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EDITED TRANSCRIPT

F - Q2 2015 Ford Motor Co Earnings Call

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PRESENTATION

Operator

Great day, ladies and gentlemen, and welcome to the second-quarter 2015 Ford Motor Company investor relations conference call. My name is Katina and I will be your coordinator for today.

(Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. George Sharp, Executive Director, Ford Investor Relations. Please proceed.

George Sharp - *Ford Motor Company - Executive Director, IR*

Thank you, Katina, 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 second-quarter 2015 financial results. Copies of this morning's press release and presentation slides are available on Ford's investor and media websites.

Now presenting today are Mark Fields, our President and CEO, and Bob Shanks, our 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. Also with us is Ted Cannis, who will be replacing me as Head of Investor Relations, effective next week.

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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, of course, 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 later today.

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

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

Thanks, George. Good morning, everybody. What I would like to do is start out with an overview and then Bob will walk us through the slides.

The headline is that we had an outstanding second quarter. If you look at some of the highlights, we had the best Automotive quarterly profit since 2000, the best quarter ever in North America, a second-quarter record in Asia-Pacific, strong continued results at Ford Credit, we roughly broke even in Europe, and we're on track to deliver a breakthrough year that we talked about at the beginning of the year.

As we rack up the numbers for the quarter, we achieved $2.9 billion in pre-tax profit, which is up 10% versus last year. Our net income was up 44% to $1.9 billion. Our operating margin, our Automotive operating margin, came in at 7.2%, which was up 0.6 points from last year. Our Automotive operating-related cash flow was a healthy $1.9 billion.

Importantly, our global market share grew for the second quarter in a row. Our wholesale volume was up. And our revenue was flat and that was due to the impact of the strong US dollar on our international operations. I would note that in the quarter we had no special items. As a matter of fact, in the first half we have had no special items in the Company.

Now, as we go forward, we're going to stay very focused on our three priorities and these drive all of our folks, including myself, every day we walk in the door. It's around accelerating the pace of progress of our ONE Ford plan, delivering product excellence with passion, and driving innovation in every part of our business. And I believe our results in this quarter show that the plan, our people, and our processes are delivering.

If we look at the first half, we racked up $4.3 billion in profit and we expect a stronger second half. Now in the balance of the year -- this year in total remains very busy. We have 16 new vehicle launches and I'm happy to say 12 of them have been completed.

And, importantly, we are delivering on quality. Actually all regions across the globe are seeing strong progress on quality so far this year and it's really encouraging for us to see third parties validate the progress that we are making on bringing great quality in our products for our customers.

As we look at our business units, we expect particular strength in North America and that's because essentially we are benefiting from a full supply of new products, like the F-150 and the Edge as well as Explorer. We now see the opportunity to be in the upper half of the 8.5% to 9.5% range in North American operating margin. Our new F-150 is at full production and customers love it. We have also completed the launches for Ford Edge, Ford Explorer, and Lincoln MKX.

In Europe, we are equally busy. We've had several new products launched in the first half, including the all-new S-MAX and the new Fiesta in Russia. And in Asia-Pacific we fulfilled our promise of 10 new plants, with the 10th plant opening during the second quarter.

Now in the balance of the year we have four more new global vehicles to launch and they are all on track. It includes the Everest full-size SUV and the Taurus sedan in Asia and the F-Series medium-duty truck, which is going to be built in Ohio, and the Mustang GT350, which will be built in our Flat Rock plant in Michigan.

Speaking of our products, we couldn't be more pleased with the customer reaction that we are getting to our new products. In North America, the new F-150 is a smash hit. It has record transaction prices. And for those of you that saw last week, J.D. Power APEAL awards came out and the F-150

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was the award winner for pickups. Also, AutoPacific came out with their Vehicle Satisfaction Awards and the F-150 received the highest vehicle satisfaction ever for a full-size pickup.

Our new Edge, well, we had record sales in the second quarter. Explorer, in the second quarter our sales were up 30%. In Europe, we are gaining market share and that is being led by Transit. As you know, we have basically redone our entire Transit lineup in the last year. Our new Mondeo and also our SUVs are doing well.

In Asia-Pacific, Escort is the fastest-growing nameplate in the segment and it competes in the C segment. Mustang is already the best-selling sports car from a volume brand in China and down in South America the Mondeo now leads the segment in Argentina.

So while we are delivering today and staying very focused on that, we are also intensely focused on the future because we believe that we really are in a period of change and disruption in the industry unlike we have seen in many, many years. You can see that manifesting itself in car sharing, in autonomous vehicles, connected cars, the new mobility solutions. And rather than see that as a threat, we see that as a huge opportunity as a company.

We are really encouraging our organization actually to disrupt our own business model and really take advantage of the spirit of innovation that we have at Ford going all the way back to our founder, Henry Ford. And our company vision is pretty simple: it is to make people's lives better. So this is about nurturing our core business, but also embracing emerging businesses, whether they be products or services.

Earlier this year we launched what we call Ford Smart Mobility and this really is our plan to go to the next level in connectivity, mobility, autonomous vehicles, the customer experience, and big data. We launched 25 experiments earlier this year and now it's really exciting, because we are moving now from experimentation to the start of implementation on a number of pilots. I can assure you that as we go forward we're going to share more details in the coming months about the progress that we are making.

So stepping back, overall, it was one of the strongest quarters in our recent history. It was a great first half. The second half is going to be even better and we are now more confident than ever that we will deliver a breakthrough year.

So with that, why don't I turn it over to Bob?

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

Thanks, Mark. Just in terms of process first; I'm just going to go through selected slides today so I will be calling out the slide numbers of the deck that was published, so follow me that way.

Let me provide a bit of context first, and I'm on slide 4. If you go back to the beginning of the year, we laid out a year that was going to start slower and build momentum into the second half, which we expected to be the strongest of the year, and then ultimately to a breakthrough year. And I have to tell you, based on the good start to the year that we had in the first quarter and what is clearly outstanding results for the Company here in the second quarter, strong first half, we are clearly on a path towards a breakthrough year, which includes good performance that will build on what we have done here in the first half. Something that we are really, really excited about.

What I'd like to do now is start going through the details. I won't touch on the details of this slide because Mark has touched on it, so let's just dive right into the sector results here on slide 5.

If you look at the upper left you can see that we earned $2.9 billion in the quarter for the Company on an operating basis. We had no special items in the quarter. We were up 10% from a year ago and this was the third-best quarter of company operating performance since we came out of the Great Recession.

On the slide you can see the Automotive results were strong at $2.4 billion and Financial Services at nearly $0.5 billion with Ford Credit itself just over $0.5 billion. So both sectors contributed to the performance and, as you can see below the chart, both contributed to the improvement

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compared with the second quarter a year ago and both contributed to stronger results compared with the first quarter. Automotive clearly was the big driver between the two segments, but both were positive contributors.

