General Motors Financial Analysis Essay, Research Paper

General Motors – Financial Ratio Analysis

I. General Motors History Highlights

In its early years the automobile industry consisted of hundreds of firms, each producing a few models. William Durant, who bought and reorganized a failing Buick Motors in 1904, determined that if several automobile makers would unite, it would increase the protection for the group. He formed the General Motors Company in Flint, Michigan, in 1908.

Durant had bought 17 companies (including Oldsmobile, Cadillac, and Pontiac) by 1910, the year a bankers’ syndicate forced him to step down. In a 1915 stock swap, he regained control through Chevrolet, a company he had formed with race car driver Louis Chevrolet. GM created the GM Acceptance Corporation (auto financing) and acquired a number of businesses, including Fisher Body, Frigidaire (sold in 1979), and a small bearing company, Hyatt Roller Bearing. With the Hyatt acquisition came Alfred Sloan, an administrative genius who would build GM into a corporate colossus.

Sloan, president from 1923 to 1937, implemented a decentralized management system, now emulated worldwide. The auto maker competed by offering models ranging from luxury to economy, colors besides black, and yearly style modifications. By 1927 it had become the industry leader.

GM introduced a line of front-wheel-drive compacts in 1979. Under Roger Smith, CEO from 1981 to 1990, GM laid off thousands of workers as part of a massive companywide restructuring and cost cutting program.

In 1984 GM formed NUMMI with Toyota as an experiment to see if Toyota’s manufacturing techniques would work in the US. The joint venture’s first car was the Chevy Nova. GM bought Ross Perot’s Electronic Data Systems (1984) and Hughes Aircraft (1986). In 1989 the company bought 50% of Saab Automobile.

In 1990 GM launched Saturn, its first new nameplate since 1926, reflecting a new companywide emphasis on quality. Two years later it made the largest stock offering in US history, raising $2.2 billion. Culminating a period of boardroom coups (relating to the company’s lagging effort to reduce costs) in the early 1990s, John Smith replaced Robert Stempel as CEO.

NBC apologized in 1993 for improprieties in its expose alleging that GM pickups equipped with “sidesaddle” gas tanks tended to explode upon side impact. The government nonetheless asked the company to recall 4.7 million trucks. A unanimous federal appeals court in 1995 overturned the settlement of a national class action suit involving the pickups. That year GM sold its National Car Rental business to a group of investors led by former Chrysler executive William Lobeck.

In 1996 the United Auto Workers struck at 2 GM plants in Ohio over the company’s increasing its outsourcing of brake parts. The strike lasted 17 days, idling 24 of the automaker’s 29 North American plants (reflecting the vulnerability of just-in-time supply chains), and ended with neither side satisfied.

GM sued Volkswagen in 1996, alleging the German automaker encouraged former GM executive Ignacio Lopez to defect to Volkswagen with boxes of proprietary company information. The bitter dispute led to Lopez’s resignation from Volkswagen and was resolved in early 1997 when VW agreed to pay GM $100 million and purchase $1 billion of parts from GM over 7 years. In 1996 GM spun off EDS (with a market value of $27 billion) to shareholders. Also that year GM agreed to sell 4 of its parts plants to Peregrine Inc. (formed by investment firm Joseph Littlejohn & Levy) for an undisclosed amount. In late 1996 GM began producing Chevrolet Blazers in Russia.

II. General Information

Competitors

BMW, British Aerospace, Chrysler, Daimler-Benz, Fiat, Ford, Honda, Hyundai, Kia, Motors, Mazda, Mitsubishi, Nissan, PSA Peugeot Citroen, Renault, Suzuki, Toyota, Volkswagen and Volvo.

Nameplates

Buick, Cadillac, Chevrolet, Geo, GMC, Oldsmobile, Opel/Vauxhall, Pontiac and Saturn.

Other Operations

Delphi Automotive Systems (vehicle components)

General Motors Acceptance Corporation (financing and insurance)

Hughes Electronics Corporation (electronic systems)

International Operations (autos for foreign markets)

North American Operations (autos for North America)

