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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter earnings conference call. My name is Mark and I will be your operator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to George Sharp, Executive Director of Investor Relations for Ford Motor Company. Please proceed, sir.

George Sharp - Ford Motor Company - Executive Director IR

Thank you, Mark, and good morning. On behalf of the entire Ford management team I would like to thank you for taking the time to be with us this morning so we can provide you with additional details of our first quarter 2015 financial results. Copies of this morning's press release and presentation slides are available on Ford's Investor and Media websites.

Presenting today are Mark Fields, President and CEO, and Bob Shanks, Chief Financial Officer. Also participating are Stuart Rowley, Corporate Controller; Neil Schloss, Corporate Treasurer; Paul Andonian, Director of Accounting; and Mike Seneski, Ford Credit CFO.

Today's presentation includes some forward-looking statements about our expectations for Ford's future performance. Of course, actual results could be different. The most significant factors that could affect future results are summarized at the end of this presentation and detailed in our SEC filings.

Finally, any non-GAAP financial measures are reconciled to the US GAAP equivalent in the appendix of the slide deck. Our Form 10-Q is planned to be released this afternoon.

With that, I would now like to turn the presentation over to Mark Fields.



Mark Fields - Ford Motor Company - President, CEO

Okay. Thanks, George, and good morning, everybody. Why don't we just get right into the first slide?

As you can see here, our plan for profitable growth and, of course, our focus as a business continue to deliver and they remain unchanged. It starts with accelerating the pace of progress of our One Ford Plan while at the same time delivering product excellence and driving innovation in every part of our business.

Going on to slide 2 you can see that the first quarter was a good start to the year, in which our results will grow progressively stronger as we launch the new products and we continue to build momentum. While wholesales were about unchanged due to major product launches and the revenue was down, mainly because of the effect of a stronger US dollar on our international operations, we grew our global market share and achieved profitability in four of our six business units.

We are updating our guidance for the year for some of our business units. We now expect North America's operating margin to be stronger than previously expected and that the loss in South America will be greater, but still an improvement from last year, due to the deteriorating external conditions that we see there. We are also reconfirming that 2015 will be a breakthrough year for Ford, including Company pre-tax guidance of \$8.5 billion to \$9 billion, with Automotive revenue, our operating margin, and operating-related cash flow to be higher than in 2014.

On slide 3, as we talk about our plan to deliver profitable growth, you can see that we delivered in the first quarter. From several new Ford and Lincoln products and new plants and facilities, to being named the only automaker on the list of the World's Most Ethical Companies and growing our dividend, we are very pleased with our progress.

So with that, why don't I turn it over to Bob and he will take us through the details. So, Bob, why don't you take it away?

Bob Shanks - Ford Motor Company - EVP, CFO

Thanks, Mark, and good morning, everybody. Let's start at the top on slide 4.

Our first quarter wholesale volume was 1.6 million units, which was down 21,000 units from a year ago; and our revenue was \$33.9 billion, which was down \$2 billion. Our pre-tax profit was \$1.4 billion, \$24 million better than a year ago; and after-tax earnings per share at \$0.23 were \$0.02 lower.

Net income attributable to Ford was \$924 million. That was \$65 million lower than a year ago, more than explained by a higher operating tax rate this quarter.

Automotive operating-related cash flow was \$500 million. That was lower than a year ago due to less favorable working capital changes and higher net spending. Automotive gross cash at the end of the quarter was \$19.5 billion, exceeding debt by \$6.1 billion.

Our first quarter operating effective tax rate was 34%, compared to 26% a year ago. The increase is mainly the geographic mix of our regional results.

We expect our second quarter rate to be about 34% as well, and for the full year we now expect our rate to be about equal to or higher than our 2014 rate of 26%. This outlook continues to assume extension of US research credit legislation in the fourth quarter.

Now as you can see on slide 5, both of our sectors, Automotive and Financial Services, contributed to our first quarter pre-tax profit; and both improved compared with the first and fourth quarters of 2014.



Let's now turn to slide 6 where you can see the key market factors and financial metrics for our Automotive business. Now, stepping back first and looking at the full year, we expect to achieve strong top-line growth as we leverage a growing global industry, as well as improve our global market share on the strength of our 24 product launches last year and the 15 we've planned for 2015. We also have more capacity coming online in Asia Pacific in the second half that will drive incremental volume and revenue.

We also expect improvements to the bottom line, specifically higher Automotive operating margin and strong growth in Automotive pre-tax profit, driven by North America and Asia Pacific, with improved results in Europe and South America as well. We continue to expect most of the Company improvement to occur in the second half.

Focusing now on the first quarter, we estimate that global industry SAAR, shown on the lower left, was 87.5 million units; that was up 1% from a year ago. And as already noted, we grew our global market share to 7%. Wholesale volume was down slightly from a year ago due to the effects of major product launches, which contributed to lower dealer stock increases and constrained our share growth.

Our revenue was down 6% due to the unfavorable exchange effects of the strong US dollar on international operations as well as the lower volume. We are very pleased that our operating margin improved, which at 3.6% was up two-tenths of a percentage point, and that our Automotive pre-tax profit of \$936 million was essentially unchanged from a year ago.

As shown on slide 7 our unchanged automotive Automotive pre-tax profit was the result of higher net pricing, favorable exchange, and favorable mix; higher cost and lower volume were offsets. The strong net pricing mainly reflects new products in North and South America, as well as partial recovery in South America of the adverse operating effects of the region's weaker currencies and high local inflation. The non-repeat of unfavorable balance sheet exchange effects last year, primarily in Venezuela in Argentina, explains most of the favorable exchange.

The good news on mix came from North America, primarily Super Duty, and in Europe primarily Transit and Mondeo.

The higher costs are driven principally by three factors. First, the effects of new products launched since the first quarter a year ago. Secondly, new plants in Asia Pacific launched over the past year, or to be launched later this year. And finally, investments for future new products and capacity to support our growth beyond 2015.

North America was the major driver of the lower volume due to product launch effects. As shown below the chart, Automotive pre-tax profit improved over fourth quarter 2014 because of lower cost and favorable exchange.

Slide 8 shows Automotive pre-tax results by business unit, along with Other Automotive, which is mainly net interest expense. Previously, we had guided that we expected Automotive net interest expense to be equal to or higher than last year's expense of \$583 million. We now expect full-year expense to be about \$650 million, including the impact of the external debt of our Russia operation, Ford Sollers, which was fully consolidated as of March 31, along with incremental funding in Brazil.

Before we move on to the business units, just a reminder here on slide 9. We said back in January that we expect results in the second half of the year to be stronger than the first half due to the timing of our product and capacity launches. As shown here, this is still the case.

Now what I would like to do is to take you through each of the Automotive business units, starting with North America on slide 10. We expect North America to have a very strong year in 2015, with substantial top-line growth, higher pre-tax profit, and an improved operating margin. This is based on continued robust industry sales; our strong product lineup, including products launched last year and planned for this year; our continued discipline in matching production with demand; and a lean cost structure.

