General Motors' Takeover of Cruise

esfs Esade Student Finance Society

OUR TEAM

Head of Research

Laia Marsal

Project Leader M&A

Giorgio Goretti

Research Analyst

Giuseppe Mazza

Research Analyst

Daniel Kuano Lee

Research Analyst

Victoria Fousson

Research Analyst

Alba Castillo

Acquisition

GENERAL MOTORS

GMs Acquisition of autonomous driving market leader CRUISE

01 Mar 2025

Giorgio Goretti
giorgio.goretti@alumni.esade.edu
M&A Team Lead, ESFS
Alba Castillo
alba.castillo@alumni.esade.edu
M&A Research Analyst, ESFS
Victoria Fousson
victoriaannelouise.foussoncarlioz@alumni.esade.edu
M&A Research Analyst, ESFS
Daniel Kuano Lee
daniel.kuano@alumni.esade.edu
M&A Research Analyst, ESFS
Giuseppe Mazza
giuseppeleonardo.mazza@alumni.esade.edu
M&A Research Analyst, ESFS

Executive Summary

Acquirer: General Motors

Target: Cruise LLC

Total Transaction Size: >$10bl

Closed Date: 04/02/2025

The now closed deal represents a significant step towards GM's plan to prioritize its autonomous driving system and concentrate on the development of its driver assistance systems (ADAS) over robotaxis and ride-hailing, Cruise's original mission. The regulatory landscape complicated Cruise's trajectory, the scrutiny over the safety and reliability of its technology and operational challenges, ultimately led GM to reconsider their decision. GM halted their investments towards robotaxis' development to acquire the remaining in Cruise, fully integrating its employees into GM's R&D department. The process aims at significantly reducing CAPEX, mainly through planned layoffs. This moves bolsters GM's commitment to focus on its Super Cruise ADAS technology, strengthening their position in a concentrated market dominated by players like Tesla and Alphabet.

"This move will accelerate our work on both assisted-driving and autonomous driving." - Dave Richardson, GM's Senior Vice President of Software and Services Engineering

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Target Company

Company Details (Target – Cruise LLC)

Founded in 2013, **headquartered** in San Francisco, California USA

CEO: Marc Whitten (2024-)

Number of Employees: 3,800 (2300)

Valuation: ≈$30bl (2021)

Cruise LLC is an American self-driving company headquartered in San Francisco, California. Founded in 2013 as Cruise Automation was initially a small start-up that focused on retrofitting existing vehicles with self-driving technology. The company's focus was the creation of a purpose-built autonomous vehicle that could safely navigate the streets without the need for human intervention, proving ride-hailing services. After established partnerships with Honda and General Motors the focus shifted towards the incorporation of autonomous driving technology into consumer vehicles, allowing for the growth and scaling of their business model.

Acquiring Company

Company Details (Acquirer – General Motors)

Founded in 1908, **headquartered** in Detroit, Michigan USA

CEO: Mary Barra (2014-)

Number of Employees: 162,000

Market Cap: $48.88bl

EV: $152.44bl

Revenue: $187.4bl

EBITDA: $21.7bl

EV/EBITDA: 8.6x

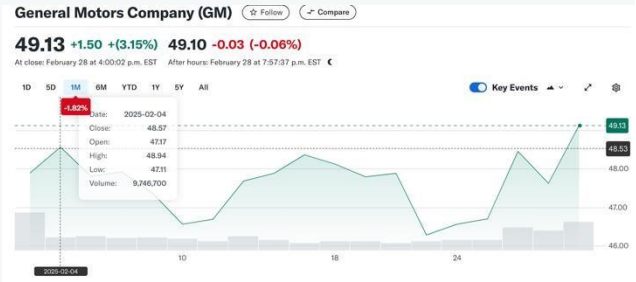
General Motors (NYSE: GM) is an American multinational automotive manufacturing company considered by sales the largest in the United States. Headquartered in Detroit, Michigan, USA, the company owns brands as Chevrolet, Buick, GMC and Cadillac.