Let's go on now and look more deeply at the auto sector on slide 6.

Here's our key metrics, and if you start up on the upper right you can see the $2.4 billion pre-tax profit in the quarter also up 10%. And this was the best Automotive profit that we have generated since 2000. Results were better than they were a year ago. They were also better than the prior quarter, and in both instances that improvement was due to favorable market factors. So that is volume, mix, and net pricing.

The margin was strong at 7.2%. We did deliver higher wholesales, up about 2%. That was North America and Europe. Revenue was about flat and this was inclusive of just over $2 billion of adverse currency effects from translation of local currencies, revenue currencies into US dollars.

If you look on the lower left, you can see the SAAR was down on a year-over-year basis about 0.5 million units. This was driven by Asia-Pacific, which includes China, which we will talk about later. South America was down as well, as was Middle East and Africa.

Our market share was up, as Mark mentioned, for the second consecutive quarter. It was up one-tenth to 7.6% and we saw improvements in South America and Europe and in Middle East and Africa.

Let's now go to slide 8 and let's look at the absolutes of the sector in the quarter.

Let's start with North America, which clearly was the driver of the overall performance. It was North America's best-ever quarterly profit. I'll probably say that five times in the -- maybe six, if I can get it in, but it was a fantastic quarter for North America. It also drove the year-over-year improvement and the quarter-to-quarter improvement, but there's actually a lot of good things that are happening in the operations outside of North America as well.

Let's look at them individually first. Asia-Pacific had a record quarter for the profit. We did say potentially a breakeven result when we met with you last time, but the team did a fantastic job of delivering good cost performance in the quarter, which generated the good results that we see today. And I want to call out Europe, which even though it was at about breakeven, there's a lot of positive things that we see, both in the external environment in Europe but also in our own performance, that I will touch on in just a minute.

If you take these operations collectively, the ones outside North America, they approached breakeven, so letting the North American profits essentially flow through, and they collectively improved versus the first quarter and also versus the year-over-year results second quarter of last year. So very, very pleased with the performance across the board, the breadth of it as well as the depth of it, particularly in North America.

Let's go on now and we will start going through the business units on the next slide, which is slide 9. And this is North America.

North America consistently has been profitable since 2010. It has averaged a margin of over 9% and let's jump right to the margin here. You can see just a fantastic result, 11.1% in the quarter. And I want to highlight that North America did not benefit from positive year-over-year performance from F-150.

F-150 is clearly doing very well, but it was still in launch phase during the second quarter. We only reached full production very late in the quarter. Wholesales were actually down 25,000 units on a year-over-year basis in the quarter, so this performance was a very broad-based performance, which is one of the things that we feel so excited about when we look at North America.

If you look at the profits, we've already talked about it being a record but I can do it once more, $2.6 billion. It was up year over year and quarter to quarter due to favorable market factors.

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Now I'm not going to go through slide 10, which is the details of the year over year, but if you look at the pricing performance, kind of unusual. You will see that we had higher pricing and that was not just F-150; that was across many products in the portfolio. We also had lower incentives, so it was a very powerful quarter in terms of our pricing performance.

Operating margin I have touched on. Let's go over and look at the top line. The top line was up; wholesales were up and that is despite the decline in F-150 that I mentioned.

And in terms of revenue, that was up as well. And that did include headwinds from exchange on the revenue that we earned in Canada and Mexico.

Looking at SAAR, SAAR was up on a regional basis and in the US. Share was down, however, and this was due to the launch effects of the F-150. It's not shown here, but our retail of retail share in the US was actually up one-tenth.

In terms of the full year, we continue to expect our profit is going to be better than it was last year and, as Mark mentioned, we clearly see the opportunity based on the first-half performance to generate a return that is in the upper half of the 8.5% to 9.5%.

All right, Mark, any comments on that one?

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

Yes, let me just give some perspective on F-150, because obviously there's a lot of interest in it.

First off, we are really excited and we are seeing strong demand for the new F-150. It's turning on our dealers' lots more than twice as fast as the segment as a whole. As I mentioned earlier, we're seeing record transaction prices with lower incentives versus last year, the mix is rich.

We talked about the third-party awards that we are winning in that product. And we are basically now -- we are at full production at the plants and we expect to hit normal levels of inventory by the end of the third quarter, so we could not be more pleased and confident on where we are with the F-150.

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

That's really great performance and certainly something that's going to drive the performance in the second half.

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

Yes, absolutely.

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

Okay, let's go on to the next region. We'll talk about South America on slide 11. Looking at South America, the first thing you have to talk about is the external environment.

It is very, very tough, particularly in Brazil, and we're not seeing any good signs from recent economic indicators. Fiscal actions in Brazil are being taken to improve the economy longer term, but that probably means more pain in the short term. So no signs at this point of reaching bottom.

Our team is managing very, very well and very proactively in this environment and we believe that they are positioning our business for a recovery once it does occur. But, again, no signs of a bottom and certainly we are not talking about a recovery today.

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Now having said that, certainly our ONE Ford product strategy is paying off. We saw strong share growth in the region and in Brazil once again. That was driven by the all new Ka, but we also saw the Fusion leading its segment once again in Brazil, and we saw the F-Series and the Cargo leading the semi-light and the light segments.

Also proud to say that Argentina -- in Argentina that the Ford brand was again number two there in terms of market share.

The loss in the quarter was $185 million. That was a pretty good improvement year over year that was due to higher net pricing.

Two elements of that. One is the fact that we were recovering or trying to recover inflation, which is very high in the region, as well as the adverse operating exchange effects of the weak currencies. But we did also see positive pricing from new product, in particular the Ka.

The results were pretty much the same on a quarter-to-quarter basis.

If we look at wholesales, that was down. That was due to the lower industries, and if we look at revenue, that was down sharply as well. Again, due to the lower industries but also exchange. In fact, about two-thirds of the overall decline in revenue was due to the weaker local currencies.

If we look at the full year, we continue to expect a loss but we expect that loss to be lower than what it was a year ago.

All right, let's go on and we will go to slide 13 and we will look at Europe. Actually, we feel quite encouraged by what we saw in Europe in the quarter. We approached breakeven, which is about where we were a year ago, as you can see here. We did do better on a quarter-to-quarter basis and that was due to market factors, but want to talk about some things that we think indicate that there are some positive things going on here and certainly make us feel that we are on a good path towards profitability.

If you look first at the external environment, we are seeing modest but good growth in the Euro area and stronger growth in the UK in terms of GDP. If you look at industry sales, we're seeing growth in total Europe and that is despite a big decline in Russia. And we are seeing growth in Europe 20.

Our wholesale volume is doing well. It's up in total. If you look at share, in terms of total Europe, it was up in the second quarter. It was also up in the first half, which isn't shown here. If we look at Europe 20, it was flat in the quarter, but it also was up in the first half.

