

Former GM President says, “We Need to Move Beyond the Car”



By [George Schultze](#)

I wrote the book on vulture investing.

January 9, 2020

The statement above wouldn't be surprising if it came from the head of the Sierra Club or some other environmentally-focused organization. Instead, it was the headline of a recent blog post authored by Dan Ammann, CEO of autonomously driven car-maker Cruise and the former President of General Motors.

In the post, Ammann makes the argument that the human-driven, gasoline-powered, single-occupant car causes pollution, urban congestion, and kills people due to fallible drivers. In addition, he argues that this outmoded form of transportation is also just too expensive. He suggests that the alternative to today's cars should be ride-sharing in autonomous electric vehicles, such as the ones Cruise is developing.



Certainly, when it comes to all-electric vehicles, Tesla has a first-mover advantage. The same can be said for self-driving technology, though the Tesla autopilot still has some bugs to work out. Cruise, like Tesla, is fully electric, but its vehicles are also truly autonomous. In fact, a Cruise vehicle has neither a steering wheel, nor gas nor brake pedals, and that's why it's taking the US National Highway Traffic

Safety Administration (NHTSA) some time to permit their use on public roads.

At one point, Cruise had intimated that it would begin commercial production in 2019, but that goal did not come to fruition. They have, however, increased the number of engineers working on the product, and continue rigorous testing, with safety being the primary goal. The company has taken the position that it wants to make sure its vehicles are completely safe before unleashing them on public

motorways. That's a PR move Elon Musk might have been wise to consider. To date, there have been at least a dozen highly publicized crashes, three of them fatal, involving Teslas operating on autopilot.

One of the most interesting aspects of the Cruise story is its implications for GM. Ammann was GM's president in 2016 when the auto giant first bought into Cruise Automation. In addition to the more than two-thirds of Cruise held by GM today, Softbank ranks among its other venture capital investors, having invested \$2.5 billion in 2018 at a \$19 billion valuation. GM also owns a 9% stake (18.7 million shares) in Lyft, Inc., the main ride-sharing competitor to Uber which it bought in 2016 as well. Disaggregating the value of these investments, as well as balance sheet cash and the book value of GM's captive finance subsidiary, implies that Mr. Market values GM's legacy car manufacturing business at just about one year's worth of its cash flow.

Cruise still has lots of work to do before the NHTSA gives it final approval, but if they pull it off, that would be great news for GM stockholders. Like other old-line automakers, GM has been stuck in a value trap, where the market refuses to grant it a high valuation because of how late we are in the business cycle. There's a lot of concern about the downside risk of deteriorating automobile loans and residual values for automobile loan trusts in a peaking economy.

At the same time, due to the huge secular shift surrounding new technology in vehicles, fast-growth firms like Tesla are earning high valuation multiples on their future earnings potential. In contrast, investors value GM as a mature, non-growth business and aren't really paying attention to the significant growth opportunity within its Cruise division.

The question on the other side, regarding the traditional auto business that's been GM's mainstay for over 100 years, is whether GM management has cut costs deeply enough. They had a plan to restructure in 2019 but were struck midway through with one of the longest auto manufacturing strikes that we've seen in a long time. Yet GM eventually came to terms with the UAW and also seems to be working through the Chinese trade issues it faced. However, the trade war with China may still have a bigger impact on GM than other automakers because of the automaker's big market share in that country. With Chinese trade still uncertain, the success of Cruise could become the most important contributor to GM's future.

Ammann ended his blog post with a cryptic, "More to come." We don't know what that means yet, but many observers believe that it means Cruise is pretty close to starting commercial production and putting driverless vehicles on the road. Or, maybe it just means another blog post is coming. Either way, Cruise is a company to keep your eyes on in 2020.