Introduction

General Motors first acquired a controlling stake of Cruise in 2016 at a valuation of 600ml as part of their strategic plan to lead the industry in autonomous vehicle technology. From a small start-up specializing in self-driving software, GM's acquisition contributed to their scaling, attracting investment from other world players. After only 2 years Honda and Soft Bank's Vision Fund invested over $3bl in Cruise and comminted to continue financing the venture in the future. In 2022 GM acquired Soft Bank's stake and committed to an additonal investment, spening over $3bl on their long term project. Only recently GM finally decided to take full ownership of Cruise and focus on it's driver assistance system after pulling the plug on their robotaxi project after years of negative results and billions in funding. GM shift in mission highlights the difficulties and increased competition in the robotaxi industry and their focus on gaining competitive advantage in their already well established Super Cruise system.

ST Aspects

General Motors (GM) acquiring full ownership of Cruise is not a decision that came as a surprise since it aligns with the change in strategy that GM began in December of 2024, when they announced that they would cease to fund the development of robotaxis carried out by Cruise, at the time a majority owned subsidiary of GM. The acquisition of Cruise is aimed at leaving the robotaxis segment behind to focus on the personal vehicles market within the autonomous vehicle industry. Regarding the stock market, GM's stock opened at $47.17 and closed at $48.57, reflecting a gain of approximately 2.97% during the day, suggesting a positive reaction from investors.



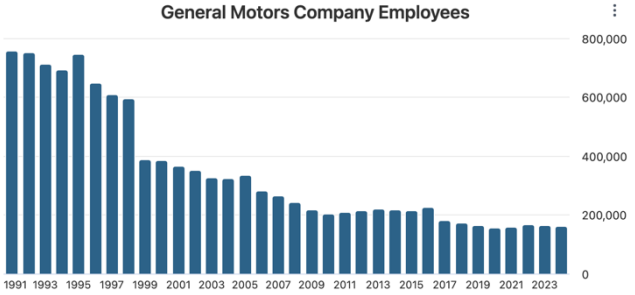
The global autonomous vehicle industry surpassed $41 billion in 2024. Highly automated driving is a market in which companies are investing a lot of money in right now with the objective of reaching full automation through emerging technologies like AI. Shared mobility, which mainly includes robotaxis, is also a sector where high revenue and growth is expected and consequently is also another key focus for the investment of companies in the automotive sector. In fact, in August 2024, Uber and Cruise announced a partnership to bring autonomous vehicles to the Uber rideshare platform. The project was projected to launch in 2025, but Uber has since announced it will be partnering with self-driving car company Waymo.

In this context, the decision to incorporate their technology into GM's Super Cruise system, which is their existing driver assistance technology, instead of pursuing the robotaxis segment, has probably been carefully considered. The robotaxis segment is much riskier because of the high level of competition by both North American and Chinese players combined with stricter regulations compared to personal autonomous vehicles.

Other factors to consider are GMs reported losses of $791 million in the third quarter of 2023 and $435 million in the third quarter of 2024 generated by Cruise. Furthermore, the incident in 2023 that caused them to pause operations for almost a year was crucial. Due to these, it is expected that in the short term this acquisition will improve the company's overall financial position since it will eliminate the high losses from Cruise's robotaxis operations and will shift resources to a segment with a clearer path to profitability. Even if the Super Cruise is not expected to be immediately profitable within the next year as it continues to require development costs in the near term, these expenses are expected to be significantly lower than the ongoing operational losses Cruise was generating.

	Automotive	Cruise
Net sales and revenue		
Automotive	$ 44,735	$ 26
GM Financial	—	—
Total net sales and revenue	44,735	26
Costs and expenses		
Automotive and other cost of sales	38,768	240
GM Financial interest, operating and other expenses	—	—
Automotive and other selling, general and administrative expense	2,544	203
Total costs and expenses	41,312	442
Operating income (loss)	3,424	(417)
Automotive interest expense	206	30
Interest income and other non-operating income, net	379	11
Equity income (loss)	(132)	—
Income (loss) before income taxes	$ 3,465	$ (435)
Income tax expense (benefit)		

Another relevant short-term consideration is the operational impact of the acquisition. With GM taking full ownership of Cruise, the company must now integrate all of Cruise's technology, infrastructure, and workforce into its existing operations. In terms of redundancies, it has been confirmed that Cruise's workforce will face a 50% reduction accounting for around 1,000 employees and mostly affecting administrative roles. This decision is aligned with the workforce downsizing GM has been carrying out since 2023 with the aim of reducing costs. It works in favour of the company's financial state in the short term because payroll expenses are reduced but GM can still face reputational damage if seen as disregarding employee wellbeing and therefore it having a negative impact on sales.