In the quarter, wholesale volume and revenue were down 5% and 2% from a year ago, respectively. The lower wholesale volume reflects launch-related declines of about 40% for F-150 and over 50% for Edge. All other vehicles were actually up 7%.

The declines for F-150 and Edge resulted in lower US market share, which was down six-tenths of a percentage point to 14.7%, as well as lower stock increases this year than in 2014. Higher industry sales, reflecting a US SAAR of 17.1 million units, were a partial offset.



Our lower revenue in North America was driven by the lower wholesale volume as well as the adverse effect on our revenue in Canada and Mexico of the strong US dollar. This was offset largely by higher net pricing and favorable mix.

North America operating margin was 6.7%, down six-tenths of a percentage point from last year. Pre-tax profit was \$1.3 billion, which was down \$160 million.

Let's now go to slide 11 for a closer look at the factors behind the lower profit. As shown on this slide, lower volume for F-150 and Edge due to their launches explains North America's lower pre-tax profit in the first quarter. All other factors essentially offset one another.

We expect results in North America to improve substantially over the balance of the year as we benefit from a full supply of F-150 and Edge, as well as other new products we have yet to launch including Explorer and Lincoln MKX. As shown below the chart, North America pre-tax profit declined compared with fourth quarter due to higher costs and lower volume.

In terms of full-year guidance, we continue to expect North America to be strongly profitable this year at a level that will exceed last year's results. Today, we are increasing our operating margin guidance from 8% to 9%, to 8.5% to 9.5%.

This reflects our strong confidence in the F-150 and our positive view of the product's impact on our business now that the launch is successfully behind us. We also expect the recently launched Mustang, Transit, and Edge to continue to perform strongly, and we are very excited about the upcoming launches of the Explorer and the MKX.

Now let's turn to slide 12 and talk about South America. The business environment in South America has deteriorated beyond our expectations, with negative GDP growth, continued high inflation, further currency weakness across the region. The industry pricing environment is also difficult, particularly in Brazil, with actions taken to date generally lagging the combined adverse effects of the weaker currencies and high local inflation.

Our strategy of replacing legacy products with One Ford products is bearing fruit. The new Ka is improving our market share in the region, which at 9.7% was up a strong 1.1 percentage points.

In Brazil, EcoSport and Fusion continue to lead their segments. And as a result of the success of the F-Series and Cargo, Ford led the light and semi-light truck segments in the first quarter. As we continue to sustain a strong product lineup, our team in South America also is focused on finding other revenue opportunities, reducing cost, continuing to match production to real demand, and increasing local content to mitigate further the adverse effects of the weak local currencies.

In the first quarter, our wholesale volume and revenue decreased from a year ago by 3% and 20%, respectively. The lower volume resulted from a 1.1 million unit decline in industry SAAR, reflecting the impact of Brazil's weaker economy and Argentina import restrictions. Our revenue decline resulted from the weaker currencies and unfavorable volume and mix.

Operating margin was a negative 12.5%, a significant improvement from a year ago, while pre-tax loss was \$189 million. That was an improvement of \$321 million.

As we show on slide 13, South America's profit improvement was due to favorable exchange, most of which reflects a non-repeat of last year's unfavorable balance sheet exchange effects of \$310 million in Venezuela. Although volume was effectively unchanged, we are very proud that our team was able to offset the effect of lower industry volume by growing our market share, as shown on the chart in the callout box for volume and mix.

As you can see below the chart, the first quarter loss was about the same as in fourth quarter 2014. For the full year, we continue to expect our pre-tax loss to improve from 2014, but the loss now will be greater than what we had expected due to the more difficult external environment.

Let's turn to slide 14 now and talk about Europe, where we are continuing to implement our transformation plan focused on product, brand, and cost. We confirmed earlier this month our commitment to the Russian market, where we agreed to certain changes with our partner Sollers that



will allow both parties to continue to support the Ford Sollers joint venture in the near term, while providing a platform for future growth in this very important market.

As a result of these changes, we consolidated our Russian operations as of March 31. This had no effect on first quarter earnings.

In the quarter, our Europe 20 market share improved two-tenths of a percentage point to 8.2%. The success of our full line of Transit vehicles and continued strong performance of our Ranger compact pickup contributed to a 2.8 percentage point improvement in our commercial vehicle share to 13.3%. In fact, Ford was the leading commercial brand in Europe 20 in the first quarter.

Our Europe wholesale volume improved 2% from a year ago, while revenue declined 11%. The higher volume resulted from a 1.2 million unit increase in the Europe 20 SAAR, which was 15.7 million units, as well as from Ford's higher market share. This was offset largely by the non-repeat of last year's dealer stock increase.

The strong US dollar explains our lower revenue. Europe's operating margin was a negative 2.7%, down two-tenths of a percentage point from a year ago, and the pre-tax loss was \$185 million, which was unchanged.

Although results were about the same as last year, you can see on slide 15 that there was a lot of variability among the factors. Higher industry, share, and favorable mix were offset partially by the non-repeat of last year's stock increase.

The lower net pricing was driven in part by the aging of selected vehicle lines; but a portion also resulted from higher incentive activity in the UK and Switzerland. This was driven in part by more competitive activity that was triggered by a stronger pound sterling and Swiss franc versus the euro, that made sales in these two markets more attractive.

In total, costs more about flat, including the impact of lower discount rates on pension expense. As shown below the chart, first quarter pre-tax results improved from fourth quarter 2014 due to favorable market factors, lower cost, and favorable exchange. For the full year, we continue to expect Europe's pre-tax loss to improve from 2014, including the consolidation of Ford Sollers.

Now let's turn to slide 16 and review Middle East & Africa, where we are focused on building our distribution capability, expanding our One Ford product offering tailored to the needs of the markets in the region, and leveraging our global low-cost sourcing hubs. Our wholesale volume and revenue declined 8% from a year ago. The lower volume was a result of unfavorable changes in dealer stocks, while the lower revenue reflects the lower volume as well as the impact of the stronger US dollar.

Operating margin was 7.5%. That was 2.8 percentage points higher than a year ago. Pre-tax profit was \$79 million, an improvement of \$25 million. This was driven by favorable exchange.

For the full year, we now expect Middle East & Africa to deliver about breakeven results, which is an improvement from our prior guidance of a loss somewhat larger than 2014.

All right, let's now go to slide 17 and we'll talk about Asia Pacific. We are continuing our strategy in this region to invest for growth in incremental capacity, new products, and of course Lincoln in China.

We expect Asia Pacific to have a strong year, with top- and bottom-line results improving substantially in the second half versus the first half, due to added capacity and new products we launched from the middle of the year; notably, the three-row Edge, the all-new Taurus, Figo, the all-new Everest, the refreshed Ranger, and the all-new Lincoln MKX.

As shown on the left, our first quarter wholesale volume was up 5% compared with a year ago, while our net revenue, which excludes our China JVs, declined 14%. Our China wholesale volume, which isn't shown, was up 10% in the quarter. This reflects in part strong market reception to the all-new Escort as well as Lincoln, which is off to an encouraging start, with several of our China dealers already among the brand's highest-volume dealers globally.

