COVER PAGE AND DECLARATION

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Introduction

This article is a detailed financial reporting analysis that provides view about company accounting and financial wellbeing where it covers all perspectives from an accounting & investor point of view. The organization selected is General Motors Company (GM) which is a multi-national organization that's defined under the introductory appraisal which will provide detailed analysis and explain the process by justifying hypothesis assessment systems along with including Net Present Value and Weighted Average Capital Cost.

GM is a multinational American organization known to produce vehicle manufacturing and spare parts, which plans the headway, transport, and sell as selling the goods at multiple places. It is ranked as the 22nd company in Forbes 500 fortune in terms of the company operating from Detroit, Michigan, USA. By and by, its plants are under Cadillac, GM, Buick, and Chevrolet brands in more than 15 countries which is around 111 years old and coordinated by around 160,000 staff and employees all over as of 2021. For more than 75 years company has been the top vehicle creators and major reason for shutdown of many big manufacturers (Xu, R., n.d). GM is known to be the biggest player, especially in North America, South Korea, and the Middle East. The company is recent in news because of its end production plan and internal sales combustion engines including hybrid vehicles and plug-in hybrids 2035 as well as achieving the concept of carbon neutrality by 2040.

Financial Analysis:

This analysis is being conducted upon four years' financial reports which are from 2018 to 2021 taking into consideration the following reports which are the balance sheet, cash flow statement, profit and loss account, leverage analysis along with equity statement analysis. The basis of these following elements is expressed in detail below.

Performance Evaluation based on performance measures:

Performance measures are categorized under five heads and their subheadings are detailed as below: -

- **Profitability:**

Which's detailed under different parts explained below:

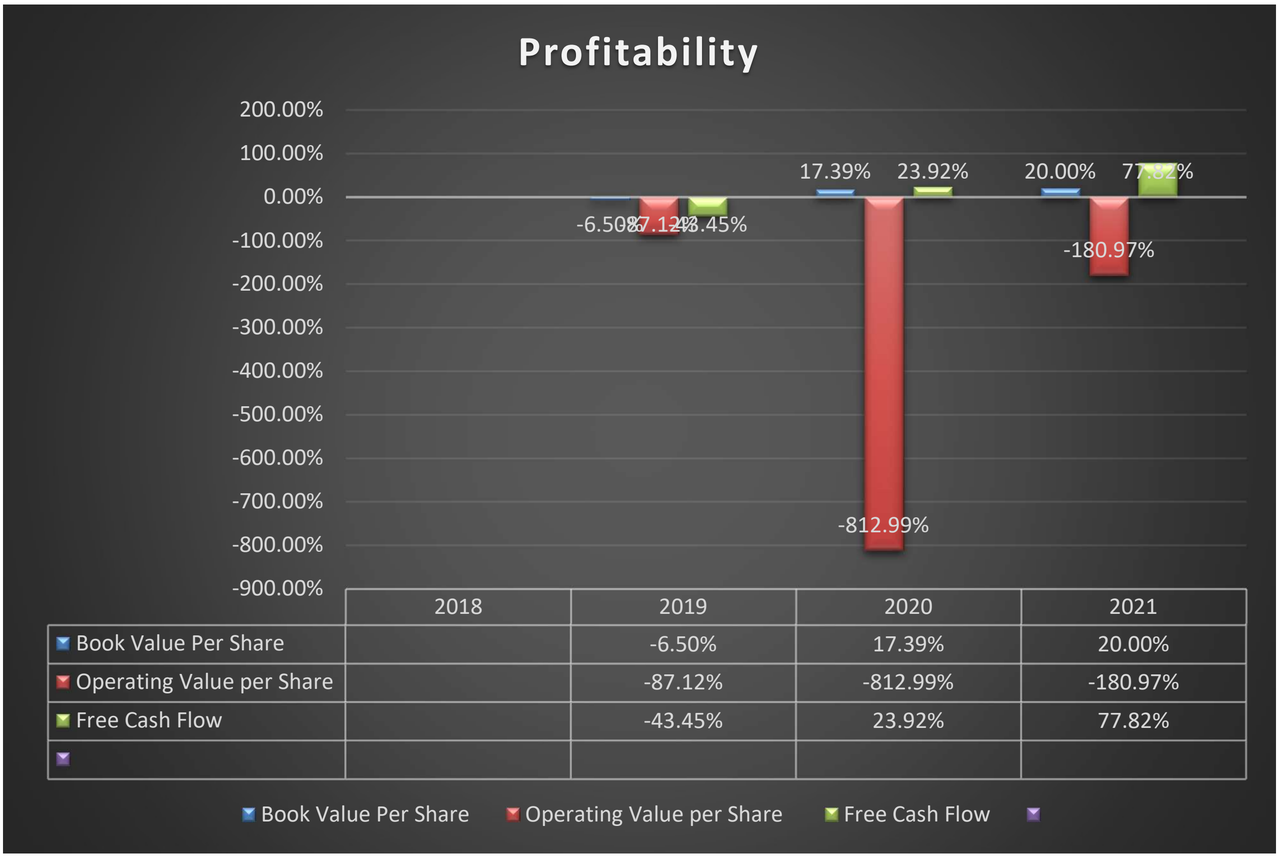
- Gross Margin = Revenue−Cost of Goods Sold / Revenue
- Net Margin = Net Profit / Revenue
- Operating Margin = Operating Profit / Revenue
- Return on Equity =Net Income / Shareholders Equity (AREAS, 2018).