Even if the personal autonomous vehicles sector is perceived as safer than the robotaxis one, the autonomous vehicle industry faces an extremely high level of political and regulatory uncertainty that will affect GM in the near future. One of the major factors is the Trump administration tariff policy.

The proposed 25% tariffs on auto imports and semiconductor chips would significantly increase GM's production costs, particularly for autonomous vehicle components that are primarily sourced from China, Taiwan, and South Korea. Nonetheless, the tariff on imported cars would provide GM with a competitive advantage in the U.S. domestic market since it would raise foreign competitors prices, increasing GM's domestic sales and market share. However, the increased costs from semiconductor tariffs could offset these gains and hinder the improved financial position expected to be achieved by the acquisition.


Trump says he will introduce 25% tariffs on autos, pharmaceuticals and chips

By Andrea Shalal and Nandita Bose

February 19, 2025 5:30 AM GMT+1 · Updated 12 days ago

LT Aspects

Refocus on AV market and ADAS development

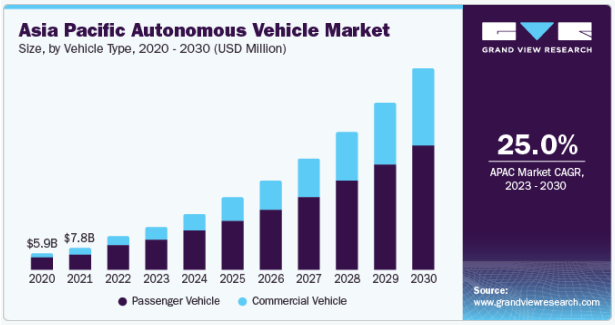
General Motors' decision to integrate Cruise into its own technical team marks a shift in strategy. By shifting focus from robotaxis to personal autonomous vehicles, General Motors will benefit from several cost synergies and prioritize other more attractive markets. General Motors will seek to position itself for long-term success in the growing autonomous vehicle (AV) and advanced driver assistance systems (ADAS) market.

General Motors' (GM) Super Cruise system, the company's advanced driver assistance system, has been one of the main cornerstones of the company and has a large growth potential. CEO Mary Barra forecasted that the system would bring in about $2 billion in annual revenue within 5 years. Super Cruise will further benefit from Cruise's advanced software and hardware, enabling GM to expand its capabilities and compete with other rival systems, such as Tesla's Autopilot and Ford's BlueCruise. This represents a strategy shift from their previous focus on self-driving taxis to personal autonomous vehicles.

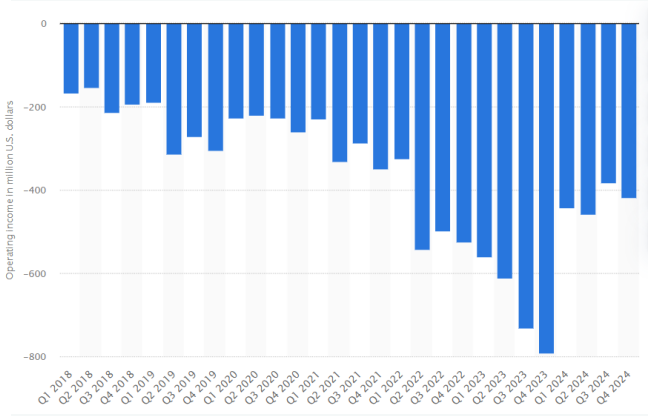
This focus on personal autonomous vehicles is aligned with the growing demand for ADAS and autonomous vehicles, a market that has been valued globally at $42.37 billion and expected to grow at a CAGR of 21.9% from 2023 to 2030. Improving Super Cruise's capabilities will lead to customers benefitting from safer, more intelligent vehicle systems. By leveraging Cruise's technology, GM can accelerate the development of its ADAS and further capture a larger share of the autonomous vehicle market.