Our higher volume in the region was driven by a favorable change in dealer stocks, including recovery of stocks to targeted levels. We estimate first quarter SAAR for the region at 38.9 million units, which is unchanged from a year ago, although we did see signs of slowing growth in China during the quarter.

Our first quarter market share for the region at 3.4% and our China market share at 4.5% were both equal to first quarter records set last year. The lower revenue was a result of the lower volume from our consolidated operations as well as weaker currencies.

Operating margin was 4.5%, which was down 6.6 percentage points from a year ago. Pre-tax profit was \$103 million, down \$188 million. Our China joint ventures contributed \$360 million to pre-tax profit this quarter, reflecting our equity share of their after-tax earnings.

On slide 18 you can see that the decline in Asia Pacific's first quarter pre-tax profit is explained primarily by higher structural cost. This reflects costs related to our plans to introduce 18 new vehicles this year and to bring online new capacity with four new plants. We will see the volume and revenue benefits of these investments in the second half.

For the full year we continue to expect Asia Pacific pre-tax profit to be higher than in 2014, with the improvements occurring in the second half, consistent with the launch timing of new capacity and products.

Let's now discuss Ford Credit on slide 19. Ford Credit is a strategic asset that provides world-class financial services to our dealers and customers and is an integral part of our global growth and value creation strategy. It maintains a strong balance sheet that provides solid profits and distributions to Ford.

In the first quarter, Ford Credit continued to demonstrate solid growth supporting Ford, including the launch of operations in India. Origination practices continue to be consistent, and costs remain well controlled and in line with expectations.

In the quarter, Ford Credit's pre-tax profit was largely unchanged from a year ago. Favorable volume and mix primarily reflects higher consumer finance receivables globally and an increase in leasing in North America.

Lower portfolio pricing drove the lower financing margin. And the higher credit losses primarily reflect the non-repeat of reserve releases that occurred in the first quarter last year.

As shown below the chart, favorable lease residual performance due to higher auction values in North America contributed to the higher pre-tax profit compared with fourth quarter 2014.

For the full year, we continue to expect Ford Credit pre-tax profit to be equal to or higher than 2014; year-end managed receivables to range from \$123 billion to \$128 billion; and distributions to be about \$250 million. We now expect managed leverage to be at the upper end of our range of 8-9to1 in the near term because of the translation impact of the strong US dollar.

Next, on slide 20, is our Automotive gross cash and operating-related cash flow. Automotive gross cash at the end of the quarter was \$19.5 billion; that was a decrease of \$2.2 billion from the end of the fourth quarter. Automotive operating-related cash flow was a positive \$500 million, driven by our Automotive pre-tax profit.

In the first quarter, we had higher than normal levels of non-operating-related cash outflows associated with separation payments, the one-time payment for Mazda's interest in AAI, which is our former joint venture assembly plant in Michigan, debt repayments and pension contributions. For the balance of the year, AAI will not repeat; and quarterly cash outflows related to separation and debt payments and pension contributions will be, on average, much lower.

Debt repayments in the quarter totaled \$600 million, and we made pension contributions of \$800 million to our funded pension plans. We continue to expect contributions to funded plans for the full year to total \$1.1 billion. We also made dividend payments of \$600 million during the quarter.



Slide 21 shows that our Automotive debt was \$13.4 billion at the end of the quarter, \$400 million lower than fourth quarter. We had maturities in Europe and Asia Pacific and continued to pay down US Department of Energy loans. These reductions were offset partially by the consolidation of Ford Sollers' external debt.

We ended the quarter with net cash of \$6.1 billion and Automotive liquidity of \$30.2 billion. Although not yet included in our total liquidity, we're in the process of amending and extending our corporate revolving credit facility.

The facility, which is presently \$12.2 billion, is expected to grow to \$13.4 billion. The increase in the facility will be almost entirely allocated to Ford Credit to support its growth and liquidity plans.

With that, this concludes our review of the financial details of our first quarter earnings, so I would like to turn it back to Mark, who is going to take us through our outlook for the 2015 business environment as well as our planning assumptions and key metrics. Mark?

Mark Fields - Ford Motor Company - President, CEO

Okay; thanks a lot, Bob. So let's start on slide 22 with our view of the business environment. We do expect this year to be a year of growth globally, with GDP expanding in about the 3% range. This will be driven by the US, China, although at levels lower than in years past, an improved growth in the euro area, and particularly with the UK continuing to perform at a higher level versus the rest of the continent.

The main areas of concern continue to be in South America, which as Bob mentioned continues to face difficulties, and also Russia. We also expect the strong US dollar and the weak commodity prices, including oil, to continue throughout the balance of the year. So all in all we see conditions as still being supportive of modest growth in the global auto industry in 2015.

Let's turn to our total Company guidance, which you can see on slide 23. As both Bob and I have said, we do expect this year to be a very strong one for Ford Motor Company.

In terms of industry sales outlook, we are raising our guidance for Europe 20, while we are trimming it back a bit in China. And industry sales here in the US still look to be on track to be between 17 million and 17.5 million units.

All of our other financial guidance at the Company level remains on track to what we said back in January. We said we were going to see growth in Automotive revenue compared with 2014, a higher Automotive operating margin, higher positive operating cash flow, equal to higher results at Ford Credit, and a Company pre-tax profit of between \$8.5 billion and \$9.5 billion.

So we feel good about our first quarter results and believe that they have us on track for the breakthrough year that we expect 2015 to be.

Then just to sum up on slide 24, our plan and our priorities as a Company remain unchanged, and we remain on track to deliver our near- and long-term objectives that we've laid out. Across Ford we're accelerating the pace of our One Ford plan; we're delivering product excellence with passion; and we are driving innovation into every part of our business.

And all of this is supported by a day in and day out relentless execution on the operational fundamentals of our business. I think nothing brings this to life better than the achievement by the Ford team in successfully launching the all-new F-150.

As we sit here today, the launches of our Dearborn and Kansas City plants are complete and will reach full production during the balance of the second quarter. Earlier this month, the all-new F-150 SuperCrew, the SuperCab, and the regular Cab all earned the US government's highest possible crash safety rating.

I think that adds to the F-150's strengths as the toughest, smartest, and most capable F-150 that we've ever produced. On top of that achievement, outside experts also project that the F-150 residual values will be higher than not only our outgoing model but also well above those of our highest volume competitors.



Looking at customer reception, well, I have to tell you the customer reception to the product has been simply outstanding. It's now clear that the bottom-line contribution to our business from F-150 will be even stronger than we had originally expected.

I think successes like this give us confidence in our five long-term objectives, which include being in the top five in global sales, creating a better balance of profitability and sales around the world, achieving 8%-plus operating margins, being in the top quartile in total shareholder returns, and importantly, remain highly regarded by all of our stakeholders. So, we have the right strategic framework; I think we have the right proven operating process; and of course, I think we have the right team to deliver this, because Ford is a growth Company in a global, growing industry.

