



Ford posts \$8.7 billion 2nd-quarter loss

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Ford Motor Co. posted an \$8.7 billion second-quarter loss today - the worst quarterly results in the automaker 105-year history.

Most of that was due to write-offs associated with a decline in value of its North American assets and Ford Credit's lease portfolio.

But the dramatic consumer shift away from big trucks and SUVs toward smaller, more fuel-efficient vehicles also dealt a major blow to the company's North American automobile business.

"The last quarter has certainly been a challenging one for the entire automobile industry," CEO Alan Mulally told reporters and analysts during a conference call this morning. "Because of deteriorating economic conditions, demand has declined substantially -- particularly in North America."

As a result, Ford said today it will retool three North American plants to produce smaller cars.

Excluding special items, the company's loss from continuing operations was \$1 billion before taxes and \$1.4 billion after taxes, translating into a loss of 62 cents per share. Wall Street had been anticipating a loss of 27 cents per share, according to a survey of a dozen analysts by the Thomson Financial Network.

That compared to a net profit of \$750 million, or 31 cents per share, in the second quarter of 2007.

The one-time write-offs included a \$5.3 billion charge stemming from a decline in the value of Ford's North American assets and, more troubling, a \$2.1 billion decline in the value of its lending arm's lease portfolio.

Ford also acknowledged that it is spending significantly more than it expected on its restructuring plan, but said it still has \$26.6 billion in cash and cash equivalents -- \$2.1 billion less than it had three months ago. With available credit, the company still has more than \$38 billion in liquidity -- substantially more than its cross-town rival, General Motors Corp., which has been the subject of bankruptcy speculation in recent months.

Ford still has cash and credit

Chief Financial Officer Don Leclair said the one-time charges incurred by Ford during the quarter will not affect Ford's ability to access the credit it has already secured, adding that the company still has sufficient liquidity to meet its restructuring needs.

He also said Ford remains on track to meet its goal of cutting \$5 billion in operating costs by the end of the year and pointed to its profitable overseas operations as a sign of strength.

But Ford's automotive operations in the United States continue to suffer. They reported a pre-tax loss of \$1.3 billion, compared with a loss of \$270 million a year ago, largely as a result of a shift away from trucks and SUVs and weaker net pricing.

Ford sold 137,000 fewer cars and trucks in North America in April, May and June than it did during the same three-month

period last year.

New products announced for the U.S.

Responding to this change in consumer demand, Ford also announced that three of its large truck and SUV plants in North America will shift production to small cars, beginning in December. It also said it will bring six of its smaller, less fuel-thirsty European models to the United States.

These will include:

- The new Ford Fiesta based on the Verve concept that debuted at the Detroit auto show in January. It will go into production in Mexico in 2010.
- A new global Ford Focus replacing both the current U.S. and European models, also in 2010.
- The European-built Transit Connect van, which will be introduced in the United States next year.
- An entirely new vehicle based on a European design, as well as two other vehicles that will be named later. One of those is expected to be the full-size Transit van, which sources say will replace the E-series van currently being produced at Ford's plant in Avon Lake, Ohio.

"We are in a stronger position than ever to leverage Ford's global assets and continue to address the pressures facing us in North America," Mulally said.

These moves had been anticipated since The Detroit News first reported they were in the works early last month.

Ford Americas President Mark Fields said that, by 2010, 40 percent of the vehicles the company sells in Europe would also be sold in the United States, with 100 percent commonality expected by 2013.

"This compares with nothing in common today," he said, noting that Ford expects to realize significant economies of scale by simplifying its global vehicle portfolio, not to mention offering the more economical cars that American motorists increasingly want.

The company also announced that it will replace its once-popular Ford Explorer SUV with a new unibody design that is expected to deliver 25-percent better fuel economy than the current model, and confirmed plans to build a seven-passenger Lincoln crossover. It's expected to be based on the MKT concept Ford unveiled in January.

Fields also outlined an accelerated restructuring of the company's North American factory network to produce more fuel-efficient engines and transmissions. In what promises to be the most ambitious powertrain play in the company's history, nearly all of Ford's North American engine offerings will be replaced or upgraded by 2010.

He said Ford would accelerate the introduction of its new EcoBoost engine line, which combines turbo-charging and direct injection to deliver higher performance and better fuel economy. The company also plans to greatly increase its output of more fuel-

efficient four-cylinder engines, doubling capacity by 2011. And it will build more six-speed transmissions.

In doing so, Ford will convert many of its engine facilities to flexible manufacturing, allowing them to resume production of larger engines if market demand swings back in that direction in the future.

But Fields said Ford believes the change in the American marketplace is permanent. Demand for pickups will rebound when the housing market recovers, but not to previous levels. Americans will increasingly opt for smaller cars and crossovers as oil prices are expected to remain both high and volatile.

Ford said it has no plans to cut back on investments in new vehicles as GM recently did, but said it will shift its focus to those more fuel-efficient vehicle categories. Fields said Ford aims to offer best-in-class or near-best-in-class fuel economy on every new vehicle it introduces. By way of example, he said the 2010 Ford Fusion and Mercury Milan will beat the Toyota Camry and Honda Accord.

