

Ford reports \$7.6B profit in 2017, up 65%

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Dearborn — Ford Motor Co. delivered a 65 percent bump in annual profit Wednesday, but its leaders still aren't satisfied. And neither are investors.

Jim Hackett, Ford president CEO, and Bob Shanks, Ford chief financial officer, repeated several times Wednesday that the company needs to become more financially "fit." Investors want specifics on how they plan to make that happen.

But Hackett did not detail exactly how he plans to do that, outside of giving six bullet points — things like accountability, efficiency and simplicity — the company will focus on in a "fitness redesign."

The patience of some investors is wearing thin.

"This is the time," Adam Jonas, a Morgan Stanley automotive analyst, told Hackett during an earnings call Wednesday evening. "It's a fair question to ask when are we going to know these six (fitness redesign initiatives). You're clearly not wanting to talk about them. That's a problem, Jim. When are we going to be very clear and transparent about this so that investors and your associates at Ford can kind of rally around the mission? How long do we have to wait?"

Hackett said it won't be long. He told Jonas and others on the call that he couldn't provide his plans to those outside the company before laying things out internally.

"You just have to stand in line. You have to wait until our people know," Hackett said. "I'm really happy with the things that we've laid, the pipe we've kind of laid. I'm not happy at all that we're not proving to you what that's going to yield, and (I'm) really confident that you will be happy with us as we bring that forth."

Ford's 2017 net income totaled \$7.6 billion, a jump from the previous year. But the company's automotive segment reported a \$7.3-billion pre-tax profit on \$145.7 billion in revenue. Overall, pre-tax profit dropped \$1.9 billion from a year ago to \$8.4 billion.

Shanks twice has expressed discontent with the company's position for 2018 — once at a presentation at the Deutsche Bank Global Auto Industry Conference a week ago in Detroit, and again after earnings results were reported Wednesday after the stock market closed.

Ford expects commodities costs to rise this year. It also expects to increase spending on mobility services such as its autonomous vehicle programs. These weigh on profits as U.S. sales begin to slip following record years, and Ford's crosstown rivals General Motors Co. and Fiat Chrysler Automobiles NV launch new pickup trucks that threaten to take a bite out of Ford's best-selling F-Series sales.

The company is still too bloated to absorb all of those hits and grow profits in 2018, Shanks said Wednesday.

“We have to be fit, far fitter than we are,” he said. “The fitter we are, the more options we have to succeed in the future because we have more cash, more flexibility.”

Ford announced in October plans to trim \$14 billion from materials costs and engineering by 2022.

The company’s leadership signaled Wednesday that they know — at least among themselves — what their plan is. Hackett said he and Shanks have it laid out to review quarterly with Ford’s board of directors.

Shanks more than once Wednesday characterized the plan as the executives’ “north star”. The executives want to roll out the changes without disrupting the overall business, though it has to move swiftly to address slowing North American sales.

Ford’s North American performance has buoyed the global performance since the last economic downturn. As sales slow and commodity costs rise, the impetus is growing for Ford’s leadership to move on the decisions they keep teasing.

“In a declining overall market, do they have the product line-up needed?” David Kudla, CEO of Mainstay Capital Management LLC, said. “The new Silverado and Ram will put pressure on F-Series truck sales. (Ford) gave guidance early last week on their increased investment in EVs, a growing and important segment for the future, but also a massive capital expenditure for Ford.”

Ford said Wednesday it will roll out 23 new products globally in 2018. Eleven of those will launch in North America. Ford will launch 21 of them in Europe, where the company made a \$234-million pre-tax profit in 2017.

Ford plans to introduce 16 new products in its Asia Pacific segment. It made a \$561-million pre-tax profit there last year.

The Blue Oval’s mobility arm will also launch a test fleet in one city within the first quarter of 2018, Hackett reaffirmed Wednesday. Jim Farley, Ford president of global markets, said the company will roll out its prototype fleet over the next two years in multiple cities.

Ford has said it will manufacture an all-new hybrid-electric vehicle with a new nameplate for its autonomous program, which will be purpose-built and run upwards of 20 hours per day. Getting there is going to cost money in addition to the \$11 billion the company plans to spend on bringing 40 new electric vehicles to market by 2022, though.

“The investments Ford is planning in autonomy and mobility don’t come cheap,” said Jessica Caldwell, executive director of industry analysis for Edmunds, “which make strong sales of the company’s backbone truck products even more critical to Ford’s future.”

In the meantime, executives' frustration with the company's performance — and what's been characterized as a "transition" year for Ford in 2018 — is reflected in the stock price. Ford expects adjusted earnings per share to fall between \$1.45-\$1.70 for 2018. That's lower than the \$1.78 earnings per share posted Wednesday afternoon for 2017. The company's cash flow will be lower as well.

Though the stock price had increased since Hackett took over at the end of May, it dropped last week when Shanks delivered his bleak outlook for 2018. Ford stock closed at \$12.05 on Wednesday, a 12.6 percent increase from Hackett's first day.

Ford's leadership said Wednesday it's confident Hackett's "fitness redesign" plan will prove the company is ready for an uncertain future.

"It's getting close to the point where I think we can start to bring you under the tent, but it's not tonight," Hackett said. "I get how important this year is to prove this management team's ability to convert. And I look forward to proving to you that our vision is really going to make Ford an exciting brand in the future."