

Chrysler's 2Q Net Income Up Despite Growing Pains

Dee-Ann Durbin, AP Auto Writer

DETROIT (AP) — Chrysler is having some growing pains.

America's third-largest automaker said Tuesday that its sales picked up in the second quarter thanks to strong U.S. demand for trucks and SUVs. But the company cut its target for full-year sales and profit, blaming persistent problems as it adds more shifts and ramps up production of vehicles like the Ram pickup and the Jeep Cherokee small SUV.

"You need to remember that in 2010 we produced 1 million cars. We're now at two-and-a-half times that level," Chrysler CEO Sergio Marchionne said in a conference call with analysts and media.

Marchionne said making sure Chrysler has enough parts from suppliers has been a problem. It's also working out the bugs in new components. Engineers are still making adjustments to the Cherokee's new nine-speed transmission, for example, even though the first Cherokees began rolling off the line in June.

Chrysler is also adding more workers, like the second shift of 1,100 people who will start making Cherokees next month and the 1,250 people who will start making transmissions in Kokomo, Indiana, early next year.

Chrysler isn't the only automaker who has had problems ramping up production. Ford Motor Co. delayed the launch of the new Lincoln MKZ sedan this spring because of production and quality issues.

But Marchionne said Chrysler is unusual because it's updating so many products and parts at once. He also says Chrysler had a lot of catching up to do when its majority owner, Italian carmaker Fiat SpA, brought it out of bankruptcy four years ago.

"The insistence on quality that was introduced with the new Chrysler back in 2009 is forcing a level of scrutiny that is certainly unusual for Chrysler historically," Marchionne said.

Chrysler's first-quarter sales suffered because it was slow to release new versions of the Ram pickup and Jeep Grand Cherokee SUV, two of its most popular vehicles.

Those production issues were resolved by the second quarter. U.S. Ram sales rose 30.4 percent over last year as construction companies and other small businesses raced to replace aging trucks. It was the Ram's best second quarter since 2007. Grand Cherokee sales soared 27 percent.

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Chrysler sold 643,000 vehicles worldwide in the second quarter, up 10 percent from a year ago. Sales were also up 10 percent in the U.S., where Chrysler sells 75 percent of its vehicles. Chrysler's U.S. sales rose faster than the industry average of 8 percent in the second quarter.

Still, because it lost first quarter sales and will be slow to launch the new Cherokee, Chrysler doesn't expect to meet the targets it set at the beginning of this year. The Auburn Hills, Michigan-based company now expects to ship 2.6 million vehicles worldwide in 2013, at the low end of its goal of between 2.6 million and 2.7 million. It expects to earn between \$1.7 billion and \$2.2 billion, down from its previous target of around \$2.2 billion.

Chrysler said its net income rose 16 percent to \$507 million in the April-June period from \$436 million a year ago. It was Chrysler's eighth straight quarterly profit.

Revenue rose 7 percent to \$18 billion from \$16.8 billion.

Chrysler still expects full-year revenue of \$72 billion to \$75 billion. Chrysler CFO Richard Palmer said customers are adding more features and paying more for their vehicles, so even if sales slide, revenue won't. Buyers paid an average of \$29,100 for Chrysler vehicles in the second quarter, up \$800 from last year, the company said.

Chrysler is also benefiting from sales of money makers like the Jeep Grand Cherokee. Car pricing site Kelley Blue Book said U.S. buyers paid an average of \$40,294 for a Grand Cherokee in the second quarter, up 9 percent from a year ago.

U.S. sales were up for the company's Dodge, Fiat, Jeep and Ram brands; only the Chrysler brand, with aging vehicles like the Town and Country minivan, saw sales drop.

Chrysler took a \$151 million charge in the second quarter for the recall of 1.56 million older model Jeep Libertys and Grand Cherokees. Dealers are installing trailer hitches on vehicles made between 2002 and 2007 to mitigate the risk of a fire after a rear-end crash. Dealers are also inspecting another 1.2 million Grand Cherokees from the 1999 to 2004 model years to make sure their hitches are on safely.

Marchionne said Chrysler doesn't expect to have to pay out any more for that recall, even though the government's investigation continues. Chrysler initially defied the order to recall the vehicles but reached a compromise with the government in mid-June.

"Chrysler Group is poised for a very strong performance in the second half of the year," he said.

Fiat, which owns 58.5 percent of Chrysler, said Tuesday its second- quarter profit more than quadrupled to \$188 million because of Chrysler's performance. Without Chrysler, Fiat would have lost \$327 million as its European sales dropped 5 percent.

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Marchionne, who is also Fiat's CEO, wants to merge the two companies. But Chrysler's other owner, a trust that pays medical bills for retired United Auto Workers union members, is in a court dispute with Fiat over the cost of its stake.

Marchionne said Tuesday that the two sides have had "fruitful discussions" but aren't close to an agreement on the value of the trust's shares. A judge will likely decide the issue this summer.

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