The revenue decline, that was more than explained by exchange translation, so again on a local basis we are seeing growth in revenue. There's a few other things that I just want to highlight in terms of the results for you to think about.

If you look at slide 14, which we won't go to now, but you will see in the callout box for volume and mix that we took a hit in the quarter of about $150 million from the fact that in the quarter stocks only increased by 1,000 units. Normally in the second quarter in Europe, for seasonal reasons -- we've got the plant shutdowns in the third quarter -- you will have a stock build, which is what we had last year. So on a year-over-year basis we are taking about $150 million hit in the quarter because we did not have that normal stock build.

Now several reasons for that. First of all, we had a pretty decent level of stock going into the quarter, but during the quarter we had industry strikes in Turkey that affected our operations there that limited the supply of Transits back into our European operations. And then very late in the quarter we had launches of the all new S-MAX and the Galaxy, which constrained supply of those products in the quarter.

Another factor to think about is that in the quarter compared with the year ago we had higher pension costs. These are lower discount rates that we saw at the end of last year that are increasing the amortization of losses related to our pension obligations in Europe.

So think of this as sort of a penalty for something that has already happened in the past. It's non-cash. The underlying run rate of the business is better, but just wanted to call that out for your awareness.

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Then the last thing I guess I would mention is a year ago -- and we talked about it a year ago, we did benefit from a one-time reserve release associated with our Cologne investment agreement, so that did not obviously occur this year. And we still delivered about the breakeven result that you see today.

So we feel that the European transformation plan is continuing to progress. We clearly have to push even further on brand, product, and cost, but we do feel that we are on track towards profitability.

In terms of the full year, it's not going to happen this year. We still expect a loss. It will be better than it was a year ago. I will say that we do think the second-half results will be worse than the first half and that is due to normal seasonal factors.

So with that, what I would like to do is turn to Mark and see if he's got any comments on Europe.

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

Just some perspective on the market in Europe. We remain cautiously optimistic on the continued industry growth in the second half.

If you look at the channel mix, it's fairly stable year over year. Commercial vehicles, encouragingly, are up more than passenger cars, and as you know, that's a good indicator for where the economy is going. Pricing, we've seen some modest improvement, but incentives obviously still remain high.

And it's interesting; we are seeing some trends in Europe that we saw during the North American recovery. In particular, we are seeing some pent-up demand. Obviously not to the same degree, but some of that pent-up demand. And we're seeing a mix improvement.

When customers are ordering their vehicles, they are ordering them more well-equipped and that's exactly what we saw here in North America. And that has helped a bit of the pricing environment. So, overall, we are seeing some green shoots, but still we know we've got a lot of work to do.

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

Okay. Thanks, Mark. Let's go on and now talk about Middle East and Africa.

This is our youngest and smallest business unit, but I just want to remind everybody this is a region that is 1.4 million consumers and it's growing about 4% or 5% a year. We are very excited about what we are doing here and what the team is working on to establish a good position for us as this region begins to take off.

In the quarter, results move from a small profit last year to a small loss this year and this was driven by essentially production timing differences. Most of the volume that we actually sell in Middle East and Africa is sourced from other regions. So as a result, we've got long order and lead times and so are going to get volatility by quarterly results and certainly that's what we saw this quarter.

In terms of the full year, we continue to expect our results to be about breakeven. So not a lot to talk about today on Middle East and Africa, but team is working hard to really position us for substantial growth here in the years ahead.

Let's go on to slide 16 and we'll talk about Asia-Pacific. So Asia-Pacific, a lot of excitement here. It was a record for the quarter. Operating margin of nearly 8%, and this was despite lower industry sales including lower sales -- industry sales in China.

Also just want to mention that we also continue to incur cost in the quarter that is for growth that we will see in the future. We also just launched the Hangzhou China and the Sanand India plants and so we had probably more cost than revenue, if you will, in the second quarter. We are certainly going to see a lot of revenue coming out of those plants in the balance of the year.

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The profit did improve year over year and quarter to quarter. Want to highlight that that was actually due to operations outside of China. So we saw a good improvement in ASEAN, Australia, and India, and really excited to see the progress that the team has made on these parts of the business. Because we have been talking about them now for some time as areas that we were really focused on to try to get them moving forward in a positive manner and the progress the team made here in the second quarter was very encouraging.

For the region, wholesale volume, revenue, and share were down year over year due to our consolidated operations. I'm sorry, actually share was down a bit. But within China we saw wholesales about flat. Share in the quarter at 4.7% was actually up one-tenth, and that equaled the record that we set in the third quarter of 2014.

So good results in Asia-Pacific. Clearly, some concerns around China and the slower growth, but for the full year we continue to expect strong results from Asia-Pacific and expect those results to exceed those of last year.

Mark, you might want to say something about China.

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

Let me just give some perspective on the China market, because there was obviously a lot of discussion around that. It's clear we've seen a market slowdown in the market there in the industry. We've seen commercial vehicles actually come down more than passenger vehicles, which again is a bit of an indicator to us. And that, in turn, is putting pressure on the likely suspects around pricing, but we are also -- we've also experienced negative pricing in this market for quite some time, but it is continuing now.

But we have to put this market into perspective. This is -- it's the biggest market in the world right now. By our forecast, it's going to grow to about 30 million vehicles in the next 5 to 10 years. So we are still very bullish on China, but it's going to go through its fluctuations. That's what happens in emerging markets and we are going to work our way through it in a positive way and grow the business.

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

Okay, very good. Let's go on to the last of the business units and this one, Ford Credit. Once again, Ford Credit had a very strong quarter. As I mentioned, generated a profit of over $0.5 billion.

It was an improvement year over year and that was due to higher volume. That was driven by higher consumer receivables and also we saw leasing increase in North America. Mix was favorable. We also saw a non-recurrence of large insurance losses that we saw a year ago due to storms in North America.

Ford Credit's business and credit conditions continue to be very healthy. Our origination practices remain consistent. Costs at Ford Credit are well controlled and very much in line with expectations.

Credit losses remain at historically low levels. Delinquencies also remain low and repossessions also are at historically low levels. So everything that we can see in the business looks robust and very, very positive as we look at the future.

In terms of our full-year guidance, we are reconfirming that guidance and that includes a pre-tax profit that would be equal to or higher than in 2014.

So with that, let's move on and look at Automotive cash. We had very strong cash flow in the quarter. Automotive operating cash flow you can see here of $1.9 billion. If you go back to the first quarter, we had some pretty large debt repayments and also we had some -- we had calendarized most of our pension contributions into the first quarter. And we said at that time that we would not see that as we moved out of the first quarter.

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So we are delivering on that promise, because if you look at the $1.9 billion it effectively is flowing through to the change in our gross cash position, other than the dividends in the quarter, which were about $600 million. And then that balance is the compensation-related share repurchase program.

So we ended the quarter with $20.7 billion of cash and marketable securities. Subtract from that the automotive debt of $13.7 billion, which was up a bit due to funding in Brazil, but we ended the quarter with net cash of $7 billion. Liquidity was also strong at $31.7 billion.