The four-year analysis is expressed as follows in value and the growth percentage wise as well: -

Fiscal	2018	2019	2020	2021
Gross Margin %	9.59	10.18	11.16	14.08
Operating Margin %	3.02	3.99	5.42	7.34
Net Margin %	5.38	4.8	5.1	7.75
Return on Equity %	21.43	16.32	14.39	18.78

Fiscal Percentage Change	2018	2019	2020	2021
Gross Margin %		6.15%	9.63%	26.16%
Operating Margin %		32.12%	35.84%	35.42%
Net Margin %		-10.78%	6.25%	51.96%
Return on Equity %		-23.85%	-11.83%	30.51%

The graphical presentation is listed as follows: -



The Gross and Profit-Margin have increased during three financial years considering the increment in the past four years and return on equity has also eventually increased. This shows that operating expenses have worked on costs and expenses, and company has worked towards achieving and increasing its profit margin.

- **Efficiency:**

Which's detailed under different parts explained below:

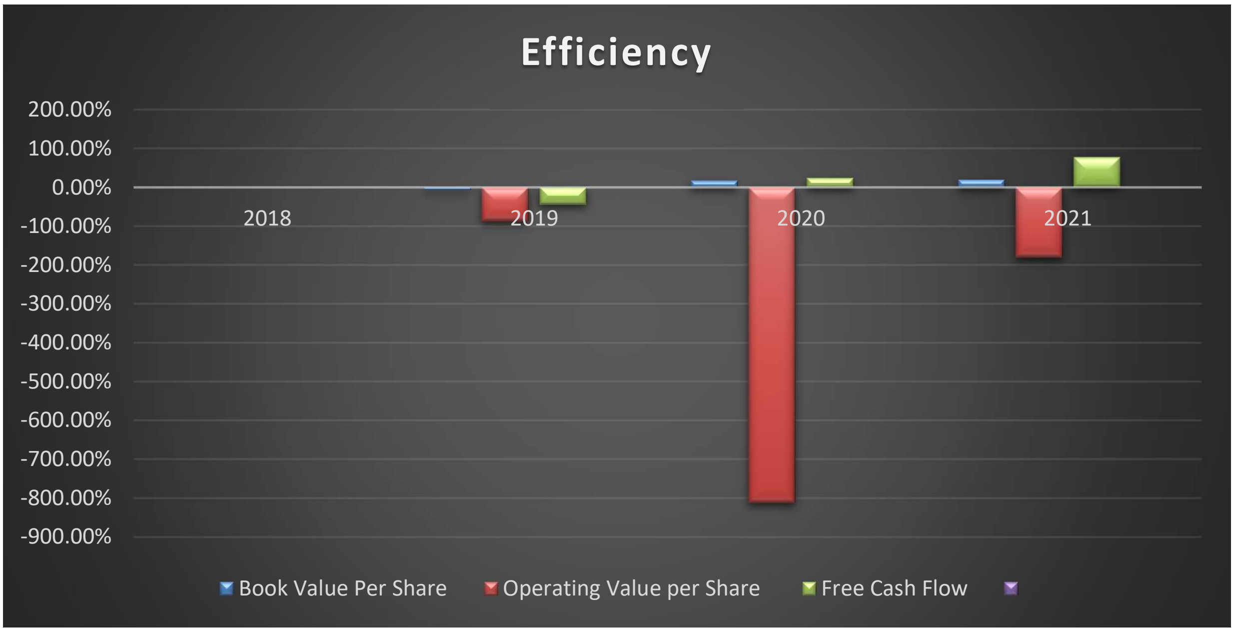
- Assets Turnover Ratio = Sales / Total Assets
- Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory
- Account Receivable Turnover Ratio = Sales / Average Account Receivable
- Account Payable Turnover Ratio = Purchase / Average Account Payable (AREAS, 2018)

The four-year analysis is expressed as follows in value and growth percentage wise as well:

