The restructuring of General Motors

Creating Value in Bankruptcy Symposium – Riyadh, Saudi Arabia

December 2019
Many attempts to transform GM never changed the fundamental issues
Some lessons on transformations from our experience with GM, for even the healthiest of companies

What doesn’t work

• Addressing only the capital structure
• Assuming that cost and headcount reductions alone will work
• Throwing ‘good money after bad,’ including creating ‘zombie’ companies
• Waiting, hoping that things get better
• Believing that management for good times is the same as management for tough times
• Hiring consultants that need significant ramp-up time before action is taken: lasting corporate renewal takes the help of experts
• Consultants who aren’t ‘at the table’ but instead advise from outside the room

What does work

• Undertaking strategic and operational as well as financial actions
• Forcing decisions in six weeks: fast is better than perfect – the ‘80/20 rule’ is a rule for a reason
• Limiting implementations to less than 18 months
• Having a realistic vision of the end-state, based on the present, not the past
• In a holistic approach, addressing:
  – Capital spending
  – Footprint
  – Supply chain/distribution
  – Material costs
  – Customer/product profitability
  – SG&A costs
  – Org, incentive and culture
  – IT and Financial systems

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AlixPartners experience: top indicators of corporate decline that are present in almost every major bankruptcy filing

1. Weakening revenue and/or profit margin
2. Inadequate information systems
3. Poor industry dynamics
4. Too much debt and/or inadequate capital
Fundamental problems at GM, the world’s largest automaker

<table>
<thead>
<tr>
<th>Poor industry dynamics</th>
<th>Margin compressions</th>
<th>Inadequate systems</th>
<th>Too much debt</th>
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</thead>
<tbody>
<tr>
<td>• Intense global competition, high retiree, labor, and healthcare costs</td>
<td>• Heavy sales incentives in domestic market meant to ‘Keep America Rolling’</td>
<td>• Extensive use of customized, high-complexity IT systems</td>
<td>• $54 billion in total debt</td>
</tr>
<tr>
<td>• Rapid spike in raw-material costs and gasoline prices</td>
<td>• Pricing erosion for comparable equipped models over time</td>
<td>• Contribution margin-driven financial metrics</td>
<td>• Growing OPEB obligations</td>
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<td>• 1/3 decline in industry sales in domestic market</td>
<td>• Market share erosion yet more brands launched</td>
<td>• Balance sheet at global level, and not able to show ROIC in meaningful granularity</td>
<td>• Contractual obligation to take back 185,000 employees from bankrupt Delphi</td>
</tr>
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<td></td>
<td>• No benefit from scale</td>
<td>• Rewarded for loyalty and insular behaviour</td>
<td>• Cash burn: $1 billion per month</td>
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</table>
### General Motors Corp. in 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Vehicle Sales</th>
<th>Revenue</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North America</strong></td>
<td>3,564,000</td>
<td>$86.2 billion</td>
<td>118,000</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>2,041,000</td>
<td>$34.4 billion</td>
<td>55,000</td>
</tr>
<tr>
<td><strong>Latin America, Africa, Middle East</strong></td>
<td>1,276,000</td>
<td>$20.3 billion</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Asia Pacific</strong></td>
<td>1,475,000</td>
<td>$17.8 billion</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Global</strong></td>
<td>8,356,000</td>
<td>$147 billion</td>
<td>243,000</td>
</tr>
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</table>
My role as GM’s Chief Restructuring Officer was typical for what a CRO does in major cases

- Reported to the CEO and a member of the senior management team
- Works with senior management, investment bankers, counsel and other stakeholders to help drive the restructuring process
- Separates restructuring demands from operational demands, allowing management to focus on day-to-day operations and longer-term strategy
- Provides an objective and independent point of reference for consideration of all stakeholder positions and grounds for negotiation
- Assists in evaluating different options, including developing strategies to approach stakeholders, determine short- and long-term financial requirements, assess appropriate capital structure, and define achievable loan-covenant levels
- Develops and helps to coordinate a communications plan to ensure that internal and external communications are clear, consistent, and effective
GM restructuring activities and milestones