So why don't we go now and move into the future and we will look at the business environment on slide 21. This is pretty simple. We are projecting global GDP to grow in the 2.5% to 3% range. This is driven by the US, by China, the modest growth that we are seeing in Europe, euro area as well as stronger growth in the UK. A little concerned still about South America, as well as Russia; watching China closely, but overall expect pretty good growth on a global basis.

Now that is not translating into growth in global automotive industry sales this year, which is unusual. And that is largely because the strong growth in China, as Mark and I both talked about, that is not translating, at least according to our point of view, into growth in China. And also Japan, which we haven't talked about today, it is growing but we expect the Japanese industry to decline in 2015 versus 2014.

So with that, let's go on to slide 22 and then I will end my comments around planning assumptions and key metrics. We are upgrading our outlook for the Europe 20 industry. We are taking that up to 15.7 million to 16.2 million units. We are downgrading China, as Mark talked about, to 23 million to 24 million units and everything else, all the other financial metrics, on track. We are clearly on a track to achieve our total company pre-tax profit guidance of $8.5 billion to $9.5 billion.

So just seven words to leave with you today: outstanding quarter, strong first half, breakthrough year. And with that I will turn it over to Mark.

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

All right, thanks, Bob. So let me bring this all together.

Obviously our plan and our priorities are unchanged and we are on track to deliver our near- and our long-term objectives. They have remained the same, and that's about being the top five in global sales, getting a better balance of profit and sales around the world, targeting 8%-plus operating margins globally, and being in the top quartile of total shareholder returns, and then highly regarded by all our stakeholders.

We have our three priorities on accelerating our pace of progress on our ONE Ford plan, delivering our Product Excellence with passion, and of course, driving innovation in every part of our business. And the way I describe it is it's about having one foot firmly planted into today and staying riveted on the business and delivering today's results, but also one foot firmly planted in tomorrow. Taking a point of view on that future and rewinding back to today and making sure we are taking the decisions to maximize our success in that timeframe.

So we are really pushing ourselves to think, to act, and disrupt, like a startup company and that really means trying to anticipate customers' wants and needs in that 5 and 10 and 15 years down the road timeframe.

The second quarter I think it shows more proof that we have the right strategic framework. We have the right process and, importantly, the right team. And, again, it's one of the strongest quarters in our recent history. It is a great first half and we expect the second half to be even better.

So with that, why don't we throw it open to the phone lines?

George Sharp - *Ford Motor Company - Executive Director, IR*

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Patrick Archambault, Goldman Sachs.

Patrick Archambault - *Goldman Sachs - Analyst*

Thank you, congratulations on the quarter. Thanks for taking my question.

First, can we just get back to the supply of the F-150? I guess just a little bit more detail there. I think originally you guys were expecting to have that ramped up sort of midsummer and then I think it became late summer and now it's more towards the end of the third quarter.

What have the issues been? How much confidence do you have just surrounding the fix that is in place to try and get that supply up there? That's my first question, just an update on that.

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

To put it into perspective, I think we have always said that by the summer we would be at full production. Late in the second quarter we would be at full production, which we are. And we are on track to, as I mentioned earlier, to make sure our inventory is at a normal inventory level by the end of the third quarter. Because as you know, Patrick, there's little bit of a lag time as we get both plants up to production fully that we have to then ship those to our dealers and then also to fulfill fleet orders.

So we are on track with our launch. As with all these launches, we work with our suppliers to make sure it is successful and we are doing that. We are very confident in the product and we couldn't be again more happy with the kind of response we're getting with it. And we expect in the second half, as we get up to stocking levels, we will fulfill more fleet orders and we expect our performance in the marketplace to grow.

Patrick Archambault - *Goldman Sachs - Analyst*

Okay, so it sounds like the operational stuff is well in hand. Maybe that dovetails well with my next question, which is just on the pricing, which was obviously very, very strong both on the incentive side and the pure pricing.

How we think about it? Maybe that is sort of a Bob question, but how do we think about that being carried over into the second half? I know that I think you sort of launched with some of the higher trim level models out of Dearborn first and I think some of the other stuff had less content. Just how do we think about those numbers being carried into the second half?

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

If I remember correctly, in the first quarter was it over 70% mix I think was high series, and I think we're at 50%. And I think normal rates, if you go back to the old model, was around 30%.

Now, we will have to wait and see where this settles out because the demand for this, particularly the higher series, is quite strong. As you saw probably -- was it this week we launched the Limited? So we've got more to come. We've got Limited coming in the winter. We've got Raptor

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coming next year, so we're not done plumbing every dollar of revenue we can out of that product. We are very excited about that, and the customers are demanding it.

As we look at the balance of the year, we expect pricing to continue to be a strong factor in North America's performance. We clearly expect North America to be stronger in the second half than the first. F-Series actually did not positively contribute to the bottom line in the second quarter, because of the fact that it was in a launch phase, but we certainly expect in the third and fourth quarters on a year-over-year basis that it will be a positive contributor as we get, as Mark said, the stocks up to normal levels by the end of the third quarter. Not just numbers of units, but also the derivatives in the series and the mix and so forth.

So you will see strong pricing coming from North America; not just F-Series, because even in the quarter F-Series clearly was a factor. But there was a lot of different product lines that we were able to generate incremental pricing opportunities on in the quarter.

Operator

Dan Galves, Credit Suisse.

Dan Galves - *Credit Suisse - Analyst*

Thanks for taking my question. Just sticking with North America, can you give us a little bit of perspective on pricing versus material cost ex-commodities, which was I think slightly negative year over year if you take those two together? Also, if you can talk about the warranty freight positive as well, whether that was some sort of non-repeat or whether that's a sustainable kind of improvement?

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

I will comment and if Mark has anything afterwards, he can supplement. If you -- I want to go back to what I said in the first quarter, because we actually I think got a very similar question then. I actually don't think that's the right way to look at it, the way that you phrased the question.

We clearly are seeing product cost go up as we invest in the new products and we also see increases in the structural cost as we do, because of the investments in the plants and so forth. But we will get revenue for that, and we just talked about it for F-Series, but you will also get positive mix and then you grow the business. You get volume as well.

So really what you want to look at in terms of what's happening to the total contribution margin of the business is to look at what are you getting on volume? What are you getting on mix? And then what are you getting on pricing relative to the product cost and some of the structural costs that you built into the business?

As you can see in this quarter, that is what generated the improvement year over year and I will mention once again that was not because of the F-150. F-150 really comes on stream in terms of the positive effect in the third and the fourth quarters, and so that will simply add to what we've already seen here in the second quarter. So to me it's a much more -- it's a broader view of what we're doing with new products than just looking at just those two categories that you mentioned, Dan.

In terms of contribution cost, contribution cost we had favorable performance year over year on warranty as well as on freight and duties. On warranty that was a combination of things.

