GM posts record 2Q profit

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Automaker beats forecasts despite drop in North American share, profits

NEW YORK (CNNfn) - General Motors Corp. reported a record second-quarter profit Tuesday, beating Wall Street forecasts despite some loss of market share in its home market.

Company officials say that, despite some softness in North American sales, it is on target to meet forecasts of a record profit for the year -- and that it is eyeing additional share repurchases as a way of continuing to improve earnings per share.

The world's largest automaker reported second-quarter net income of $1.8 billion, or $2.93 a diluted share -- above consensus forecasts of $2.82 a share, according to First Call, which tracks analysts' estimates. A year earlier, earnings were $1.7 billion, or $2.66 a share.

Revenue rose to a record $48.7 billion in the quarter from $45.1 billion as the number of vehicles sold rose to 2.36 million worldwide from 2.33 million.

But GM actually had lower operating income from its core North American auto sales, as that unit's earnings slipped to $1.4 billion from $1.5 billion a year earlier. The company cited investments in new products and e-commerce initiatives for the decline.

Weakness in North American sales

GM also saw a further drop in its share of sales in that key market. It sold 684,000 cars in the United States, up from 664,000 a year earlier -- but that led to a drop in its share of the North American car market to 28.4 percent from 30.3 percent a year earlier.

U.S. truck sales fell to 669,000 in the quarter from 699,000 a year earlier, as its North American truck market share decline to 27.3 percent from 28.6 percent. That also sent the inventory of trucks up to 96 days from 75 days a year earlier.

The company said part of the problem was a strong market overall, which made market share difficult to maintain. It also said it saw greater incentives by competitors, which were not initially matched by GM in the period. It expects further discounting to thin inventories in this quarter.

CFO sees record profit, more share repuchases

Company officials insisted they were not concerned about the apparent softness in the sales numbers.

"We're optimistic about the balance of the year," Michael Losh, the company's chief financial officer, told analysts. "We're comfortable with where the consensus is, which means we're positioned to obtain record earnings per share in 2000."

First Call's forecast GM's earnings should reach $9.84 a share this year, up from $8.54 a share in 1999.

Outside of the North American market, GM saw its European profit slip to $166 million from $187 million a year earlier. But GM Latin America earned $10 million after a $38 million loss a year earlier, and Losh said those operations have turned a corner and should remain profitable.

Losses at its Hughes Electronics unit also narrowed on greater satellite television subscription revenue. Profits also edged up at GM Acceptance Corp., its finance arm, despite rising interest rates.

One way that GM has maintained earnings per share growth is through share repurchases, which have reduced shares outstanding by 29 percent in the last few years. While Losh wouldn't commit to details of further repurchases, he suggested that the company would look to continue its efforts there.

For the first six months, net income slipped to $3.53 billion, or $5.74 a diluted share, from $3.55 billion, or $5.44 a share, from continuing operations a year earlier, when there were more shares outstanding. Year-to-date revenue rose to $95.6 billion from $87.5 billion.

GM (GM: Research, Estimates) stock, one of 30 in the Dow Jones industrial average, rose 7/16 to 60-13/16 in late morning trading Tuesday. Back to top

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GM's $39B loss a record

No. 1 U.S. automaker posts much bigger operating loss than forecast as huge charge weighs on company.

By Chris Isidore, CNNMoney.com senior writer
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NEW YORK (CNNMoney.com) -- General Motors, no stranger to hard times and red ink, still managed to shock Wednesday when it reported an operating loss more than 11 times larger than expected and a $39 billion charge that was among the biggest profit hits ever reported.

The nation's No. 1 automaker, which was hit with a soft U.S. auto market and a two-day strike by the United Auto Workers union during the quarter, lost $1.6 billion, or $2.80 a share, excluding special items.

That compares to the forecast of a 25-cent-a-share loss from analysts surveyed by earnings tracker Thomson First Call and earnings per share of $497 million, or 88 cents, on that basis in the year-earlier period.

Among the problems hurting GM results was a $2.3 billion loss in the home loan business at GMAC due to problems from the meltdown in subprime mortgages. GM sold a majority of GMAC but still owns 49 percent of the lender.

In addition, GM took a huge charge in the quarter related to the writedown of tax credits for losses over the last three years.

That caused it to post a net loss of $39 billion, or $68.85 a share, for the third quarter, compared with the net loss of $147 million, or 26 cents a share, in the year-earlier period. Only a gain from the sale of the Allison Transmission unit stopped the loss from being worse.

The report caused shares of Dow component GM (Charts, Fortune 500) to be down 5 percent in midday trading, helping to spark a 200-point selloff.

To put the size of the charge in context, the total value of all GM shares outstanding was only $20.4 billion at the close of trading Tuesday.