And we are a proven innovator, in a period and a time here in the industry where we're seeing rapid technological advancement than we've ever seen before. We're operating the business for today, but also we are pushing ourselves to think and act and disrupt like a startup company: anticipating customers' wants and needs 10 and 15 years down the road.

And both are absolutely core to our plan for profitable growth. With that, why don't we open up the phone line for your questions. George?

George Sharp - Ford Motor Company - Executive Director IR

Thanks, Mark. Now we'll open the lines for about a 45 minute Q&A session. As usual, we will begin with questions from the investment community then take questions from the media.

Now in order to allow for as many participants as possible within this framework, please keep your questions brief and please avoid asking more than two. Mark, can we have the first question?

QUESTIONS AND ANSWERS

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - BofA Merrill Lynch - Analyst

Good morning, guys, and thanks for the new press release format; it's actually incredibly helpful.

Mark Fields - Ford Motor Company - President, CEO

Oh, thanks, John.

John Murphy - BofA Merrill Lynch - Analyst

First question, just on North America. If we think about what's going on the first half, it's understandable that margins are a bit depressed; and it's certainly understandable that they will bounce back up in the second half of the year.

But it looks like the second half will be somewhere in the ballpark of 11%, plus or minus. Is there anything that's happening in the second half of the year other than these two launches that is abnormal, that would inflate these margins? I'm just trying to understand which part of the year is more representative of what we should be thinking about for margins going forward in North America.



Mark Fields - Ford Motor Company - President, CEO

Well, I think, as you think about -- is there anything abnormal? No. I think as we talked about, in the first quarter, you heard Bob's comments around the wholesale reductions that we've seen in F-Series and Edge; and as we get into the second half of the year, I think we are seeing great, really good acceptance to our new products, not only F-150 but Mustang, Transit. The Edge is still very early days, but it's off to a great start; and we have the Explorer coming.

So I think barring any kind of external shock, if you will, to the economy, what you will see is running at regular production rates. John, to put that into perspective on margin, as we mentioned it's very clear, now that we are through the launch -- mostly through the launch -- of the F-150, with a little bit of the final acceleration curve in the balance of the second quarter, it's clear we are seeing higher revenues. We're seeing likely a richer mix, lower costs, and I think that's -- than we originally expected as we launched last year.

So we are growing the top line, which is allowing us to grow the bottom line. If you look at the first quarter -- if we ran at the regular production rates of F-Series and Edge, we would have seen a margin of 10% or a bit above in North America. So I think that's our expectation going forward, and that's why we raised the overall guidance for the business unit.

John Murphy - BofA Merrill Lynch - Analyst

Very helpful.

Bob Shanks - Ford Motor Company - EVP, CFO

John, what we also are seeing is the launch effects are largely in the first quarter; somewhat in the second quarter. There is not as much of an effect on launches in the second half of the year, which maybe is a little bit unusual, but that is what you are seeing occur this year.

We actually have a similar effect that's taking place in the case of Asia Pacific, where we have had a lot of costs in place right now to support the plants that we will be opening around midyear, which will bring with them new product and new volume, new revenue, new capacity. So a very similar story in both markets in terms of the second half versus first half.

John Murphy - BofA Merrill Lynch - Analyst

Okay. Then if I can just ask a second question around Europe, I'm just curious. As you look at the commitment to Russia, it's different than what you are seeing from one of your other big competitors out there. I'm just curious what you're seeing in Russia that you think is different.

Is that a function of the potential growth in the market? Your relationship with Sollers? Product cadence? I'm just trying to understand what is different there.

Also, as we think about that and in Europe in total, it looks like the second half should be better in Europe -- much better than it does in the first half. And the first half looks like it's running pretty well as well. So just trying to understand the cadence in Europe as well.

Mark Fields - Ford Motor Company - President, CEO

Well, John, I will take the question on Russia; and Bob, maybe you can take the question on general Europe. But essentially what we see in Russia is it's a big and important market. Even at its reduced rate right now, it still is going to be one of the bigger markets in Europe.

And we still hold the view that when the market stabilizes and ultimately recovers that this could be one of the biggest, if not the biggest, market in Europe. And it's important for us to be there.

At the same time, we've been making a lot of progress on our presence there -- obviously, the joint venture with Sollers. And we've invested, as you know, over the last couple years where, by the time we get to the balance of this year, we are going to have a full lineup of vehicles that are localized for Russian customers.

And although the market is difficult right now -- everybody knows how difficult it is -- I think we've done a good job in localizing our products. As we closed last year we were probably about 40% localized; and, obviously, that is going to increase going forward. 99% of our sales in Russia are for vehicles that are actually produced in Russia.

So when we look at the market environment, when we look at what we've done in terms of our product portfolio, in terms of localization, and -- to your point, John -- I think we have a very good working relationship with Ford Sollers, where we're both very dedicated to making sure that this business not only develops and succeeds, I think we're going to be very well positioned for future growth in Russia when we start seeing stabilization and ultimate growth.

And that will have not only benefits for Russia but also benefits for our European business. Bob, you want to just talk about Europe?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes. In terms of what you might expect in Europe, normally, John, the second half is worse than the first half. That's largely around the fact that you've got the plant shutdowns in the third quarter for about a month, and then you've got the usual seasonal effect on costs in the fourth quarter.

I think this year could be mitigated just a little bit, because we do have a number of significant products that are in the process of being launched or will launch in the balance of the year. That would include the S-MAX, the Galaxy, the C-MAX, the Grand C-MAX are coming onboard. We've also got -- I think the Mustang comes later this year, small volume. Edge I think launches toward the end of the year.

So it might be a little bit different, but I think you are probably going to see probably a little bit of worse performance in the second half versus the first half. And that's just normal seasonal results there.

Operator

Colin Langan, UBS.

Colin Langan - UBS - Analyst

Great. Thanks for taking my question. Just following up on Europe, can you help us quantify the impact of the Sollers consolidation when we think about it quarter-over-quarter? On a pre-tax basis, what kind of headwind will that be?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, when you think about the Russian operations, the effects that we've been reporting all along -- up until I think after the second quarter last year, when we wrote off the equity in Sollers -- it isn't just the Ford Sollers JV, but we ship components there, we ship parts there, we are incurring engineering expense on behalf of Ford Sollers for which we were receiving royalties. So now that we are fully consolidating it, of course all of that just becomes intercompany, if you will.

So while there would be some impact, I don't think it probably is going to be quite as great as what you might think, because there was a lot of effect that was already in our consolidated operations before we picked up the JV. So you'll just be picking up sort of the in-market JV results.



We do expect -- and I think we have talked about this already, Colin -- that we will have a greater drag on the business this year from total Russian operations than what we saw last year. But the good news is I think with the change in terms of how we are going to work together, we're going to be able to move very quickly.

We've got a lot of new products that are coming. I think the last one is Fiesta, which is going to be a significant product for the marketplace.

It's really encouraging that some aspects of what had been very variable factors like the ruble, at least for the moment appear to have somewhat stabilized and actually are settling in at a rate that's quite a bit better than what it was at the beginning of the year, which will help. So I think overall we still feel like we are pretty much on track with what we had expected at the beginning of the year and already contained in terms of our guidance for the European loss.