It was the non-repeat of some large field service actions that we had last year. We also had some supplier recoveries against some of those actions and other actions as well that might've been in different periods. And we also, as I mentioned, had the good news on freight and I think that was largely because we had a lot of premium freight last year that we didn't repeat this year.

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Going forward we expect -- knock on wood -- that we will continue to have good performance on warranty. As Mark said, the quality is extremely positive, not only in North America, but around the world. But field service actions, they happen when they happen based on the data that's in front of us. And kind of hard to forecast that one, but right now everything looks good.

Dan Galves - *Credit Suisse - Analyst*

Okay, thanks a lot for all of that. Second question just related to China. Great performance in the quarter with earnings up on flat revenue or flat wholesale volumes.

Just checking if you give us any more detail on what you are seeing in terms of pricing? Has it deteriorated versus -- is the pricing pressure worse today than it is typically? Also, it looks like inventory is up quite a bit on a year-over-year basis. Is that anything to be concerned about or is that -- are you at kind of normal levels now? Thank you.

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

Dan, this is Mark. On the inventory, it is up and part of that is due to, as we were launching some new products and localizing we had some bridging stocks, but also as the market has come down, we are implementing our process, which is matching production to demand.

So you see that in our production for the third quarter, which is up healthy. It was up healthier and we've taken the appropriate actions to get the inventory in line. So, overall, we feel pretty good about the inventory.

In terms of the pricing environment, as we mentioned, listen, over the past couple of years we've seen negative pricing in the 1% to 4% range and this year we probably see it in the 4% to 5% range. So we are seeing a little bit more and it depends on region and segment.

But I think the approach from our team is -- and this is I think the silver lining of a little bit of a downturn in [Europe] -- is this is the first time our team is going through a downturn in [Europe]. We have some very experienced folks -- in China; sorry, in China. And we have some very experienced folks, both in our operations there and in our JV partner. It's a great learning opportunity so that when it goes down we know how to manage through it and we know the revenue in a declining market comes off fast.

And that's why a big effort on cost and that was one of the elements that drove our performance in the second quarter. Our team will stay focused on that; at the same time launching five new products in the balance of this year to drive our top line.

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

Dan, I just want to supplement. If you look at our guidance on production in the second quarter, for Asia-Pacific we originally were at 395,000 units. We actually came in at 362,000, so 33,000 units down.

And back to Mark's point, this was a reflection of the team acting very quickly and very proactively as we saw the softening and taking production out ASAP. That's what we do anytime, anywhere that we see something like that happening. On the upside, the reverse. And the team really staying on top of what's happening in the marketplace and protecting the level of dealer stocks that we should have.

Dan Galves - *Credit Suisse - Analyst*

Thanks a lot. Nice execution, thanks.

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Operator

Itay Michaeli, Citi.

Itay Michaeli - *Citigroup - Analyst*

Good morning. Thanks and congrats, everyone. Just want to go back to North America. Really strong quarter, 11% margins. You mentioned the F-150 really contributing in the second half of the year.

It does seem like that the second-half margin guidance is maybe implied around 10%, which is still pretty strong but down a bit maybe from Q2. Can you help us just walk through a couple of the puts and takes around the second-half outlook as compared to the second quarter?

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

Well, I think we're going to have a fantastic second half and we had a really good second quarter. So I actually kind of see the first half performance of 9.1% going up a tick, if you will, as we go into the second half. And that will be aided by what I mentioned earlier in terms of the F-150 contributing positively in the second half versus the first half with the launch effect.

I don't know what more to say. We're going to go from really good to great.

(multiple speakers) it's hard to parse really fabulous performance.

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

But also within that we have to look at the market and there's a lot of discussion around the market being at a peak. I really term it as a plateau, because when you look at what's driving the market it's really around replacement demand. And in any mature market about 80% of the industry in any given year is driven by replacement demand. We know the age of the car park, which is over 11 years old, so we think that bodes well.

Within the market, hey, we are seeing actually incentives. We have to watch that closely because incentives are up year over year when you look at the US market. They've actually been up every month, but interestingly incentives are up every month on cars and they are actually about even to down on trucks.

So that's an area we've got to stay focused on, but we expect our performance to continue to be strong in North America.

Itay Michaeli - *Citigroup - Analyst*

That's very helpful. Then just my second question on Asia-Pacific; again, very good results. Remind me what went right in the quarter. I think in the first-quarter call you talked maybe about I think a breakeven second quarter in Asia-Pac so maybe kind of what went right there in second quarter if I missed it.

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

I touched on that in my comments, Itay. It's cost performance. Mark and I were sitting here three months ago and it did look more like a breakeven type performance, but the team did, despite the production adjustments that we referenced earlier, the team did a great job on cost performance.

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The other thing that was great about the quarter was the performance improvements that we saw outside of China. So that was another big contributor, the improved results in ASEAN, Australia, and India. As you know, those are areas we have been focused on trying to get them moving forward in a positive manner and we did get traction on that in the quarter.

Itay Michaeli - *Citigroup - Analyst*

Terrific, that's very helpful. Thanks so much.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Thanks for taking my questions. Just want to understand why did you not take the total company guidance up, given you had $4.3 billion in the first half; you said the second half -- at least earlier in the year you said second half was going to be stronger. What keeps you cautious from taking it to the higher end of that range?

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

Well, I don't think we are being cautious. We think that the range covers the likely outcomes. If you think about the first half, we made $4.3 billion, so that gives us the opportunity to do what is that $5.2 billion in second half? That is a much stronger second half than a first half to be at the top end of the guidance.

I think we just feel comfortable that there's no need to change the guidance when we believe that at the top end that covers the potential upside if you will that we are looking at.

Colin Langan - *UBS - Analyst*

Should we still think of the cadence, though, being stronger in the second half for the total company or has that changed given how strong Q2 is?

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

I'm sorry, could you say that again?

Colin Langan - *UBS - Analyst*

Should we still think the second half is stronger than the first half or has that changed given Q2 came in (multiple speakers)?

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

No, no, we definitely think the second half is stronger. I mean if you just multiple the first half by 2 we're at $8.6 billion, and we think that we've got, as I mentioned, clearly upside opportunity in the second half and expect to deliver that.

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Colin Langan - *UBS - Analyst*

Okay. And my second question, can you clarify the F-150 pricing? Obviously there was a local dealer advertising a $10,000 incentive. Has there been a change at all month over month in the F-150 incentive structure? It has obviously generated a lot of headlines.

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

Yes, Colin, it did generate a lot of headlines. And as you know, incentives and rebates they are a normal part of the competitive environment. We use them to either encourage customers to buy more fully-equipped vehicles or to finance at Ford Credit or to reward loyalty, but overall, when you look nationally, our incentives on F-150 are around $3,800 or so. It's down year over year.

