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\$1.2B hit to GM earnings expected

Expense tied to recalls; Ford also faces 2Q dip

BY MELISSA BURDEN AND MICHAEL MARTINEZ (excerpt)

Ford Motor Co. and General Motors Co. will release second-quarter earnings Thursday that each are expected to fall short of last year's second quarter. As part of that process, GM is expected to give a potential cost estimate for a victim compensation fund related to its recall of 2.59 million cars with ignition switch defects that have been linked to at least 13 deaths.

GM is expected to take a \$1.2 billion charge against second-quarter earnings for all recall-related charges. Analysts expect GM to earn about 58 cents a share in the quarter, down from 84 cents a share it earned in the same period a year ago. The second quarter of 2013 — in which GM posted a \$1.2 billion profit — included 9 cents per share of special charges.

But some analysts recently have increased their earnings outlook for GM's second quarter of 2014, based on higher than expected production, sales and strong North American pricing on newly designed SUVs and heavy-duty pickups. ...

... Analysts expect Ford to earn between 34 and 36 cents per share, down from 45 cents per share during the same period a year ago. They expect Ford to post North American profits ranging from \$2.2 billion to \$1.9 billion. This time last year, Ford posted a \$2.3 billion North American profit.

Most analysts say the decrease can be attributed to the automaker's aggressive product launch. This year, Ford plans to introduce 23 new vehicles globally, the most in the company's history. Last year, Ford warned pretax profits in 2014 would likely fall between \$7 billion and \$8 billion, down from \$8.6 billion the year before.

The most critical of the launches will be the 2015 F-150, an aluminum-body pickup that will debut in the fourth quarter. Tooling and materials will be more expensive, and Ford has increased production of its 2014 model as it prepares for the changeover.

"The unknown with Ford revolves around the impact this capital spending and product launch expense will have on profit margins through 2014," David Kudla, CEO and Chief Investment Strategist at Mainstay Capital Management, said. ...

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