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General Motors to Buy Back $5B of Its Stock

By Alexandre Boulanger, LL.M. Candidate 2015 | March 17, 2015

General Motors announced on Monday that it reached an agreement with a group of activist shareholders to start a buyback plan for $5 billion by the end of next year.

Harry Wilson, a former member of President Obama's auto industry task force, planned to nominate himself to the Board of Directors from a group of hedge funds, which own about 2% of the company's common stock. Led by Wilson, the group initially sought to force an $8 billion buyback. Mr. Wilson claimed that GM's extremely conservative way of handling cash undermined the stock's value. Consequently, the company accepted the idea to improve its stock price, including increasing its quarterly dividend.

In exchange for this very swift agreement, Mr. Wilson agreed to withdraw his nomination for the Board of Directors and the proposed buyback plan.

The market warmed to the announcement. In trading on Monday, G.M.'s shares increased by more than 3% to close at $37.66.

As some commentators suggest, this very quick settlement is due to G.M.'s current issues of safety recalls. G.M. is involved in a compensation program because of a long-delayed recall of small cars with defective ignition switches linked to 64 deaths.

However, there are some vocal critics of the deal. G.M. may still have to deal with more costs associated with its safety problems, as it has spent about $3 billion on recalls and compensating victims. Additionally, the company is still under investigation by the Justice Department for negligence, and a pending ruling could increase G.M.'s liabilities for defective vehicles built before the company filed for bankruptcy. These costs will come directly from its cash reserves.

Two economists expressed another significant criticism of the buyback in the Harvard Business Review. The authors contend that by reducing G.M.'s cash reserves from $25.2 billion at the end of 2014 to about $20 billion, the company will have less money to invest in new products and technology, thus, hurting the taxpayers' interests. Furthermore, they highlight the sacrifices of the United Automobile Workers (UAW) since the company's bailout in 2009. In sum, this buyback jeopardizes the ability to propose a fair contract to almost 50,000 UAW employees in annual negotiations.