Fiscal	2018	2019	2020	2021
Assets Turnover	0.67	0.6	0.53	0.53
Inventory Turnover	12.98	12.2	10.55	9.4
Account Receivable Turnover	4.74	4.11	3.62	3.72
Account Payable Turnover	5.75	5.69	5.32	5.41

Fiscal Percentage Change	2018	2019	2020	2021
Assets Turnover		-10.45%	-11.67%	0.00%
Inventory Turnover		-6.01%	-13.52%	-10.90%
Account Receivable Turnover		-13.29%	-11.92%	2.76%
Account Payable Turnover		-1.06%	-6.61%	1.84%

The graphical presentation is listed as follows: -



Due to COVID – 19, the efficiency ratios have seen a download fall in the past four years. Considering that sales cycle been reduced leading to higher inventory value and the measurement value of the other efficiency has also decreased as the fixed assets value and the carrying cost has increased and profits has not been as expected or tried to be managed and the advancement has led to a condition where receivable has increased, as well as the payable period, has also improved. Thus, the company has shown a better position of efficiency since post-pandemic.

- **Short-term Solvency:**

The ratios computed for this are stated as below:

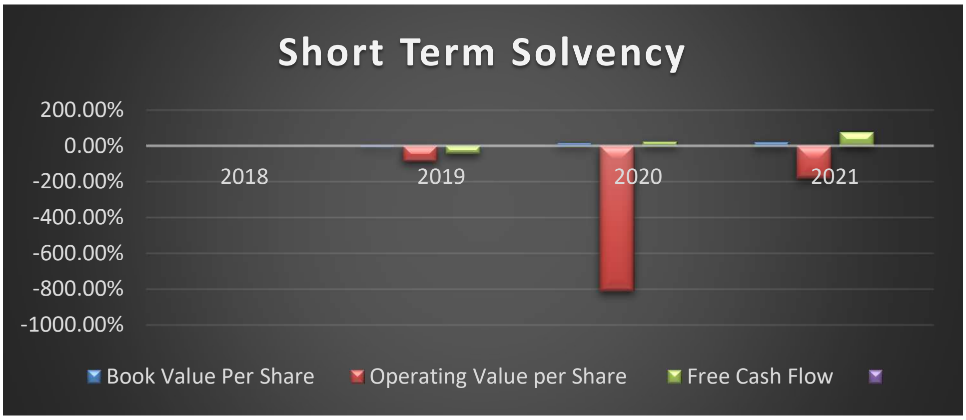
- Current Ratio - Current Assets / Current Liabilities
- Quick Ratio – Quick – Acid Assets / Current Liabilities (AREAS, 2018)

