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EDITED TRANSCRIPT

F - Q1 2016 Ford Motor Co Earnings Call

EVENT DATE/TIME: APRIL 28, 2016 / 1:00PM GMT



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PRESENTATION

Operator

Good morning. My name is Tiffany and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford first-quarter earnings conference call. (Operator Instructions)

Thank you. I would now like to turn the call over to Ted Cannis, Executive Director, Ford Investor Relations.

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

All right. Thanks very much, Tiffany. Good morning and welcome, everybody, for the first-quarter 2016 financial results. As normal, copies of the press release and the presentation slides are available on Ford's investor website and the media websites.

As always, the results discussed today include some non-GAAP references and those are reconciled to the US GAAP equivalent in the appendix to the slides. Also, today's presentation includes some forward-looking statements about our expectations for future performance. Actual results may vary and those most significant factors are included in our presentation.

Also, by the way, later today we will be issuing the 10-Q and Ford Credit will be hosting a call at 11 AM to review their results.



Now presenting today and we will have a few more comments, Mark Fields, our President and CEO; Bob Shanks, our Chief Financial Officer. Also participating are Stuart Rowley, Vice President and Controller; Neil Schloss, Vice President and Corporate Treasurer; Paul Andonian, Director of Corporate Accounting; and Marion Harris, our Ford Credit CFO.

Before we dive in, we just made some changes to the presentation just to make it a little clearer for you; a bit of a more overall look to the business and highlight key points. And also, we just wanted to show you how we're continuing to focus on creating value and driving our long-term growth.

With that, Mark, ready to go.

Mark Fields - Ford Motor Company - President & CEO

Thanks, Ted, and good morning, everyone. We have some very strong results to share with you today. In fact, an all-time record quarter for the Company and very strong performance across the business.

Our company pretax profit came in at \$3.8 billion and that was \$2.1 billion better than a year ago. Our net income was \$2.5 billion and our operating earnings per share was \$0.68. Both those results are more than double versus last year. Our revenue was \$37.7 billion and that was up \$3.8 billion, increasing 15% from last year at constant exchange and 11% as reported.

We grew global market share from 6.9% to 7.1% and that was driven by improvements in North America, Europe, and our Asia Pacific regions. Our Automotive operating margin came in at 9.8% and that was a quarterly record, and Automotive operating-related cash flow was \$2.7 billion and that was a record for the first quarter. We also provided \$1.7 billion of distributions to our shareholders in the quarter as well.

We had tremendous performance across our portfolio of businesses. Here in North America we achieved a record quarterly profit and a record operating margin of 12.9%. Looking at Europe, we earned \$434 million in the quarter and that was up \$476 million from a year ago. This was also our fourth consecutive profitable quarter in Europe.

Our revenue in Asia Pacific climbed 18% to \$2.7 billion and pretax profit more than doubled. And Ford Credit grew pretax profit and they delivered more than \$500 million in the quarter.

So all-in-all, a very strong start to the year and, given our strong start, we remain confident in our expectations to deliver another strong year in 2016. We're taking the opportunity today to reaffirm the guidance for the Company that we gave in January, which is to deliver performance equal to or better than last year's record.

Now let's turn to slide 4. We are continuously focused on the four drivers of shareholder value that you can see on the screen here. That is about growth, returns, risk, and rewards.

First, let's talk about growth. Growth is strong and it's especially evident in our trucks, our SUVs, and as we pursue expansion into mobility.

Second, let's focus on returns. We expect strong returns from our healthy mix, targeted increases in investments that will make the business stronger in the years ahead, and diversifying regional profitability. This includes continuing our momentum in Europe and Asia, acting decisively in South America, reducing high-cost car capacity, of course increasing efficiencies across the business, and leveraging partnerships where we can.

Third, let's turn to risk. Our risk profile is improving as we work to reduce our breakeven levels globally with a focus on sustaining our robust structure in North America, strengthening our regional diversity, and maintaining one of the strongest balance sheets in the industry.

And finally, let's talk about rewards. We're continuing to reward our shareholders with the payout of our regular dividend, plus a supplemental dividend, and we will remain absolutely focused on driving total shareholder returns and ensuring we maintain our regular dividend through a downturn.

Looking at the first quarter on slide 5, as I mentioned earlier, we made a lot of progress in all four focus areas. We grew our top line and announced actions to continue to grow our core business, while expanding our business model into new areas of emerging opportunities around mobility. Our returns were strong, setting a number of records as I mentioned earlier, and demonstrating very strong broad-based performance.

In terms of risks, our business units outside of North America collectively were profitable and improved year over year. We also at the same time saw the progress we've made in improving our risk profile, which was recognized by ratings upgrades in the quarter by Moody's, S&P, and DBRS. And finally, in terms of rewards, we increased distributions with the addition of a supplemental dividend of \$1 billion.

