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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Ted Cannis** *Ford Motor Company - Executive Director, IR*

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

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

**Marion Harris** *Ford Motor Credit Company - CFO*

**Stuart Rowley** *Ford Motor Company - VP & Controller*

## CONFERENCE CALL PARTICIPANTS

**John Murphy** *BofA Merrill Lynch - Analyst*

**Colin Langan** *UBS - Analyst*

**Dan Galves** *Credit Suisse - Analyst*

**Pat Archambault** *Goldman Sachs - Analyst*

**Brian Johnson** *Barclays Capital - Analyst*

**Joseph Spak** *RBC Capital Markets - Analyst*

**Rod Lache** *Deutsche Bank - Analyst*

**Matt Stover** *Susquehanna Financial - Analyst*

**Ryan Brinkman** *JPMorgan - Analyst*

**Emmanuel Rosner** *CLSA Limited - Analyst*

**Christina Rogers** *Wall Street Journal - Media*

**Bob Gritzinger** *WardsAuto - Media*

## PRESENTATION

### Operator

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

And now I would like to turn the call over to Mr. Ted Cannis, Executive Director of Ford Investor Relations. Please proceed, sir.

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**Ted Cannis** - *Ford Motor Company - Executive Director, IR*

Thank you very much, Emma, and good morning, everyone. On behalf of the entire Ford management team I would like to thank you for taking the time to be with us today so we can provide you the additional details of our 2015 fourth-quarter and full-year financial results.

Copies of this morning's press release and the presentation slides are available on our Ford investor and media websites. The financial results discussed today include references to non-GAAP financial measures. Non-GAAP financial measures are reconciled to the US GAAP equivalent in the appendix to the slides.

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



Presenting today are Mark Fields, our President and CEO; Bob Shanks, our Chief Financial Officer; and also participating are Stuart Rowley, Vice President and Controller; Neil Schloss, Corporate Treasurer; Paul Andonian, Director of Global Accounting; and Marion Harris, Ford Credit CFO.

Mark, over to you.

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

Thanks, Ted, and good morning, everyone. Thanks for joining us. I'm really pleased to review with you our 2015 full-year and our fourth-quarter results.

If you recall, last year on this call we promised a breakthrough year in 2015 and we delivered. We achieved a record company full-year pretax profit of \$10.8 billion.

Looking at the business units, every business unit, with the exception of South America, was profitable. In Europe, we returned to profitability and we earned over \$0.25 billion. That reflects the progress of our transformation plan. Asia Pacific had its best-ever annual profit and, of course, North America and Ford Credit continued to deliver strong profitability for the Company.

We also generated our highest volume in 10 years and the most revenue in 12 years, and our automotive operating-related margin came in at 6.8% and that was the highest since at least the 1990s. In automotive-related operating cash flow, we came in at \$7.3 billion and that was the best that we have generated since 2001.

We also at the same time grew our global market share and that is in large part due to the strength of our new products. A little bit of a sampling of that, Explorer remains the best-selling three-row SUV in the world. Mustang, which as you know we took global last year, is the world's best-selling sports car. F-Series is America's best-selling pickup for 39 straight years and the best-selling vehicle for 34 years in a row.

We're also again America's best-selling vehicle brand for the sixth straight year and in Europe we became the number one commercial vehicle brand. And that's the first time we have been able to achieve that in 18 years.

Turning to Lincoln, we delivered a second straight year of US sales growth and we also became the first luxury brand in China to top 10,000 sales in its first full year of operation. Of course, along with this strong performance, we rewarded our shareholders with distributions totaling \$2.5 billion during the year and also growing our regular dividend by 20%. I strongly believe that these results once again demonstrate that our plan, our people, and our process are delivering and they are creating value for our stakeholders.

Now looking at the fourth quarter on the next slide, you can see it was another terrific quarter that helped contribute to our performance for the year. Our fourth-quarter pretax profit of \$2.6 billion was nearly double a year ago. Our net income came in at \$1.9 billion and our automotive operating margin came in at 6.1% and that was up 2.7 percentage points from last year.

Importantly, we also delivered strong top-line growth, with our wholesale volume and automotive revenue both up 12%, and revenue was up 18% at constant exchange. We generated strong automotive operating-related cash flow of \$2.1 billion for the quarter.

We were profitable in all business units except South America, including a record profit in Asia Pacific, a fourth-quarter record in North America, and another solid quarter from our Ford Credit operations. In Europe, we delivered our third consecutive profitable quarter.

So, in sum, our profits improved, our market share improved, and our margins improved, delivering profitable growth for all of our stakeholders. And we are also guiding to achieve equally strong or better results this year.

Now turning to slide 4, 2015 was also a year of progress from an operating point as well. We successfully completed the 16 global launches that we planned. We improved quality and customer satisfaction around the world as we launched those products, and we continued to invest for profitable growth in the future.



I believe of all of our accomplishments, one of the most significant was delivering such strong results in the near term while expanding our business model for the future. We are growing and investing to be both an auto and a mobility company.

What this means is we are strengthening and investing in our core business of designing, developing, manufacturing, marketing, financing, and servicing great cars, trucks, SUVs, and electrified vehicles. But also, at the same time, we are aggressively pursuing emerging opportunities through Ford Smart Mobility with the most recent announcement of SYNC Connect and our plan to have the largest autonomous vehicle test fleet in the industry.

We are also working to transform the automotive customer experience with the introduction of Ford Pass. And as we do all of this, we are going to stay absolutely focused on accelerating the pace of progress of our One Ford plan, delivering product excellence with passion, and driving innovation in every part of the business.

So with that, I will turn it over to Bob, who will take us through some of the financial results.

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

Thanks, Mark. What I would like to do is to start on slide 5, which is our key financial summary. The first thing I would ask you to do is just glance down the second and the fourth columns. Those are the year over years for the fourth quarter and the full year, and what you will see is everything is positive.

So whether it's the growth factors, the operating results, the net income factors, cash and liquidity, everything better than in 2015, whether at the quarter or the full year.

Now certainly we should recognize that -- and we'll talk about it later in the presentation -- that we are seeing strong improvement from across most parts of the business. In fact, all parts of the business in terms of the full year.

And we should recognize, too, that we are benefiting from the big bet that we made on the F-150. We had the launch effects of that in 2014 concluding in the fourth quarter. That was a big bet for the Company and it's paying off for us.

It is certainly resonated with customers. It's good for the environment and certainly, as I said, we are reaping the rewards of that.

Since I'm going to touch on most of these things in the subsequent comments and slides, I just want to highlight three things that I won't come back to later. The first, down the page under operating results, let's look at our earnings per share on an operating basis. You can see that we came in at \$0.58, which is up 93% from a year ago, and \$1.93, which is up 44%.

Go down a bit further and look at the after-tax results, net income. You can see we came in at the quarter at \$1.9 billion, that was up very sharply from a year ago, and \$7.4 billion for the full year, up \$6.1 billion.

