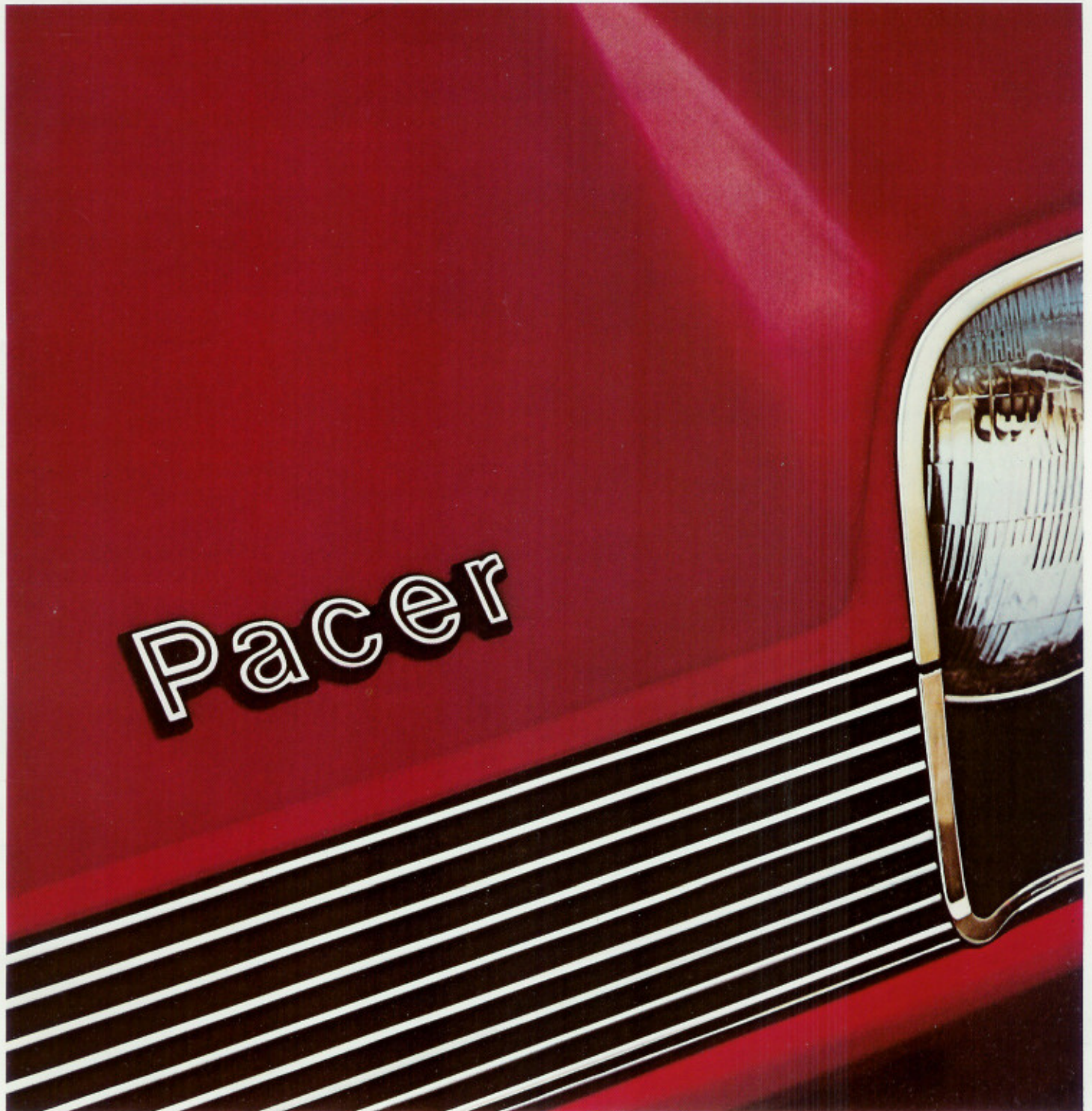


# American Motors Corporation 1974 Annual Report



## American Motors Corporation: The Responsive Company

American Motors has gained recognition and opportunity in the marketplace because its philosophy and programs are responsive to people's needs. American Motors' Pacer, unique in concept, illustrates again that the company is committed to providing distinctive ideas and products which are responsive to changing times. It will be introduced early in 1975.