Looking at slide 6, among some of the other quarter's -- other highlights we were recognized for the strength of our products, notably the F-150, as well as for our ethics as the only automaker on the list of the World's Most Ethical Companies. We continue progress in our journey to grow the Lincoln brand and, of course, advances in new technologies and new mobility projects.

So with that, now let's turn to our view of the global business environment and what's ahead. Looking at the global business environment on slide 7, conditions remain broadly supportive of growth in the global economy. This will be driven by the US; continued modest recovery in the Euro area; growth in the UK, despite probably some increased volatility that we are seeing ahead of the June Brexit referendum; and continued growth in China, although at slower pace that we've seen in recent years. We also expect conditions in Brazil and Russia to remain difficult through 2016.

And before I turn it over to Bob, who will take us through some of the details of our performance, let me just underscore again the strength and the broad-based nature of the record quarter that our team delivered, the very strong start to the year, and our expectations to deliver another strong year in 2016.

With that, Bob, do you want to take it away?

Bob Shanks - Ford Motor Company - EVP & CFO

I sure will. So let's start the financial review here on slide 9 by looking at the key financial metrics, both for the Company and also the automotive and the financial services sector. Because I'm going to cover many of these metrics on subsequent slides, I just want to pull out a few things from this one.

First, I'd ask you look at the year-over-year performance in the column to the right. Just scan down that column and you can see everything is essentially positive and very, very positive versus a year ago. The one exception is special items.

We did not have any special items a year ago. We have two that we are booking in this quarter. The larger of the two was at \$186 million; relates to buyouts that were part of the UAW contract that we agreed in the fourth quarter. The remainder of the special items relate to charges associated with our exits from the Japanese and the Indonesian markets.

If you go just above that you can see our operating EPS of \$0.68, \$0.39 better than where we were a year ago, so more than doubling that. And if you go down two lines to after-tax results or net income at \$2.5 billion, again we more than doubled that particular metric. What's not shown on the slide is our tax rate that came in at 29.5%, which was lower than what it was a year ago.

So with that let's turn to the next slide and here we will look at the Company results. These are absolutes and we will look at it by segment.

To the far left you can see the record profit of \$3.8 billion. Going right beside that we've got the North American result, \$3.1 billion. Go to the far right, financial services came in very strong at about \$0.5 billion, and within that Ford Credit was \$514 million.

We had the best result in Europe since 2008 at \$434 million. We doubled our profit in Asia Pacific at \$220 million and then in South America we had a loss, as expected, and in the Middle East & Africa we fell into a loss driven by largely the external environment exchange. And I will talk about that in a bit.

And in Other Automotive that's largely net interest expense.

Now when you look at the operations outside of North America, the business units outside North America, we did make a profit there. It was nearly \$400 million and that was more than \$400 million better than a year ago.

All right, let's go to the next slide and we will start going through the details of the automotive sector starting with the sector itself. These are the key metrics and as you just scan across you can see all of them very, very strong and all of them improved compared with 2015 first quarter.

Starting at the left, we had strong growth in the top line, both wholesales and revenue up double digits. Revenue at constant exchange was actually up 15%. We grew our market share and that was in a global SAAR that also grew, up 3%. And that was around North America, Asia Pacific, and Europe.

Operating margin was a record at 9.8%, up sharply, and then Automotive also set a record at \$3.3 billion. Again, up sharply from where we were a year ago.

Let's go to the next slide and we will look at what was behind the improvement. This is slide 12. A \$2 billion improvement and, as you can see, it was driven largely by higher volume, favorable mix, and favorable cost performance, driven by favorable contribution cost.

We did have negative net pricing, but within that \$548 million decline there was a one-time stock accrual effect that I will talk about in just a minute. And that was over \$600 million.

You will note in the callout box for volume and mix, mix and other we had over \$1 billion of good news on product mix. And that was a theme that really drove performance, not only in North America, but also in Europe and in Asia Pacific.

Let's go to the next slide. Now we will start going through the business units with North America.

North America, of course, had extraordinary performance and it was very, very strong right across the board. Very strong improvement in the top line at over 20%. Revenue about the same.

Market share was up in a growing industry, both for the region and in the US, and that was driven by two things. One, it was in North America -- rather, in US and it was fleet sales. It was around SUVs, Transit, and F-Series.

But also in Canada. We had very strong performance in Canada. We were up 1.5 points of share; that was driven by F-150 and by the Edge.

Operating margin of 12.9%, a record, and then the \$3.1 billion that we talked about earlier. So really, really strong performance in North America.

Mark Fields - Ford Motor Company - President & CEO

Just some -- we have gotten some questions around fleet sales and Bob mentioned fleet. There's just absolutely no change to our approach in fleet.