The four-year analysis is expressed as follows in value and the growth percentage wise as well: -

Fiscal	2018	2019	2020	2021
Current Assets	0.92	0.88	1.01	1.1
Quick Assets	0.73	0.67	0.79	0.84

Fiscal Percentage Change	2018	2019	2020	2021
Assets Turnover		-4.35%	14.77%	8.91%
Inventory Turnover		-8.22%	17.91%	6.33%

The graphical presentation is listed as follows: -



The ratio has seen changes in terms of the pre-condition as well as postcondition the company went through a great liquidity crunch during the pandemic period which being that the liabilities has been increased and the assets are still the same and have decreased especially in terms of the pandemic where sales hasn't increased that much and therefore it kept on the minimum level and took a while to reach its normal level again or even gets a bit higher.

- **Long-term Solvency:**

The ratios computed for this are stated as below:

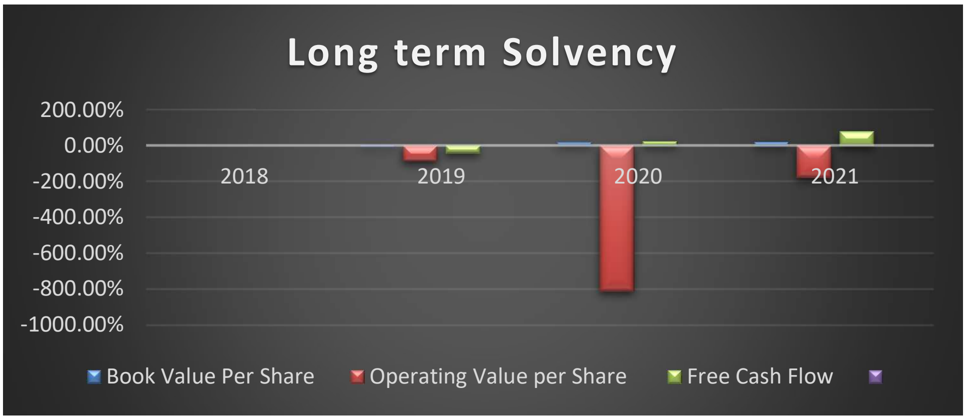
  - Debt to Capital Ratios - Long Term Debt / Capital
  - Debt to Equity Ratio = Total Liabilities / Shareholders Equity

The four-year analysis is expressed as follows in value and growth percentage wise as well: -

Fiscal	2018	2019	2020	2021
Debt to Capital	0.65	0.62	0.62	0.56
Debt to Equity	1.88	1.6	1.64	1.28

Fiscal Percentage Change	2018	2019	2020	2021
Debt to Capital		-5.73%	0.95%	-9.63%
Debt to Equity		-14.89%	2.50%	-21.95%

The graphical presentation is listed as follows: -



The change regarding the long-term solvency whether in terms of equity or debt ratio or debt to capital has been stable and the reason for it is not a pandemic zone. It shows that the vulnerability has increased, and the risk is again in a doubtful situation. The more, the D/E ratio is also not showing stable signs dealing with the fact that serious risk has taken place and the funding can lead to threat of solvency as well after one given point of time.

