



Ford posts \$8.7B loss **Despite sluggish economy, CEO still optimistic for the future**

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Despite record losses during the second quarter, Ford Motor Co.'s top executive said he was optimistic about the company's future.

Alan Mulally, Ford's chief executive officer, told reporters and analysts during a conference call Thursday the company's prospects were bright despite the slow economy and the financial reverses. Ford doesn't expect an economic turnaround to begin until early 2010, but the company will be in an excellent position to capitalize on any economic recovery with a solid lineup of smaller, more fuel-efficient vehicles, Mulally said.

After reporting an \$8.7 billion loss in the second quarter of 2008, the company is preparing for a dramatic recovery by relying on design expertise from the company's European subsidiary. Mulally also noted the Ford Flex is off to a good start, the company's quality rating is improving and it has several new vehicles, including the redesigned F-150 pickup and a new Lincoln MKS, debuting this fall.

In addition, Ford also will launch a new, updated version of one of the company's signature models, the Ford Mustang, next year, Mulally confirmed. The Flex, F-150, MKS and Mustang were all designed in Dearborn, as was the new version of the Ford Explorer. The next Explorer, however, will fit on a Europeandesignated platform.

"We continue to take decisive action in response to the rapidly changing business environment and remain absolutely committed to É our business transformation plan," he said.

"Our European and South American operations are robust and profitable. We have momentum in Asia. And we are uniquely positioned to leverage our global assets and the global strength of the Ford brand to quickly bring more small, fuel-efficient vehicles to North America," Mulally said.

The loss, the largest in the company's 103-year history, included an \$8 billion write-down of assets linked to the company's once lucrative truck and sport utility business.

Don Leclair, Ford's chief financial officer, said Ford wrote down the assets after determining that the shift in consumer preferences brought on by higher fuel prices had reduced their value.

"The external conditions in North American have changed dramatically in a short period of time," said Mark Fields, Ford president of the Americas. "We believe the shifts are permanent."
Mulally emphasized the company is moving quickly to address the shift by changing the company's vehicle line to include more models designed in Europe, where small cars rule the road.

"What's different is that the consumers are going to value fuel-efficient vehicles," said Mulally after outlining the company's plans during a conference call. "We're very excited with our experience with small cars around the world."

Mulally also emphasized that Ford will redeploy what has long been one of Detroit's very best weapons "economies of scale" by building the same vehicle around the world.

The one "B" or subcompact vehicle platform on which cars like the Ford Fiesta rides will generate 1 million sales annually while the slightly larger C/D segment should yield more than 2 million unit sales, he said. The success of the Ford Model T, which has reached its centennial this year, was built around such economies of scale, Mulally said.

Nevertheless, Ford's writedown underscores the dramatic change in Detroit's once enormously lucrative pickup truck and SUV business, which had redefined the American road over the past two decades, analysts said.

General Motors and Chrysler also are planning to shift more production to smaller vehicles, while Ford has also delayed the introduction of the 2009 F-150, the most popular model sold in the U.S., by 60 days this fall.

"Over the past decades, Ford has generated over 60 percent of its sales from trucks and SUVs," noted David Kudla, the chief executive officer of Mainstay Capital in Grand Blanc. "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 gasoline is \$4 per gallon, these vehicles have been piling up on dealer lots. First-half sales were reportedly down 40 percent for SUVs, and 31 percent for trucks and vans, compared to the same period in 2007."

Merrill Lynch analyst John Murphy said Ford appears to be addressing the issue headon. "The product shift makes a tremendous amount of sense," Murphy said.

The losses at Ford, which has eliminated 40,000 hourly and salaried workers in the past three years as it resized, was dramatically different than the \$750 million profit the company reported during the same period a year ago, when it seemed the company's turnaround plan was finally taking hold.

Ford also reported a \$1.3 billion loss for the second quarter from continuing operations in North America, where the company's sales losses have been concentrated.