Fleet is good business for us, including rental, commercial, and government sales. We understand these customers real well; their use cases.

Rental deliveries, as we've said before, were frontloaded this year. This is primarily due to the model year changeover, which in some of our vehicles was late last year, and based on rental company requests. Because keep in mind, rental companies like to purchase their vehicles as close as possible to job one as possible.

For the full year, we expect our rental sales to be about the same as last year with government and commercial sales up slightly, driven by the availability of the new F-150, because a lot of variants have now come on board. So we have good margins in the fleet business and, as you can see, they contributed nicely to a record performance in the quarter in North America.

Bob Shanks - Ford Motor Company - EVP & CFO

Thanks, Mark. Let's go to the next slide and we will look at what drove the improvement in North America's results of \$1.5 billion.

As you can see here, it was higher volume, it was favorable mix, and it was lower cost performance. So it was very strong in some really key parts of the business.

Within -- there's three or four things I want to call out here. If you look at the stock performance of \$691 million in the callout box there for volume and mix, that is more than explained by the F-Series.

This time last year we were launching F-Series -- F-150, rather, in Kansas City. Obviously, that's behind us now and we're operating both Dearborn and Kansas City at three crews. So that's simply reversing what was an anomaly last year and making it more normal. So on a year-over-year basis picked up that good news.

If you go into mix, mix and other, about \$0.5 billion of that was actually favorable product mix. Again that was around returning to normal with F-150, but also a year ago we were launching the Oakville products, the Edge as well as the MKX. We are benefiting from the fact that that plant is now up and running and we've got normal supply of those successful products.

If you go into the net pricing, this one is interesting. You can see the incentives and other of negative \$1.2 billion. Half of that, half of that is a one-time stock accrual that is taking place and most of that, about 80% of it, again is driven by the anomaly of last year. Last year, because we were launching the F-150 at Kansas City, we had extremely low levels of inventory and we also had very low levels of incentives.

In the first quarter this year, of course we had normal supply. The incentives, while they are still lower than our domestic competitors, they're at what we would consider to be normal levels and so that effect is reflected in the stock adjustment.

If you think about it, that's an accounting adjustment. It didn't have any effect in the quarter in terms of what incentives were given to customers. And so, if you take that out, we actually had somewhat positive -- small, but positive net pricing. Then with the favorable mix that I talked about, we ended up having higher US retail transaction prices. They were up about \$1,500 if you exclude lease.

Okay, let's go to the next slide. We will look at South America.

South America, the team is doing a great job in a very, very difficult environment. And this is really around Brazil, because we actually are very encouraged by what we're seeing in Argentina from the actions that the government, the new government has taken since it has come into power. Very, very positive and really bodes well for what we can see from that part of the region in the months and years ahead.

But if you look at the metrics, we did have a sharp decline in wholesale, down 38%. Revenue was down 44%. Half of that actually was exchange.

If you look at market share, we had a decline. As we pulled back from certain sales, it just didn't make any sense in terms of profitability, so we lost share, if you will, in an industry that was down. The results of that is we had a sharp decline in the operating margin and we were able to keep the increased loss, if you will, to about \$67 million. And we will go through that on the next slide, please, slide 16.

This was really around industry volume. You can see that we had a negative industry volume, effect of \$91 million. That was Brazil itself down 29%.

The team continued to do a great job on cost performance. Last year we did over \$400 million in terms of cost performance. We did \$76 million in the quarter and during the quarter -- and there's not much effect from this, but during the quarter we did remove the third crew at Camacari, which is something I mentioned to the analysts and investors that were listening in on the Let's Chat call back in March.

Teams still working to get more costs out because the environment is still very, very difficult. We still expect probably next year that we will start to see things bottom out, particularly from the commodity cycle, and start to turn around.

Let's go to the next slide and we will turn to Europe, which is a great, great story. Europe, if you look at the metrics, wholesale volume up, while revenue as reported was flat. Actually up 6% at constant exchange.

We had higher share in an industry that was growing. That share was driven in terms of markets by Italy, Germany, and Russia. In terms of product, it was basically SUVs and commercial vehicles.

The operating margin was over 6%. And again that profit, that was the best that we've had since 2008. So very, very strong performance in Europe.

Let's go to the next slide and see how we got there. The improvement of nearly \$0.5 billion came from everything. Industry was favorable. The volume factors were favorable. The mix was favorable to the tune, within that \$160 million that's shown on the slide, of about \$300 million that was both product mix from what we've done around the products over the last number of years, as well as series mix and options.

And then we had favorable cost performance, both contribution costs and structural costs. And even though it's not shown on the slide, even though the Russian market continues to be very challenging, actually Russia improved on a year-over-year basis as well. So the team really delivering across all aspects of the business in Europe and you can see the results of that.

