



North America still a drag on GM

Global strategy pays off in net profit

By Sharon Silke Carty

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DETROIT — General Motors swung to a profit in the second quarter even though it continued to lose money in North America — a sign that the automaker's efforts at globalization are starting to pay off.

The second-quarter results surprised analysts by more than doubling expectations, but the company said that the second half of the year could be difficult.

GM reported net income of \$891 million for the second quarter, compared with a loss of \$3.4 billion a year ago. Earnings adjusted to exclude one-time items were up to \$1.4 billion from \$1.1 billion a year ago.

It was the third-consecutive quarterly profit for GM, which launched a major restructuring in 2005, when it lost \$3.2 billion for the year. Still, GM was in the red in North America, its most important market. It posted a net loss of \$39 million, a huge improvement over last year's net loss of \$3.95 billion.

"In North America, we continue to make progress with our focus on great new products, a disciplined sales and marketing strategy, and structural cost reduction," said CEO Rick Wagoner. Adjusted for one-time items, North America posted a profit of \$78 million, compared with adjusted earnings of \$94 million last year. "Our current earnings clearly demonstrate we've got more to do," he said.

Himanshu Patel, an analyst at JPMorgan, noted that GM performed well in international markets. Higher than analysts expected were: Europe, which earned \$236 million; Latin America, which earned \$213 million; and Asia Pacific, which earned \$237 million.

David Cole, chairman of the Center for Automotive Research, said the North American market is still crucial for GM. "It is an important market, but it does not have the same gravity as in the past," he said. "It's a much smaller part of the total, albeit still the most important part."

In the USA, GM has been weaning customers off steep incentives and sticking to what it calls a value-pricing program. But weakness here means GM may be forced to turn back to incentives. This week it announced it is offering zero-percent financing again on full-size Chevrolet and GMC pickups.

"GM still has a long road ahead in terms of the turnaround, but this earnings report is further evidence that the plan is working," said David Kudla, CEO of Mainstay Capital Management.