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## Ford Navigates Path to Profitability

### Gain From Debt Restructuring Boosts Auto Maker Into the Black; Cash Burn Dramatically Slows

By MATTHEW DOLAN and JEFF BENNETT

Ford Motor Co. returned to profitability in the second quarter and showed signs of stabilizing as the company continued to win customers from its Detroit competitors.

The car maker reported a profit of \$2.3 billion, though that came mainly from gains it recorded as part of efforts to restructure its debt during the quarter. Excluding those gains, Ford would have reported a loss of \$424 million, still narrower than a comparable loss of \$1.03 billion a year earlier and much better than Wall Street analysts were expecting.

The results also underscore the assessment of Chief Executive Alan Mulally as a rising star in an industry he entered only three years ago.

Ford remains on track to break even or make money in 2011 and has sufficient liquidity to fund its turnaround plan, Mr. Mulally, a former Boeing Co. executive, said Thursday.

Once seen as the industry's sickest company, Ford underwent a wrenching cost-cutting period. It closed plants, shed brands and laid off more than 40,000 employees. It also borrowed \$23.5 billion from private lenders by mortgaging almost everything of value at the company.

In the last year, a leaner Ford was able to shun a government bailout and avoid bankruptcy, recasting itself as a U.S.-based car maker with enough new products and global reach to survive the auto-sales downturn.

"This quarter's earnings show that Alan is emerging as one of the top CEOs in the industry," said Mike Jackson, CEO of AutoNation Inc., the largest U.S. chain of car dealerships and the largest Ford dealer by volume and locations.

Ford shares rose 9.4% on the earnings news to \$6.98 in 4 p.m. New York Stock Exchange composite trading.

A key indicator of Ford's relative success has been its increasing ability to manage cash burn, the issue that caused General Motors Co. to stumble close to insolvency. Ford used about \$1 billion in cash during the second quarter, far less than the \$3.7 billion in the first quarter. That left the Dearborn, Mich., company with \$21 billion in gross cash in its automotive operations.

Ford's rate of cash use fell largely as a result of limited spending on buyer incentives and increased production at its North American plants.

Ford has seen an uptick in U.S. market share, due in part to new models, as GM's and Chrysler's market shares have slipped.

To be sure, Ford remains saddled by massive debt and declining sales in one of the worst auto markets in recent history. And Ford doesn't expect to repeat the one-time gains from debt restructuring.

"Ford delivered exactly what we wanted to see -- lower cash burn," Shelly Lombard, an analyst at the Gimme Credit corporate bond research firm, wrote Thursday. "But it's still too early to tell whether Ford has got its swagger back since some of the improvement was due to market share and price gains that Ford probably picked up at General Motors and Chrysler's expense while they were in bankruptcy."

"I'm very proud of Ford for not taking government dollars and proving that companies don't need a handout from the government." — Ian Dallimore

For the recent quarter, Ford reported earnings of 69 cents a share, compared with a loss of \$8.67 billion, or \$3.89 a share, a year earlier. Revenue fell to \$27.2 billion from \$38.6 billion a year earlier. Ford blamed the slump on the 33% year-over-year drop in the annualized sales rate for the U.S. vehicle market.

Nonetheless, Ford executives predicted a rosier second half of the year, saying for the first time that they expect to gain market

share for 2009 in both the U.S. and Europe. Cash outflow also is expected to abate for the second half.

Chief Financial Officer Lewis Booth cautioned that a slower-than-expected economic recovery or a disruption of the industry's parts supply could tamp down Ford's optimistic outlook.



Alan Mulally

The company's debt at the end of the second quarter totaled \$26.1 billion. Ford's decision to decline U.S. aid or file for bankruptcy protection may have created consumer goodwill, but rival GM was able to eliminate about \$40 billion in debt. Chrysler Group LLC similarly exited bankruptcy with lower financial obligations.

But Mr. Mulally said the bankruptcy reorganizations and debt reductions at Ford's rivals haven't put his company at a disadvantage. Ford reduced its own debt by \$10.1 billion in the second quarter while raising \$1.6 billion through new stock. At the same time, it reduced the cost of running its business by \$1.8 billion.

"I think it's great cars and a very strong business" that are drawing more people to Ford, Mr. Mulally told analysts and journalists during a conference call.

On a regional basis, Ford North America narrowed its pretax loss to \$851 million from a loss of \$1.3 billion a year earlier, while Ford Europe -- traditionally its strongest operation -- saw its pretax profit shrink to \$138 million from \$582 million a year earlier. For the first quarter, the North America unit had reported an operating loss of \$637 million while Ford Europe had a \$550 million loss.

The results are Ford's first quarterly profit after posting four quarterly losses. Still, analyst Himanshu Patel of J.P. Morgan wrote that "this was clearly not the massive positive quarter some (including ourselves) were thinking was possible."

According to Standard and Poor's, GM and Chrysler lost market share in the U.S. through the first six months of 2009, while Ford's rose slightly to 15.9% from 15.3%. GM's share for the first six months was 19.8%, compared to 21.5% in the same period in 2008. For Chrysler, the figure was 9.8%, down from 11.7%.

And for the first time in about three years, Ford's internal data are showing that consumer opinion about the brand is improving by a significant margin.



Many U.S. consumers have refused to consider a Ford, believing its vehicles are inferior to leading Japanese brands. But the company found that the number of people who have a favorable opinion of Ford grew by 17% between January

and June. In addition, the number who said they would consider buying a Ford grew by 13%.

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#### QUESTIONS:

1. Summarize the main points described in this article regarding Ford Motor Company's performance in the second quarter of 2009. How is that performance attributed to the company's chief executive, Allan Mulally?
2. What is a "cash burn rate"? How did Ford Motor improve this statistic? Is this improvement the same as improvement in earnings/reduction of losses? Explain your answer.
3. Access the company's SEC filing for the second quarter of 2009 available at

<http://www.sec.gov/Archives/edgar/data/37996/000114036109016804/ex99.htm> Review the financial results summary on the first page. State which captions correspond to performance as it is described in the WSJ article.

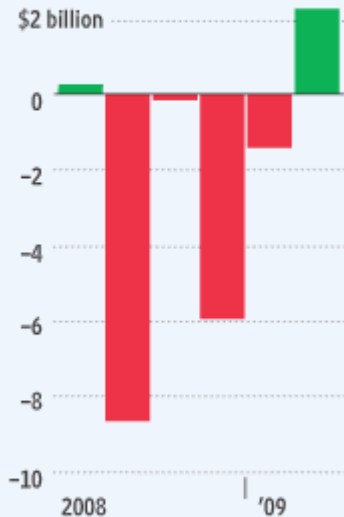
4. Scroll to the details about the "special items" on pages 13-14 of the filing. What were the major special items in 2008 versus 2009?

5. Refer again to pages 13-14 of the SEC filing. How is the information on these items organized? What accounting standard requires this disaggregation of information? Where do you find the profit that came from gains on restructuring debt, as it is described in the article?

6. Describe the accounting for early debt extinguishments and debt restructurings. How does that accounting generate the results achieved by Ford Motor Company in the second quarter of 2009? Do you think that result is reflective of the chief executive's performance as discussed in answer to question 1? Explain.

## Back in Gear

Ford's quarterly profit/loss



Source: the company