- **Market-Based Ratios:**

These are listed as follows: -

- Book Value per Share = Book Value / No. of Outstanding Shares
- Operating Cash Flow per Share = Operating Cash Flow / No of Outstanding Shares
- Free Cash Flow = Free Cash Flow / No of outstanding Shares

The four-year analysis is expressed as follows in value and the growth percentage wise as well: -

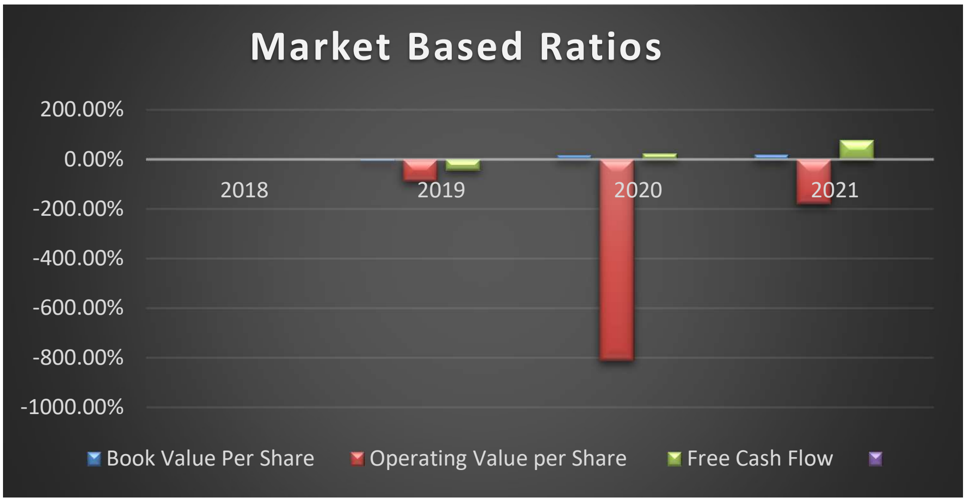
Fiscal	**2018**	**2019**	**2020**	**2021**
Book Value Per Share	1.23	1.15	1.35	1.62
Operating Value per Share	-11.96	-1.54	10.98	-8.89
Free Cash Flow	-6.95	-3.93	-4.87	-8.66

The percentage is tabulated as:

Fiscal Percentage Change	**2018**	**2019**	**2020**	**2021**
Book Value Per Share		-6.50%	17.39%	20.00%
Operating Value per Share		-87.12%	-812.99%	-180.97%
Free Cash Flow		-43.45%	23.92%	77.82%

(Morning Star, 2022)

The graphical presentation is listed as follows: -



The market-based ratios are also not showing a promising sign of growth, the company has recovered from the negative balances which's shown in graph however, the company needs to work on all parameters on an average basis, so that market values gradually increase. GM managers are making a markable improvement and trying to be in a better market position especially after the pandemic hit for long period which done through planning and processing a better wise (Weygandt, Kimmel, Kieso, 2018). However, the shares and the base value of the stock to increase will take further year as the resources needed to correctly utilized and other ratios need to be managed and benefit business in a right manner.

Recommendations for improving the company business based on your report and research:

Considering the profitability element

Gross margin may improve when the prices are increased from products selling, budgets are-re computed, and inventory system is used to reduce products costing. Looking at operating margins elements can be improved when company operations are consistent, and production costs lowers gradually. The other most beneficial method is to improve relation with the suppliers trying to minimize wastages. The best way to control the net profit is to gain the competitive advantage which has only two basic rule boosting revenue as well as the Reducing costs (Porter, 2015). As boosting revenue will lead to a situation where the market presence will increase by manipulating the price and capturing the market high demands level. It also explains the perspective as to how the Return on equity which will be managed and accounted to ensure that the ability to pay tax should manage the aspect of Financial Leverage.

Considering the efficiency element

including the ability of department managers to manage the assets, the investment is under business appropriately, focus on the innovation as well as the terms of business and requirements must be planned accordingly. In terms with the inventory management the best way to improve the same is to ensure that sales strategy is managed in terms with the save energy time and the automated mode, along with optimizing the supply chain, ensuring that the adequate product disposal is done on timely basis. It will include prospective that pricing and strategy revisions are to be accomplished as the expenditure will be supported towards building material market.

Considering the Short-term solvency ratio

Proper strategies which explain the short-term solvency can be worked on behalf of the factor where the conversion is done on the lender's mode and the receivables options. Assets which are non-productive must be sold and the current liabilities must be paid off so that assets arise through the rise of the shareholder's fund (Xu, R, n.d). The other method which may be applied is that the bank accounts must be cleaned so solvency can be managed accordingly.