Mark Fields - Ford Motor Company - President & CEO

Just a little bit more color on Europe. If you recall, a central part of our European transformation plan that we launched at the end of 2012 was continuing to invest in our core business of great product. And as you can see from the results here, it's really starting to pay off.

Actually our average transaction prices in Europe on a year-over-year basis were up over \$1,200 and actually our high series models and Sport derivatives accounted for 60% of our Ford passenger vehicle sales. Things like Titanium, Vignale, ST versions of Focus and Fiesta, and even Mustang, which I don't know if you caught this, but in March, Mustang was the best-selling sports car in Germany, beating folks like Porsche 911.

So this is really allowing us to accelerate our efforts in total. Many of the things that we saw in the North American turnaround we have used as a blueprint for Europe and it's paying off.

Bob Shanks - Ford Motor Company - EVP & CFO

Great, let's go on to the next region, Middle East & Africa. This is a region also that has many, many challenges externally: geopolitical issues, weak currencies, a number of the markets are major oil producers and so they are suffering, if you will, in terms of low oil prices.

But within that environment the team basically held on wholesales. Revenue was actually flat, excluding exchange. As reported, it was down 9%.

We held our own in terms of share and that was in a declining industry. It was down about 7%, 8%. But if you take Iran out, which actually is growing, and we don't participate in Iran, it was down over 20%.

In that environment we did move into a small loss of \$14 million and that was largely driven by weakness of the South African rand. We've got operations in South Africa and adversely impacted by the weakness of that currency.



All right, let's go to the next slide and turn to the great story here in Asia Pacific. They had another strong quarter driven by new products. You can see wholesale is up 9%. Revenue up 18%, 25% at constant exchange.

Here we also grew share in a region that also was growing. The AP SAAR was up over 2 million units, as was China, so strong performance there that was really driven by the new products that we have introduced. And China was one of the big factors there as well in terms of market contribution to the share.

But we saw share improvement in Australia, New Zealand, South Korea, ASEAN, Australia so a lot of good things going on in terms of market performance across the region.

Our operating margin was over 8% and the pretax results at \$220. On the lower right of the slide, slide 20 -- I don't think I mentioned that -- you can see the very strong performance we had from our China JVs that came in at \$443 million. That was up sharply, over 20%, and they generated a margin of 16.4%.

The other good thing about the performance in the region is that we had good news coming from China, but we also had good news coming from the other parts of the region: India, ASEAN, and Australia. So that was very encouraging.

Let's go to the next slide and this is how we got there. It was largely around volume, so industry share and then the favorable mix that I had mentioned earlier. This was again driven by the new products. Edge was one of the big factors, but we saw good news from the Ranger, we saw good news from Mondeo, and a number of other products. Again, a broad-based contribution there.

Mark Fields - Ford Motor Company - President & CEO

I just came back from the Beijing Auto Show and it was very interesting to see consumers' almost fervor for SUVs. You saw it not only in the exhibitors that were there, but just looking at the folks that were crowded around the vehicles. And I think the investments that we've made over the last couple of years to have a full lineup of SUVs -- small, medium, and large -- is really great for timing of the market.

At the same time we introduced the Raptor. And I have tell you, I, literally, had to, as we were done presenting it, run out of the way because of the people running up to the vehicle. I think that vehicle will do well. Not only just from a sales standpoint -- and it won't play a major role, but we will sell, I think, every one we can -- but what it will do to continue to accelerate the perception of our brand.

Bob Shanks - Ford Motor Company - EVP & CFO

Okay. Let's move on to another part of the business we absolutely love, that's Ford Credit. I should mention that today at 11 o'clock, and the details are in the press release, we are going to have a Ford Credit earnings call for the first time. And that will be led by Bernard Silverstone and Marion Harris.

You will be able to get much more deeply into that part of the business, but we have added some extra slides and data here to support this call, so let's go through it.

On slide 22, you can see contract volume was flat. We grew everywhere with the exception of the US, and that was largely driven by the type of marketing programs that we had in effect in the US in the first quarter. Managed receivables were up. Pretax results over \$0.5 billion, as I mentioned, and up.

If we look at some of the metrics around US retail and lease performance, we still had a very strong FICO score. If you look at the delinquencies, over 60 days they were only up 1 basis point; loss to receivables up 11 basis points. And those are levels that we still consider to be at the very low end of our historical performance, so very healthy.



Let's go to the next slide and look at the improved results year over year of \$31 million that was driven by a strong growth in all of our products and regions. We did have unfavorable performance in credit losses and also lease residuals. I kind of referred to the lease residual performance at Let's Chat in March and that was driven by a couple of factors.

