

# BMW earnings fall 28 percent

August 1 2012, by DAVID McHUGH

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In this June 30, 2011 file photo car badges of German car producer BMW AG are pictured at the BMW plant in Dingolfing, southern Germany. The German luxury automaker says Wednesday, Aug. 1, 2012, earnings fell 28 percent in the second quarter due to higher costs for investments in new technology and personnel. Despite the fall in profit against the same quarter last year, which enjoyed an exceptional gain, the company recorded record sales. It also held on to its outlook and maintained its high profit margins on automobile sales. (AP Photo/dapd, Lennart Preiss)

(AP) — German luxury automaker BMW AG said earnings fell 28 percent in the second quarter due to higher costs for staff and investments in new technology and warned that a worsening of Europe's debt crisis or a slowdown in China could hurt its business.

The fall in profit was partly due to one-time gains recorded in the same quarter last year, and the company made a strong showing with other earnings figures in the most recent quarter.

It had record sales, held on to its outlook and maintained profit margins on auto sales that many other carmakers would envy.

Nonetheless, the Munich-based carmarker cited "intense market competition" and warned that any worsening of Europe's economic crisis or a growth slowdown in China could hurt its business. It is already facing headwinds from Europe's debt crisis, which has devastated economies in nations such as Spain and Greece and kept Europe sales flat from the year before.

Company shares traded down 4 percent at €58.27 in midday trading European time.

Net profit fell to €1.28 billion (\$1.57 billion) from €1.77 billion a year ago. Sales rose 7 percent to €19.2 billion. The fall in net profit in part results from €464 million in exceptional gains and record earnings from the same quarter last year.



In this July, 7, 2011 file photo an employee of German car producer BMW AG is busy at the BMW plant in Regensburg, southern Germany. The German luxury automaker says Wednesday, Aug. 1, 2012, earnings fell 28 percent in the second quarter due to higher costs for investments in new technology and personnel. Despite the fall in profit against the same quarter last year, which enjoyed an exceptional gain, the company recorded record sales. It also held on to its outlook and maintained its high profit margins on automobile sales. (AP Photo/dapd, Lennart Preiss)

BMW said "higher personnel costs, increased expenditure on development and new technologies, intense market competition and the higher baseline of the previous year's record second-quarter earnings all contributed to the lower earnings figures in 2012."

The company reported record sales of 475,000 vehicles, up 5.4 percent, and said its profit margins remained at a strong 11.6 percent on car sales, the same as in the first quarter though slightly down from a year ago. That's a key figure indicating the company is maintaining its ability to charge more for its cars and generate good profits from sales.

Analyst Max Warburton at Sanford C. Bernstein in London wrote that "BMW's numbers are still good but they are not great, unlike second quarter 2011." He said profit margins had fallen from 13.9 percent in the year-ago quarter due to tough price competition in Germany and China.

He said model mix also affected results, with lower sales for the X6 crossover SUV and large 7-series sedan, probably the vehicles in the line-up with the fattest per-car profits. However the new version of the mainstay 3-series midsize car has yet to hit its stride since it was introduced earlier this year and could make a stronger contribution in coming months.

Earnings were supported by continuing sales increases in China, where they rose 31 percent, and by a 10 percent increase in the U.S.. Strong global sales of the X3 sport utility, which jumped 38 percent, helped too.

"The BMW Group continued to perform extremely well," CEO Norbert Reithofer said in a statement.

The company, which has invested in electric cars and the use of high-

tech carbon fiber to save weight, said it had increased technology and development costs and cited investments in its production network.

Staff costs were boosted by a 5 percent increase in the workforce to 102,000. The company said it was still recruiting engineers and high-skill workers.

BMW's earnings fell short of the consensus estimate for €1.38 bill compiled by FactSet. It held onto its earnings prediction for the year of exceeding last year's sales volume and pre-tax earnings, but said those forecasts are "based on the assumption that worldwide economic conditions will not deteriorate sharply. The BMW Group sees risks primarily in a further deterioration of the economic situation in Europe and a slowdown of growth in China."

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