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GM, Ford can calm investors' nerves

Earnings reports aren't just numbers

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General Motors Corp. and Ford Motor Co. are expected to start the year with dismal financial results, but their first-quarter reports, scheduled for release this week, provide an opportunity to prove they truly are in the early stages of a comeback.

As with all companies, the reports will include how much money GM and Ford made or lost in the first quarter. But the bottom-line numbers are not as important as the details they provide, including possibly giving concrete proof that the companies' turnaround plans are taking shape.

GM and Ford continue to lose customers to competitors in the U.S. market. GM is expected to post massive first-quarter losses, and while Ford should make a profit, it likely will have worse results than the first quarter of last year. GM and Ford are both in the midst of laying off or buying out tens of thousands of workers.

Investors will want to know how these cost-cutting programs are going and whether either company has promising new models on the way to pick up sales, said David Kudla, chief executive officer of Mainstay Capital Management LLC in Grand Blanc.

"You've got to look beyond the first-quarter numbers," Kudla said. "You have to look at what are they putting in place to address the longer-term issues."

GM also has a major source of uncertainty with Delphi Corp., a former division and its leading supplier, in bankruptcy court. GM and Delphi are in negotiations with the UAW, which has said it could strike. A Delphi strike would be costly and crippling for GM.

"Wall Street hates uncertainty," Kudla said.

"The big issue out there right now is Delphi. Wall Street wants certainty that a Delphi strike can be avoided."

GM, scheduled to report Thursday, is expected to lose more than $700 million, according to an average of estimates from Thomson Financial. GM started the first quarter last year with a $1.1-billion loss.

Ford, scheduled to release its earnings Friday, is expected to make about $400 million, about a third of what it made in the first quarter of 2005, according to a consensus of estimates from Thomson Financial.

The estimates for GM and Ford exclude onetime items. These items could be significant, considering the layoff and buyout plans started by both companies.

The individual estimates from analysts are all over the board, showing just how unpredictable the companies have become. In the midst of financial crisis, GM and Ford aren't providing many public signals of how they're doing financially ahead of the official reports, making it difficult to predict what will happen.

Investors and analysts are anxiously awaiting signs from GM and Ford executives that the financial situation at their companies could stabilize, said David Sowerby, portfolio manager at Loomis Sayles, a Bloomfield Hills firm that manages $75 billion in assets.

GM and Ford are what Sowerby called "show-me" stocks. Investors want the executives to give specific examples of positive movement in the coming months, he said. "People are going to be looking for any guidance," he said.

In particular, the investment community will be keeping a close eye on the North American auto operations, said David Healy, an analyst at New York-based Burnham Securities Inc. Last year, North America was the major drag on profits as GM and Ford lost U.S. market share.

"That's the 900-pound gorilla," Healy said. "That could cause enormous swings."

The automakers are in desperate need of new models that connect with U.S. customers, he said. The layoffs and buyouts should reduce costs in the long term, but that's not enough to turn around a company.

"I think they're doing half of the job extremely well; that half is capacity and costs," Healy said. "That half of the job that's hard to tell is the new models."

Kudla said GM and Ford need promising products. GM may have hits with the new Chevy Tahoe, released earlier this year, and the redesign of its full-size pickup trucks, scheduled for release later this year.

"It needs to hit some home runs," Kudla said. "You can cost-cut your way to profitability in the near-term, but you can't cost-cut your way to prosperity over the long-term."

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