Colin Langan - UBS - Analyst

My second question. Any color on South America in terms of how we should think about the cadence throughout the rest of the year? Any reason to think things are going to get worse, or is this -- is Q1 actually a more difficult start?

Mark Fields - Ford Motor Company - President, CEO

Well, again, it's a great question, Colin, on what the crystal ball looks like. I think from our standpoint, as you know we are changing the guidance based on the deterioration that we've seen in the external environment. And I think we are just going to stay focused on the things that we can control.

Obviously, that's continuing to put fresh product into the marketplace; Bob mentioned some of the market share gains that we've had. We're also in that very important market -- the team is energized around, as you can imagine, further reducing costs, looking at more localization, looking at optimizing our footprint, those type of things.

So as we go through the balance of the year, we'll deal with the external environment. But stepping back, we do expect South America -- it's an important and attractive market, as it has been in the previous decade; and we do expect it to be a positive contributor to our profits in the future. But the timing to the profitability, to be quite honest, is going to be based again on the stabilization of the market but also ultimately some improvement in the external environment.

Colin Langan - UBS - Analyst

All right. Thank you very much.

Operator

Emmanuel Rosner, CLSA.

Emmanuel Rosner - CLSA Limited - Analyst

Hi, good morning, everybody. I wanted to drill down a little bit on your net pricing in North America. On slide 11, we saw some real encouraging sign on the gross pricing front, with those pricing incentives netting \$650 million or so. But a lot of it seems to be offset by your material, excluding commodities.

So was there anything specific in the material performance this quarter? Or would you expect essentially material to become essentially a large headwind as a result of the new product that's coming out?

Bob Shanks - Ford Motor Company - EVP, CFO

Thanks, Emmanuel. Yes, that's a really good question. I am looking at slide 11 here in front of me; and for those of you that have the slides, if you could refer to that. Because I think if you look at that picture and you just imagine on the volume and mix, which is pretty flat here, you imagine that being very, very strong, I mean, that is what the year is going to look like.

You're going to have a lot of strong, positive growth on the top line; mix as well. You're going to have very strong net pricing around the new product.

But you are going to have higher costs, both contribution costs and structural costs; and that's what we talked about at the beginning of the year. That is exactly the picture that we painted for North America.

But that's going to yield the very strong margins that Mark referred to in the balance of the year, which is going to give us that 8.5% to 9.5%. So given a 6.7% in the quarter, that sort of -- you can back into what that means for the balance of the year. We're going to have very strong margins. But that's the picture of what the business will look like.

Emmanuel Rosner - CLSA Limited - Analyst

Just to clarify this, right now the pricing and materials sort of like offset each other. So I understand obviously the pricing will become a larger benefit as your volumes ramp up. Would it still be -- would you still expect it to be offset by an increase in materials?

Or are you saying that materials increases is the magnitude that we are seeing this quarter, but pricing is upside?

Bob Shanks - Ford Motor Company - EVP, CFO

Well, I think you will see stronger pricing. But I think what you have to look at is the pricing and the volume together as well as the mix; it's not just one or the other. It's those two.

The first two bars there, which is volume, mix, and pricing, you have to think about them all together. Because the product is going to drive volume; the product is going to drive better mix; and then of course we're also going to get the pricing.

So all of those things together are going to drive the top line. And then the partial offset to that is going to be both the investments that we are making in the business on the structural or the fixed side, and then of course the contribution costs, which are driven by the product costs that we are putting in.

Emmanuel Rosner - CLSA Limited - Analyst

Okay; that's very clear. One last one on China. You were mentioning slowing growth that you saw during the quarter. Was that a comment about the industry or about Ford specifically?

And then coming with this slowing growth are you seeing some pricing pressure as well?

Mark Fields - Ford Motor Company - President, CEO

Well, when you step back and you look at our performance in the first quarter, the industry was up about 3% and we were up a little over 9%. So almost triple that.

But as you step back and look at the economy -- and we were just there obviously last week for the Shanghai Motor Show and spend the balance of the week there -- we expect the economy, as we mentioned earlier, to be growing in about the 7% range. But you are seeing it obviously down from previous years because you are seeing less demand for exports.

But you are also seeing this shift from economy that has relied on growth through industry and investment to one that's shifting towards more service-oriented and consumer-led economy. So I think that is having some ramifications in there.

And as you can expect, you are seeing it different play out in different regions around the country. For example in Chongqing, where our headquarters is, I think the GDP growth there was about 10% last quarter, and obviously less in other regions.

We are seeing the industry -- as you saw from our guidance, we tapped it down a bit, so we expect some modest growth. But we are seeing signs of some slower growth.

You are seeing it in B and C segments, some of the smaller segments, as it gets more competitive there. And also we're seeing a bit of shift as customers look at small SUVs.

The pricing, to your point -- actually net pricing has been negative for a number of years in the marketplace. We've baked that into our plan, and our pricing has been less negative because of the products that we've been introducing.

So our first quarter performance is encouraging for us as we stand back. I mentioned our share was even with a year ago, which was a record. It was actually up a bit from the fourth quarter as we have introduced products like the Escort.

We have seen in general the Western OEMs in the first quarter, as a group their share dropped. We have held our share.

Our new Escort is doing well. We have moved up in the passenger car rankings from number eight to number five in the quarter.

And even -- not forgetting our JMC business, which is our commercial business, that they've had their best share ever, and it was up significantly from last year. So regardless of the industry situation we are seeing, I think we are well positioned in terms of whatever the market throws at us.

Because new products like the Edge and Everest, which are in the SUV category, which is an important growing category -- even in the C segment, which as I mentioned is getting more competitive, the best kind of elixir for that is having fresh product. And we've introduced our Escort; our new Focus is coming around midyear; and of course other products like our Focus ST are in the process of launching now; and going into new segments like the Taurus which will be coming in later this year, which is an important segment there.

So overall, stepping back, it is slowing. We are seeing more pricing pressure in some segments. But I think we have a lot of confidence in our future there because I think we have a strong product portfolio.

We're expanding our manufacturing presence. Obviously we are growing our jobs in the country due to our growth. We are marrying that to expanding our distribution network, and we are growing our market share.

And we also have a very good working relationship with our partner. So as we step back and we look at the year we do expect a strong year.

Second quarter, as Bob mentioned earlier, we've launched a number of our plants, like in India and our Hangzhou plant. We have -- we really won't significantly start producing product out of that until the second half; so you may see a business in Asia Pacific that's about breakeven for the second quarter, but I think we are well positioned for the balance of the year.

But we will watch the market closely and we will follow our process, which, if we see the market slowing down, we will match production to demand and take appropriate actions.



Operator

Rod Lache, Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everybody. I wanted to follow up, first of all, on the Asia Pacific question. You had, obviously, some cost headwinds in China and India.

We see that in the earnings growth; China equity earnings up like 2% on volume that is up 10%. Could you just give us a sense of the magnitude of the headwinds that go away in China and India as you look out to the back half?