- First Viability Plan filed on 12/2/08
- Drawdown of $4 billion (out of $13.4 billion) received on 12/31/08
- Second draw of $5.4 billion received
- Second Viability Plan
- Third draw of $4 billion received
- Third Viability Plan
- GM submits Fourth Viability Plan
- GM submits Fifth Viability Plan
- GM submits Sixth Viability Plan

GM recognized it needs cash to survive

'Big 3' CEOs request US government support

Emergency bankruptcy filing and cash-conservation plans developed. President Bush approves $13.4 billion loan to GM

Steve Rattner and Ron Bloom appointed to US Treasury’s 'Auto Task Force'

'Section 363' bankruptcy option becomes primary plan

Chrysler files for bankruptcy

June 1st, GM files for bankruptcy

Bankruptcy Court approves the sale
Remnants of GMC renamed MLC
AlixPartners team efforts helped transform GM into a leaner, less complex, and more profitable company

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<tr>
<td><strong>Financials</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$147B</td>
<td>$136B</td>
<td>$147B</td>
</tr>
<tr>
<td>Op. Income</td>
<td>-$21B</td>
<td>$5B</td>
<td>$4.5B (ROIC: 7%)</td>
</tr>
<tr>
<td>Net Income</td>
<td>-$31B</td>
<td>$6B US</td>
<td>$8.0B</td>
</tr>
<tr>
<td>Market Cap</td>
<td>Shrank from $10B to 2B to by the end of 2008</td>
<td>Privately held – no Market Cap info available</td>
<td>Market Cap $24B</td>
</tr>
<tr>
<td><strong>US dealerships</strong></td>
<td>13,841</td>
<td>6,806</td>
<td>4.793</td>
</tr>
<tr>
<td><strong>Brands</strong></td>
<td>Buick, Cadillac, Chevrolet, GMC, Hummer, Pontiac, Saab, Saturn, med-duty trucks, Opel, Vauxhall, SGM</td>
<td>Chevrolet, Buick, GMC, Cadillac, Holden, Opel, Vauxhall, Wuling</td>
<td>Chevrolet, Buick, GMC, Cadillac, Holden, Wuling, Baojun, Jie Fang, Ravon and Maven</td>
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<tr>
<td><strong>Employees</strong></td>
<td>235,000 (WW)/81,000 (US)</td>
<td>202,000 (WW)/63,500 (US)</td>
<td>173,000 (WW)/103,000 (US)</td>
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<td><strong>US breakeven units</strong></td>
<td>~16MM units</td>
<td>10.5MM units</td>
<td>~12MM units</td>
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What New GM did not take AlixPartners managed in Motors Liquidation Company, ‘oldGM’

Core and positive value assets were taken to newGM, with the remainder remaining in MLC

**Plants**
- 16 total (4 assembly, 6 stamping, 6 powertrain) including select machinery and equipment deemed not necessary by newGM

**Leases**
- Leased office space and parts warehouses, which were subsequently rejected under Chapter 11 after newGM vacated

**Real Estate**
- Numerous real estate holdings, including decommissioned plants, office space, dealerships, vacant land, residences, churches and a golf course
- Many have significant environmental liabilities

**Entities**
- 50% Equity in NUMMI (50/50 JV with Toyota)
- Equity in GM Strasbourg (Powertrain manufacturing plant)

**Liabilities**
- Splinter union obligations (IUE, USW, etc.)
- Environmental (excluding property going to NewCo)
- Dealers (that don’t accept either ‘wind down’ or new dealer agreements)
- Prepetition litigation; pre-close product liability
- Asbestos
- Other Priority and Unsecured Claims
Breakdown of Government Funding