In addition, the charge is significantly larger than the $12.4 billion net loss posted by GM for all of 2005 and 2006, when the company was hammered by falling shares and labor costs far in excess of its nonunion rivals. The company had net income of $953 million for the first six months of the year before hitting the problems in the third quarter.

The charge was a non-cash expense due to accounting rules, meaning it won't drain resources from the company's balance sheet. But the charge, which was revealed late Tuesday, raised concerns among investors that the automaker wouldn't be able to earn enough money going forward, despite winning a new cost-saving labor deal from the UAW, to fully utilize the tax credits it built up from losses the last three years.

Efraim Levy, equity analyst with Standard & Poor's, cut his recommendation on the stock Wednesday to a "sell" from a "hold."

"Looking at the near term outlook, there's more negatives than positives," said Levy. "The downgrade isn't because of the writedown. But I think it does signal a worsening outlook, that the level of profitability and the ability to use these tax benefits won't be there in the near term the way they would have liked. It bodes poorly on the outlook."

The company's statement about the charge said that it "does not reflect a change in the company's view of its long-term automotive financial outlook." But it also cautioned "the company faces more challenging near-term automotive market conditions in the U.S. and Germany."

In a television interview early Wednesday, GM Chairman and CEO Rick Wagoner said he is confident the company is in better position to earn money going forward and utilize the tax credits. He said it needed to take the writedown at this point to comply with strict accounting rules.

"I wouldn't read anything into it [the charge] for the prospects for the company," he told CNBC.

But both he and Chief Financial Officer Fritz Henderson admitted that the outlook for U.S. auto sales are sluggish going forward, and Henderson said that he couldn't say when the mortgage business would stop losing money.

Henderson cited other problems that continue to dog GM's financial performance in North America, including the strength of the Canadian dollar, which made importing parts and vehicles from Canada to the United States more expensive, a strong run-up in the price of steel and other metal used in cars and weak U.S. sales industrywide, which he said he now expects to continue into 2008.

"We like our business but the U.S. business is challenging," said Henderson. "We're not signaling significant weakness from where we've been, just that it will continue. At this point you have to say the outlook for the mortgage business is challenging."

Kevin Tynan, auto analyst with Argus Research, a long-time critic of GM who raised his recommendation to a short-term "buy" from a "sell" after the labor deal, said he's disappointed in this report but that he's not going to change his recommendation.

"Every time I do this, when I try to capture some move to the upside, it kicks me in the teeth," he said. "But I still think at $34 or $35 a share, it's a pretty good bargain."

But he maintains a long-term sell recommendation on the stock, saying the company has not been making aggressive enough cuts in its capacity to adjust for its weakening market share.

As huge as they were, GM's charge and loss Wednesday were not the largest in corporate history. Time Warner (Charts, Fortune 500), then known as AOL Time Warner, lost $98.7 billion in 2002, driven largely by charges related to the writedown in value of the company after a 2001 merger. CNNMoney.com is a unit of Time Warner.

In 2001, telecom equipment maker JDS Uniphase (Charts) lost $56.1 billion, driven mostly by special charges.

GM's previous company record loss came in 1992, when a $20.8 billion charge resulted in a $23.5 billion loss for the year. Ironically, that earlier charge was related to the company's accounting for the future cost of retiree health care at that time.

Those health care costs, which have since grown to more than $50 billion, are in the process of being shifted to a union-controlled trust fund which was agreed to in a break-through labor agreement reached in the last week of this most recent quarter.

This was supposed to be the point at which GM was turning the corner after more than two years of troubles.

It reported record global automotive sales, and had halted the decline in U.S. market share even as industrywide sales were soft.

GM also reached a new labor agreement with the United Auto Workers, after a two-day strike at its U.S. plants, that should save the company billions of dollars going forward and make it more competitive with nonunion rivals.

GM results showed that worldwide, its automotive operations earned $122 million from continuing operations, excluding special items, in the quarter. That was an improvement from the loss of $455 million on that basis in the year-earlier period.

But those auto earnings were from the company's overseas auto operations. Its core North American auto unit still lost $247 million in the quarter, excluding special items. That's an improvement from the $660 million it lost on that basis a year earlier, although it's worse than the narrow profit GM reported in North America in the period.

Revenue from auto sales rose to $43.1 billion from $39.6 billion a year earlier. That topped First Call's revenue forecast of $40.3 billion. The automaker sold a record 2.39 million cars and trucks worldwide in the quarter, enough to edge back in front of Toyota Motor in the race to be the world's largest automaker in terms of vehicle sold.

Earlier Wednesday, GM rival Toyota Motor (Charts), which had been hit by sluggish sales in its two most important markets, Japan and the United States, nevertheless reported profit rose 11 percent and raised its earnings forecast for the full year.

Ford Motor (Charts, Fortune 500), which lost its long-held title of No. 2 U.S. automaker to Toyota this year, is due to report results Thursday. It is also forecast to report an operating loss. Top of page