

General Motors Company Shareholders Worry About Stock Buyback Plan And The Triumph Of Activist Investors

By Owen Davis (excerpt)

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In the years since General Motors went bankrupt and took a massive taxpayer bailout, the company has maintained a “fortress balance sheet,” heavy on shock-absorbing cash. After a month long siege, however, that fortress has proved permeable, as activist shareholders managed to wrangle billions out of the company’s keep.

GM announced Monday that it would repurchase \$5 billion in its own shares over the next two years, largely to satisfy activist investors led by Harry J. Wilson, who called the deal a “win-win.” While the compromise staves off a public proxy battle over board management, it raises questions as to whether GM is stable enough to dole out so much cash to shareholders.

“It bothers us when these activist shareholders come in and force the hand of the company, looking for a short-term pop in the share price,” says David Kudla, founder and CEO of Mainstay Capital Management, which owns GM stock. “For long-term investors, we care more about GM making it through the next recession.”

Kudla is not alone in his reservations. Ratings agencies haven’t taken kindly to shareholder payouts at GM. On Monday, Senior Vice President of Moody’s Investors Services Bruce Clark said the buyback program “weakens GM’s positioning at the current rating level and will likely delay any potential consideration for an upgrade.” The company’s credit remains just a tick above junk status.

Formerly the architect of GM’s post-bailout restructuring, Wilson returned to the auto manufacturer in February to vie for a board seat and push for \$8 billion in stock buybacks. The move immediately divided major shareholders. Powerhouse investor Warren Buffett, who owns a sizeable chunk of GM shares, said he “totally disagree[d]” with Wilson’s campaign.

Bob Lutz, a former vice president of GM, told the Wall Street Journal that while he supported Wilson’s bid for a board seat, “I’ve been through share repurchasing before and in almost all cases you regret it later.” ...

...There are also political considerations at play in compromises with activist investors. “Certainly there was a deal done, otherwise there would be a costly fight with these activist shareholders,” Kudla says. “This is probably prudent.” ...

...Most critics of the buyback program say it won’t substantively hamper GM’s ability to grow, at least in the near term. Kudla’s concerns are more philosophical. “It’s not the exact math, it’s that an activist shareholder is coming in and forcing GM’s hand,” he says. “It’s very likely they could come back again.”