One, we had losses on units that came in during the quarter and we also have an expectation of lower auction values going forward. So we have had an impact in terms of accumulated supplemental depreciation and that is very much in line with what I said at Let's Chat about that metric coming in: bad news year over year, but less than \$100 million.

If you look at the credit loss, that was also impacted. There were two things there. Charge-offs increased related to severities and then we also have increases to the reserves. Expectations, again, of the impact of lower auction values going forward, but also just the business being bigger.

Let's go to the next slide. This is an added slide giving you some additional metrics around some areas that I know of interest from analysts and investors.

On the upper left, if you look at lease performance, the industry has been -- we have been seeing increasing lease rates over the last number of years, but even during the last few quarters. And you can see in the first quarter it was 32%.

We have traditionally not been at the same level as the industry, which was the case. In the first quarter we came in at 26%. Our expectations are that for the full year we will come in at a level that will be below that. Again, we are continuing to follow a proprietary modeling that we do of lease, making sure that we don't have any concentration of risk, whether it's geographical, product series, and so forth. We are very comfortable at the level of leasing, but that number will come down for the full year.

On the bottom just beneath that, you can see our experience in terms of auction values at first-quarter mix across all periods there. And you can see that we have seen a decline in both 24-month and 36-month auction values versus a year ago.

We are up sequentially from the first -- from the fourth quarter. We would normally have expected that increase to be higher. It hasn't occurred and that is largely based on supply. We have, across the industry, more units coming back from the increasing rates of lease over the last number of years. We will have about 200,000 units coming back this year.

Demand, for us anyway, is still very healthy and about where it has been; we just have more units coming back. So we have assumed going forward, as I mentioned earlier, lower auction values. And that's built into our guidance.

If you go to the upper right, you can see the retail contract placement terms, our experienced. Of course, this has been, again, an industry trend of longer-term placement terms, for us at least, over the last number of quarters. We are sort of around that 64-month level.

We do have -- we are participating in terms that exceed that and you can see that on the line. About 3% to 4% of our business has been at 73 months or higher, which is well below what the industry is at.

If you go below that you can see our FICO scores. You can see we did have a decline in the first quarter. That is not unusual. We've gone back and looked at the last five years, and when you generally see that happen, a lot of that is mainly due to the types of marketing programs that we have in place in the quarter, which tends to drive a little bit fewer customers to Ford Credit than to other alternative financing.

If you look at the line, you can see our risk portfolio continues to be in that 5% to 6% range that we've had for quite a number of years. So very robust balance sheet and strong performance by Ford Credit.

All right, let's go to the next slide and we will look at cash. This is slide 25. I think the best thing to say about the very strong performance on cash flow is it just underscores the quality of the earnings.



You can see the \$3.3 billion of automotive pretax profit. Over 80% of that flew right through to cash flow, so it's very, very strong quality of earnings message there. With that cash flow we had some paydown of debt, normal maturities. We did fund some of our funded pension plans. We're still on track to \$1.5 billion for the year and then, of course, the dividends that Mark mentioned.

In addition, in the quarter we completed the anti-dilutive share repurchase program that was about \$145 million. Ended with very strong liquidity and Automotive debt of about \$13 billion. That is up a little bit from where we were at the end of last year and that was largely exchange and some non-cash debt changes.

Okay, with that I'm going to turn it over to Mark.

Mark Fields - Ford Motor Company - President & CEO

Thanks, Bob. Slide 26 summarizes our industry and our GDP planning assumptions going forward. Again, all-in-all, we see conditions as being supportive of growth in the automotive industry sales globally and for the major markets that you see on the slide here. Our expectations for the full-year industry sales by market are unchanged.

I won't go through slides 27 and 28, but they show our guidance for each of the business units and our company guidance, both of which are unchanged. Just to provide some additional color on guidance, we are through the first quarter. We had a really good start to the year and we will continue to focus on delivering our guidance, which is equal to or better than last year's record.

So just kind of bringing it all together on slide 29, the first quarter was an absolutely terrific start to the year for us. It was an all-time record quarter for the Company. It was very strong performance across our businesses.

Our commitment remains to accelerate our pace of progress even further and, again, focusing on those four key areas that drive creating value in the Company: growth, returns, risks, and rewards. Importantly, we are building on our strengths as we expand our business model to be both an auto and a mobility company and also taking advantage of emerging opportunities through Ford Smart Mobility. And importantly, as we grow, we are committed to growing lean and focusing on profitability.

So I guess the bottom line is that we expect 2016 to be another strong year with sustained strong financial performance and returns and with continued strength into 2017. And I believe our results this quarter clearly demonstrate that our passion for products, our focus on innovation in all areas of our business, and driving improved mix -- they are driving improved mix, a strong business structure, and of course, exciting new technology that benefits our customers around the world, all of which is paying off with record performance.