That $10,000 figure that was thrown out, part of it is based on incentives that are available on all vehicles that dealers can add up to. And in some cases, some dealer associations, although it was a small minority of them, decided to add to that. So in some cases it was $10,000, but overall when you look at our average incentive of around $3,900 and it being lower than the segment and much lower than some of our competitors, I think it reflects the strength of the product.

Colin Langan - *UBS - Analyst*

All right, thank you very much.

Operator

John Murphy, Bank of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. Just to parse fabulous results, Bob, just to understand in North America a little bit more; I hate to do this, but on slide 10 there's one number, the stocks is positive $451 million. Is that just a reversal of something that was unusual last year and we are looking at more normal or is that unusual, an unusual benefit this quarter?

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

No, what it was is we grew stocks by 7,000 units within this quarter and, in fact, if you go to Appendix 6 it's pretty clear. I'm sorry, we actually reduced stocks. We reduced stocks by -- I think this is the region. Actually for the region we increased stocks by 7,000. We reduced in North America and the US, but we had increases elsewhere and last year we actually had a decline. So it's the absence of the stock reduction last year on a relative basis that is generating the good news.

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

(multiple speakers) John, part of it is the industry is growing so clearly you expect our inventories to keep up. But, to Bob's point, overall when you look at it our inventory levels here in the US are about 608,000 and that's down from about 643,000 last year. So our days supply are about 70 and this time last year was about 72. So we feel good about our inventory levels.

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

But the number you are talking about, the $451 million, that is the non-repeat of a stock reduction last year. It was a smaller stock reduction this year.

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John Murphy - *BofA Merrill Lynch - Analyst*

So last year was a little bit more unusual; this year was normal is really what I was trying to understand. That seems like what's going on.

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

Yes.

John Murphy - *BofA Merrill Lynch - Analyst*

Also, just staying on North America, Mark, you alluded to the Medium Duty or the Super Duty launches that's upcoming in Kentucky truck. And that's not something that's getting a lot of headlines, but that could be a real big benefit above and beyond what's going on with the F-150 on the truck side.

Just understanding if you guys can talk about that a little bit and when there might be a little bit of weight in the results because of that changeover and when the benefits should ultimately come, because that could be a big part of the story as well.

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

We will get into that more as we talk about 2016, but focusing on 2015, obviously in the next month or so we're going to be launching the Medium Duty truck out of Ohio. And that is a really important product because not only -- we have a lot of customers that have those products. It drives a lot of ancillary commercial business across our other vehicle lines.

We're excited about getting that up and running, and keep in mind that is a product we are bringing back in manufacturing here in the US.

Operator

Adam Jonas, Morgan Stanley.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks, everybody. Bob, first a quick one. Can you tell us current capacity utilization at Changan Ford, even roughly, to the nearest 500 basis points?

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

No, we don't provide that information publicly. The stock levels or the capacity is relatively well-utilized, but Hangzhou, for example, which we just launched, that has got, what, 250? 250 I think in that particular plant, but we just launching it so --. We've got the Taurus coming later so there's a lot of room for us to grow into that plant.

Adam Jonas - *Morgan Stanley - Analyst*

Okay, thanks. Mark, just a follow-up. I've checked the last four earnings call transcripts and I've searched for words like Apple and Google and Uber and actually none of them have come up in any of your prepared remarks or in the Q&A of the transcripts.

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I take onboard fully what you said about trying to create the startup culture and disrupt yourself, and that was very evident when we toured the research facilities in Palo Alto. But can you share with us management's and the Board's, let's say, high-level thoughts on whether players like Apple, Google, or Uber are actually emerging competitors? Not just that it presents an opportunity, but could they also be competitors in designing and engineering cars, the things that you do? Thanks.

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

Thanks, Adam. We haven't heard what Apple is doing and, to my knowledge, they haven't announced anything. But from our standpoint, you know our process; we're always looking at the business environment. We are seeing folks like Uber; who knows what Apple is going to do or Google is going to do?

First off, we think it's positive for the industry in terms of generating competition and innovation and that's what's driving us. But, sure, we could see some of those players be competitors to us. In some cases, they could be partners to us, etc. We are looking at the whole waterfront here and we know there's a lot of people that are interested in the automotive space and would like to extract some value out of that. We are very cognizant of that.

Adam Jonas - *Morgan Stanley - Analyst*

Thank you, Mark. That's helpful.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Good morning, congrats on the quarter. You talked in your prepared remarks about tracking in the upper half of the 8.5% to 9.5% North American margin target for the full year. It seems pretty easily attainable now as you're already at 9.1% in the first half and, at least according to IHS, you're going to build 19% more F-150s in the back half from the first, which I would imagine should help quite a bit.

I understand there are a lot of moving pieces, not just the F-150, but does the 2Q result now introduce the possibility that you will not just be in the top half of the North America margin target for the full year, which you already are, but you might even be above it?

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

I think it's more appropriate for us to have our eyes set on the upper half. But we are always working to do better, but I think upper half is where we're likely to land.

Ryan Brinkman - *JPMorgan - Analyst*

This is really the same question. In last quarter's earnings deck you include a slide not in this deck that showed pre-tax results by quarter as a percentage of expected full-year pre-tax profit ramping sequentially from 1Q to 2Q, and then from 2Q to 3Q before being flat in 4Q. I know the guidance today is stronger in the back half than the first half. Do you still think that results improve from 2Q to 3Q or rather that 3Q is a greater percentage of full-year pre-tax profits than 2Q?

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

Well, the purpose of that slide, Ryan, was to demonstrate that, unlike most years where the first half is stronger than the second half and oftentimes you will see the first quarter compete with the second quarter in terms of which one is the strongest, that was not going to be the case this year. We wanted to show that.

Also what's normal is the fourth quarter being the weakest and actually quite a bit weaker than most of the other quarters of the year. We felt that the fourth quarter had the opportunity to be much stronger than normal, particularly because of the cadence of our launches. That's still all true and we still expect, as a result, the second half to be strong and stronger than the first half, so very consistent with what we've been saying.

We didn't think it was necessary to put the chart in since the second half is over and we've only got two quarters go. And we're within now the stronger second half, quote-unquote, and expect to deliver that.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, got it. Then just last question on Europe. It was pretty good actually. It seemed the biggest variance there was pricing. Can you talk about what's driving that?

I imagine Mondeo, S-MAX, Galaxy coming through, but some of the other drivers you've been working on, maybe like channel mix, self-registrations, rental car, the Vignale trim. I'm just trying to understand; I know 3Q is going to be softer seasonally, but does the year-over-year pricing tailwind remain with us as we progress throughout the year?

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

You're actually -- you are spot on in terms of what drove it. There's one other factor I will mention, but yes, it's the new products doing very well. The team has been focusing on brand and the network and customer service, and that is translating into some incremental power in terms of pricing, particularly combined with the new products.