If you go up just a couple lines from there, you can see the special items pre-tax charges in the quarter. We had \$714 million that was almost completely explained by the remeasurement losses on our pension and OPEB plans.

Now let's go on to slide 6. I've got three slides for the full year. I would like to touch on those first and then we will get into more details of the quarter. These are the absolutes of the quarter and you can see the record of \$10.8 billion and then, as you glanced across the segments, you can see everything was profitable in terms of the business units with the exception of South America.

If you look at the operations outside of North America, collectively, we have made \$223 million. To me, the big story and one of the big stories that we want to get across today is the quality of the improvement across the business on a year-over-year basis.

If you look below the chart, you can see the changes, the \$3.507 billion improvement at the Company level. It was driven by North America, \$1.9 billion; financial services a contributor, over \$200 million; but we got \$1.4 billion of improvement from the operations outside North America.

And going forward, our whole strategy is to keep North America strong, strengthen it to the extent that we can. But it's really the other operations; we need to get them moving forward in a positive direction, both in terms of profitability and returns. That's the big opportunity for us, as well as the new opportunities.

You can see we've made great progress on that in the full year and I will touch on that in the quarter as well.

Let's turn now to slide 7 and here we will look at the key metrics for the Company. This is the automotive sector for the full year. Just kind of looking across the page, wholesale is up 5%; revenue up 4%, 9% at constant exchange; very strong improvement in the operating margin, 6.8%; and the pretax results up 60%.

On the lower left you can see the global market share, which is up 2/10; that was in South America and Europe. And some favorable geographic mix effects as well.

Let's go on to slide 8 and here we will look at the full-year improvement. You can see \$3.3 billion that was driven by \$7.4 billion of improvement in market factors; volume, mix, net pricing all driving that in a positive direction.

We did have cost increases, both contribution costs and structural costs. The one thing I would like to highlight here, we have broken out for the first time manufacturing and engineering separately. You can see with the manufacturing callout that we have also indicated that it includes volume-related effects.

Some companies include variable labor and overhead in volume, but we don't do that. We put all of that in structural costs, which is why we don't call it fixed cost, because we recognize that in a downturn we are able to respond appropriately whether it's taking overtime out, shifts, line speed changes, and so forth. So hopefully that will help you understand better the costs and the nature of the costs that we are investing in the business.

On the far right, you can see the ratification bonus related to the UAW agreement. I should note that within the results -- and all this sits in North America -- we've got about \$600 million of cost increases associated with the agreement, most of that is the one-time ratification bonus. The rest of it is just normal cost increases related to wage increases and so forth. And that's sitting in our structural cost.

All right, now let's move into the fourth quarter and I will start by looking at the absolutes on slide 9. Again, very strong performance, \$2.6 billion, and again, glance across the page and you can see everything profitable with the exception of South America. Again, the collected results of the operations outside North America a profit of nearly \$300 million.

Again I want to highlight the story year over year. Go below the chart, first line, \$1.3 billion: \$400 million from North America, about \$130 million from financial services, but more than 50%, or \$760 million, coming from the operations outside of North America. Again demonstrating the progress that we are making in getting the Company more balanced in terms of the contributions around the world.

Now let's move to the key metrics on slide 10. Again growth in wholesale double digits; same thing in revenue, up 18% at constant exchange. A good margin for the fourth quarter, 6.1%, and pretax results that more than doubled.

On the lower left you can see our global market share was flat.

Let's go on to slide 11 and here we will look at the change in our automotive sector results year over year, up \$1.1 billion. Very similar pattern to what we saw in the full year, very strong market factors.

We had cost increases. Again look at the structural costs. You can see the manufacturing of \$235 million, almost all of that is volume related; the balance is explained by the UAW contract. And then the ratification bonus to the far right.



Okay, let's go on to North America and here we will start going through the business units. These are the key metrics.

North America had very strong growth in the quarter. It was their best quarter of growth of the year. You can see wholesale is up 15%, revenue up nearly 20%. The operating margin very, very good 8.2%. Traditionally, fourth quarter is our weakest quarter and this includes the full \$600 million of UAW-related costs, so really strong results from North America.

You can see the profit of \$2.1 billion -- \$2 billion, up 26%.

If you go below the chart, you can see the full year; very strong factors right across the board. And again the margin came in at 10.2%.

As we look at the guidance for the year, we expect to sustain this level of benchmark profitability with margins about around where we actually ended up, about 9.5% or higher. But I thought I would comment on this because it was certainly something that was discussed quite a bit at the Deutsche Bank conference earlier in the month when we provided our guidance.

Let me just again put into context how we are seeing the North American business. It is performing and has been performing for years at benchmark levels of profitability and margins. And as we have mentioned in three of the last four years, other than the year when we launched the F-150, it's been operating at 10% or higher, which actually is at the high end of the range that we are targeting on an ongoing basis of 8% to 10%.

Now in 2016 we expect the margins again to be sort of in this range, 9.5% or higher, but unlike in 2015 when the year-over-year growth and the market factors far exceeded the cost increases, we expect to see a smaller improvement in the market factors while we will continue to invest for profitable growth. This is reflecting mainly three factors.

The first is the fact that we will see much less benefit in 2016 from industry growth in the US. The second one is that we expect the impact of the Super Duty launch, which takes place in the second half, to have an impact. Now we have called it a normal launch, but it's still going to incur costs associated with such a large launch. And we're going to have the normal volume ramp-up curve that we have to climb, so it will have an effect primarily in the third quarter.

As mentioned, lastly, we are continuing to invest for profitable growth this year and beyond; not only in the traditional business, the core business, but also as we transform Ford into an auto and a mobility company. So that's how we see it. We are very pleased with the results. We think we're going to sustain this level of profitability as we move into 2016.

Okay, let's go to the following slide on slide 13 and let's look at what happened in the quarter for North America: an improvement of \$400 million, strong market factors. Costs increasing related to the products, which also drove the market factors, but also the structural costs, which were largely volume-related. And the UAW agreement; with the ratification bonus also having effect, which is over in Other.

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

When you look at -- just a couple of comments. We're coming off a strong year for Ford in the US. And as Bob mentioned earlier in terms of the investments, one of the stories within here is our new products have enabled strong pricing power with our transaction prices up over \$2,200 versus last year, and that was more than double the industry increase.

Going forward this year we're going to continue to focus on profitable growth, while at the same time launching some very important high-volume products like the Escape, the Fusion, and as Bob mentioned, the Super Duty.

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

Let's turn now to South America on slide 14. There is a lot of very big macro trends that are sweeping across the global economy and certainly the strong dollar commodity -- weak commodity cycle is one. And there's probably no region that is more affected by this than South America.



You can see it clearly in our results in the fourth quarter and the full year. You can see that wholesales were down sharply, 39%. The revenue was actually down 52%, about 45% of that was related to weaker currencies. Margin, of course, down sharply and the results were down as well.

