

(BN) Ford Sees European Losses Worsening Since October Outlook (3)

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(Updates shares in the fourth paragraph.)

By Craig Trudell and Keith Naughton

Jan. 29 (Bloomberg) -- Ford Motor Co., the second-largest U.S. automaker, said it expects to lose about \$2 billion in Europe this year as a likely recession in the region continues to sap demand for cars.

Ford Europe lost \$732 million in the fourth quarter and \$1.75 billion for the full year, more than its previous forecast given in October of about \$1.5 billion. The deficit will be worse in 2013 than Ford's previous projection for a similar loss to a year earlier because a Europe-wide recession is likely this year, Chief Financial Officer Bob Shanks told reporters today.

"We're seeing weakness in the industry; certainly it will be lower than last year," Shanks said during a briefing at Ford's headquarters in Dearborn, Michigan. "It's just a very tough economic environment in Europe. We have a lot of difficult times in front of us."

Ford shares fell, even though fourth-quarter sales and profit exceeded estimates. Ford slid 5.6 percent to \$13.01 at 2:12 p.m. New York time after declining to \$12.89, the lowest intraday price since Dec. 31. Excluding one-time items, the per-share profit was 31 cents, exceeding the 25-cent average estimate of 19 analysts surveyed by Bloomberg.

Ford reported net income of \$1.6 billion, or 40 cents a share. The result compared with net income of \$13.6 billion, or \$3.40 a share, a year earlier, when a tax gain boosted fourth-quarter earnings.

#### Europe's 'Mess'

Chief Executive Officer Alan Mulally is using Ford's turnaround in the U.S. to guide efforts to recover in Europe more quickly than competitors including General Motors Co. Rising demand for F-Series trucks in Ford's home market paced a record \$8.34 billion annual pretax profit for the company's operations in North America, which countered overseas losses. That included a fourth-quarter pretax profit of \$1.87 billion.

"Europe is a mess," Dennis Virag, president of Automotive Consulting Group in Ann Arbor, Michigan, said today in a telephone interview. "It's going to be tough for anyone to make any money in Europe for the foreseeable future until the economies turn around."

Ford reported net income of \$5.67 billion for the full year. The profit in 2012 boosts the company's earnings to \$35.2 billion the past four years after losing \$30.1 billion from 2006 through 2008.

Mulally, 67, revived Ford after arriving in 2006 from Boeing Co. by using \$23.4 billion that the company borrowed late that year to overhaul its lineup with fuel-efficient models such as the Focus and Fiesta. Those efforts were preceded by plans to restructure the company's North American operations beginning in October 2005.

#### Restructuring Costs

Ford faces about \$500 million in restructuring costs related to Europe in 2013, Shanks told reporters today. The company incurred about \$70 million in restructuring costs in 2012, all of which came in the fourth quarter.

“View that as an investment in the future, which is just the way that we viewed all the investments that we made in the early years of the restructuring in North America,” he said.

Total company profit will be about the same in 2013 as a year earlier, with higher earnings for North America and an operating margin of about 10 percent in the region, Shanks said. The company’s forecast for this year is “soft,” Brian Johnson, an analyst at Barclays Plc, wrote today in a report.

“Ford is forecasting no margin expansion” in North America “and steeper losses in Europe along with the rest of international only break-even,” said Johnson, who rates Ford the equivalent of a hold. “This undercuts the popular investor thesis that Ford offers significant earnings expansion from a booming U.S. auto market while having ‘Europe-proofed’ its guidance.”

#### UAW Bonuses

Ford’s operating profit in North America topped the company’s previous annual record of \$6.2 billion in 2011. The region’s operating margin of 10.4 percent for the full year also surpassed 2010’s record of 8.4 percent.

The North American results will mean profit sharing of about \$8,300 on average to its 45,300 hourly workers represented by the United Auto Workers, a record payout that will occur in March, according to a company statement. Ford paid an average of \$6,200 to each of its UAW-represented workers for 2011.

Ford also plans to contribute more this year to its pension plans, which finished last year with an \$18.7 billion shortfall from \$15.4 billion a year earlier. Ford plans to contribute about \$5 billion to pension plans in 2013, up from \$3.4 billion last year.

#### F-Series Demand

Increased demand for Ford’s F-Series, which has led the full-size pickup segment in the U.S. for 36 years, is pacing the company’s results at home. F-Series deliveries climbed 10 percent last year to 645,316, surpassing the 4.7 percent gain in Ford’s total U.S. vehicle sales.

The F-Series accounts for 90 percent of Ford’s global auto profits, according to a Morgan Stanley estimate, and is helping underwrite the company’s European restructuring. Ford plans to shutter three factories in Europe by the end of next year and cut 6,200 jobs, or 13 percent of its workforce there, in an effort to break even in the region by mid-decade.

“These things don’t happen in three months, six months or even a year, but we will get there,” Shanks said of Ford’s European restructuring during a conference call. “Now by mid- decade, are we going to be getting an 8 or 9 percent margin in Europe? No, we think a 6 to 8 percent margin is further out. But we do think we’ll be above the zero line and starting to generate some profit.”

Ford’s board signaled support for the company’s European restructuring plan by doubling the quarterly dividend earlier this month. The first-quarter dividend of 10 cents per share will be payable March 1 to shareholders as of tomorrow.

#### Sales Climb

Ford’s fourth-quarter revenue rose 5.5 percent to \$36.5 billion. Ford’s automotive revenue totaled \$34.5 billion, beating the \$33 billion average estimate of 11 analysts surveyed by Bloomberg. The company’s vehicle sales were up in all regions last year except Europe.

Demand in Europe fell 7.8 percent to 12.5 million vehicle registrations, the lowest in 19 years, according to the European Automobile Manufacturers' Association, or ACEA. Ford's registrations plunged 13 percent to 939,409, the Brussels-based trade group said earlier this month.

Automakers have announced 30,000 job cuts in Europe since July. GM, which along with Ford sees Germany at risk of slipping into recession, said last week that its Opel brand may shutter a factory in that country two years earlier than planned as the European auto market sinks for a sixth straight year. The factory employs 3,100 workers.

#### Job Cuts

Renault SA, the automaker whose sales in Europe dropped the most in 2012, announced plans this month to cut 7,500 positions, or 17 percent of its French workforce, in the next four years to reduce costs. PSA Peugeot Citroen today was ordered by a French court to pause its restructuring plans as workers in the country went on strike to protest job losses. Prior to today's order, Europe's second-largest carmaker planned to extend reductions in France to 11,200 posts.

Ford is still planning new products for Europe, including the addition of the Mustang sports car and two sport-utility vehicle offerings. The automaker is adding the subcompact EcoSport SUV, just four meters (13 feet, 1 inch) long, and the Edge midsized utility to its European lineup, which already includes the Kuga compact, known in the U.S. as the Escape.

"The No. 1 thing is to continue to invest not only in the product but also in the brand while we work the cost side, just like we did in the U.S.," Mulally said of Europe on the conference call with analysts and reporters.

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