We are proud of our achievements with the full understanding we have to continually earn them. We're excited about the future and we are confident in our ability to continue to drive growth, returns, and rewards at lower risk across the entire company.

So with that, why don't we open it up your questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Pat Archambault, Goldman Sachs.

Pat Archambault - Goldman Sachs - Analyst

Thank you very much. Good morning and congrats on a great result.



I guess maybe two areas of questions for me is first on the walk in North America. Just a little bit more, perhaps, on the pricing versus cost piece. Maybe I'll just take it at a very, very high level.

I think one would've expected that, given the newness of the portfolio, pricing would be still up as it was in previous quarters. And I get that there was that inventory adjustment, but even with that it seems that pricing wouldn't have been up much.

Then also, likewise, on the positive side, I guess -- I think I was quite surprised by the extent of benefits from lower variable costs, just given all the new content. I guess that took me by surprise as well. So maybe we could talk a little bit about that and how we think about those things going forward.

Bob Shanks - Ford Motor Company - EVP & CFO

I'll take that, Pat. If you look at the pricing, you can see we did have strong absolute pricing of about \$600 million and that was pretty much -- if I take the stock accrual aside, that was pretty much offset by incentives.

Again, I think this quarter, in terms of a run rate, is sort of more normal. Last year was the anomaly because of what was going on with the F-Series and the Oakville launch. And I think that really is influencing this because last year we largely did have -- while we had the new product, we had very low levels of incentives because of how tight the inventory was at that time.

Really what you've got is you've got F-Series, or F-150, which is an important product for us in terms of absolute volume, coming back to more normal levels. But still better than our key competitors. So I think that's largely what is at play.

We are seeing some benefit from the Edge and the MKX, although again Edge was in the first-quarter performance last year as well. So I don't think you are actually seeing so much in terms of brand-new product in this quarter versus the lack of that product in the year-ago period, which is maybe a little bit unusual in this particular quarter.

In terms of the contribution cost, again I think it's the same factor. We didn't have as much in the way of adverse or increased product-related cost, new product cost, because we had F-Series largely in the quarter last year. Not a lot of volume, but it was there. Edge was there.

As a result, what you can see is the great performance the team delivers quarter in and quarter out in terms of material efficiencies flowing through.

We also had some good news on -- down in that warranty, freight, and other. A lot of that was freight. We had a lot of premium freight in the quarter a year ago related to some of the launches, and so that's coming through.

One thing maybe I'd take the opportunity to answer, I did say, I think it was back at Deutsche Bank, that I didn't think we'd see as much benefit on commodities this year. That, clearly, has changed based on what's happened subsequently to continued decline in commodities I think.

Last year we had, I think, it was \$930 million of good news on commodities for the full year. At the moment, it looks like we're tracking to something like that. I still think we will have a little bit more bad news on exchange this year on a year-over-year basis than we had last year, but the net of the two are still going to be a bit more good news than what we had expected.

Mark Fields - Ford Motor Company - President & CEO

Just one more thing in terms of what to expect going forward. Our teams, I think, are doing a really terrific job of really understanding the consumer and what costs should we be putting in products. And I think you are seeing that in the mix in terms of the average transaction prices.

Our average transaction prices are up more than double the rest of the industry. And that really comes down to understanding the customers and putting the right costs in the vehicles that drive revenue.



Pat Archambault - *Goldman Sachs - Analyst*

Understood. Could I squeeze one last one in just on production? I think they were some comments out this morning in the press about having to reduce production in the back half just given the inventory situation. More on that?

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

What we really see in the second half is primarily around two other factors. One is normal seasonality. You've got, both here and in Europe -- and in fact, in Europe you have more -- summer shutdown weeks. You also have the shutdowns that occur at the end of the year, so it's just normal to have less production and, therefore, less wholesales in the second half than in the first half.

It was a bit different last year because of the launches, but this is going to be a more normal year.

Secondly, we've got the Super Duty launch that I referred to that will take place in the third quarter. While we will be able to contain that in terms of down weeks within the normal scheduled summer downtime, you still have the launch curve, which is going to take some volume out. Which is one of the reasons why we are a little heavy on Super Duty stock today, because we have to anticipate that, make sure we have got enough inventory to get through that whole launch. So that's a key factor.

In terms of tweaking production for inventory, that is just going to be the normal process. We see ebbs and flows of demand in inventory and we will adjust as we go forward, but it's really those first two factors that are the key ones that are affecting us. And it's not just in North America, but particularly in Europe, too.

Pat Archambault - *Goldman Sachs - Analyst*

Got it. Thanks a lot for the color and congrats on the quarter.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Good morning. Congrats on the quarter. Thank you for taking my questions.