If you look at the fourth quarter, the same story but when you get to the full year you can see that the -- we actually had an improvement in the results and that was related to the fact that we had the non-repeat of the big Venezuelan devaluations in 2014. In terms of guidance, as we mentioned, we expect our guidance -- or our guidance for that region is that it will be a loss in 2016 and likely to be greater than what you are seeing today for 2015.

Okay, let's move on to South America. On a year-over-year basis, down \$108 million, and if you look at the callout box on volume and mix you can see that it's more than explained by the industry decline. We had a 33% reduction in the Brazil industry in the quarter.

Clearly had an impact on the business, but I will tell you, our team did a great job of doing what they can do with the things they can control. We had strong pricing. We had very favorable results in terms of cost performance and I would highlight that within these positive cost factors we have over \$100 million of negative impact from the very high inflation that we are seeing in Brazil and in Argentina.

Then, lastly, I would call out the exchange. We had over \$100 million of bad news that came from the devaluation of the Argentinean peso that came towards the end of the year as the new government started to take action to restructure the economy. So it's good for the longer term of Argentina, but certainly hurt the business in the fourth quarter.

Okay, let's turn to Europe now, which is a very good story around the progress that the team is making there. In the fourth quarter we were profitable; that's the third consecutive quarter of profitability. We had the strongest growth among the business units in Europe in the fourth quarter. It was up 21% in wholesales, up 19% if you hold exchange constant, and of course, we returned to profitability with a positive margin.

The story on the full-year basis is just as good. We had growth, although revenue was down. If you adjust for exchange, it was actually up 8%. And then, of course, the profit that Mark mentioned of \$259 million.

Now, if you look in the lower left you can see we also grew share in Europe. We were up 0.6 point across the entire region. That was driven by Britain and Germany and some favorable impact of the geographic mix of the markets. And we also had favorable market share among the Europe 20 and that was driven by the performance of the Mondeo and the EcoSport.

In terms of guidance for 2016, we expect the results for Europe to be higher than what they were in 2015.

Now let's turn to slide 17 and here we will look at the year-over-year improvement in the quarter from Europe. Up \$428 million and, going across the page, most everything positive. We had favorable volume and mix, we had higher net pricing, we had lower cost, and if you go to the far right, the other was largely the effect of the consolidation of our Ford Sollers entity in Russia. So really, really strong performance right across the board in Europe.

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

And just to jump in here for a second; obviously we were pleased with our progress in Europe, but not satisfied. We just want to be clear that getting profitable in Europe is just the first step. Our goal is to deliver a sustainable and a vibrant business despite the competitive and regulatory pressures that we are seeing and also the difficult business conditions in Russia.

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

Okay, let's go on to Middle East and Africa. This is the only slide we have for this region. You can see we had growth in the quarter; we also had positive results. And for the full year we had a profit of \$31 million as the team continues to start to unfold the growth strategy that they developed and put in place last year.



As we move into 2016, we expect the results to be about the same, if not better, in Middle East and Africa.

All right, let's go on to slide 19 and turn to Asia Pacific, great story here. Wholesales were up sharply, 16%. The revenue was up 38%, if you adjust for exchange. Very strong operating margin and the record pretax result in the quarter.

If you look at the numbers below the chart, which are the full year, a similar story. Not quite as strong growth because the fourth quarter was clearly the big quarter of growth in 2015. Very strong margin of over 7% and that record profit that we talked about earlier.

On the lower left you can see the share in China was flat, but we did improve the share overall across the region and that was largely due to favorable geographic mix. In terms of guidance, we're expecting results in 2016 to be even better than they were in 2015.

Let's go to slide 20 and we will look at the improvement in the fourth quarter in Asia Pacific, which was quite strong, \$349 million. It was largely driven by volume and mix. And you can see it was industry, a bit of share, which is again geographic mix, favorable stocks as the industry grew and we also got new products into the pipeline.

And the mix was very, very strong. Within this mix and other of \$181 million, you actually had \$355 million of favorable mix. That was largely the effect of the Edge, which is hot and high margin, as well as good performance of the Mondeo and the Kuga.

You can see that the costs were pretty much flat and over at the far right you can see Other. That is largely the royalties in China so volume related as well. So very strong performance across the region and setting us up for another record in 2016.

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

Just focusing on China for a second, we delivered record sales in 2015 and we saw growth across the country, but the fastest growth actually occurred in the Tier 4 through 6 cities. As we start out this year, what we're seeing is industry retail sales in January have started strong. They look to be in line with the sales rate that we saw in the fourth quarter of 2015, although they are moderating in the second half of the month versus the first half.

But just a note to point out that, as you know, the Chinese New Year is very variable; some years it falls in January, some years it falls in February. So we're really going to need to look at how sales perform across January and February to get a clearer view of how the industry is tracking.

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

Okay, let's turn now to Ford Credit and on slide 21 we have actually created a new slide. We wanted to be able to show you the absolutes that are important to the Ford Credit operations.

So on the far left you can see a couple of growth metrics around contract volume, which was up 8% in the quarter. Managed receivables grew 12% as Ford Credit supported Ford's growth overall. Pretax results at \$556 million, that was up 31%. And then we've got three metrics which just represent the portfolio performance, which continues to be very strong and very robust.

And for those of you that want to understand more, of course you can call into the Fixed Income call, which will take place later today, and their team will take you through more insights and details into Ford Credit's performance. But the portfolio performance continues to be at very, very good levels and in fact, compared to history, low levels.

If you look at the data below the chart, again growth across the board there whether it's volume or managed receivables. The profit is \$2.1 billion and again look at those portfolio performance metrics all looking quite good.

This is simply because Ford Credit has got a very clear point of view around its purchase policies. It has been implementing those very consistently for a number of years. For example, in terms of high-risk business, continues to be about 5% to 6% of the portfolio and it's performing very well, as the data indicates.

What I want to highlight on the left, and I'm not going to talk about it till I get to the next slide, but look at the debt, \$120 billion to support Ford Credit and the managed leverage of 9.5 to 1. We target 8 to 9 to 1. It's above that level because of the effect of the strong dollar as it translates the equity of our operations outside of the United States.

In terms of guidance, we expect Ford Credit to continue to be a strong performer, about the same, if not better, in 2016 than it was in 2015.

Now let's turn to slide 22 and we will look at the fourth-quarter year-over-year performance of Ford Credit. You can see that it was driven by the growth, the volume, favorable mix across the globe in terms of the products and services that it provides, and favorable financing margin, which came from lower borrowing costs.

With that, let's go on to slide 23 and we will look at automotive sector cash and cash flow. This was a really great story in the quarter and also for the full year.

If you go about a third of the way down the page, you can see the \$2.1 billion of automotive operating-related cash flow in the quarter driven by the profits. And if you look at the full year, the \$7.3 billion record, at least since 2001, again driven by the very strong profits. Then you can see the uses of the cash below that.