And a question on pricing trajectory there. There has obviously been some mixed commentary from some of the Germans. At a high level, maybe an industry level, what do you see as the trajectory of price deflation there compared to prior years?

Bob Shanks - *Ford Motor Company - EVP, CFO*

Well, I'll take a shot, and if Mark wants to supplement, he can. I want to go back and use the same approach I did on North America, because it's simple and I think it portrays what we are seeing.

If you look at slide 18, which is the Asia Pacific slide, what is really unusual when you look at this slide versus what we've seen in prior quarters is you normally would see a really big positive bar on volume and mix. And you can see it's actually flat.

So we've seen negative net pricing, as Mark said, for quite a period of time, as particularly China matures. There is increasing productivity, competition intensifies, prices have been declining. And as he said, we have modeled that into our future plans, and so it's consistent with what you are seeing here in the quarter.

We've been putting costs in the business, and that's to support a growing business, not only for current quarter, current year, but forward years as well. In this particular quarter, you are seeing a little bit of bad news on exchange, but really not material.

So really what's missing, Rod, is the volume and mix because we essentially were flat for the quarter. What we do think is going to change materially in the second half of the year with the new capacity coming on stream and the new products, we would expect to see a very strong contribution in the volume and mix category.

I think pricing will be helped by the new products. But I think some of the effects of the slowing industry that Mark talked about, plus the natural negative trend of pricing particularly in China, probably is still going to be at play.

And you will continue to see cost coming in the business as we move through the year, although I think it will start to mitigate when we get into the second half of the year, on a year-over-year basis.

Mark Fields - *Ford Motor Company - President, CEO*

I would just add, Rod, as you look at the industry, I think some of the pricing pressure will be maybe more concentrated, as I mentioned, in some of the small cars, B and C cars. Because we are seeing a bit of the same phenomenon in China as we are in other parts of the world, this migration from passenger vehicles to small and medium-size SUVs. So I think you will see it may be more pronounced in those segments.

But again as Bob mentioned, the best thing to do is to make sure you have fresh product in that environment, which we will, and we will deal with that. Also stepping back, as you know, the Chinese government is very conscious of the economic performance of the country, and I think they will be looking at that and hopefully implement measures that, if they see a significant slowing, they will maybe take some actions. But nonetheless, I think that is the area you may see some more pricing pressure.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Just to clarify, Bob, are you suggesting that basically the cost inflation is going to be similar going forward, but you are going to see the volume benefit associated with that? Is that essentially what you are saying?

Bob Shanks - *Ford Motor Company - EVP, CFO*

Yes.

Rod Lache - *Deutsche Bank - Analyst*

Okay. Then in Europe also a question on pricing. Were you expecting pricing to be in this ballpark? Do you think that moderates as the market begins to improve?

And can you just refresh us on the bridge to breakeven from here?

Bob Shanks - *Ford Motor Company - EVP, CFO*

I'm sorry, you're referring to --?

Rod Lache - *Deutsche Bank - Analyst*

The European --

Bob Shanks - *Ford Motor Company - EVP, CFO*

Oh, the European; yes. Well, let me talk about Asia Pacific first. I just want to underscore something that Mark said earlier, which is we do expect that we could see something around a breakeven in Asia Pacific in the second quarter. And that's really because as we look and get closer to the launches of those plants and the products, the launch costs will start to become even more material than what they have been; so that will probably be the story around the second quarter.

But when you get into the third and fourth quarter, you are exactly right. We are going to see -- our expectations are that you are going to see very strong top-line growth that you are not seeing in this particular quarter because of the factors that we just mentioned.

When you get to Europe, Europe is a challenging market. We have made a lot of progress with our transformation plan.

I think the share improvement is very, very encouraging, and we are doing that with healthy share. We actually are under-indexing in the short-cycle segments, rental and the demo sales. We are getting this the hard way: we are getting it with retail, we are getting it especially with commercial vehicles.



I mentioned the number: 2.8 points up, number one brand in Europe. And not that long ago, we were what - number seven or something? I mean, the improvement has been dramatic, and the profitability of those segments is helpful as well.

But we do have the impact of Russia. We talked about that being a material impact in terms of an absolute loss. We certainly are working very hard to improve that as we go forward.

In the case of overall Europe, we're going to have to do more. While we are seeing the improvement in share in the particular quarter we are talking about, we had that impact on the stocks. I don't want to pass that by, because that was a little unusual.

We usually will grow stocks in the quarter because we are preparing for the spring selling season; and then you've got the plant shutdown in the third quarter. We did not do that this quarter because we ended last year a little bit heavy on stocks.

We've got ourselves in a really good position in terms of days supply; we're at targeted levels as of the end of the quarter. But we did that by not building stocks, if you will, in the quarter.

So I wanted to make sure that you pay attention to that when you look at that callout box on the variance slide for Europe, because that was about \$144 million. So that was a bit unusual.

But as we go forward we are going to have to continue to work the top line. We are going to have to continue to drive for greater share. We're going to have to work on the pricing.

One thing I do want to underscore again in the quarter: that negative pricing, you have to look at the exchange good news, because it was somewhat related in part because of what went on in Switzerland and the UK and the strength of those currencies relative to the euro.

But it's really around costs. We're going to have to take more costs out of the business and work on Russia in order for the business to continue to march towards profitability.

Operator

Brian Johnson, Barclays.

Brian Johnson - Barclays Capital - Analyst

Yes, good morning. I want to return to North America, but talk more about the dynamics in the car market and how those might have progressed over the year -- and actually since you gave the Investor Day update. Specifically, you eliminated a shift for small and mid car -- or for small car.

Where are small and mid cars shaping up both in terms of volume and in terms of pricing environment, and maybe as well fleet dynamics, versus what you thought? And within your 50 basis point margin increase are you actually contemplating a headwind from cars versus what you might have thought in the fall, offset perhaps by the F-150?

Mark Fields - Ford Motor Company - President, CEO

I think as you step back and you look at the car market, at the highest level, when you look at the industry, Brian, you can see that the industry on a percentage basis has increased on trucks and decreased on passenger vehicles. We've seen that pronounced, obviously, in the C-car segment.

The C-car segment last year this quarter was about 20% of the industry. It's now about 18.5%, so it's down.

Our share of Focus is about flat within that. But because of that reduction that is why we took the shift off.



On the car side -- and we talked about this back in January; we saw that shift. And we expected and we factored into our plan a more aggressive, if you will, environment on that, particularly given our competitors in terms of some of the products that they ship into the country here. And I think we will see it continue to be competitive going forward.

The good news for us is, as we see that shift into trucks and utilities, that's a benefit for us because of our profitability on those vehicles.

Brian Johnson - *Barclays Capital - Analyst*

Okay. I guess somewhat related, you mentioned the Asians and the content. We had an announcement from Toyota prior -- over the last -- probably at the New York Auto Show, that they would be rolling out ADAS at about a \$300 mass-market price point, \$500 mid and large car price point.

How does that affect your thinking vis-a-vis, A, when you might bring ADAS into the US aggressively versus just Europe where it's now rewarded by NCAP; and B, how that factors into your option mix and pricing on the option mix?

