

GM earns \$1.38 billion in 3Q, beats estimates

Melissa Burden, The Detroit News 6:29 p.m. EDT October 23, 2014



(Photo: Bill Pugliano, Getty Images)

Detroit — General Motors Co. on Thursday posted third-quarter earnings up 98 percent, bolstered by strong North America and China results and reiterated it was on track to slightly improve pre-tax earnings this year.

GM's Chief Financial Officer Chuck Stevens told investors and analysts in a call Thursday that GM expects its European operations to significantly improve in 2015 over 2014 (losses total \$976 million pre-tax through the third quarter) and that it expects continued improvement in its Consolidated International Operations and South American regions.

GM's stock initially rose on GM's third quarter earnings of \$1.38 billion, but fell following a cautious Morgan Stanley analyst's note that advised investors to use "any relief in the stock price to calmly approach the exit."

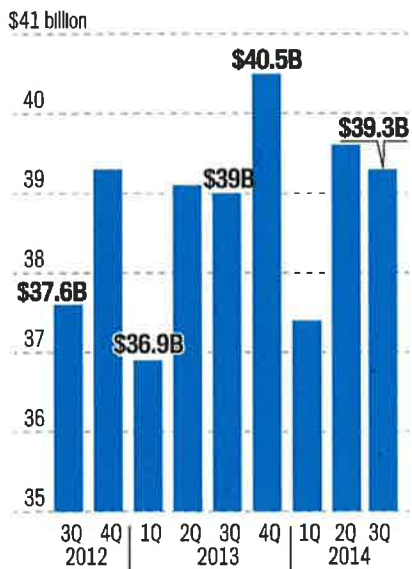
GM's stock was trading down less than 1 percent around 2:50 p.m.

The company said earnings per share totaled 81 cents. When factoring in special items that cut earnings per share by 16 cents, GM earnings hit 97 cents a share, beating analysts' estimates for 95 cents a share. In the quarter a year ago, GM had special items of 51 cents that cut into its profit.

GM earnings

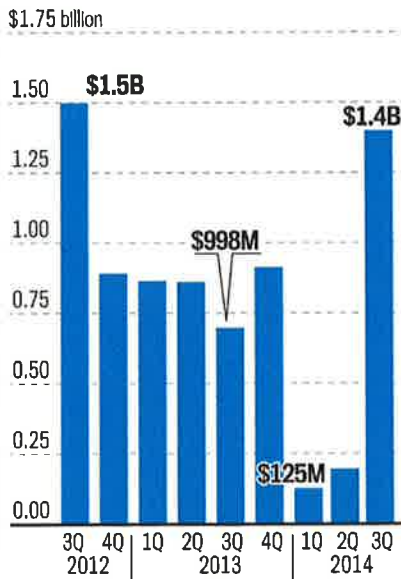
General Motors Co.'s third quarter earnings rose 98 percent from a year ago, with strong performances in North America and China and increased sales prices of profitable trucks and SUVs.

Quarterly revenue



Source: General Motors Co.

Quarterly profit



The Detroit News

Some analysts in recent days had revised down third-quarter estimates with sales slowdowns in Russia and South America. The automaker had \$331 million in special charges in the third quarter, including \$132 million in charges related to flood damage at the GM Tech Center in Warren. Another \$194 million was related to a writedown in value of assets in Russia. It also had about \$300 million in restructuring charges in the quarter, \$200 million of which was in Europe.

"Strong global sales and growing margins in North America and China helped GM deliver very solid third quarter results," GM CEO Mary Barra said in a statement. "Despite industry challenges in Russia and South America, our earnings were on plan as we continue to execute our customer-focused strategy."

Revenue in the quarter hit nearly \$39.3 billion, up slightly from \$39 billion earned in the period a year ago.

Morgan Stanley analyst Adam Jonas, in a Thursday note to investors, said while GM reiterated its earnings guidance, "we believe no OEM with global exposure can confidently offer guidance for the 2015 period."