On the lower left you can see we ended the year at \$34.5 billion of liquidity, a very strong level, and then the automotive debt of \$12.8 billion.

I just want to stop right here because one of the things I just wanted to take a minute and comment on; we've seen a number of articles that continue to be written about the very high leverage of Ford Motor Company. And, generally, that point of view is because people are taking this automotive debt, they are adding it to the financial services debt, which was on the previous page, and of course the business would look very highly leveraged. But that's not the way that investors should look at it. It's also not the way that the credit rating agencies look at it.

If you think about Ford Credit, Ford Credit is self-funding. Ford Credit also self-liquidates in a downturn and at lower volume, and so you think about Ford Credit separately. And then in terms of its own leverage, you want to look at that managed leverage that I touched on, and as I mentioned, we have historically been within the 8% to 9%. We target a little bit above because of the translation effect in 2015, but we're going to go back into range in 2016.

The key one in terms of the leverage of the Company and the one that the credit rating agencies look at is this, what's on this page, the \$12.8 billion. And this is the lowest it has been since 2000. It is representative of a very good leverage position by the Company, along with where we stand on pensions and other things that the credit rating agencies look at. So we're in great shape in terms of the balance sheet, but I just wanted to clarify that for everyone if you had any questions about that.

Okay, I'm going to wrap up on slide 24 and this is looking at the planning assumptions and key metrics that we provided at the beginning of the year. All I will say is: we delivered. If you go to the very bottom of the slide, you can see a new metric that we've added that we disclosed at the Deutsche Bank conference earlier this month, which is our after-tax five-year average return on invested capital. We came in at 16% in 2015 which was unchanged from 2014 and in both years well above the cost of capital.

So, Mark, back to you to talk about 2016 and wrap it up.

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

Thanks, Bob. As you go on slide 25, you can see the Company guidance is unchanged from the outlook that we provided on January 12 and we expect 2016 to be another strong year for the Company, one that features, obviously, sustained strong financial performance and returns; profitability

across all parts of our business, except South America; a continued strong balance sheet; and of course, the next stage in the deployment of our shareholder distribution strategy.

Now, as always, per our process we're going to continue to monitor the business environment to anticipate or react to any changes that we see and take appropriate action.

So to sum it up before we get to the Q&A, we promised and we delivered on our commitments for 2015. We promised to restructure and invest in our operations around the world and we delivered both top-line and bottom-line growth.

This year our commitment is to accelerate our pace of progress even further by building on our strengths, but also we are growing lean. We are going to be focusing, obviously, on profitability and making tough choices to restructure where necessary. We're moving fast to expand our business model and we're on track to deliver both our near and our long-term strategic objectives.

Our commitment, quite simply, is to deliver continued strong results in 2016 and expand our business model to take advantage of the huge opportunities in the changing world. So with that, why don't we just open the phone lines for your questions?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) John Murphy, Bank of America.

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### John Murphy - BofA Merrill Lynch - Analyst

Good morning, guys. Just a first question on cash flow, which was obviously very strong for the fourth quarter and for the full year.

Bob, as we look at this, the pretax profit that you are looking at for the total company is going to be flat on a year-over-year basis, so I would imagine that's -- or up, but that's not going to have too big an impact that would be negative on free cash flow in 2016. So why sort of the same or lower for the free cash flow number for 2016? Is there something else going on below the line that you either benefited on in 2015 or would be a headwind in 2016?

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

Thanks, John. That's a good question. There are two things to think about in terms of our call for 2016 and one of them is exactly what you mentioned.

If you look -- and I'm on slide 23 here -- if you look at the cash flow for the full year, you can see a favorable change in working capital. What we benefited from was the fact that in 2014 we had the launch of the F-150 and there was a launch effect at the end of the year as well, so we had a drain down, if you will, that was unusual of working capital.

We kind of restored that or replenished that in 2015 and benefited from that. That does not obviously repeat in 2016, so that's one of the factors.

The other factor on the slide you can see favorable Other and Timing Differences. And at least based on what we're seeing right now for 2016, we don't think we're going to benefit to the same degree in that area of the cash flow statement as well. So those are the two factors that are causing us, at this time, to say that it will still be strong, yet not as strong as what you are seeing here on slide 23.

I think you can get a sense that it's going to be a good number, but just not at the level that we are seeing right now. Of course, we're going to continue to work to try to get everything out that we can and we will update you in the year if things change.



**John Murphy** - BofA Merrill Lynch - Analyst

That's incredibly helpful. Second question is APAC. It seems like you hit a real inflection point here in the fourth quarter. It was a very significant step up on a year-over-year basis, but more importantly on a run rate basis.

Is there anything that would change going forward here in the near term to sort of mitigate that step up? Because it is a big factor in the quarter.

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

John, when you look at the run rate of the fourth quarter -- so your question was -- I mean for 2016, a couple of things. One is, as you know, in the fourth quarter we do have higher dealer stocks due to the seasonal increases as we prepare for the Chinese Lunar New Year selling season. Also, we had a few product launches, so we were stocking up on that.

Obviously, with the -- we have to keep an eye out on what is happening with the renminbi in terms of the currency that is impacting us. And of course, we're going to continue to have investments, particularly engineering, for new products but also to meet the regulatory requirements. So we expect, as you saw from the guidance, to do better in Asia Pacific in 2016, but hopefully that gives you a little flavor of the run rate going in.

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**John Murphy** - BofA Merrill Lynch - Analyst

That's helpful. Then just lastly, residuals seem to be holding up very well for you and the industry. That's important for FMCC; that's also very important for pricing on the new vehicle side.

What are you seeing on residuals? And as we see this constant march on product cadence ramping up, how important it is to keep supporting your residuals and how do you see that impacting pricing for the new vehicles?

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**Marion Harris** - Ford Motor Credit Company - CFO

John, this is Marion Harris. Residual prices recently or auction values have been holding up well. We've seen a little bit of weakness recently, but nothing material.

And I think, as we look forward, with the growth in leasing over the last number of years we do expect to see some higher auction volume coming through over the coming years. And as such, we baked into our plan some expectation of lower used vehicle prices.

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**John Murphy** - BofA Merrill Lynch - Analyst

Okay, thank you very much.

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**Operator**

Colin Langan, UBS.

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**Colin Langan** - UBS - Analyst

Great, thanks for taking my question. One of the big highlights today seems to be the opportunity to see profits improve around the rest of the world. Can you remind us of the longer-term targets you have in those major regions like Europe? And I guess the [pension] may have changed since the last update, which I think was a couple years ago.

And then, particularly Asia ex-China, when do you think maybe get that back to profitability?

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

We would expect Europe to get to sort of a 6% to 8% margin. That's what we're targeting. If you're thinking about Asia Pacific, there I think it would be 8% or maybe it's a bit higher, because you've got the effect of the JV net income with no equity. So actually it could even be higher than that.

Do you remember, Stuart?

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**Stuart Rowley** - Ford Motor Company - VP & Controller

More like over 10.