Mark Fields - *Ford Motor Company - President, CEO*

Well, stepping back, as you know we have been a leader in a lot of the technologies, in the semi-autonomous technologies as well as the safety technologies, which are really propagated throughout our vehicle lineup, depending upon the vehicle. So I think we've been a leader in that regard.

Clearly we've seen some announcements from some of our competitors, namely you mentioned Toyota in terms of price points. Obviously, as you know we always look at our vehicle lines; we also do a lot of analysis on our competitiveness. So we will factor that in, into our plans going forward.

But stepping back we've had a big commitment to technology and smart technology and delivering it in a way that provides value for customers, but also makes it available to millions of folks. So you will continue to see us doing that going forward.

Brian Johnson - *Barclays Capital - Analyst*

Do you think the pace of that is increasing versus maybe where you would have been late last summer, early fall?

Mark Fields - *Ford Motor Company - President, CEO*

Well, the pace has gone very fast. But I think we factor that in.

When you look at our -- for example, the type of technology, ADAS or otherwise, that we have even on our vehicles like our Focus, we've been anticipating that. But clearly customers are saying that's very important to them. I think that was just reiterated in a recent survey last week I read -- I can't remember who did it -- that said that most technology, the most important to customers are around safety and around collision avoidance and things of that nature.

We've factored that in and have been implementing that.

Brian Johnson - *Barclays Capital - Analyst*

Okay, thanks.

Operator

Itay Michaeli, Citi.

Itay Michaeli - Citigroup - Analyst

Great; thank you. Good morning, everyone. Just two big-picture questions, maybe starting off with Europe. I think you alluded to it a little bit before.

But as we think about an eventual path to breakeven and profitability, any updated thoughts about what you would need in terms of market conditions? Maybe a breakeven point in terms of volume, to help us model that out a little bit better over the next couple of years.

Mark Fields - Ford Motor Company - President, CEO

Well, not really. I think one of the things that's going to be important in terms of getting to breakeven and ultimately profitability in Europe is not only the industry size, which clearly the larger the better. We've seen some growth, but obviously we would like to see more.

But it's the pricing environment as well. That's so important.

As Bob mentioned, when you look at the pricing environment in Europe, we've had a specific strategy to improve our channel mix, which I think we've made a lot of progress. As Bob mentioned, we actually over-index versus the competitors on retail and fleet business versus the daily rental and self-registrations.

But it's still a market where in any given day the industry discounts 20% or more across their vehicle lineup. I think from our standpoint, our strategy as we mentioned earlier is bringing out compelling product, working that channel mix, so that we get the growth but that it's profitable growth.

What we saw even in the last month or two, as Bob mentioned, in the UK we've seen some of our competitors really take advantage of the strong pound, in the case of Switzerland the strong franc, and get very competitive. And we're not going to do that. We're going to manage for margin and for profit.

Itay Michaeli - Citigroup - Analyst

Great, that's very helpful. Then maybe on a similar tone around the consolidated Asia operations, it looks like you are probably running a couple hundred million dollar loss there. That of course should improve second half of the year with the volume ramp in India; and of course you have the exit of Australia in the next couple of years.

Anything else you can do to improve results there? And maybe a timeline to get that region back to profitability; what has to happen there?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, I think on that one, if you look at the quarter and the change year-over-year, the thing that is interesting -- we forget when we show the JV profitability there is a bigger China profitability, so outside the joint ventures. You know we've talked about this in our Investor Day -- or rather Ford University Day.

We've got the Lincoln business, which is fully consolidated. We are incurring engineering inside Ford that is only paid for years later through royalty rates once the products are in production.

We've got central staff costs, if you will, for our operations and so forth. And of course, if I didn't mention it, because I am forgetting, it could be Lincoln -- the investments for Lincoln.

So when you look at all of those costs outside of the joint ventures inside China, those are actually the biggest factor in terms of the change year-over-year in profitability outside the joint ventures. Those costs are actually up, and a lot of that is driven by the investments for Lincoln but also for the imported Ford vehicles that go into the market.

Many of those are in balance out as we get ready to transition to new products, and so there is an effect on that. So that is actually, Italy, having the biggest effect year-over-year outside the JVs.

Australia is down a little bit, but that's mostly related to the Australian dollar. Going ahead, we've got a really long-term view around India and around ASEAN, particular Thailand. We're investing in these operations to expand our position domestically; but we are also positioning these vehicles -- or these markets to be global export hubs.

So I would expect once these operations -- and this is, I'm talking now probably two, three years down the road, particularly if you bring in Thailand -- it's going to be several years before we get these things to the point where they are really humming, both in terms of domestic contribution but also the export contribution as well.

We've got -- so I would look at that as more medium-term. I agree with you on Australia. Once we get past the closure of the plant in October of 2016 we should see a significant turnaround there.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - JPMorgan - Analyst

Hi. Thanks for taking my question. What's your latest thinking relative to commodities for the full year? I see it was called out on slide 7 as a \$39 million positive. That seems pretty small in the context of your business.

Should we expect it to turn more material as the year progresses?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, we think it will improve as the year progresses and probably have a bigger impact in second half than in first half.

Ryan Brinkman - JPMorgan - Analyst

Okay, great. Then just my second question on the North America profit bridge. Can you help us think about the higher costs in the quarter, contribution and structural? How much of them are temporary versus permanent?

For example, relative to the material ex-commodity, I think that is more permanent, right? The higher content in the cars. But then in the structural bucket, does some of the manufacturing and engineering headwind relate more to launch costs that then subside? And advertising, too: was that primarily F-150, and then we can expect it to settle some?

Bob Shanks - Ford Motor Company - EVP, CFO

Well, I think you will continue to see increases in our structural costs, because while these launch costs will go away, or these advertising and sales promotion costs will go away for these particular products, we will have new ones coming along as well. But it is true in the quarter; we do have

some substantial launch costs and we are starting to see advertising, sales promotion expense pickup for the new products as well. But I think it's probably unfair to say that that is one-time cost.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, that's helpful. Thank you.

Operator

Joe Spak, RBC Capital Markets.

Joe Spak - *RBC Capital Markets - Analyst*

Thanks. Good morning. I guess I just wanted to tie together some of the things you talk about as we think further out in North America. Clearly price/mix is going to be strong here. You talked about some of the costs, either temporary or otherwise, this year.

Then you also mentioned you are considering that you're going to have to add content going forward to remain competitive at what seems like could be increasingly difficult to price for. So I guess I am just wondering. If we think about your longer-term targets it seems like there does have to be another built-in cost offset.

How do we think about that? Are you targeting a certain amount of basis points every year in terms of just general efficiencies or other material savings? How do we get comfort that as some of the more pressures enter the system the margins are sustainable?

Bob Shanks - *Ford Motor Company - EVP, CFO*

Well, we do have specific targets around North America. It's to make an operating margin of 9% to -- 8% to -- I'm sorry, I forgot. 8% to 10%?

Mark Fields - *Ford Motor Company - President, CEO*

8% to 10%.