Ford also plans to double its hybrid offerings in 2009. It will offer four full hybrids next year, giving it more than any other U.S. manufacturer and making Ford second only to Toyota in hybrid sales volume.

The company also confirmed that Mercury will remain part of its North American brand portfolio. Mercury, which has been starved for products, will get a new small car in 2010.

"Our product pipeline will be full," Mulally promised.

Restructuring continues

Ford lost more than \$2.7 billion last year and has lost more than \$15 billion since 2005. In May, the company abandoned its long-stated goal of returning to profitability in 2009 and has since said it sees no bottom to the current crisis gripping the U.S. auto industry.

In an effort to respond to declining demand for its cars and trucks, the Dearborn automaker already has begun a third round of blue-collar buyouts at many of its U.S. factories and is in the process of slashing 15 percent of its salaried payroll in North America. Ford has also dramatically scaled back production of pickups and SUVs.

As part of its realignment, Ford said it will take the following plant actions:

- Michigan Truck Plant in Wayne, which currently builds the Ford Expedition and Lincoln Navigator full-size SUVs, will be converted beginning this December to production of small cars derived from Ford's global C-car platform in 2010.
- Production of the Ford Expedition and Lincoln Navigator will be moved to the Kentucky Truck Plant in Louisville early next year.
- Cuautitlan Assembly Plant in Mexico, which currently produces F-Series pickups, will be converted to begin production of the new Fiesta small car for North America in early 2010.
- Louisville Assembly Plant, which builds the Ford Explorer mid-size SUV, will be converted to produce small vehicles from Ford's global C-car platform beginning in 2011.
- Twin Cities Assembly Plant in St. Paul, Minn., which was scheduled to close in 2009, will continue production of the Ford Ranger through 2011 to meet consumer demand for the compact pickup.
- As previously announced, Kansas City Assembly Plant this year will add a third crew to its small utility line for the Ford Escape, Escape Hybrid and Mercury Mariner and Mariner Hybrid.

Product analysts said Ford's decision to bring over more fuel-efficient models from Europe makes sense.

"It is prohibitively expensive for manufacturers to design and produce entirely new vehicles," said Jesse Toprak, executive director of industry analysis at Edmunds.com. "Bringing these vehicles over from Europe provides significant savings to Ford and allows the company to quickly align itself with current market conditions."

By building these vehicles in the United States, Ford can avoid the penalty imposed by a weak U.S. dollar on imports from overseas. But it remains to be seen whether the company, which has long been accustomed to the high profits generated by bigger vehicles can make money off lower-margin small cars.

"Over the past decades, Ford has generated over 60 percent of its sales from trucks and SUVs," said David Kudla, CEO of Mainstay Capital Management LLC. "This sales mix is a legacy from consumer preferences in the 1990s, when the company's Explorer SUV and F-series pickup truck were top sellers. In an environment where gas is \$4 per gallon, these vehicles have been piling up on dealer lots. First half sales were reportedly down 40% for SUVs, and 31% for trucks and vans, compared to the same period in 2007."

Even some smaller cars are suffering as a weak U.S. economy keeps more Americans off dealer lots.

On Wednesday, J.D. Power and Associates cut its 2008 light-vehicle sales forecast to 14.2 million units -- a 12 percent decrease from the 16.1 million units sold in 2007.

"The weak performance seen in June 2008 is expected to carry over into July, and year-over-year comparisons mark June as the weakest month on a seasonally adjusted annualized rate since 1993," said Jeff Schuster, the firm's executive director of automotive forecasting.

Ford profits overseas

Globally, Ford's automotive business posted a pre-tax loss of \$670 million for the quarter, compared to a pre-tax profit of \$378 million for the same period last year. But most of its foreign operations remained profitable.

In South America, the company's profits grew to \$388 million from \$255 million a year ago, while its European division saw its earning climb to \$582 million from \$262 million. In both cases, Ford attributed those gains to more favorable volume and product mixes, partially offset by unfavorable exchange rates.

Ford's Swedish brand, Volvo, reported a second-quarter loss of \$120 million, compared with a loss of \$91 million a year ago.

In the booming Asia-Pacific region, Ford's profits nearly doubled, leaping from \$26 million in the second quarter of 2007 to \$50 million in the same period this year. Ford earned \$103 million from its investment in Japan's Mazda Motor Corp., in which it holds a controlling interest, up from \$72 million last year.

Closer to home, there was more bad news at Ford Credit. Long a reliable source of revenue for the company, Ford's consumer lending arm swung to a second quarter loss of \$294 million from a profit of \$112 million a year ago.

Balance of 2008 looks bleak

Ford said it expects its financial results for 2008 to be worse than 2007.

"We don't expect the U.S. economy to begin to recover until early 2010," Fields said.

Mulally added that Ford will not return to profitability until it that happens.

"Clearly, the present business climate poses a significant challenge," he said. "We are keenly aware of the external challenges and will continue to act swiftly ... We have the scale, the expertise and the financing to execute our plan."