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

Over 10 on the basis that we report. And in the case of South America, I would just go back to what we did the previous nine years before this particular downturn started. We got very healthy margins there, so I think I would expect to see the same type of margins, but you have to think about South America over big cycles.

You don't look at it year by year so much as you think about, okay, what did I get over this nine years? What am I suffering from right now? Then it will come back once the world turns again. So I think we think about it that way, but would expect to get very, very strong margins when the cycle turns once again.

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

Then when we think about your question around Asia Pacific outside of China, as you can see we made progress and it's really in a couple of different areas. One is in the ASEAN markets we made a lot of progress and part of that was the industry getting better, but also we saw a lot of good mix on the back of our Ranger and Everest. The fruits of the labor of our Australian transformation plan are really starting to take hold, as well as some capacity actions that we took in India.

So we will continue to work on that. We have seen some good improvement this year and we're going to work very hard to continue that in 2016, Colin.

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**Colin Langan** - UBS - Analyst

Okay, great. Any color on the pricing environment around the world? There's been a lot of concern about Europe and China. How is it looking for you and how are you thinking about it the next year?

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

Well, when you look at Europe, we are still -- it's still a challenging pricing environment. Probably more challenging in the non-euro countries like UK and Sweden, as those currencies have strengthened against the euro, but we're still seeing a challenging situation there.

I think the good news is, when you look at our performance on the back of our new products, we actually had positive pricing performance. So I think it's showing that the investments that we are making for our products are paying off.

In China, a little bit of a different story. We saw negative pricing in the industry of about 6% last year. We actually saw it probably peak at about 8% in the fourth quarter, part of that was the purchase tax reduction. And as we go forward into this year, we think we will see it in that 6% range and again we will see how we go going forward.

Here in North America I think on the truck side it's pretty healthy. Obviously, we are seeing more competition on the car side, particularly the sedan side, given the migration we are seeing from customers.

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**Colin Langan** - UBS - Analyst

One last question. I get a lot of questions around the financing market in the US. It seems like Ford Credit's results are actually quite solid and stable. What are you seeing in the market? Are you seeing issues with subprime in particular? Any challenges out there that you are seeing in terms of the lending market for auto?

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**Marion Harris** - Ford Motor Credit Company - CFO

Colin, this is Marion. No, we really not; and I know there's a lot of discussion about this, but with the exception of a trend in longer-term financing, we're not seeing any weakness in the consumer at all. In fact, delinquencies, which are a leading indicator, where at an all-time record low for us.

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

I think our mix of high risk is what it always is, 5%, 6%, right?

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**Marion Harris** - Ford Motor Credit Company - CFO

That's right and so our underwriting standards have remained consistent and our portfolio continues to be very robust.

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**Colin Langan** - UBS - Analyst

Okay, all right. Thank you very much.

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**Operator**

Dan Galves, Credit Suisse.

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**Dan Galves** - Credit Suisse - Analyst

Good morning, thanks for taking my questions. Just looking at the dealer stocks in the appendix, pretty big increase sequentially, like 11%, globally and some of the markets are up year over year a lot more than overall industry demand is.

So I guess could you comment on the sequential increase in stocks? Is that normal for this time of year? And then looking forward, can you give us any color on what you are expecting in terms of year-over-year full-year production growth for Ford in 2016?

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

Dan, this is Mark. When you look at the stocks, again you have to put into relation where the markets are going. In the US, for example, when you look at it on a days' supply basis, we are only up one day from 2014, so we think we're in pretty good shape there.

Europe, we are probably about four days above last year, but that is taking into account the growth that we are seeing as we went from quarter to quarter. And we are actually seeing in January the growth in Europe continuing, so we think we're in good shape there. And in China, as we mentioned earlier, we do have the seasonal increases in stocks as we get ready for the Chinese New Year.

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

Yes, then in terms of what we are expecting for 2016, Dan, we do expect to see growth in volume in 2016. It's going to be different by region. So we will have higher production, but we're not going to provide any specific details at this time.

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**Dan Galves** - Credit Suisse - Analyst

Okay, got it. Then on the North America margins, obviously really solid right now. Are you sticking to the 8% to 10% kind of long-term number, even though the pension accounting change added 100 basis points? Just wanted to ask that question.

And then, how should we think about the margin level, let's say, if -- at kind of more of a North America trend demand level or US trend demand level in the 15 million range, how should we think about decremental margins if eventually we did get a bit of a downtick in the US?

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

That's a good question. When we developed the 8% to 10%, this was before -- this was quite a number of years ago, actually.

Since then we have had this big reduction in interest rates, which really drove very big increases in these remeasurement losses, which is one of the reasons why after we saw this occur and understood how the market was really quite sophisticated in understanding the Company's results when they treated it in the way that we are now treating it. And so we decided to move in that direction so that you could clearly see the operating performance of the business.

We developed the 8% to 10% before that, so I would say we're back to where we were in terms of the effect of that on the business. And we developed the 8% to 10%, think of it as over a longer business cycle. It's not peak. We'd actually like to -- maybe we will be a bit below that in a downturn, but we would like an average to sort of be around that 8% to 10%.

And so we see that is something that we are aspiring to. We think with the breakeven that we have with North America that that's probably where we would be. But going forward, as we have said, we are operating at this 10% level. In fact, in two of the last four years I think we were over 11%, if I'm not mistaken.

So we clearly can go higher and we are continuing to work to do that, and certainly Joe is working to stay at the level that we have been the last several years and do even better if possible. But we are operating at benchmark levels and the results speak for themselves.

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**Dan Galves** - Credit Suisse - Analyst

Thanks very much, appreciate it.

**Operator**

Pat Archambault, Goldman Sachs.

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**Pat Archambault** - *Goldman Sachs - Analyst*

Thank you very much. Just a couple of follow-ups. I guess for the North America profit walk, for the fourth quarter on slide 13, just wanted to understand how we see those costs playing out over the course of 2016.

We appreciate the detail here. I think it's very helpful, but there seems to be some moving parts that will affect distinct parts of the year. We have the anniversary of the launch or the ramp of the F-150, the launch of the Super Duty, and then presumably there's also opportunities that you have to take costs out of the existing F-150. So how do those things interplay as we think about the cost performance for 2016?

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

I think what you will see in 2016 is that you will see, as I mentioned earlier, less tailwinds, although still tailwinds, from the market factors. In terms of the cost, you will see less of an impact on the contribution costs and particularly the product costs, because we had the big effect in 2015 versus 2014 because of the F-150, but also we had the Edge and Mustang and some other products. In 2016 you won't see such a big effect so I see much less of an increase in contribution costs in North America than we saw in 2015.

And then in terms of the structural costs, we will have an increase. A lot of that will be in manufacturing. It will be in engineering and some of the other aspect of the business including, frankly, some of the initiatives that we are working on in Smart Mobility.

But I think, overall, you will see much less of a cost increase in North America in 2016 than we had in 2015. But it will be largely driven by the performance and contribution cost.

