

Daimler profits plunge in 2019 on 'dieselgate' costs

February 11 2020, by Yann Schreiber



The front of a Mercedes-Benz Vision EQS is pictured during the annual press conference of German car producer Daimler AG in Stuttgart, southern Germany, on February 10, 2020. Mercedes-Benz parent company Daimler reported plunging profits for 2019, after setting aside billions of euros to deal with potential fallout from the industry-wide "dieselgate" emissions cheating scandal.

Daimler chief executive Ola Kallenius suffered a grim first year in 2019 as profits tumbled at Mercedes-Benz's parent company due to billions in costs from the "dieselgate" scandal, and thousands of job cuts now lie

ahead.

"We cannot be satisfied with our bottom line," Kallenius acknowledged Tuesday after net earnings slumped by 64 percent to 2.7 billion euros (\$2.9 billion).

At the top of Stuttgart-based Daimler's list of problems is dieselgate, a cash black hole that sucked in 4.0 billion euros last year in provisions for "governmental and legal proceedings and measures".

Total charges mounted to 5.5 billion euros when counting in a mass recall of vehicles fitted with faulty airbags from supplier Takata.

On top of those costs, massive investments in new technology such as battery-powered and automated cars weighed on profitability.

"Daimler is under more pressure than ever" with "catastrophic" earnings, NordLB bank analyst Frank Schwope commented.

"It's five minutes before midnight, high time to make some changes."

One bright spot was robust sales, roughly stable at around 3.3 million vehicles.

Against the backdrop of softer demand in global auto markets, Daimler boosted revenue 3.0 percent to 173 billion euros.

Those figures are the foundation for its more positive 2020 outlook, calling for revenue "stable" at last year's level, with operating profit "significantly above" 2019's 4.3 billion euros.

First loss in a decade

Daimler reported its first quarterly loss in a decade for April-June 2019, while last month it warned full-year results would come in below expectations.

Germany's KBA transport authority ordered more than a million Daimler-built vehicles recalled, mostly over dieselgate.

The firm still contests whether "motor control functions" cited by regulators are in fact illegal.

But it agreed to pay an 870-million-euro fine for selling infringing vehicles, weighing on both the cars and vans divisions.

Daimler's vans unit was especially hard hit, reporting an operating loss of 3.1 billion euros, while at the flagship cars division operating profit was slashed in half, to 3.4 billion euros.

With performance flagging, bosses plan to offer shareholders a dividend of just 90 euro cents, down from 3.25 euros in 2018 and well short of the 1.53 euros forecast by analysts.

Around 2:45 pm in Frankfurt (1340 GMT), Daimler's shares had given up an early morning rally, trading down 0.1 percent on the day at 43.09 euros against a DAX blue-chip index up one percent.

Cost-cutting

Like carmakers across the sector, Daimler has ambitious plans to slash carbon dioxide (CO₂) emissions from its vehicles, aiming to avoid swingeing fines under tighter EU regulations that come into force this year.

"It is possible" to meet the greenhouse limits, but 2020 and 2021 will be

the toughest years, with cars not guaranteed to meet emissions limits, Kallenius said.

"I feel more comfortable about 2022," he added.

Daimler should have pushed into battery and hybrid power sooner but now aims to "ramp up" the effort, Kallenius said.

Tight margins on electrified models and a bleaker economic outlook mean the funds to power investment must come from cost savings, with Kallenius aiming to find "over 1.4 billion euros" from job cuts.

A reduction of more than 10,000 posts from Daimler's worldwide staff of 300,000 has already been announced, mostly via non-replacement of departing employees, early retirement schemes and voluntary redundancies.

The firm will also "simplify" its model range, eliminating low-volume or low-margin cars and slashing investments where it sees little prospect of them turning profitable.

In total, upfront costs are expected to mount to two billion euros, including 1.2 billion this year, finance chief Harald Wilhelm said.

"We are determined... to significantly improve profitability," said Kallenius, who took the reins at Daimler after the 13-year reign of Dieter Zetsche.

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