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Report

On

Expansion Proposal for General Motors: Pro Forma Financial Analysis and Recommendation.

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For

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**Introduction**

This document provides an analysis for the financial implication of a projected 10% increase in sales revenue for General Motors (GM) using its 2018 annual report. This is to ascertain if additional funding will be required for GM’s expansion and to provide recommendation on whether GM should continue with this growth strategy.

**Pro Forma Financial Statements**

**Pro Forma Income Statement**

The Pro Forma Income Statement for 2018 was developed by projecting a 10% increase in sales revenue and adjusting other expenses (except interest and taxes) proportionally (Bench, n.d.). Below are the workings and the resulting Pro Forma figures:

**Calculations:**

* **Revenue**: $147,049 million (2018) \* 1.10 = $161,753.9 million
* **Cost of Goods Sold (COGS)**: $118,264 million (2018) \* 1.10 = $130,090.4 million
* **Gross Profit**: $161,753.9 million - $130,090.4 million = $31,663.5 million
* **Operating Expenses**: $13,728 million (2018) \* 1.10 = $15,100.8 million
* **Operating Income**: $31,663.5 million - $15,100.8 million = $16,562.7 million
* **Interest Expense**: No change, remains at $1,372 million
* **Income Before Taxes**: $16,562.7 million - $1,372 million = $15,190.7 million
* **Income Tax Expense**: $15,190.7 million \* ($3,696 million / $13,685 million) ≈ $4,099.5 million
* **Net Income**: $15,190.7 million - $4,099.5 million = $11,091.2 million

**Pro Forma Income Statement 2019:**

|  |  |
| --- | --- |
| **Metric** | **Pro Forma 2019 (millions)** |
| Revenue | $161,753.9 |
| Cost of Goods Sold | $130,090.4 |
| Gross Profit | $31,663.5 |
| Operating Expenses | $15,100.8 |
| Operating Income | $16,562.7 |
| Interest Expense | $1,372.0 |
| Income Before Taxes | $15,190.7 |
| Income Tax Expense | $4,099.5 |
| Net Income | $11,091.2 |

**Pro Forma Balance Sheet**

The Pro Forma Balance Sheet assumes a 10% increase in all assets and a corresponding increase in liabilities (Bench, n.d.). The workings and results are as follows:

**Calculations:**

* **Current Assets**: $60,104 million (2018) \* 1.10 = $66,114.4 million
* **Non-Current Assets**: $164,035 million (2018) \* 1.10 = $180,438.5 million
* **Total Assets**: $66,114.4 million + $180,438.5 million = $246,552.9 million
* **Current Liabilities**: $67,135 million (2018) \* 1.10 = $73,848.5 million
* **Non-Current Liabilities**: $106,784 million (2018) \* 1.10 = $117,462.4 million
* **Total Liabilities**: $73,848.5 million + $117,462.4 million = $191,310.9 million
* **Total Equity**: $246,552.9 million - $191,310.9 million = $55,242.0 million

**Pro Forma Balance Sheet 2019:**

|  |  |
| --- | --- |
| **Category** | **Pro Forma 2019 (millions)** |
| Current Assets | $66,114.4 |
| Non-Current Assets | $180,438.5 |
| Total Assets | $246,552.9 |
| Current Liabilities | $73,848.5 |
| Non-Current Liabilities | $117,462.4 |
| Total Liabilities | $191,310.9 |
| Total Equity | $55,242.0 |

**Pro Forma Cash Flow Statement**

This considers a 10% increase in operating activities based on the increase in net income, with no changes in investing and financing activities for simplicity (Bench, n.d.).

**Calculations:**

* **Operating Activities**: $11,745 million (2018) \* 1.10 = $12,919.5 million
* **Investing Activities**: No change, remains at -$10,645 million
* **Financing Activities**: No change, remains at -$4,178 million
* **Net Cash Flow**: $12,919.5 million + (-$10,645 million) + (-$4,178 million) = -$1,903.5 million

**Pro Forma Cash Flow Statement 2019:**

|  |  |
| --- | --- |
| **Activity** | **Pro Forma 2019 (millions)** |
| Operating Activities | $12,919.5 |
| Investing Activities | $10,645.0 |
| Financing Activities | $4,178.0 |
| Net Cash Flow | $1,903.5 |

**Ratio Analysis**

The following financial ratios were calculated using the Pro Forma statements above:

* **Current Ratio:** Current Assets / Current Liabilities = $66,114.4 million / $73.848.5 million = 0.90 (Corporate Finance Institute, n.d.)
* **Debt of Equity Ratio:** Total Liabilities / Total Equity = $191,310.9 million / $55,242.0 million = 3.46 (Corporate Finance Institute, n.d.)
* **Return of Assets (ROA):** Net Income / Total Assets = $11,091.2 million / $246,552.9 million = 4.50% (Corporate Finance Institute, n.d.)
* **Return on Equity (ROE):** Net Income / Total Equity = $11,091.2 million / $55,242.0 million = 20.07% (Corporate Finance Institute, n.d.)

**Recommendation**

Considering this financial analysis carried out based on GM’s 2018 annual report, it is recommended that GM proceed with the expansion albeit with caution. There is significant leverage due to the high debt-to-equity ratio which pretty much suggests that GM should investigate alternative financing options to eliminate financial risks. Additionally, improving liquidity and ensuring efficient use of new assets will be crucial for the success of this expansion.

**Conclusion**

The financial analysis of General Motor’s Pro Forma statements for 2019 shows both opportunities and risks associated with the projected 10% increase in sales. GM shows a strong return on equity as well as a relatively low liquidity which implies that the company might face financial challenges in funding the expansion through additional debt. To make this endeavor a success, GM needs to look at other means of funding, improve its liquidity position, and ensure that any new assets acquired through the expansion are efficiently utilized to maximize returns. With careful planning and execution, GM can capitalize on this growth opportunity while minimizing financial risks.

**References**

1. Bench. (n.d.). Pro forma financial statements. <https://www.bench.co/blog/accounting/pro-forma-financial-statements>
2. Corporate Finance Institute. (n.d.). Ratios templates. <https://corporatefinanceinstitute.com/resources/?q=ratio+template>
3. General Motors Company. (2018). 2018 Annual Report (Form 10-K). U.S. Securities and Exchange Commission.