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

The only thing I would add, Pat, is, as we look at the costs, particularly Bob mentioned the contribution costs, we are also going to get the full-year benefit of the pricing power that we are seeing from these new products. Whether it's the Edge or the Lincoln MKX or the F-150, particularly in the second half of last year, we get the full benefit of that.

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**Pat Archambault** - *Goldman Sachs - Analyst*

Got it, makes sense. One just addition there on commodities. I think, if I'm paraphrasing you guys correctly at the Detroit Auto Show, that was a fairly small positive and likely offset by FX I think was maybe the commentary.

Even since then commodities have continued to go down. Is there maybe a potential upside risk there, just given where some of these things are tracking?

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

Yes, we saw -- I'm not looking at the numbers, but I think it was \$930 million of good news on commodities for the Company and a lot of that in North America in 2015. And then we had the \$249 million of exchange.

Things are moving. In fact, since we talked at Deutsche Bank, things have moved. If we look at this year -- and I just got with the team yesterday and we looked at this -- I think we will still see positive performance from commodities. It won't be quite as great, based on what we are looking at right now, as it was in 2015, but it will be positive. And we will have some headwinds on the exchange.

So I think the net of the two at the moment -- and, again, it changes every day, as you highlighted -- that the net of the two won't be quite as strong as it was in 2015.

The other thing I would just highlight so everyone understands is that we basically have already locked in about a third of our commodities exposure either through contracts, largely on steel, and/or hedging that we do on some of the base metals, including aluminum, which is the second-largest exposure that we have.

The other thing is that our policy on hedging for exchange is basically to have the operating exposure that we have identified across the full year largely hedged. On key currencies, not every currency because we leave some unhedged because we believe that they naturally are hedged with some of the commodities.

But we lock in some of those commodities 100% on an operating basis at the beginning of the year and that's the position that we're in right now. We do that not to play the market, but we are trying to reduce the volatility, both in terms of the impact of commodities and the impact of exchange, operating exchange.

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**Pat Archambault** - *Goldman Sachs - Analyst*

Okay, great. Thanks, appreciate the color.

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**Operator**

Brian Johnson, Barclays.

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**Brian Johnson** - *Barclays Capital - Analyst*

Yes, good morning. Question really probably for Mark, because I don't believe Joe is on the phone.

If we kind of think about the overall environment in North America just around in energy prices, it's almost like the opposite of 2007-2008. We've got gas prices approaching \$1 in some places. Apparently your pickup truck sales and light truck sales overall are very strong.

But within your results, can you give us a sense of what the drag is on cars? Maybe recap some of the capacity actions taken.

And then with regard to the light trucks, since this low gas prices hasn't been lost on others, we heard from a competitor in your suburbs yesterday about adding SUV and pickup truck capacity. Some of the Asians seem to be converting cars to CUV capacity. How do you see the capacity situation in the industry for light trucks versus cars going forward?

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

Brian, for your first question, if you can tell me where that gas station is that's selling gas for \$1, I'm there because that's a good price. But, yes, we are seeing gas prices here in the Detroit area about \$1.50.

As you think about the second part of your question on SUV capacity, we think, given our view of where the market is going, that I think we are well-positioned to capitalize on both SUV and trucks. We have opportunities to -- in terms of capacity, we're nearly there, but we have opportunities to add line speeds, work during some of the shutdown periods, etc. So I think we are well positioned there.

And in terms of the car capacity, as you know we did take some downtime in, for example, our Michigan Assembly Plant to make sure our stock is in line for vehicles like our Focus. But, overall, we will just continue to work our process. And you know our process, it's always matching production to demand and we will adjust as necessary.

Just two more things on the truck piece of it, getting a little bit more specific. You may have seen the other day we announced that in our Ohio assembly facility we're actually adding Super Duty capacity and also at our Louisville assembly plant, where we make the Escape, we are actually putting in some increased line speeds. So we will watch the market and be balanced in our inventories and focusing on profitable growth.

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

Just jumping on that, those are the types of costs that show up in that volume-related aspect of manufacturing structural costs. So obviously they come in, but they can also come off in the downturn.

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**Brian Johnson** - Barclays Capital - Analyst

In terms of the mix versus -- or the pricing versus contribution cost variance in cars, are you seeing pressure in pricing in cars? And so is there sort of a tale of two cities within the profit walks that you're not -- that obviously wouldn't show it, but just directionally?

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

In the marketplace, it's very clear you are seeing, as a percentage of variable marketing, as a percent of the transaction or the MSRP, it is clearly higher on the car side. And I think that's reflective of any segmentation shifts that we are seeing.

There's a number of our competitors that really want to defend that. We want to make sure, as usual, we're taking a balanced approach to profitable growth, and as we said, we will just work our process of matching production to demand.

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**Brian Johnson** - Barclays Capital - Analyst

Okay. Then just finally on that, why not over the midterm have more plants that can flex back and forth like the one here in Chicago? Between cars and light trucks.

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

As you know, if you look -- actually over the last seven or eight years, as you look across our plants, we have increased the flexibility. And I think you can assume that going forward we're going to continue to walk down that path, because we've always said we want to make sure we position ourselves for market changes. So I think you can be assured we're going to continue down that path.

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**Brian Johnson** - Barclays Capital - Analyst

Okay, thanks.

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**Operator**

Joseph Spak, RBC.

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**Joseph Spak** - RBC Capital Markets - Analyst

Thanks for taking the question. I guess just going back to some of the announcements and comments around Detroit and then, Mark, again you talked about this transformation into more of a mobility company. It's clear that partners are going to become important. I think you have already seen that with some of your announcements.

I realize it varies depending on what you are trying to do, but can you give us some sense as to how you go about that process? Especially since you could build the case that in some areas, depending on the partner or the function, that could theoretically distract the consumer from the Ford brand and potentially even marginalize the brand.

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

Thanks for the question, Joe. When you look at where we are heading, we said we were transforming into an auto and a mobility company because it's really important that we don't lose sight of our core business, as I mentioned in our remarks upfront.

But when we look at partnering, first off we -- in some cases -- I will use an example of the Amazon relationship that we have. That really came out of an idea from one of our folks in our Palo Alto facility and happened to also bump into one of the Amazon folks in the Valley. So part of it is just discovery that happens.

The other piece is, as we identify a need in the marketplace, we look within ourselves and we say: what are our core competencies? In some cases we convince ourselves we can fulfill that need on our own. In other cases we can say, listen, there are other great companies out there that we can approach and partner with.

So that's kind of the process that we are going through to identify these opportunities and then to execute them.

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**Joseph Spak** - RBC Capital Markets - Analyst

Thanks for the color, guys.

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**Operator**

Rod Lache, Deutsche Bank.

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**Rod Lache** - Deutsche Bank - Analyst

Good morning, everybody. Just a couple things. First, you've been asked this in some ways, strategy in passenger cars. Obviously, some competitors are acknowledging that in some markets like North America passenger cars are going to be tough for as far as the eye can see, assuming oil stays where it is.