You mentioned that warning you gave intra-quarter about the \$100 million headwind to Ford Credit in 1Q from lower used car prices, impact of lease residuals, etc. Yet your profit there was strong and it rose year over year. So can you talk some more about the tailwinds impacting that business that are allowing you to offset that headwind, whether just an increase in portfolio or something else?

Then, as the year progresses, what is your outlook for both the headwind from used car prices and the tailwind from the offsetting factors?

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

Good morning. I think it's largely the same thing that I said at Let's Chat, which is we would expect to see sort of an adverse year-over-year from lease residuals in most of the quarters that we have ahead of us, if not all of them. Although it will start to mitigate as we get towards the end of the year.

So we think -- and we built that in. As I mentioned in March, we do have an expectation of lower auction values and that's particularly on the car side of the business, but we have built that in. I think that will be on a year-over-year basis as a headwind, although again mitigating towards the end of the year.

But that will be offset by strong growth of the business, not only in North America, but in other parts of the world as well. So I think that will be offset.

Again, the other thing I should mention is the team is really, really focused on cost performance. Our operating cost performance is the best in the business and that will continue to be something that will keep us lean and mean and enable Ford Credit to continue to generate the types of profitability that it has.

Mark Fields - Ford Motor Company - President & CEO

And then, Ryan, on your question on used car prices, obviously you've seen some of the Manheim reports. This is not a demand issue. The demand is there; it's really a supply issue as more of these three-year leases come off. We're going to watch it closely.

Obviously we've done a lot of the studies to see: are used car buyers actually cross-shopping with new cars? It's very small, it's in the single digits, but clearly it does have implications for trade-in values, so we're going to continue to watch that closely.

Ryan Brinkman - JPMorgan - Analyst

Okay, thanks. Then just on the 6.3% margin in Europe, obviously that's really impressive. If I go back to your last analyst day in September 2014, it looks like you were guiding then for 3% to 5% margin by 2020.

How sustainable do you think this improvement in Europe is? I understand it's a seasonally stronger quarter, but presumably as volume continues to normalize higher over time, does that now mean there's upside to your out-year 3% to 5% outlook?

Mark Fields - Ford Motor Company - President & CEO

I think we're going to have a great year in Europe. And as we said, our -- even though we are off to a very good start and I think we're going to continue to have a very good year, our objective is to make Europe a very sustainable and vibrant, profitable part of our business and achieving 6% to 8% operating margin. And that's what we are focusing on.

Importantly, as we do it, we are seeing a lot of the things that we've done over the past couple of years pay off. On the cost side, as you know, we reduced our capacities. On the brand side, if you look at, for example, our channel mix in Europe, we're about 6 points above the rest of the industry in terms of channel mix of retail and fleet, which is good business for us. If you look at the investments we've made in our commercial vehicle brand, we are number one, the best-selling commercial vehicle brand.

As I mentioned earlier, we are seeing very rich mix in Europe, which I think bodes well, particularly based on the experience we have seen over a period of time here in North America.

Ryan Brinkman - JPMorgan - Analyst

Okay, thanks. Just lastly then, I'm curious with your planned new plant in Mexico and now with the really essentially complete intertwining of the US, Mexican, and Canadian auto markets, whether you have given much thought to the potential risk to your North American operations, and to the industry in general, from all of this weird rethinking on both sides of the political aisle of the benefits of NAFTA.



Mark Fields - Ford Motor Company - President & CEO

I can't speak to what's being said on the campaign trail. Obviously, we have these trade agreements and I think, as we look at our business, we have made a big commitment obviously here to our facilities here in the US. You've seen some of the numbers in terms of backing that up. Not only just the absolute numbers of what -- we've invested \$10 billion over the last number of years and another \$9 billion going forward, of which you saw some of that announced two days ago.

But, clearly, we manufacture more vehicles here in the US than any other OEM and employ more people. But at the same time, we are looking at our footprint and we are seeing what does it make sense for our business? And I think we have a good plan going forward to support our growth, despite some of the political campaign chatter right now.

Operator

Rod Lache, Deutsche Bank.

Rod Lache - Deutsche Bank - Analyst

Good morning, everybody. Had a couple things, first, on North America. Obviously the Q1 numbers are up a lot and, as you said, the full-year earnings will be flat, which implies some, I guess, negative comparisons later in the year. And I think you alluded to some of those drivers. It sounds like a lot of it is related to the launches.

So as we think about the pluses and minuses -- last year obviously you had a pretty significant number of launches. This year you've got the Super Duty and I presume next year is going to be the same. So as you look out to 2017 are there some drags that are being incurred right now that you think might go away as we look further out?

