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Ford profits fall 35% in first quarter

BY IAN THIBODEAU (excerpt)

Pricey recalls and other cost increases caused Ford Motor Co.'s first-quarter profits to fall 35 percent compared to a year ago, when the Dearborn-based automaker had its best financial quarter in company history.

Ford earned \$1.6 billion in the first quarter of 2017, according to results reported Thursday by the company. Before taxes, the profit was \$2.2 billion; that's down 42 percent from its record-setting \$3.8 billion pre-tax profit last year. Results were better than analysts predicted.

Executives attributed the lower first-quarter results to a \$1.2 billion rise in costs for the automaker compared to the same period a year ago, which included a \$253 million investment in new products, including trucks and SUVs like the 2017 Super Duty pickup and the refreshed 2018 F-150 that goes on sale this fall. The company also saw warranty costs leap \$467 million, which included safety recalls that cost the automaker around \$295 million. Ford's bottom line also was hurt by an unfavorable exchange rate in the United Kingdom due to Brexit, as well as in other countries; and a drop in fleet sales.

But Ford remains on-track to make \$9 billion this year, a \$1.4 billion decline from 2016, executives said in a call with investors Thursday. The first quarter will have seen largest year-over-year drop, said chief financial officer Bob Shanks. Results for the remaining quarters should be either the same or slightly better than last year.

"That decline has happened this quarter," Shanks said. "This is the quarter in which the full-year decline flows through to our full-year results." ...

... The company posted earnings per share of 40 cents, and first-quarter revenue of \$39.1 billion, beating Wall Street forecasts, due to a favorable sales mix. Ford saw a strong performance in North America, the company said, where it made a \$2 billion pre-tax profit. ...

... Meanwhile, Ford made a \$176 million pre-tax profit in Europe, down from \$258 million during the

same period in 2106. Fields said the company will continue to play to its strength there with sport utilities, commercial vehicles and performance cars.

Fields said Ford will see bigger returns from Europe in coming years. ...

... The company lost \$244 million and \$80 million in South America and the Middle East and Africa, respectively; Ford's Asia Pacific segment posted a \$124 million pre-tax profit, down \$96 million from a year ago.

Ford said losses on the scrapped San Luis Potosi, Mexico, plant will be \$153 million, down from the \$199 million projection the company said it would cost.

David Kudla, CEO and chief investment strategist with Mainstay Capital Management, said plateauing sales will begin to fall in 2017, which would hurt companies' bottom lines, but regulatory changes from the Trump administration and strong truck and SUV sales could help companies remain healthy. He said Ford is reporting "solid" results, but said much remains to be seen this year.

"Their product lineup is very strong," he said. "However, caution is warranted given industry headwinds."

Amid news out of the White House on possible renegotiation of the North American Free Trade Agreement, Shanks said Ford thinks NAFTA has made the auto industry much more competitive. ...

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