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GM loses $15.5B as industry sales dive

Restructuring write-offs mount, core auto units struggle

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General Motors Corp.'s $15.5 billion second-quarter loss, loaded with costs from restructuring and labor woes, overshadowed mounting problems with its core automotive operations and new headaches overseas.

GM wrote a $9.1 billion check to pay mostly for restructuring and strikes earlier this year. But it won't be as easy overcoming mixed financial results stretching from Europe to Asia, analysts said, or widening losses in North America, where GM took a $4.4 billion hit.

The automaker's third-worst quarterly performance in its 100-year history includes a $6.3-billion loss from continuing operations, fresh evidence that record oil prices, credit concerns and slumping consumer confidence are a trifecta of trouble complicating any GM comeback at home.
Revenue in North America slipped by nearly a third, thanks to the effects of a strike at American Axle & Manufacturing Holdings Inc. and plummeting sales of pickups and SUVs. Sales outside North America rose 10 percent during the second quarter, but GM lost $65 million in its Asia Pacific region compared to a $294 million profit a year ago. The earnings were impacted by a pretax accounting charge.

In Europe, the automaker made $99 million, down from $345 million in the same period last year, thanks in part to sales growth in Russia. But GM had to raise prices in the United Kingdom and overcome an economic slowdown and unfavorable exchange rates.

"We've got to think about what we have to do over time to try to improve the profitability of our U.K. business by driving retail (sales)," said GM's Chief Operating Officer Fritz Henderson. "There is no silver bullet on this one."

The global numbers are revealing, said James Mallak, managing director of Alvarez & Marsal, a professional services firm specializing in turnaround efforts.

"This auto downturn is not just North America," he said.
Latin America a bright spot

There was a global bright spot for GM. Its Latin America, Africa and Middle East region posted a $445 million profit, up from $296 million a year ago.

"The rest of the world is sending cash back to North America to help fund the restructuring," said Ray Young, GM's chief financial officer.

Meanwhile, in North America, GM is adjusting to a 20 percent drop in volume over last year and the shift to more fuel-efficient cars, Young said.

GM had access to about $21 billion cash and $5 billion in available credit lines at the end of June -- about $12 billion less than the amount rival Ford Motor Co. announced last week.

GM plans to raise $15 billion more through a mix of cost-cutting measures, borrowing and asset sales.

Plus, GM has announced production cuts and plant closures, slashed shifts, slowed the rate of production at two plants and added almost 50,000 cars and crossovers to its production schedule to better meet consumer demand.

Consumers are responding to several new GM offerings. Sales of the Chevrolet Malibu and Cadillac CTS were up 113 percent and 33 percent, respectively compared to last year.

And 18 of the company's next 19 vehicle launches will be passenger cars or crossovers to meet a shift in consumer demand that GM expected would happen over the span of two-to-three years. Instead, it happened in three months, Young said.

The automaker's shift to smaller cars and crossovers is not enough to fix operations in North America, where GM's revenue was down almost $10 billion, an investment strategist said.

"... Selling these lower margin products will not provide the level of cash flow GM was counting on with SUVs and trucks to help fund the North American turnaround," David Kudla, CEO of Mainstay Capital Management LLC said in a report.

GM's restructuring needed a lot of cash during the second-quarter.

The restructuring and $9.1 billion in one-time, mostly non-cash charges included $3.3 billion for the buyouts of about 19,000 hourly workers in North America -- most of whom already have left the company. GM also was responsible for paying $1.3 billion of GMAC Financial Services' second-quarter loss.

GM owns 49 percent of GMAC, which along with other financial arms, has taken sizable losses on lease turn-ins because the residual values for SUVs and trucks are falling, meaning that the finance arms sell them for less than they anticipated at auction.

Cerberus Capital Management LP owns the remaining 51 percent.

GM also took a $2 billion charge on the decline in value of vehicles, largely trucks and SUVs, turned in after leases expired.

Overall, Young said, the $9.1 billion in charges is a good expense.

"It makes us more competitive, and makes sure the plants are producing the right products," he said. "The key thing is product. Most recent launches have been very encouraging."