## Financial Review

Fiscal 1974 was a year of financial progress, even though results were below those achieved a year ago. Sales increased to a record \$2.0 billion from \$1.7 billion in 1973. Net earnings of \$27.5 million, while down from the \$44.5 million earned from operations in 1973, were better than for any other year since 1963. During 1974 semi-annual dividends totaled 20 cents per share—the first dividends paid since 1965.

### Sales (\$ Millions)

	1974	1973	% Change
Automotive	\$1,795.6	\$1,569.8	+ 14.4%
Military truck, transit bus, etc.	159.1	148.1	+ 7.4%
Other Operations	45.5	21.1	+115.6%
Corporate Sales	<u>\$2,000.2</u>	<u>\$1,739.0</u>	<u>+ 15.0%</u>

Automotive sales of \$1.8 billion in 1974 were 14.4 per cent over 1973, reflecting an increase in wholesale unit sales to domestic and Canadian dealers, as well as the effect of vehicle price increases implemented during the year. The automotive sales performance was good relative to industry experience. We estimate our automotive revenues were impaired by \$15 million because of delays in approval and implementation of cost-justified price increases during the first six months of our 1974 fiscal year, stemming from price controls.

Sales of military trucks, transit buses and post office vehicles, manufactured and sold by a wholly-owned subsidiary, AM General Corporation, increased 7.4 per cent to \$159 million in 1974. This included \$24 million of transit bus sales, which offset a lower level of military truck procurement during the year. Sales of these products in 1975 are expected to increase substantially over 1974. The backlog at September 30, 1974, was \$292 million, compared to \$210 million a year ago.

### Net Earnings (\$ Millions)

	1974	1973	Change
Automotive	\$34.5	\$45.3	\$-10.8
Military truck, transit bus, etc.	(9.7)	(2.5)	- 7.2
Other Operations	2.7	1.7	+ 1.0
Corporate Net Earnings	<u>\$27.5</u>	<u>\$44.5</u>	<u>\$-17.0</u>

Automotive net earnings were \$34.5 million and would have exceeded 1973's \$45.3 million had it not been for a strike at the end of the fiscal year which

reduced net earnings by approximately \$13 million. Exclusive of strike impact, this represented a good performance in a poor industry year—one adversely influenced by price controls, the energy crisis, rapid and substantial escalation of material and labor costs, and shortages of materials and components.

The net loss on military truck, transit bus and post office vehicle business of \$9.7 million was attributable to unexpectedly high costs associated with our entry into the transit bus business. We expect AM General Corporation to operate profitably in 1975.

The increase in sales and net earnings of Other Operations in 1974 resulted from acquisition of Wheel Horse Products, Inc. during the year.

The overall corporate profit before tax in 1974 was 2.1 per cent on sales, down from 4.3 per cent in 1973, and represented a return on shareholders' equity of 12.2 per cent. These results are unsatisfactory and efforts are being made to improve them in 1975. Significant product price increases were implemented during the latter part of the 1974 model year and with the introduction of 1975 models.

### Capital Expenditures and Financing

Capital expenditures for new product, increased manufacturing capacity and dealer facilities totaled \$123 million in 1974, compared to \$90 million the prior year. The capital expenditures, aimed at improving our growth base, were financed in part by earnings and in part by issuance of \$25 million of 9 per cent bonds. Working capital at year-end was \$157 million, down \$23 million from the prior year.

At September 30, 1974, American Motors Corporation had available \$75 million of mid-term credit and a \$25 million short-term line of credit. In addition, AM General had \$25 million in short-term credit, while a car leasing subsidiary had a \$20 million line of credit. The AM General credit was drawn down in October, 1974, but no other borrowings have been made.

### Outlook for 1975

The 1975 year will present a difficult automotive market, with economic conditions exerting downward pressures on volume and profit margins. The market for smaller cars, in which American Motors competes, should fare well relative to the total market.

Strikes delayed production of 1975 model cars until October 14 at U. S. plants and until November 4 at the Canadian plant. Despite this setback, the company should regain market momentum, aided by the introduction early in 1975 of an all-new car, the Pacer.