Workers union took a stake when GM restructured itself.

The company is a tempting target for noisy dissidents all the same. Acknowledging its troubled history, GM keeps a liquidity cushion of about $20bn in cash (its total core debt and pension obligations totals only $32bn) that looks ripe for buybacks and dividends. An activist campaign four years ago nudged the company into committing to a $5bn buyback.

This time, activists of a socially-aware kind say GM has plenty of cash to subsidise workers and factories. Their Wall Street counterparts may soon arrive on the scene demanding more buybacks. And the company? GM says it is retooling to compete for customers who favour pick-up trucks and will eventually want electric and autonomous vehicles.

The company is cutting its annual expense base by $4.5bn and taking its capex spend from $8.5bn to $7bn each year. It pays roughly $2.2bn in annual dividends but bought back just $190m of

Feedback

shares last year. The company recently said it would only repurchase stock after fortifying its balance sheet and making investments required to lift returns over 20 per cent. If no one is happy with that strategy for reasons that are contradictory, GM is likely to be doing the right thing.

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