Cost synergies and difficulties in the robotaxi business

By ending its Cruise robotaxi development program, GM expects to save around $1 billion annually. In 2021, GM projected that the self-driving robotaxis would be scattered



Cruise LLC operating income Q1 2018 – Q4 2024



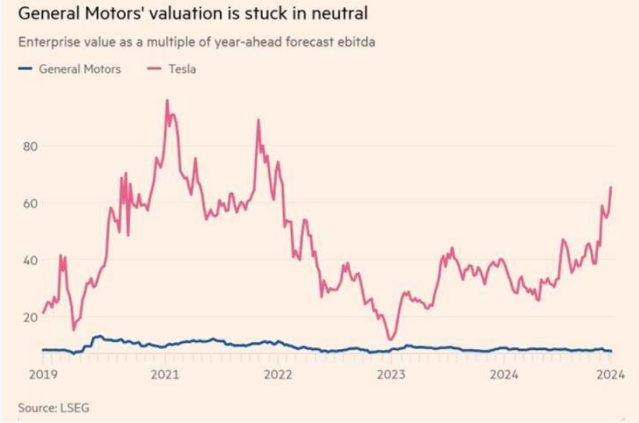
around the United States and would bring in $50 billion in annual revenue by 2030. Even though GM has invested a total of around $10 billion in Cruise since it's initial acquisition, Cruise has been costing the company on average $2 billion annually.

2 months after receiving its permit to operate in San Francisco, a pedestrian was struck and dragged by one of Cruise's robotaxis led to intense pressure to Cruise. This incident led to regulatory bans, fines and affected the company's image and public perception. Regulatory risks remain a key challenge, as the incident triggered intense scrutiny which could extend to GM's AV and ADAS projects. This could eventually delay commercialization and increase costs in releasing new AV models.

The competitive landscape in the robotaxi business is very rough as well; Tesla, led by Elon Musk, and Waymo, owned by Alphabet, are both huge players in the market. Both Tesla and Alphabet have more capital resources than GM and therefore capture larger shares in the robotaxi market. Investor sentiment regarding GM's future cash flows is conservative when compared to Tesla.

Shutting down the robotaxi business will be financially healthy for GM, as the business while innovative and ambitious, was a drain of resources and costs. The Super Cruise system will benefit largely from the reallocation of the spending on Cruise on the ADAS system. By reallocating the funds into other potential opportunities such as Super Cruise, General Motors adapts itself to market realities, realigning its strategy to address market demand.

The merger will lead to multiple cost synergies, such as layoffs and technological improvements, which will further improve GM's financials. The change in strategy integrating Cruise into GM's Super Cruise technology marks a significant step in accelerating the commercialization of driving assistance systems, stepping away from their previous focus on robotaxis.



Risk Analysis

First, one of the main concerns arise in the startegic decisional done by GM to restructure Cruise's activities. This pivot comes after years of substantial investment, persistent financial losses, operational challenges, and increased regulatory scrutiny. While GM forecasts a $1 billion annual cost reduction from this restructuring, the move raises several financial, operational, and strategic risks.

Since acquiring a controlling stake in Cruise in 2016, GM has continuously funneled capital into the venture exceeding $10 billion. Despite this financial commitment, Cruise has failed to deliver returns on the investments, generating less than $500 million in revenue while accumulating over $10 billion in operating losses. In 2024 alone, Cruise reported a loss of $3.04 billion, contributing to GM's total net income of $6.0 billion and an combined Operating Income of $12.7 billion for the year. The decision to halt Cruise's robotaxi

operations triggered significant financial write-offs, including a $605 million charge in Q2 2024, an additional $500 million impairment charge related to the restructuring, and a broader $2.9 billion loss for GM in Q4 2024. Furthermore, GM's North America margin is expected to decline by 50 basis points in 2025 due to the integration of Cruise's workforce, increasing its automotive fixed costs and reducing adjusted cash flow.