Considering the Long-term solvency ratio

The recommendations which are required to manage debt to capital ratio and debt-to-equity ratio will be in terms where the pricing plan must be consolidated with products/services. The best way thru which company must work is to ensure prices formulation plan which include dealing approaches where combination of increasing the revenue dealing with the inventory management as well as debt restructuring of elements. Thus, in nutshell the organisation is free to apply rules which support the concept of competitive and penetration pricing. The Solvency ratio must apply approaches which support aspect of competitiveness and deal with handling combination of techniques so that targets value improves.

Considering the Market based share ratio

Improving the market share is directly correlated with allied ratios which are listed from above. Once the recommendations turn positively in targeted market-based ratios then it will automatically be improved, and share-price will increase. In terms with improving the cash flow, company management must aim at fact that customers do not pay or budget correctly for their purchases therefore, to recover cash flow the elements must include Financial Statements Analyse also, Modify terms and conditions of payment, at the same time deal with the Reduce Expenditure and manage the GM Sales through Work with Manufacturers, Lenders and Creditors so that negative cash is converted to positive upbringing leading to better results and better solvency position. None the less, company must work strategically towards innovation plan which aims at building the product quality, strengthen the customer relationship and aiming at lowering prices to maintain a stable condition (Musallam, 2018).

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Recommendations for improving the company business based of your report and research

<u>Considering the profitability element:</u>

Gross margin can be improved when prices are increased as outcome of products sale, budgets are re-computed, and an inventory system is used to reduce products cost. Also, the operating margins elements can be improved when company operations are consistent, and production costs reduce gradually. The other most beneficial method is to improve relations with the suppliers and minimize wastage. The best way to control the net profit is to gain a competitive advantage which has only two basic rules boosting revenue and reducing costs. For managing the Return on equity which will be Ability to Pay Tax should be Low, and Contract more Financial Leverage.

<u>Considering the efficiency element:</u>

Recommendations to include the ability to manage the departments spent and assets management, accordingly, invest in the business appropriately, focus on the innovation and on business terms and requirements which must be planned accordingly. Considering that the best way to improve inventory management is by setting and planning strategy to be managed in terms with energy saving (time/ change management) also to automate a model, along with optimizing the supply chain to ensure adequate product disposal is done on a timely basis. This will include perspective that pricing and strategy revisions are to be accomplished and operating the sales cycle to ensure recovery and growth.

<u>Considering the Short-term solvency ratio:</u>

Implement a proper strategy that explain the short-term solvency which can be worked on behalf of factor where Conversion will be done on the lender's mode and the receivables options. Non-productive assets must be sold, and the current liabilities must be paid off so that assets arise through rise of shareholder's fund (Xu, R, n.d). The other method which may be applied is that the bank-accounts must be cleaned so that solvency can be managed accordingly.

Considering the Long-term solvency ratio:

Manage debt to capital ratio “the debt-to-equity ratio” will be in terms where the pricing plan must be consolidated with products and services. The best way company can work through this process is to include dealing with approaches where combination of increasing revenue dealing with inventory management as well as debt restructuring the elements. The Solvency ratio must apply approaches that support aspect of competitiveness and deal with handling the combination of techniques, so target's value improves.

Recommend One investment project to the company. The company wants to expand its business through an investment project; however, it can only capitalize 40 percent through own capital:

Taking into consideration the above ratio and analysis along with GM Financial Statement review for the past four years. Let's take a business proposal on an assumption base on assumption figures to understand the viability of the project under the current company situation. The proposal which can be reflected in the latest GM Middle east is MC is taking premium to the next level with expanded availability for its carbon fiber bed, 10-speed automatic transmission, plus additional technology like Adaptive Cruise Control – Camera1 to elevate the ownership experience in the 2020 Sierra 1500 2022 (SIERRA 1500 4WD Crew Cab, Short Box Elevation, 2022).