Jonas said he believes analysts' consensus for GM earnings performance in 2015 excluding recalls is "unreasonably high" and has "little room for error."

But many other analysts on Thursday had differing views such as Brian Johnson of Barclays Capital Inc. Johnson, in a note to investors Thursday, said Barclays is confident GM management can lead GM to earn "modest gains" even facing a plateau of sales in the U.S. and economic pressures in other global regions.

"The recent quarter provided some validation of this view, and little support for the bear thesis that GM is doomed never to improve margins in North America," he wrote.

Goldman Sachs analyst Patrick Archambault said in a research note Thursday that the quarter shows evidence of "good execution and helps build management credibility." He said in the note he expected "some support" in the stock Thursday.

In North America, GM said it earned \$2.45 billion before interest and taxes, up 12.1 percent from the same quarter last year. The company achieved 9.5 percent margins in North America, the fifth straight quarter of year-over-year margin growth — excluding recall related charges — for the region.

Stevens said North America earnings were aided by about 60,000 more sales in the quarter, about half of which were trucks and SUVs that come with high transaction prices.

"New trucks and SUVs are more profitable than the ones they replaced," Stevens told reporters from company headquarters in Detroit. "That certainly helps from a profit perspective."

The automaker said it sold 2.45 million vehicles globally in the third quarter, up 2 percent from the three-month period a year ago and marking its best third-quarter sales performance since 1980. In North America, GM's sales rose 9.5 percent in the quarter.

In September, GM posted record average sales prices of about \$34,600 in the U.S., up about \$2,500 from a year ago. The company was aided by growing sales of pickups and crossovers.

In Europe, GM reported a net loss of \$387 million before interest and taxes in the quarter, up from a \$238 million loss in the period a year ago. The company wants to make money in the region by 2016 and Stevens said Opel/Vauxhall business is improving but restructuring and Russia cut into profits.

Last month, GM said it was cutting a shift of production at its plant in St. Petersburg. GM also is offering buyout packages to 300 to 400 employees in Russia, Stevens said.

GM reported income before interest and taxes of \$259 million in its International Operations, down slightly from \$323 million in the period a year ago. GM Financial also has pre-tax earnings of \$205 million in the quarter, down slightly from \$239 million a year ago.

GM said it lost \$32 million before interest and taxes in South America, down from pre-tax earnings of \$284 million in the region a year ago.

Stevens said GM has improved results in South America for the third quarter in a row, as it reduced shifts, for example, and did so "in a macro environment that, frankly, has gotten more challenging."

"We expect to be on or ahead of the plan that we laid out earlier this year in January," he said.

J.P. Morgan analyst Ryan Brinkman lowered third quarter estimates to 88 cents a share from 96 cents a share recently because he predicted a larger loss in Europe due to lower production in Russia and currency issues in South America.

"Overall, GM results tracked better than expected: some investors were concerned GM could post significantly worse-than-expected results in Europe and South America, along the lines of what Ford (Motor Co.) had guided to at its recent investor day," Brinkman wrote in an investors note Thursday. "That didn't happen."

GM executives earlier this month laid out a plan that includes returning to profitability in Europe in 2016 and hitting a 10 percent North American adjusted margin the same year. The company also said it wants to achieve overall adjusted margins of 9 percent to 10 percent by early next decade.

On Thursday, Stevens said GM expects it is "on or ahead of the plan that we laid out earlier this year."

In the first half of 2014, GM took recall-related charges of \$2.5 billion. Included in that was a \$400 million special charge in the second quarter that GM estimated would be needed to pay for a victims compensation fund related to its ignition switch defect in older Chevrolet Cobalts and other cars; an independent fund administrator has approved 29 death and 27 injury claims so far.

GM spent \$700 million in the third quarter on recall expenses including paying suppliers and dealers for repairs, but the charges were booked in prior quarters, Stevens said.

The company's stock is off about 20 percent this year and closed Wednesday at \$31.31, up more than 1.5 percent.

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