III. Statistics & Financial Summary

Products/Services

1995 Sales

$ mil. % of total

Manufactured products 143,66685

Financial services 11,664 7

Computer systems services 8,531 5

Other 4,968 3

Total 168,829 100

1995 Vehicle Unit Deliveries

No. (000’s) % of total

US4,89559

Europe 1,725 21

Latin America, Africa & the Middle East 647 8

Asia & Pacific 624 7

Canada 385 5

Mexico 48 0

Total 8,324 100

Financial

1993 1994 1995

Sales ($ mil.) 133,622 150,592 163,861

Net income ($ mil.) 2,466 5,659 6,933

Income as % of sales 1.8% 3.8% 4.2%

Earnings per share ($) 2.13 6.20 7.28

Stock price – high ($) 57.13 65.38 53.13

Stock price – low ($) 32.00 36.13 37.25

Stock price – close ($) 54.88 42.13 52.88

P/E – high 27 11 7

P/E – low 15 6 5

Dividends per share ($) 0.80 0.80 1.10

Book value per share ($) 5.28 11.64 18.05

Employees 750,000 692,800 709,000

1995 Year End

\* Debt ratio: 61.1%

\* Return on equity: 29.7%

\* Cash ($ mil.): 11,044

\* Current ratio: 1.70

\* Long-term debt ($ mil.): 36,675

\* No. of shares (mil.): 753

\* Dividend yield: 2.1%

\* Dividend pay out: 15.1%

\* Market value ($ mil.): 39,819

IV. Financial Ratios

Ratio

95

94

93

Formula

LIQUIDITY

Net Working Capital (000’s)

8,730

11,805

1,415

Current Assets – Current Liabilities

Current Ratio

1.13

1.19

1.01

Current Assets / Current Liabilities

Quick Ratio

0.92

0.99

0.91

(Current Assets – Inventory) / Current Liabilities

ACTIVITY

Inventory Turnover

9.04

9.45

12.35

Cost of Goods Sold / Inventory

Average Collection Period

48.69

46.91

52.94

Accounts Receivable / Avg Sales Per Day

Average Payment Period

N/A

N/A

N/A

Fixed Asset Turnover

2.50

2.75

3.90

Sales / Net Fixed Assets

Total Asset Turnover

0.83

0.84

0.79

Sales / Total Assets

DEBT

Debt Ratio

0.88

0.92

0.96

Total Liabilities / Total Assets

Debt Equity Ratio

1.59

2.97

6.16

Long Term Debt / Stock Holders Equity

Times Interest Earned Ratio

1.78

1.49

0.48

Earnings before interest & Taxes / Interest

Fixed Payment Coverage Ratio

N/A

N/A

N/A

PROFITABILITY

Gross Profit Margin

0.25

0.22

0.20

(Sales – Cost of Goods Sold) / Sales

Operating Profit Margin

0.07

0.07

0.04

Operating Profits / Sales

Net Profit Margin

0.04

0.03

0.02

Net Profits After Taxes / Total Assets

Return on Total Assets (ROA)

0.03

0.03

0.01

Net Profits After Taxes / Stockholders Equity

Return on Equity (ROE)

0.29

0.38

0.44

Net Profits after Taxes / Stockholders Equity

Earnings per Share

7.21

5.15

2.13

Market Price P/ Share of Common Stock / EPS

Price/Earnings Ratio (P/E)

N/A

N/A

N/A

Note : Financial Statements are attached

V. Ratio Analysis

Liquidity

General Motors overall liquidity has decreased when compared to 1994, but is still at a much higher level when compared to 1993. Their net working capital has increased 516% compared to 1993.

Their ability to meet short term obligations is also higher than 1993 by 12 basis points, but is lower than 1994 mainly because their current liabilities increased in a higher pace than their current assets.

The Quick Ratio otherwise did not follow the same trend as the previous ratios, where the difference to 1993 is of only 1 basis point. The difference here is mainly because of the higher amount in inventories that may indicate an increase in inventory prices or volume.

Activity

The inventory liquidity has been declining for the last two years, while the cost of goods sold increased during the same period. This trend indicates that the inventory cost or volume has increased.

The accounts receivable has improved when compared to 1993, where it decreased from 53 to 49 days.

The fixed asset turnover has decreased from 3.90 in 1993 to 2.50 in 1995, which may indicate a higher investment in fixed assets which are not being maximized in productivity.

The Total Asset Turnover has been improving for the last two years because of the better management of current assets..

Debt

The Debt Ratio has decreased for the last two years going from 0.96 to 0.88 mainly due to the reduction of the total liabilities, indicating that the level of creditor financing has improved.

The stock holders equity has increased dramatically indicating the better management of the companies equity.

The EBIT has improved for the last two year mainly because the level of interest paid has decreased due to the reduction of liabilities.

Profitability

The Gross Profit Margin has increased from 1993 to 1994 as the cost of goods sold did not increase at the same level that the sales increased. The Operating Profit Margin ratio was stable in 1995 when compared to 1994 and the Net Profit Margin has also been improving for the last two years.

The Return on Total Assets has increased due the increase in the companies profitability, while Return on Equity has decreased on the last two years as the stockholders equity increased

Overall

It is clear that the profitability of the company has been increasing for the last 2 years, mainly due to the decrease in liabilities, improvement in accounts receivable and better management of the company debt..

The company also demonstrates that the profitability can be improved even further by having better inventory management and productivity maximization on their fixed assets.

ATTACHEMENTS

Financial Statements (America On Line)

Last Quote (America On Line)

Stock Graph (2 Years – America On Line)