

# Costly 'dieselgate' chokes Daimler results in 2019

January 22 2020, by Yann Schreiber

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The diesel emissions scandal continues to take the shine off Daimler's annual results

German auto giant Daimler warned Wednesday that its 2019 earnings could fall short of expectations due to massive new charges over diesel emissions cheating, further clouding the outlook for the vital car sector as a whole.

The group, which owns Mercedes-Benz, said its full-year earnings will be hit by between 1.1 and 1.5 billion euros (\$1.2-1.7 billion) in provisions.

According to its preliminary financial results for last year, operating profit not including the "anticipated additional expenses for ongoing governmental and court proceedings and measures relating to Mercedes-Benz diesel vehicles" amounted to 5.6 billion euros.

That was "significantly below" the year-earlier level of 11.1 billion euros and "below earnings expectations," Daimler said.

"After two profit warnings, new Daimler boss Ola Kallenius is horrifying investors with catastrophic preliminary figures for 2019," judged industry analyst Frank Schwope of Nord/LB bank.

On top of recalls prompted by the diesel scandal and other technical defects, a slowdown in the global car market has also dragged on Daimler.

Nevertheless, the company has stuck to its guidance that 2019 revenues should come in "slightly above" the previous year's total of 167.4 billion euros.

Further details of the group's 2019 performance will be published on February 11, Daimler said.

The news pushed Daimler's stock to the bottom of the blue-chip DAX index in Frankfurt, where it showed a loss of 1.5 percent to 45.72 euros at around 1:10 pm (1210 GMT).

## **Massive recalls**

Since taking over in May, CEO Kallenius' first year in the top job has been plagued by bad news.

Daimler reported its first quarterly net loss in a decade in the period from April to June last year, when it was forced to set aside 4.2 billion euros in provisions to cover a massive recall of cars allegedly fitted with software to cheat emissions tests.

Others needed refits to airbags supplied by Japanese company Takata.

In total, German motor vehicle authority KBA has ordered that almost one million Daimler vehicles to be recalled, but the carmaker says none of the "motor control functions" pointed out by officials are illegal.

The company nevertheless agreed to pay an 870-million-euro fine in September for having sold vehicles that did not conform with legal emissions limits since 2008.

## **Pricey investments**

Daimler's announcement on Wednesday follows a string of bad news for the car sector, a pillar of the German economy that has suffered grievously from the present economic slowdown.

Even as earnings struggle, the manufacturers are racing to meet new European carbon dioxide (CO<sub>2</sub>) emissions targets, demanding high investments in areas such as electric mobility.

To lower costs, German car companies have in recent months announced around 40,000 job cuts for the coming years, including 10,000 at Daimler which it anticipates will save around 1.65 billion euros annually.

As sales of electric cars—with their far less complex motors—ramp up,

industry bosses expect fewer workers will be needed on assembly lines.

Meanwhile, "given the recurring crises across the branch and weaknesses in the company, Daimler can wave goodbye to targeting average profit margins above eight percent for the coming years," analyst Schwope said.

In fact, that closely-watched measure could fall as low as four percent in 2019, compared with 7.8 percent the previous year, Daimler has warned.

Given the context, the company's current cost-cutting drive "will not be the last in the coming years," Schwope predicted.

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