Let's assume the company needs an investment of $ 15000 million to install the machinery and this will improve the sales after 3 years by 5 percent and the price at maintained at the same value to increase the sales to match the profit. The current sale on average is $ 65000 and currently, sales are 150000 yearly in number understanding what the project will pay in the next 7 years considering the allied expenses will be around 8 % of the total revenue excluding taxes. (SIERRA 1500 4WD Crew Cab, Short Box Elevation, 2022).

Computation is based on calculating two parameters one being the net present value of the investment and the other taking discounting rate based on the weighted average cost of capital.

First computing the weighted cost of capital and taking figures to extract from the financial year 2021 will be listed as follows: -.

WACC = KE + KD (after Tax)

KE = WE * Cost of Equity + WE * Cost of retained Earnings

KD = WE * Cost of DEBT *(1- TAX)

Taking value and putting the figures to compute the WACC

Weights is computed as follows:

General Motors Co's market capitalization (E) is $ 56207.787 Million

General Motors Co's latest two-year average Short-Term Debt & Capital Lease Obligation was $ 35316.5 Million

The latest two-year average Long-Term Debt & Capital Lease Obligation was $ 75310.5 Million.

The total Book Value of Debt (D) = $110627 Mil.

a) Weight of equity = E / (E + D) = $ 56207.787 / ($ 56207.787 + $ 110627) = 0.3369 = 3.369%

b) Weight of debt = D / (E + D) = $ 110627 / ($ 56207.787 + $ 110627) = 0.6631 = 6.631%

(Guru focus, 2022)

Cost of equity = Risk-Free Rate of Return + Beta of Asset * (Expected Return of the Market - Risk-Free Rate of Return)

Risk-Free Rate of Return = 3.1 %

Beta = 1.30

Risk Premium will be around = 6 %

Cost of Equity = 3.1 % + 1.30 * (6%) = 10.816 %

The cost of debt will be computed basis on of the fiscal year-end Interest Expense divided by the latest two-year average debt

Book Value of Debt which is computed as around $ 950 Million / $ 110627 Million = 0.8587%

Putting the values and computing the WACC the amount is:

E / (E + D) * Cost of Equity+ D / (E + D) * Cost of Debt * (1 - Tax Rate)

= 0.3369 * 10.816% + 0.6631 * 0.8587% * (1 - 21.85%)

= 4.09% (GM 2022)

Considering the values given for car price and investment growth for current and future years the viability of the project will be computed as follows: -

In thousands								
	I	I	II	III	IV	V	VI	VII
Initial Investment	$ 15,000,000.00							
Car Revenue		$ 9,750,000.00	$ 9,945,000.00	$ 9,945,000.00	$ 9,945,000.00	$ 9,945,000.00	$ 9,945,000.00	$ 9,945,000.00
(65000 $ * 150000 Annual Sales)								
Less Cost expense 12 %		$ 1,170,000.00	$ 1,193,400.00	$ 1,193,400.00	$ 1,193,400.00	$ 1,193,400.00	$ 1,193,400.00	$ 1,193,400.00
Less Interest Cost (Interest Rate 8 % on the investment value yearly at a fixed cost) the loan taken will be 60 percent of the investment value ; 40 % is equity and 60 % debt , interest computed yearly on the basis of debt taken and considered as the cost		$ 720,000.00	$ 720,000.00	$ 720,000.00	$ 720,000.00	$ 720,000.00	$ 720,000.00	$ 720,000.00
Net Inflow in past seven years	$ (15,000,000.00)	$ 7,860,000.00	$ 8,031,600.00	$ 8,031,600.00	$ 8,031,600.00	$ 8,031,600.00	$ 8,031,600.00	$ 8,031,600.00
Discounting Rate as the WACC OF THE COMPANY COMPUTED ABOVE - 4.09 %	1	0.96070708	0.915831345	0.873051806	0.832270549	0.793394232	0.756333872	0.721004644
Cash Flow Discounted	$ (15,000,000.00)	$ 7,551,157.65	$ 7,355,591.03	$ 7,012,002.89	$ 6,684,464.14	$ 6,372,225.11	$ 6,074,571.13	$ 5,790,820.90
NET PRESENT VALUE	$ 31,840,832.85							