Now, focusing on operational risks. Cruise was previously operated as a semi-independent entity, with its own leadership, technological development roadmap, and workforce. The shift to integrating its Level 4 autonomous driving systems into GM's retail vehicles requires a huge uncertain transition of talent and technology into GM's core business. Employee layoffs, which began in late 2023 following regulatory setbacks, have resulted in a 50% reduction in Cruise's workforce—from 3,800 employees in 2023 to approximately 2,100 as of early 2024.

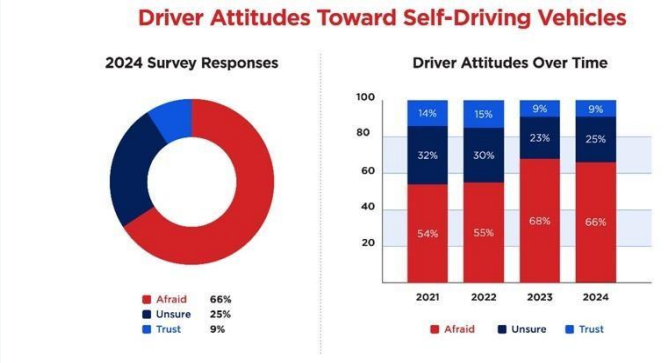
GM's Self-Driving Cruise Origin Indefinitely Delayed

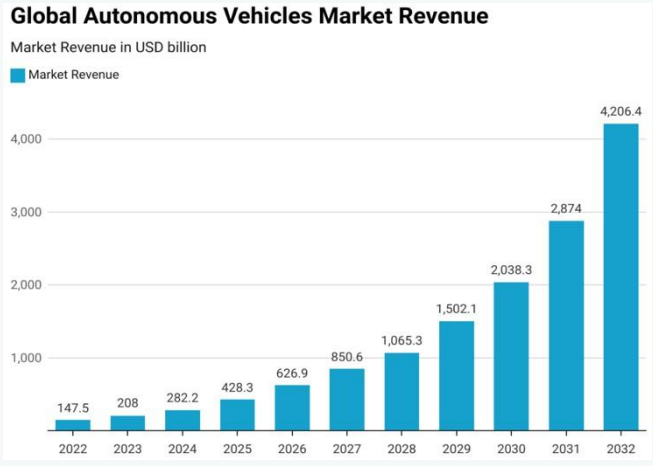
This cut-off of specialized talent, particularly engineers and software developers with expertise in autonomous systems, risks slowing down innovation and disrupting GM's broader advanced driver-assistance initiatives. It also raises issues over its reputatuion by leaving many people left without concrete answers and waiting to know what their future career was going to look like.

The regulatory landscape surrounding autonomous vehicles has further complicated Cruise's trajectory. An incident involving a pedestrian injury in California in late 2023 led to the suspension of Cruise's driverless operations in the state, raising critical concerns about the safety and reliability of its technology. Furthermore, GM's potential contractual obligations with key partners, including Uber planning to integrate Cruise vehicles into its ride-hailing platform could result in additional liabilities or lost business opportunities.

From a strategic perspective, GM's retreat from the robotaxi market signals a significant repositioning that could trigger long-term disadvantages for its competitiveness in autonomous mobility. While the company intends to refocus on integrating autonomous driving features into private vehicle sales, competitors such as Alphabet's Waymo, Tesla, and Mobileye accelerate their race in commercializing autonomous ride-hailing services. Waymo, for example, has announced plans to expand its operations beyond Phoenix, San Francisco, and Los Angeles, with pilot testing in Miami already underway and commercial ride-hailing services set to launch in 2026.

The financial markets' reaction to GM's announcement has been mixed. While GM's stock initially gained 3% in after-hours trading, reflecting investor relief at the prospect of cost reductions, the stock price later stabilized as concerns emerged over the long-term implications of exiting the robotaxi market. Investors remain cautious about the added fixed costs resulting from Cruise's integration and the potential drag on GM's adjusted cash flow. In addition, macroeconomic conditions, including rising interest rates and shifting consumer demand in the U.S. automotive market, add another layer of risk to GM's broader strategy.





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