The other thing that you didn't mention that is a factor. We are now consolidating Russia, so somewhat similar to South America where we are seeing some very positive pricing as we try to offset the effects of high local inflation and weak currencies, the exact same thing that is going on in Russia where the team is doing the same thing.

So you've got that phenomenon also in this quarter on a year-over-year basis because of the consolidation of Russia. But everything else you said is true. And I would expect as we go into the third and fourth quarters that we will continue to see positive pricing in Europe.

Ryan Brinkman - *JPMorgan - Analyst*

Okay, thanks. Congrats again on your very strong results.

Operator

Emmanuel Rosner, CLSA.

Emmanuel Rosner - *CLSA Limited - Analyst*

Good morning, everybody. So I have a question on North America and then one on China. On North America I would like to come back to the earnings walk on slide 10.

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So I completely agree with your point that the increased I guess material cost results not only in better pricing, but also better mix and market share and volume. I'm just curious how you see these material costs evolve over the rest of the year.

I think in Q1 it was an increase in cost of about $600 million. Now it's about $1 billion and then obviously more new F-150s coming; is also more new materials in there. How would you see that evolve over the next couple of quarters?

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

I think let's look at it from a couple different ways. I think you will see year-over-year increases, although they will start to mitigate because we had some of the products that are affected in the later quarters of last year. But what I do think you will see as we go forward is that the effects will be largely mitigated sequentially.

So we have what we have. Some of that will continue to show up on a year-over-year basis, but sequentially we're kind of where we would expect to be because the launches are behind us.

Emmanuel Rosner - *CLSA Limited - Analyst*

Okay, that's helpful. And then on China, just would like to come back on the quarter's performance. It was obviously an incredibly strong equity income quarter, in the $400 millions, which is all the more remarkable in this flattish volume environment, but also in Ford incurring all these costs from opening new plants. How sustainable do you view this performance in light of the dynamics that you described before in China?

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

We expect the operations to continue to perform well. We actually expect the volume to be greater in the second half than the first half as we launch the new plant. And we've got the new launches coming, product launches coming that Mark talked about. Some of those products -- the Edge, the three-row Edge, the Taurus, the Everest -- those are going to be -- they are going to tend to be higher margin products, so I think that will clearly show up in the results.

So I think we feel quite good about the performance in the second half relative to the first half and overall for the full year.

The one thing I just want to remind you and everyone else that is listening in is when you are looking at those equity after-tax earnings, that's not the total picture of China. That's just the joint ventures. So if you recall I said that our year-over-year results for Asia-Pacific actually were not driven by China, even though you can see that improvement at the JVs.

It was driven by the operations outside and that's because we've got BU imports, which are consolidated. We've got Lincoln, which we are investing in, which is consolidated. And you've got engineering that we are incurring on behalf of the joint ventures that they will reimburse us for later once we start building those products that we are engineering at some point in the future. We'll get that compensation through royalties.

So when you take a total picture of China, because of what was going on in the consolidated part of our business, it was actually down slightly. We had launch balance out of Edge, as Mark talked about. We had balance out of Explorer because we are getting ready to launch the new Explorer. We had the investments in Lincoln and we had higher engineering for products we're working on for the future.

Emmanuel Rosner - *CLSA Limited - Analyst*

Great, thanks for the color.

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Operator

Rod Lache, Deutsche Bank.

Rod Lache - *Deutsche Bank - Analyst*

Good morning, everybody. I was hoping just kind of a high-level question about China. Obviously, one of the fears in the market is that, just given the amount of capacity that is coming online, there could just be broadly for the industry a significant deterioration in profitability. It has happened in other emerging markets once growth and supply reaches or exceeds growth in demand.

Can you give us a little bit more color on how does the earnings bridge look like? If you see 4% to 5% negative from pricing, what does every 1% imply for you as a headwind? And for every 1% change in volume, what does that do for you as a tailwind? How should we be thinking about the bridge and the levers that you can pull to mitigate that?

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

Let me just answer your question directly first and then maybe provide a bit of color, and then Mark could supplement.

So 1% for us is $90 million, $100 million, but I guess the thing I would think about is, if you look at our portfolio, we have actually a pretty rich portfolio. We have a very strong SUV portfolio: the Mondeo, the Kuga, the three-row Edge, the Taurus, the Everest, which is a body-on-frame utility that is going to come off the same platform as our global Ranger.

These are pretty high-margin products and I think that probably puts us in a pretty good position, because as you think about where the competitive pressures be I'm sure it will be across the industry. But there will be a lot of that, particularly at the lower end of the market, particularly where you get maybe some overlap at the low end of the international brands with the indigenous brands. So I think the place we occupy in the market is a pretty healthy place.

We also have opportunities for cost reductions. The team is continuing to make improvements there. And as we mentioned, we've got the Hangzhou plant coming on, but we're only going to man the plant to the level of volume that we actually believe is appropriate and that we can deliver from the plant.

So I think that as we go in knowing the softness in the market I think gives us the ability to plan that very effectively. Anything you want to add?

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

The only thing I would add, Rod, is when you look at the capacity coming on Hangzhou, as Bob mentioned, it's for products that are in pretty high demand. We're localizing the Edge and obviously SUVs and the seven-seater SUV is in demand. The Taurus that is coming or large sedan, it's a pretty significant segment there that has pretty good revenues. And Everest, as Bob mentioned.

But even the Escort; we launched that earlier this year and that is -- as I mentioned, that is the fastest-growing model in the segment and it is appealing particularly across the regions but particularly Tier 3 through 6. But across all this, as we look at the industry, look at the pricing, etc., it is not only a focus on the top line. The team is taking a very intense focus on the costs and the costs in the industry and that is the benefit, if you will, of looking at an industry which we are now calling flat to down and getting ahead of things. So we're working both ends.

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

And that is what drove the performance in the quarter, too.

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

Yes.

Operator

Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Want to wish George Sharp farewell and hope you enjoy retirement. We will certainly miss him and his sense of history, shall I say.

So a couple things. Just a little housekeeping for Bob on North America, then a broader question on China. On North America, you talked about the F-150 having no contribution. Is the way we ought to be thinking about it that the volume decrement was roughly equal to the pricing, less material cost contribution?

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

On a year-over-year basis it did not generate, if you will, incremental profits and that is because the volume was lower. We also were in launch mode, so we had all the cost, the structural costs associated with the launch, but didn't have the plants producing at capacity. That will not be the case in the third and the fourth quarter.

And so when I look at the data for third and fourth quarter year over year for F-150 it's a strong positive contributor to the bottom line all-in. And that is what we are trying to convey in terms of the effect it had on the first, second relative to the third and fourth quarters.

Brian Johnson - *Barclays Capital - Analyst*

Okay. So we can expect that change as we go get past some of those launch costs as well as the full volume?

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

Yes.

Brian Johnson - *Barclays Capital - Analyst*

Second question on China is kind of for Mark. You talked about disruptive innovations in mobility and at the same time you talked about China at some point getting to 30 million cars.