Bob Shanks - *Ford Motor Company - EVP, CFO*

I prefer the higher number. (laughter)

Mark Fields - *Ford Motor Company - President, CEO*

We know.

Bob Shanks - *Ford Motor Company - EVP, CFO*

8% to 10%; and I think this year we are looking very good in terms of that range. As we go forward, I think the biggest concern we have is around regulatory costs that are coming at us, because consumers have shown that they are not willing to pay for that.



So we are going to have to really put a lot of focus on the cost side of the business. We do generate good cost reductions in working with our supply base. We are going to have to generate I think incremental efficiencies both looking at structural cost -- and there is a lot of opportunities I think in that area for us going forward.

But the other thing that I would expect to happen, because I've seen it over the course of my career, is you will see a lot of these new technologies -- you will see efficiencies going down the technology curve as volume increases. It becomes more -- the volumes increase across the industry, and the industry finds ways to produce these types of technologies at lower cost.

I go back to the 1980s and think about how expensive ABS was, and when we were looking at times when competitors were starting to spread them standard across vehicles, and we were having heart attacks about that because of how expensive they were. We don't even think about that today because the costs are so low. That has occurred over time.

So I think that will be another factor, Joe, that will come to play across the whole industry, not just for us.

Mark Fields - Ford Motor Company - President, CEO

Joe, one more factor is, as we work on the cost side, we shouldn't forget obviously the revenue side and just having compelling product. When you look at vehicles like our Mustang, vehicles like the Transit, what we are reporting out on F-150, when you can have a compelling product either from a functional or a design standpoint you can get good revenue for that.

So we have to work both. We have to work the top line and we have to work the costs to make sure that we have a business that is earning a more than appropriate return for us.

Joe Spak - RBC Capital Markets - Analyst

Okay. Then you mentioned the strong residual values on the F-150, which we noticed as well. Is there any stat you can give us maybe -- I know it's early -- but maybe leasing mix or penetration on the new truck versus what it's been historically?

Then I guess while we're on the topic of residuals, any -- are you starting to mark residual values on leases broadly a little bit lower as maybe things like used volumes start to pick up over the coming years?

Mark Fields - Ford Motor Company - President, CEO

Well, just to the first part of your question, it's really too early to tell. Still early days on the question you're asking around leasing and percentages and by region, etc. But we'll provide more color on that as we get more into the launch.

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, the only thing I would add on that is that F-150 tends not to be a heavy lease vehicle, so that's really not such a factor in terms of the sales of F-150. But we are seeing good auction values. That was actually one of the favorable things that we talked about in our results today.

So I think the team has done a really, really good job of managing our leasing portfolio. We are very careful and cautious in terms of the concentration of lease, both geographically, by vehicle line, by series. So we've learned a lot of lessons over the last number of years, and we've got a lot of data analytics behind our leasing strategies to make sure that we don't go too deep in any particular part of the business, to put those values at risk.

Operator

At this time we will be taking questions from the media. (Operator Instructions)

Operator

John Stoll, Wall Street Journal.

John Stoll - The Wall Street Journal - Media

The press release was good. A quick question on cost; and I know there has been a lot of emphasis on this already. But just to kind of dumb it down a bit more, when you look at the cost increase in North America ex-material in the first quarter, I'm just trying to understand that very simply as a run rate versus what you can price for.

And then, Bob, you had mentioned regulatory cost. How much of it cannot be absorbed in pricing and it's just you guys have to eat it? And how much of this can be and will be absorbed by the consumer in this environment?

And how long will the consumer be willing to basically pay more? And at what point do you see a bit more pressure on pricing in the future?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, I don't think it's as simple as what you are portraying it. I do understand what you are talking about.

I don't think you can separate the investments you make in delivering and providing customers really strong product, which is what Mark talked about, in terms of what that gives you with volume, what it gives you in terms of mix, as well as the opportunity to price for it. So you really have to look at all those factors together, John.

I know you know that, but you have to look at them all together in understanding: are you getting the appropriate total revenue for that particular investment against those costs that you put in as well? I think as you will see going forward in the year in North America, you're going to see a cost increase; it's what we've talked about, and we do expect that going forward into subsequent quarters.

But you are going to see very, very strong top-line growth both in terms of what is driven by volume, what is coming from mix, and also what is coming from net pricing. So you've really got to look at all of them together to understand whether or not you've got a good equation.

And with the margins that we are talking about, it's very, very clear that the North American business -- the balance of all those things together is actually giving us a very, very strong business.

John Stoll - The Wall Street Journal - Media

How much of the pricing power that you have right now is related to the cadence that you guys have been on, just the investments in product over product and the changeovers? How much of this is just organic and kind of secular environment? Where nobody else is really -- I mean not many of your competitors are being extremely reckless on incentives right now. The atmosphere is actually pretty tight.

So how much of this is industry and how much of this is Ford-specific? And again, what is the sustainability of that, of those trends?



Bob Shanks - Ford Motor Company - EVP, CFO

Yes, it's actually a combination of both. This is not all strictly equipment-related pricing. You are also seeing what we would call pure pricing that is occurring.

of course, we are very observant and careful about where we are standing competitively. We have seen continued discipline, as you said, in the overall industry. We have seen price increases coming from a number of our other competitors.

So the overall environment I think is a very healthy one. I think in general, competitors are doing a reasonably good job of matching their production to demand; and that certainly is providing an overall lift I think for the entire industry.

Mark Fields - Ford Motor Company - President, CEO

Then John, to your point about what is our plan going forward, our plan going forward as you know is to keep our product pipeline full. As Bob mentioned, a good portion of the pricing is based on the new product also that we have out there. And by any third-party external studies that is done on the industry you can see that we plan on keeping that product pipeline absolutely full, and that will be a big element in allowing us to price appropriately going forward.

Operator

Dee-Ann Durbin, Associated Press.

Dee-Ann Durbin - The Associated Press - Media

Hi. Thanks for taking the call. GM said last week the strong dollar cost it about almost \$2 billion in revenue in the first quarter. They weren't the only ones talking about it: Facebook has been talking about it, Pepsi.

Does Ford have any similar calculation on the impact of the dollar in the quarter?

Bob Shanks - Ford Motor Company - EVP, CFO

Yes, Dee-Ann; that's a good question. We had a decline in our revenue of \$2 billion in the quarter; 70% of that was directly related to exchange.

I think the thing that's very interesting, though, is while that did impact the top line, because it's simply translation of the strong dollar against the overseas operations' revenue, when you look at the bottom line we are actually seeing good news on exchange in the Company. A lot of that is around this non-repeat of the balance sheet effects that we saw last year in South America. But even if you strip that out, the effect of exchange on the bottom line in terms of profitability is pretty muted.

Dee-Ann Durbin - The Associated Press - Media

Great. Thank you.

Operator

I would now like to hand you over to George Sharp for closing remarks.



George Sharp - Ford Motor Company - Executive Director IR

Okay, thanks, everyone. That wraps up today's presentation. We are really glad that you were able to join us.

Operator

Thank you very much. This concludes today's conference. Thank you for your participation. You may now disconnect and have a great day.

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