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## BUSINESS

# GM Caps Tough Year With a Profit

By **JEFF BENNETT**

Feb. 4, 2015 7:52 p.m. ET

General Motors Co. rode strong demand for pickup trucks and sport-utility vehicles to a better-than-expected fourth-quarter profit, but executives outlined challenges facing Chief Executive Mary Barra's quest to build "the world's most valued automotive company."

The largest U.S. auto maker posted a 91% increase in profit before dividends compared with the year-ago quarter. Its \$1.19 per share operating earnings handily beat analysts' 83-cents consensus for the period. Revenue slipped modestly to \$39.6 billion.

The performance lifted GM's stock 5.5%, the largest single-day increase since December of 2012, to \$35.83. It is about 10% below its level when Ms. Barra took charge just over a year ago.

Ms. Barra has set ambitious goals, including achieving profit in loss-ridden Europe and a 10% operating margin in North America by 2016. At the end of 2014, the auto maker remained far from those goals. Its European unit lost \$1.37 billion last year, and its North American margins excluding recall costs are 8.9%, at a time many analysts believe GM is hitting a product cycle peak.

Recall costs, many associated with a high-profile ignition-switch failure, dented full-year results. GM spent \$2.8 billion on recalls. Russia, plagued by currency weakness and economic volatility, is dragging down its performance in Europe.

The executive is taking steps to reward the company's stakeholders after a rocky year. GM will boost its dividend by 20% in the second quarter, answering questions about how it will use its \$37 billion in available liquidity.

"These better-than-expected results and pending dividend increase are consistent with our view for continued earnings leverage and potential for return of capital to shareholders," Buckingham Research analyst Joseph Amaturio said in a note on Wednesday.

Toyota Motor Corp.'s latest profit showed just how far its Detroit rivals have to go in matching its profitability. Its third-quarter operating profit rose 27% to \$6.5 billion and it lifted its net profit outlook to a record ¥2.13 trillion (\$18.1 billion) for the fiscal year ending March. The Japanese auto maker continues to reap the benefits of a depreciating yen and strong U.S. auto market.

In contrast, GM's net attributable to shareholders was \$2.8 billion for the year ended Dec. 31, lower than 2013's profit in large part to recall costs.

"The weaker yen is significant," GM Chief Financial Officer Chuck Stevens said when asked about Toyota's outlook. "Estimates I have seen report up to \$2,000-per-unit of incremental profit...so I think that is the biggest driver behind [Toyota's] improved financials."

Mr. Stevens called GM's performance "very strong" excluding the \$2.8 billion cost of its recalls. He also noted that weakness in European and South American economies and the important role of China figure into its outlook for this year.

GM also will pay as much as \$9,000 in profit-sharing to its about 48,400 U.S. hourly employees, about \$2,000 more per worker than it was obligated to pay based on North American operating results. The company chose to compensate for the impact of recalls on its payout.

GM's top-performing region remains its North American home market, where it posted a \$2.21 billion operating profit for the quarter. Robust demand for GM's full-size trucks and SUVs led to an 8.7% profit margin in the region for the quarter—better than crosstown rival Ford. GM said it now owns 75% of the U.S. large SUV segment and still has room to grow.

Outside North America and China, its operations are hurting. Morgan Stanley auto analyst Adam Jonas, who previously advised investors to exit the company's shares,

reiterated his downbeat view: “GM has been one of the worst performing auto stocks in the world over the past 12 months and investor sentiment appears extremely low.”

European operations remain a weak spot at GM, with its quarterly loss widening to \$393 million from \$363 million. The weakness can be attributed to Russia, where the auto maker has been slashing output amid currency fluctuations. However, the auto maker remains convinced it will be profitable in the region in 2016.

In South America, a region rocked by economic turmoil, GM’s fourth-quarter operating profit more than doubled to \$89 million due to better inventory controls. But the region still generated a \$180 million loss for 2014 compared with a profit of \$327 million a year earlier.

GM’s international operation, which includes China, Africa and the Middle East, earned a quarterly operating profit of \$396 million. GM China’s share of the operation’s income during the quarter was about \$500 million, compared with \$400 million a year earlier.

GM Financial, the company’s finance arm, made \$119 million, or about half of what it made in the same period a year ago.

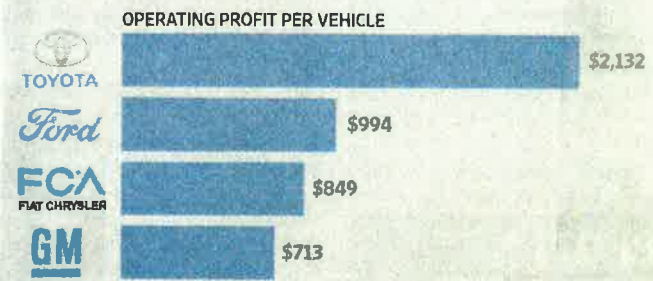
—Yoko Kubota  
contributed to this article.

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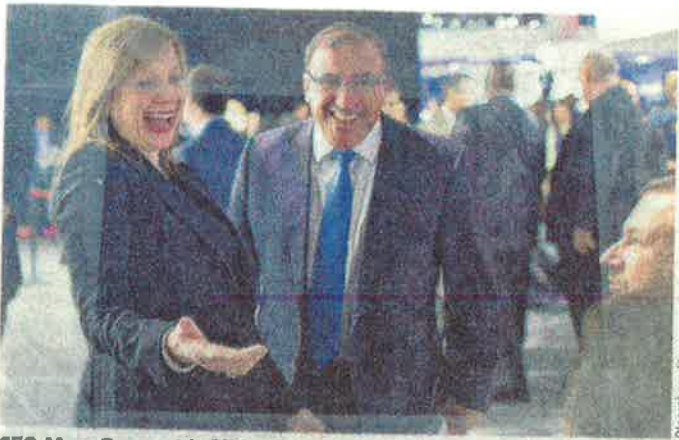
## U.S. Car Makers Still a Lap Behind

Toyota earned some \$2,000 for each vehicle it delivered in 2014, more than twice as much as its nearest U.S. rival.



Source: the companies

The Wall Street Journal



Bloomberg News

CEO Mary Barra with Alan Batey, president of GM North America, at the Detroit auto show last month.