- Pre-chapter 11 financing: 19.8
- Estimated OCF shortfall: 9.5
- Supplier support: 7.9
- Cash restructuring: 3.4
- Revolver and M&E term loan: 7.3
- Canadian legacy: 4.5
- Cash/ETC cushion other: 6.6
- Total funding: 39.2

AlixPartners
Post-Transaction Structure

**Canada**
- 11.7% common
- 4.5% preferred
- $1.3B note

**UST**
- 60.8% common
- 72.2% preferred
- $8.0B note

**New VEBA**
- 17.5% common
- 23.3% preferred
- Warrant to acquire 2.5% of common
- $2.5B note

**OldGM**
- 10.0% common
- Warrant to acquire 15.0% of common
- 2.0% contingently issuable common stock

**NewGM**
- Purchased assets and assumed liabilities

**Capital structure**
- Debt $17.0B
- Preferred stock $9.0B
- Common stock - 1

1. Warrants issued to oldGM and new VEBA for 17.5% of common stock
General Motors Europe was a separate entity that needed to be rescued in 2009, navigating a highly complex stakeholder’s map

Starting Point 2009

- US government provided short-term funding to GM
- GM preparing for Chapter 11
- US government requested a plan to demonstrate the viability of GM ("Viability Plan")
- No GM funding available for Opel/Vauxhall
- Credible restructuring plan needed:
  - To convince US government to support GM
  - To rescue Opel and generate short-term funding in Europe
  - Significant actions required
- AlixPartners mandated to support development of plan and negotiations with the many different stakeholders
- Huge numbers of stakeholders who needed...
  - ... to be convinced of the plan
  - ... to contribute and make concessions

Key stakeholders – highly political and complex

- Employees
  - German Works Councils
  - European Works Council
  - Unions

- Governments
  - German Federal government (in election year)
  - Governments of Federal States
  - US government
  - Other European government

- Owners and Lenders
  - GM US
  - US Treasury
  - Investors
  - Banks

- Others
  - Suppliers
  - Dealers
  - Customers
  - “The public”, media, press

Plus stakeholders’ advisors, auditors, lawyers, etc.
Key steps and milestones of GM Europe restructuring

Dec 2008
- Viability Plan
- Cash planning
- Saab spin-off

March 2009
- Application for rescue aid
- Negotiations with government
- Investor search and due diligences
- Ringfencing of Opel (legal entity carve-out, set up treasury department and cash pool)
- Contingency planning

Jun 2009
- Magna due diligence
- Negotiations with Magna

Oct 2009
- Viability Plan
- Restructuring opinion (S6 standard)
- Various due diligence processes
- Support of negotiations with governments and works councils

May 2010
- Plant closure
- Headcount reduction (plants, overhead)
- Material cost
- SG&A
- ...
A comprehensive operational turnaround plan “Accelerate” was designed and implemented

**Approach**
- Started with review of existing plans and action plans
- Review of underlying base data and assumptions
- Definition of improvement gap
- Worked closely with top-management (joint teams) to define additional actions
- Considered interests of relevant stakeholder groups
- Close interaction with key stakeholder groups

→ Stayed in background without public awareness

**Work streams**
- **Top-line**
- **Purchasing & Supply Chain**
- **Manufacturing**
- **SG&A, Overhead**
- **Business Plan**

**Example elements of the Plan**
- **Products**
- **Country / carline mix**
- **Profitability**
- **Technical / commercial savings**
- **Commodity strategies**
- **Product cost**
- **Threats and Risks**
- **Capacity and headcount reduction**
- **Plant closure**
- **Footprint optimization**
- **Improved utilization**
- **20% headcount reduction**
- **Re-organization**
- **P&L, Balance Sheet, Cash Flow**
- **Restructuring Plan document (for communication, audits, etc.)**

**Plan accepted by all relevant stakeholder groups**
- Bridge funding received
- Support from German and European governments
- Investors attracted
- Financing ensured
- Works council agreed to headcount reduction and manufacturing footprint adjustments
- Employee concessions of >$1bn