And you see what GM is doing with capacity and yesterday FCA saying they are going to outsource the Dart and the Chrysler 200. Haven't heard anything along those lines from Ford.



Is the bottom line that you just have to accept lower margins in certain segments in order to have a balanced approach, or is there a plan to address the passenger car situation more broadly?

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

As you know, Rod, we are always looking to be as efficient as possible. And to your point, in every product that we bring out we want to make sure we're earning our appropriate return on that.

As you think about small cars and just cars in general, we believe very strongly that it's important to have a balanced portfolio because it's to anticipate changes in customer demand, changes in the economic environment or the regulatory environment. So as we go forward, we're going to be very focused on this and understanding, in some cases, what we do on our own.

We are always open to talking with others as we go forward, because we realize that we have to be very realistic around what is the type of revenue that these vehicles will be able to command and make sure we have an appropriate cost structure to earn a reasonable return.

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**Rod Lache** - Deutsche Bank - Analyst

I guess that's TBD on the plans there.

I appreciate the color you provided on the structural cost inflation and where that's coming from. Could you just give us a sense of maybe bracketing how we should be thinking about structural cost inflation in North America as we look out to 2016 in the base case? And in a slowdown, how much latitude do you have to moderate that part of your cost structure?

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

In terms of 2016 over 2015, I think you will probably see less effect of these volume-related costs because of what we have seen -- what we've done last year coming off of 2014 where we had a lot of down weeks and that sort of thing. Also, just we had a really big increase in overall volume year over year.

Don't see that happening to the same degree in 2016. We'll still have some volume-related costs and Mark just referred to a couple of them, but I don't think that will be as much of a factor in 2016 versus 2015.

The key point, which is what you mentioned, Rod, and I think someone else just touched on, but the key point is that we just wanted to highlight that our structural costs aren't necessarily fixed costs. That we've got the ability, when the volume changes or the economic cycle changes, to go in and do something about it.

I think you can see an example of that in South America where, despite really big headwinds on inflation, we are actually getting net reductions through actions that the team are taking, including around some of these volume-related factors, but more broadly across the business. That flexibility is there. I think the way that perhaps we were showing and talking about the structural costs, that wasn't clear, and so we just wanted to make that understandable to the investors.

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**Rod Lache** - Deutsche Bank - Analyst

Okay, thanks. Then just two more last things. One is any color on how you are feeling about credit costs? Obviously, benchmarks and spreads have widened a little bit in certain markets, subprime, ABS. Even the Ford Credit CDS has widened slightly. If that continues, is there something -- is that something the industry absorbs or do you think that gets passed along?



And then just a point of clarification on your Asia earnings guidance for 2016 in the context of I think you said minus 5% pricing. How are you feeling about Asia this year?

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

Let me answer the Asia question, then I'm going to have Marion respond to your other question about the credit spreads.

We factor that in. I think Mark actually mentioned that we were assuming about a 5% or 6% reduction in pricing in China, so we have factored that in. We actually came in line at about that level I think in 2015, so that is consistent with our guidance of higher results in 2016 versus 2015.

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**Marion Harris** - Ford Motor Credit Company - CFO

Okay, Rod. You're absolutely right; credit spreads have been widening out and it has affected us and the industry. But on the other side of that, the base rates have not going up as much as we had anticipated either. And so the actual all-in cost to the consumer hasn't really flowed through yet.

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**Rod Lache** - Deutsche Bank - Analyst

Okay, thank you.

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**Operator**

Matt Stover, Susquehanna Investment Group.

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**Matt Stover** - Susquehanna Financial - Analyst

Thanks. Most of my questions have been answered and I don't want to beat a dead horse, but I kind of want to think about this car problem or car issue because it feels like it's deja vu all over again with the industry.

I know you guys are in a much different place versus FCA in terms of your product and your balance sheet. But I do wonder if you think about this program over the course of the next five years, if there -- or 10 years rather, if there's an opportunity for you to more significantly restructure the cost structure of your small and mid cars. And what I'm specifically speaking about are the transmissions and engines, referring back to some of the work that you've done with GM on transmissions in the pickup truck market.

Are there opportunities for you to husband some capital investment as you think about these new programs to fundamentally improve the cost structure of them, as their near-term demand seems uncertain but long-term demand seems more necessary?

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

Thanks for the question, Matt. You're right; it's a little bit like looking at the crystal ball and your view depends upon the point that you are at. Right now, obviously, we are seeing customers migrate more towards small and medium-size SUVs.

But a simple answer your question, yes, we are looking at all opportunities because we want to make sure that we get a good return on our invested capital. As you saw, we're measuring that and we pay a lot of attention to that as a Company. So we're going to always look at different opportunities to improve the profitability of all of our vehicles, including our small cars.



**Matt Stover** - *Susquehanna Financial - Analyst*

Just out of curiosity from a timing standpoint, has the Board okayed the next-generation Fusion and Focus or is that still something in front of the Board?

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

No, we don't talk about what decisions have been made by the Board, etc. But obviously you are seeing the launch of the freshened Fusion that we saw showed at the North American International Auto Show.

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**Matt Stover** - *Susquehanna Financial - Analyst*

Thanks, Mark.

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**Operator**

Ryan Brinkman, JPMorgan.

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**Ryan Brinkman** - *JPMorgan - Analyst*

Great, thanks for taking my question. Maybe a couple really on sort of the latest that you are seeing in terms of demand in China and the US.

The stock market seems -- the industry market seems actually quite great in both of those countries, but the stock market seemed to sort of reflect the price to the automakers and the suppliers that investors think that these markets could decelerate maybe materially over the short run. So just what you are seeing there, the latest.

For example, in China the big surge in 4Q; does that pull ahead from future periods? And if so, which future periods? Because industry forecasters, like IHS, they are increasing their outlook for 2016 thinking it pulls from 2017, but the investors we talked to think it pulls from much sooner, like as soon as this quarter.

So any color you can provide on what you are seeing in China in January, etc., that would be helpful. Then in the US, too, December was a little bit softer than the preceding months. Are there any signs that the US is really slowing on an underlying basis? Are there any real reasons to think it might slow as the stock prices, including your stock price, seems to maybe imply?

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

Okay, Ryan, thanks for the question. In China obviously, as we mentioned, when you look at the stock market volatility that's endemic of a country that is moving from an investment- and industry-led economy to one that's consumer-led.

Actually, when you look at the components of GDP growth there, the services and the consumer portions of that are actually growing, while some of the industry ones are coming down. And we view that as a good sign. It's going to be a bit bumpy as they go through that transition.

As we mentioned, in the fourth quarter you usually see more production by the industry and by us; that's normal as we get ready for the Chinese New Year. Going in we are in line with our stocks going in to January into China, and as I mentioned, China started off -- the month is starting off strong.