I guess when you think about where transportation could go in China kind of 10 years out, what is the real argument for such a densely populated urban country getting to the levels of penetration you would need for that? And are we going to look at kind of new mobility models as maybe kind of taking some of the wind out of those sales? If so, or even if not, how would you primarily with your upper and -- mid-upper-end product line in China participate in those new models in China?

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

That's a great question, Brian. I think when you look at the overall size of the market, keep in mind the Tier 3 through 6 cities, these are cities that are still growing. Still cities where people are coming from the countryside moving in. You don't have the license plate restrictions that you do in some of the Tier 1 and 2 cities, so we think a lot of that is going to provide the growth to that 30 million-ish number in the next 5 to 10 years and still be somewhat manageable.

In terms of the overall, the megacities, these cities of 10 million or more, there's a lot of debate around what is that going to mean to the size of the industry. And right now there's no clear answers, because you could argue that car and ridesharing increases the asset utilization, which could reduce the carpark.

But also on the other side, more efficient utilization of those assets and a greater just overall access to mobility could actually increase the total miles driven, which could increase vehicle sales. It will definitely increase service business, for example, with the duty cycles that these vehicles will be going through.

So that is what we are looking at and overall, as we look at these experiments and pilots, we have our team focused on this. We are looking at some of the innovative approaches, particularly in China, which Baidu and Didi Kuaidi is implementing. And as I said you will see over the next number of months and year or so in terms of what we are doing to create some pilots and create some business models out of this that not only can open new business opportunities for us, but complement our existing business.

Operator

Joe Spak, RBC Capital Markets.

Joe Spak - *RBC Capital Markets - Analyst*

Good morning, everyone. Mark and Bob, maybe just to follow on some of your recent comments, I think numerous times you've talked about how a lot of your growth in China needs to be driven from those Tier 3 to 6 cities. So maybe you could just give us a little bit more color as to what you are seeing the impact or what's going on in China in those cities right now. Maybe what the growth is in those cities versus some of the larger cities.

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

We are seeing, as I said, larger percentage growths in those cities. And, again, part of it has to do with the fact that most of the cities don't have the restrictions that you do in the larger cities around license plates and lotteries that they have for that.

As we look at our business, if you look at this year, for example, 85% of our dealer appointments are going to be in the Tier 3 through 6 cities. And actually, if you look at our wholesales in the quarter, our wholesales in those Tier 3 through 6 cities were more than double percentage increases than in the Tier 1 and 2 cities, so we think we are well-positioned.

The Escort, as I mentioned, is really resonating with customers there. But also at the same time, as Bob mentioned earlier, the full lineup of SUVs that we have -- small, medium, and large -- we think will serve us well.

Joe Spak - *RBC Capital Markets - Analyst*

Okay. And maybe a quick one on South America. Obviously, a very difficult environment. It seems like the product is responding well in that tough environment.

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I know you've taken some actions there in the past. Is there anything more you can do? Are you right-sized for this level and is it really just about a volume rebound at this point?

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

The team has done a great job of managing the environment. They have taken appropriate actions on capacity, headcount, personnel levels. We have also been working very hard on total costs.

They are looking at how we can -- obviously, we are quite localized because we've been there for 80, 90 years, but we are even trying to find further opportunities to shield the business from the weakening currencies. We are also working to try to get as much as we can in terms of mix out of the products.

So the team is doing everything they can, but the environment is so difficult it's going to be tough I think for anybody to make sense out of a business in South America until the recovery takes place. And as I mentioned in my comments, there aren't any signs of that happening yet. We're just going to have to hunker down, continue to go after every dollar of cost that we possibly can, but this is really going to depend for the industry on a recovery in the external environment.

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

But I do think we are well-positioned, to your point, around our new products are resonating and we are growing share. We're 10% share in the region now, so I think that bodes well.

Put it in perspective, before 2013, the nine years before, we were pretty strongly profitable down in that region. I think clearly in the mid to long term we expect that to return, but we're going to have to work our way through a difficult economic environment.

Operator

George Galliers, Evercore.

George Galliers - *Evercore ISI - Analyst*

Good morning, everyone. I had a quick question, just really sort of strategic, on China. One of your competitors just announced plans to develop a common architecture in engines with its Chinese JV partner for a global car to be sold in emerging markets.

Obviously your platform and ONE Ford strategy is well flagged, but how do you think about co-developing future products with your Chinese partner for sale in other markets, not just in Asia but globally? Is that something you are already looking at or planning on looking at?

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

Well, as you mentioned, with our ONE Ford strategy we have now gone from 27 platforms down to nine and ultimately to eight. Obviously we have a couple of partners in China, both Changan at CAF and JMC, which is our commercial truck partner.

And the bottom line is nothing to talk about at this point, but of course as our relationship grows we will look at those opportunities. We are well-positioned now but, as I said, as those relationships grow it could offer us the opportunity to do that.

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George Galliers - *Evercore ISI - Analyst*

Great. And then also you mentioned the fact that you are seeing stronger growth in the Tier 3 and smaller cities in China. Can you give any color on how your market share compares in those regions relative to the 4.7% you have for the full market?

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

I don't have the exact number in front of me, but our market share in those regions is quite good relative to the more developed cities. We are actually in the middle of the country in Chongqing and our performance is strong in the middle of the country. It's good in the 3 through 6 cities and so I think that actually positions us well going forward.

George Galliers - *Evercore ISI - Analyst*

Great, thanks very much.

Operator

David Whiston, Morningstar.

David Whiston - *Morningstar - Analyst*

Thanks, good morning. Mark, a question for you, going back to in your opening comments on disruption and how it's an opportunity. One of those opportunities is for the industry to have more ubiquitous software updates and perhaps not have a customer go to a dealer at all.

Is that an opportunity certainly for convenience, but is that an opportunity for Ford to charge for those upgrades or do you expect the customer to get those for free or perhaps a combination? And related to that, is there a lot of opportunity for cost reduction potential, particularly on recall repair from these updates?

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

Well, obviously we are thinking through the consumer experience as we go forward and, clearly, with things like over-the-air updates offers, as you mentioned, opportunity to make customers' lives easier. And also opportunity, as you mentioned, to reduce costs for recalls.

Can't get into any specifics about how we're going to approach that in terms of pricing, etc., but our approach overall as we are looking at our products and we are looking at our services --. The approach we are taking with our marketing and our engineering community is we want our people thinking about experiences and then, subsequently, how does technology enables experiences? Obviously then what we can price for it.

But, clearly, a big opportunity for us to better satisfy the customer and also improve our business going forward.

Operator

With no further questions at this time, I would now like to hand the call back to Mr. George Sharp for any closing remarks.

George Sharp - *Ford Motor Company - Executive Director, IR*

Thank you, Katina, and thanks, everyone. We're really glad that you were able to join us today.

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Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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