The analysis shows that investment will be profitable for longer period as of 7 years plan which proves that the company is showing profit value after the given period of time showing considering that company must put in investment and take proportion of 60%– 40% ratio so it will balance the cost of the project and at the same time will give returns which is most profitable for company future growth. Thus, the investment must be done as the NPV is positive and provides a margin of profit for future years covering the losses occurred during the pandemic especially.

Indicate whether the company must use its own cash or use retained earnings

According to the above analysis, the investment has already been approved, now the question is whether the 40 % capital investment must be done by using cash and equity value or be done by utilizing retained earnings. The cash here would mean the accumulated free cash flow accounted for by the company including the current cash collection and another form of quick liquid, liquid cash will be converted into a form of reinvestment which will be fixed assets for the future. In terms of retained earnings, the amount will be the reserves taken and same is invested in for future investment. Considering the GM's current balances of Cash and retained earnings. The company stands the value of cash and cash equivalents at $ 23.54 Billion, and the retained earnings stand at $ 41.94 Billion. The amount required is 6 billion. The balances on both accounts are most sufficient and can afford a full withdrawal from either of the ones. However, considering the free cash flow value, the current year will be negative, and taking out cash from the business will be difficult. Hence, at this point taking the money from the retained earnings is a visible decision. As still retained earnings will also not reduce, and reserves will be maintained also for future investment. Thus, as per the correct status of free flow cash flow and retained earnings balances is an evident that capital investments must be done from the saved accumulated retained earnings.

Decide whether or not the company should pay return earnings or not

Return earnings are primarily cash stock shares and dividends which include corporate incomes along with any form of bonus or return given for future endeavours. They are considered rewards that are given to shareholders and stockholders for capital investment done within company. Given the current condition, two things could be seen on a border daylight one being the fact that:

- GM is still recovering from the pandemic losses, trying to accumulate the cash and cash reserve balances which has been lost.
- Such major investment has been done to save the future of the company and provide better resulting options and values so that revenue is increased, and company is back to its stable

position again.

Considering these factors, the best way to balance both conditions is that rather than deciding to completely pay the dividend or not, the management of GM must take a half where the dividends must be paid, however, the return value should be reduced. The other option can be rather than paying the full dividend company can opt for an option of interim dividend and also provide an option of shares, bonds, or rights for the balance of unpaid dividends.

It will help the GM to reach win-win conditions as the cash balance and retained earning balances will also maintain and will not fall short and at the same time, the investors and the stakeholder will be happy as the return is still coming in leading the company goodwill untouched. If the company's goodwill and reputation are intact, then company sales will also deplete it will eventually rise once the overall economic condition improves and passes over the phase of post-pandemic recovery.

Thus, distributing partial value is a much better option and most suited for the company, stakeholders, and the external party which is related to the GM.

Conclusion

GM Financial Analysis helps understanding the current position of the company with a preview of the four-year average analysis, it explains that there are lots of room for improvement which needs to be undertaken by the company but that's because of the covid -19 crisis. Ignoring this segment if the company general performance is viewed, it's considered much more favourable as its revenue still improving gradually and debt burden has not taken a toll on the company as the short-term, long-term solvency condition is fair and stable. Furthermore, the company has opted for investment on a partial basis which is 40% equity and 60% on the debt value. Of course, there is quite a high risk and the factors have been considered which must be revisited time and again so that organization successfully manages the investors and faces the liquidity issues which much smoothly. Hence, GM is a good organization that has attained a lot of trust in consumers as well as the investors, and thus, investing in it will only fetch a high return value in the longer run.

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