We have seen it moderate in the second half versus the first half, but as I mentioned, really have to wait and see how January and February play out because of where the Chinese New Year falls this year. And we will get a good sense for that. But our view is that the market will grow in China this year and a lot of that on the back of the response we've seen from the purchase tax reduction.

In the case of North America, in terms of the industry, we don't see the cycle being over. We -- obviously the consumer sector drives the majority of the economic growth. All the metrics we are seeing -- wages growing, jobs growing, low interest rates, lower energy costs, those type of things -- are really putting more spending power in the hands of consumers.

And when you marry that with the demographics of the inventory of vehicles that are out there, they are the oldest they have ever been. Pickup trucks also in particular are very old, so we think that bodes well.

As we get into January, what we are seeing -- it will probably be a solid month for the industry, but as you know, January is always a bit of a difficult month to call because it's a small industry. There's lots of seasonality.

Of course, I hate to turn January always into a weather report, but there's always storms and obviously we had that big one on the East Coast. So we could see an industry maybe around 17 million units, maybe somewhere around there.

But I think it's a little bit of a tricky month. But what we are seeing in our business, commercial sales continue to be strong and we will report out on February 2.

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**Ryan Brinkman** - JPMorgan - Analyst

Okay, that's helpful and encouraging color. Thanks a lot.

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**Operator**

Emmanuel Rosner, CLSA.

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**Emmanuel Rosner** - CLSA Limited - Analyst

Good morning, everybody. I appreciate all the color on the profile from North American margins and certainly understand the issue of maybe less industry growth this year and then the Super Duty launch. It also feels like there's a decent amount of it that has to do with investments, maybe not necessarily just for the short term but for the longer term of the business.

Can you give a little more color on that? It just feels, maybe in comparison with some of your competitors, that you seem to be investing more heavily maybe. Can you either put that into buckets or how should we think about these investments and what they are going towards?

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

Let me first start with -- I think we said this at Deutsche Bank -- our Capex for the Company this year is expected to be about \$7.7 billion. I think we came in at \$7.1 billion in 2015, so you can see that that will be increasing again as we invest for future growth.

As I look across the business more broadly, and I think you were talking specifically, Emmanuel, about North America, is that correct?

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**Emmanuel Rosner** - CLSA Limited - Analyst

Yes.

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

There I think we will see -- you'll see higher engineering. The spending related will go up because we have been ahead of the curve in terms of the spending. The D&A is catching up, so that is probably going to be up around \$0.5 billion alone.

And then there's additional investments that we are making to support some of our more future opportunities around Ford Smart Mobility, which we are not going to break out, but clearly that is something that is ahead of us as well. So around product refreshment, powertrain investments to support regulatory actions, and Ford Smart Mobility, and obviously we expect all of them to payoff, which they've done over the last six years.

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**Emmanuel Rosner** - CLSA Limited - Analyst

Great. And then still on the topic of investments, just wanted to ask a little bit more about where you stand now in China. I know you've opened a lot of factories and capacity over the past few years, including in 2015.

Is there more to do? Do you have more in the works or are you pretty much now working at filling this capacity and maximizing what you have?

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

Well, from a capacity standpoint, we are at 2.7 million units across Asia, and when you look at China in particular, we are at 1.9 million. We are adding our Harbin facility a little later this year, so I think we're in good shape, Emmanuel, from a capacity standpoint.

When you look at the investments, as Bob mentioned earlier, the investments on the product freshness in China but also meeting the regulatory requirements, powertrain and those type of things, and also Ford Smart Mobility.

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**Emmanuel Rosner** - CLSA Limited - Analyst

Great, thank you very much.

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**Operator**

(Operator Instructions) Christina Rogers, Wall Street Journal.

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**Christina Rogers** - Wall Street Journal - Media

Thanks for taking the question. First off, on the UAW profit-sharing, how much will that cost in absolute terms? Is this a matter of just taking the \$9,300 per worker and multiplying it by the workforce? And when will that payout be booked? Is it in the first quarter?

My second question is also on the shift in demand to truck. I mean Auto Nation's Mike Jackson just said America has gone truck-crazy and it sounds like there's opportunity there for you to increase production on those vehicles. But I'm wondering will you be taking down passenger car capacity to do that?

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

Okay, Christina, on your question on UAW profit, it's generally in line. But, again, the profit-sharing checks we say on average is \$9,300; depends on how many hours have been worked by the employee, etc. And that profit-sharing check will be paid in the first quarter.

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

And it's booked in the first quarter.

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

And it's booked in the first quarter as well.

When you think about trucks, I mean obviously we have our capacity; it is a medium-term thing. But in general when you look at trucks -- let me just focus on F-Series for a minute. We're going to have -- we expect actually our volume on F-150 we think there is upside opportunity this year to grow it versus 2015, because we now have the availability of regular cabs and super cabs. We didn't have a lot of availability of that and so that will give us some good entry points, both from the mid and the entry-level price points.

So we think we have opportunity to grow, at least our volume, in F-150. But over the longer term, again we will make our assumptions around where we think the segmentation is going and make appropriate capacity changes. Just in the short term, as we talked about earlier, line shift speeds or line speed adjustments and working shutdowns.

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

Just to clarify, we pay it in the first quarter, although \$1,500 of that was paid in the fourth quarter that was that (multiple speakers). And we accrued that throughout 2015, so we accrue in advance.

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**Christina Rogers** - Wall Street Journal - Media

What would the total charge look like in the first quarter for the payouts? Do you have like (multiple speakers)?

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

It's a cash outflow, it's not a profit hit because we accrued for it during 2015. So that profit recognition is behind us. It's in the results that you are seeing today.

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**Christina Rogers** - Wall Street Journal - Media

Okay, okay. Then regarding the passenger car capacity, will you be looking to take that down as you increase volume on the truck and SUV side?

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

That will be based on our view of segmentation going forward, so that will be part of our business planning process.

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**Christina Rogers** - Wall Street Journal - Media

Thank you.

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**Operator**

Bob Gritzinger, WardsAuto.

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**Bob Gritzinger - WardsAuto - Media**

Thanks for taking my call. I noted that you are dropping out of the Japanese and Indonesian markets in the coming year. Are there other small-volume markets that you are considering pulling out of?

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

Obviously, we announced Japan and Indonesia. We are going to follow our normal process. We are committed to serving global markets, but also at the same time we are committed to aggressively restructuring parts of our business where we don't see a reasonable path to sustained profitability or a return on our investment over a reasonable period of time. So we will continue to work that process going forward, but nothing to announce.

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**Bob Gritzinger - WardsAuto - Media**

Okay, good. Thanks for taking my call.

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**Operator**

Thank you. We have no more questions at this time, so now I'd like to turn the call back over to Mr. Ted Cannis. Please go ahead.

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**Ted Cannis - Ford Motor Company - Executive Director, IR**

Thank you very much, everybody, for joining the call today. We will see you soon.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a good day.

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