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## GM earns \$891M; car blitz up next

With strong quarter behind it, automaker faces risks as it moves away from trucks, SUVs.

BY SHARON TERLEP

*The Detroit News*

Rugged trucks and hulking SUVs have long carried the day at General Motors Corp.

But GM is now counting on a slew of new cars coming out later this year to fuel its turnaround plan.

GM reported Tuesday that it earned \$891 million in the second quarter after slashing manufacturing costs. It's the third consecutive quarterly profit and a huge improvement over the \$3.4 billion loss the automaker recorded for the second quarter of 2006.

The U.S. carmaker also is putting a brake on its losses in the critical North American market. GM reported a loss of \$39 million for those operations, reflecting slower-than-anticipated sales of its redesigned pickups, compared with a \$3.95 billion shortfall a year earlier.

Excluding costs for plant closings and other expenses, GM earned \$78 million from continuing operations in North America in the second quarter, compared with a \$94 million loss.

Its results exceeded expectations on Wall Street, as did Ford Motor Co.'s \$750 million quarterly profit announced last week.

GM's success in North America now hinges largely on a quartet of new cars set to hit U.S. showrooms this fall and winter.

"Each launch is important -- but particularly in today's market, these launches are even more important," GM Chief Financial Officer Fritz Henderson said.

Due out this year: the Saturn Astra compact; the Pontiac G8, a rear-wheel-drive offering for GM's performance-centered brand; the redesigned Cadillac CTS small luxury sedan; and, most importantly, GM's made-over mainstay -- the Chevrolet Malibu.

The CTS and Malibu are must-wins for GM. The G8 and Astra are important, though to a lesser extent, because they help fill gaps in the Pontiac and Saturn brands.

The Malibu is GM's chief offering for the midsize car market, the largest U.S. vehicle segment. GM went to painstaking lengths to improve on the current version, adding a flashy two-tone interior, more speed and power, a redone exterior and a hybrid offering.

The car is GM's chief competition to perennial powerhouses, the Toyota Camry and Honda Accord. GM has sold 60,000 Malibu's this year, compared with Toyota's 212,000 Camrys and Honda's 180,000 Accords.

"Cars don't offer the profitability of large pickups and SUVs; however GM has got to be successful in segments outside of pickups," said analyst Erich Merkle of IRN Inc. in Grand Rapids. "It would be nice to see them performing better in that segment not because they're doing poorly, but because they're performing better in other segments."

### Truck sales are down

Since April 2001, GM has consistently sold more trucks than cars.

When Ford declared the "year of the car" in 2005, GM maintained that truck sales would rebound. Redesigns of its key trucks -- the Chevrolet Tahoe and GMC Yukon SUVs, and the Chevy Silverado and GMC Sierra pickups -- provided a sales boost. But the relief was short-lived.

Tahoe and Yukon sales are down 16.3 percent and 11.6 percent, respectively, through June. Silverado and Sierra sales are down 2 percent and 2.3 percent, despite being on the market less than a year.

Sales are down across a number of segments. A sluggish housing market is behind sinking pickup sales, while consumers are cooling on mid-size SUVs in favor of car-based crossovers.

In June 2005, GM sold about 200,000 more light trucks than passenger cars. In June 2007, the gap shrank to fewer than 50,000 due to diminished truck sales.

Cars are becoming more important for Detroit automakers, particularly GM, as more efficient manufacturing practices help make it possible to make money off the vehicles, said David Cole, chairman of the Center for Automotive Research in Ann Arbor.

"They've been on track to increase the profitability of every vehicle they make," he said. A shift away from big trucks, Cole said, "really amplifies the importance of doing that."

### **Cutbacks boost profits**

Even with its truck woes, GM's financial performance has improved significantly from a combined \$12 billion loss in 2005 and 2006.

Savings from last year's plant closings and job cuts, along with a better-than-expected performance from its former financial arm GMAC, helped GM turn a net profit despite a 13 percent drop in revenue to \$46.8 billion.

GM's strategies to pare back incentive spending and low-profit sales to fleet companies are beginning to show results. By commanding better prices for each car and truck sold, GM has been able to reduce losses amid falling sales.

GM's incentives for July were down 30 percent from a year ago, to an average of \$3,130, according to automotive research site Edmunds.com.

Also beneficial was a profit contribution from GMAC, which earned \$239 million. GM last year sold a majority stake in GMAC, but gets 49 percent of the company's profit.

Tuesday's results included special charges of \$375 million spent on the bailout of former subsidiary Delphi Corp. and \$888 million for

restructuring. But for those charges, GM said, its earnings would have been more than \$1.4 billion.

In the first quarter, Toyota sold more vehicles worldwide than GM, but GM's second-quarter sales exceeding 2.4 million units topped Toyota's preliminary quarterly sales of 2.37 million, which exclude its sales in China.

Through the first half of the year, GM has made \$953 million. Last year, the automaker had lost \$2.8 billion through June.

"GM still has a long road ahead in terms of the turnaround, but this earnings report is further evidence that the plan is working," analyst David Kudla of Mainstay Capital Management in Grand Blanc wrote in a research note.

On Tuesday, GM shares fell 21 cents, or 0.6 percent, to \$32.40 on Wall Street.

### **UAW concessions sought**

GM and Wall Street are focusing on the importance of reaching a favorable deal with the United Auto Workers union. GM, like Ford and the Chrysler Group, is looking for a contract that will significantly cut health care and labor costs at its North American plants.

"It's still going to be difficult and they're going to need a lot of concessions to consistently be profitable," said analyst Brad Rubin of BNP Paribas.

GM is still losing market share to foreign rivals but the automaker performed well in regions outside North America.

GM Europe made \$217 million, up from a \$39 million loss last year -- the best results since 1996.

GM Asia Pacific earned \$227 million, down from \$376 million a year ago, but that included \$212 million from the sale of GM's interest in Isuzu.

GM Latin America, Africa and Middle East posted its best quarterly net income in a decade, making \$213 million, compared with \$139 million a year ago.

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