The Detroit News

Friday, November 9, 2007 detnews.com State Edition

Ford sees progress despite economy

It shaves operating loss to $24M in 3rd quarter but further cuts may be needed to keep rebound on track.

By BRYCE G. HOFFMAN
The Detroit News

Ford Motor Co. surprised Wall Street on Thursday with a third straight quarter of better-than-expected financial results, evidence that the automaker's restructuring plan is gaining traction.

But the company may still need to make deeper cuts if mounting economic headwinds that threaten the entire auto industry stall its recovery.

Last year, Ford was surprised by rising fuel costs and a bursting housing bubble that sent demand for its bread-and-butter pickups and sport utility vehicles into a nosedive. The company was forced to revise its Way Forward turnaround plan to cut more jobs and close more factories.

Now Ford executives are meeting weekly to study economic and market conditions so they can anticipate potential problems and react to them. In an interview Thursday, Ford CEO Alan Mulally said the company is prepared to do whatever is necessary to keep the company's momentum going, including "across the board" job cuts and other downsizing actions.

For now, Ford's third-quarter results show its turnaround is ahead of schedule. The automaker posted a $380 million loss Thursday for the three months ending Sept. 30 -- a major improvement over the same period in 2006, when the company lost $5.2 billion. Analysts had expected Ford to lose about $1.17 billion before taxes for the quarter, according to a survey conducted by Bloomberg.

Worldwide, Ford's revenue totaled $41.1 billion for the quarter, up from $37.1 billion for the third quarter of 2006. North American sales totaled $16.5 billion, up from $15.4 billion last year.

Ford's third-quarter loss from continuing operations, excluding special items, was a penny per share, or $24 million, compared with a loss of 45 cents per share, or $850 million, for the same three-month period a year ago. A survey of 14 analysts predicted an average loss of 47.2 cents per share.

Ford said it could break-even for the year on a pre-tax basis.

Analyst cites sales risks

"The results that we shared today give us a lot of confidence," Mulally said during a conference call Thursday with analysts and reporters. "Overall, we are making significant progress implementing our plan."

Analyst Robert Barry of Goldman Sachs said Thursday's numbers "reaffirm that Ford's reorganization plan seems to be on track," but added that there is still cause for concern.

"Risks to auto sales volume in 2008, especially in North America, seem to be mounting," he said. Those risks include rising fuel prices, a weak housing market, contracting consumer credit and the threat of a recession.

Mulally, who joined Ford after the automaker's rebound plan stalled last year, is determined not to repeat the past. Each Thursday, he and Ford's other top executives meet to review the company's progress and make any adjustments necessary to ensure the automaker hits its target of restoring profitability by 2009.

"We review the entire business environment, the risks and opportunities, both in the United States and worldwide," Mulally told The News. "Then we look at all the details of the plan so that we can mitigate the risks and capture the opportunities."

Mulally said these weekly reviews cover all the major variables that could make or break Ford's sales goals.

"We cover the economy, we cover housing, we cover credit, fuel prices, enabling technologies, the competition, the global markets," he said. "That might be one of the pillars of the new Ford: Looking at our reality and dealing with it decisively."

Chief Financial Officer Don Leclair told The News this careful approach is beginning to pay off. The proof is in this quarter's earnings, which even in North America were substantially better than those reported for the same period last year, despite a much weaker market for cars and trucks.

Ford is also spending less on its global restructuring than initially expected, leading to rosier projections for the remainder of the year and renewed confidence in the company's ability to meet its goals for 2008.

From 2007 to 2009, Ford's restructuring costs were expected to total $7 billion. Now, Leclair says they will be between $5 billion and $6 billion.

"We're a little bit ahead on the actual restructuring -- and we think it will cost a little bit less," Leclair said. "We didn't really know how much the buyouts would cost. We were probably a little conservative."

Ford said it has cut its salaried work force in North America by 10,600 since the end of 2005 and eliminated 25,900 hourly employees. The company still has 6,200 former Visteon Corp. workers now employed by Ford that it needs to find positions for in its U.S. factories.

Ford is spending less on product development as it combines its global engineering operations and streamlines the design process.

Ford to keep Volvo for now

Overall, from 2007 to 2009, Ford is expected to burn through $7 billion to $9 billion in cash instead of the $15 billion originally projected when it launched its turnaround plan.

"Combined with the results from earlier in the year, it is now possible that Ford will return to break-even earlier than forecasted," said David Kudla, CEO and chief investment strategist at Mainstay Capital Management LLC.

Ford's automotive operations improved by about $2 billion in the third quarter, which Mulally said proves that this turnaround is being driven by more than just cost-cutting.

Ford is also moving forward with plans to sell its Jaguar and Land Rover brands, but Mulally said Thursday that he intends to keep Volvo.

The Swedish luxury brand will operate on a more stand-alone basis going forward and will report its own financial results. But Volvo will continue to share product development and purchasing operations with Ford.

"The plan right now is to fix it," Mulally said, adding that he would like to take Volvo even more upmarket. "We've decided the most important thing we can do in the near term is improve their cost structure."

He would not rule out a future sale of Volvo, however.

Analyst Peter Nesvold of Bear Stearns said Ford's improved third-quarter results reflect more than just cost-cutting, contrasting its results with that of General Motors Corp., which announced a stunning $39 billion quarterly loss Wednesday largely tied to a tax accounting charge, ending a string of profitable quarters.

Nesvold said that while the magnitude of Ford's losses in North America cannot be discounted, the company's improvement in the region accelerated while GM's slowed down. And while Ford is at the bottom of its product cycle, which starts to improve by the end of 2008, some long-awaited vehicles from GM are hitting the market now.

"Ford has another $2.7 billion of cost cuts in North America during 2008," Nesvold said. "Even into a highly challenging environment next year, this should support continued year-over-year improvement in North America."