Mark Fields - Ford Motor Company - President & CEO

Rod, I think you touched on a number of them. When you look at our Super Duty launch, we will have the full benefit of that launch in 2017.

Couple of other things. We continue to see here in the US customers migrating from passenger cars into SUVs. And when you look at our lineup and you look at the performance there, we think that continues to bode well for us. I think our work overall, as I mentioned earlier, really understanding the costs that we are putting into the product to drive mix, will be important.

So I would look at it -- you could look at it saying, oh my gosh, the second half is going to be weaker and that's going to run into 2017. As we said, this is kind of a normal year in terms of the calendarization of our profits and sales, but the bottom line, as we get into 2017 we see continued strength based on the foundational elements of the business: product, brand, and cost.

Rod Lache - Deutsche Bank - Analyst

Okay. Can you comment on where you expect to end the year with respect to inventory days, to the extent that there is some -- a little bit of an elevated level in the field? Is that something that gets corrected by the end of the year? And how should we be thinking about the outlook for the non-raw-material cost inflation going forward?



Bob Shanks - Ford Motor Company - EVP & CFO

In terms of inventory, Rod, as I said back in March, our expectations are that you will continue to see the inventory levels come down, particularly as we get further into the higher selling seasons in the spring and the summer. And then towards the end of the year we always end strong, usually with the end-of-year sales as well. I think you'll see us very, very normal by the time we get into the second half of the year in particular, so I don't see anything unusual there at all.

We are a bit heavy right now on Super Duty, as I said. And then, of course, with the very low volume January and February sales months, the visibles, if you will, of the day supply look high, but we are actually quite comfortable with where we are. So I don't think you're going to see anything unusual other than what I just mentioned.

In terms of the raw materials (multiple speakers).

Rod Lache - Deutsche Bank - Analyst

The non-raw materials.

Bob Shanks - Ford Motor Company - EVP & CFO

Oh, non-raw materials. I think you're going to have very strong cost performance across the business this year in North America; you saw the positive news.

And the same thing with Europe. You will see seasonal cost increases in the second half and I think you'll see some cost increases, for sure, coming from the new Super Duty, which is normal.

We'll have the product-related costs that will come through in the second half of the year, which is not unusual in and of itself, but also remember we haven't updated this product in 19 years. We're going to be coming out with a product that's going to really set the standard and be something that we can sustain over the next 5 to 10 years.

Rod Lache - Deutsche Bank - Analyst

Is that something that should be (multiple speakers)? Should that be more benign than what we've been seeing with F-Series and Edge and some of the other products that had a lot of content cost added, some of which was regulatory? Is there any color you can provide on the trajectory of that content cost related to regulatory?

Bob Shanks - Ford Motor Company - EVP & CFO

We will talk more about that we get to the launch itself. And we've got an investor day, which happens to be about the same time, so I think we will provide more insight and texture at that time.

Mark Fields - Ford Motor Company - President & CEO

The only thing I would add on that, on the Super Duty, is just look at our performance on F-150 in terms of the content that we put in it and what it's driving in terms of revenue. Even in the quarter the F-150, our average transaction price was up \$1,700 year over year, so customers are really seeing that value. And that's the same approach the team is taking on Super Duty.

Rod Lache - *Deutsche Bank - Analyst*

Great, thank you.

Operator

George Galliers, Evercore.

George Galliers - *Evercore ISI - Analyst*

Good morning, everyone. Two questions. The first one just on China. You reported a nice step up in the JV margin, which remains at a very strong level.

What do you see as the sustainable margin for your China JV over coming quarters? And do you see improvements in mix and structural costs effectively compensating for lower net pricing or could margins (technical difficulty) still?

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

Yes, I think will see very strong results for the course of the year, George, from China. I think the margins, I don't know if they will be at 16%, but they will be double digits. They will be very, very strong I would suspect.

It might be different by quarter because you get calendarization and volatility by quarter, but I think by the time we get to the end of the year, as we have shown in recent years, you will have very, very strong margins.

I would add, when you look at that number and you look at the Asia Pacific results, you go what am I missing? The China JVs is not the total China profit for Ford. We incur engineering that we absorb and are reflected in the results for the region that we don't recover from the JVs until we actually start producing the vehicles years later.

We're launching Lincoln. We've got other allocated costs that sort of sit at the regional level that you wouldn't see there. So China very profitable for us and improving year over year, but I think you'll see very strong performance from JVs over the course of the year. How are we offsetting the effect of negative pricing? That's through a lot of cost efficiencies through the business and then we have been benefiting also from the very, very strong mix that we have and I think that will continue through the course of the year.

George Galliers - *Evercore ISI - Analyst*

Okay, thank you. Also just with respect to Europe, I was wondering if you could give any indication on what Brexit, if it happens, might mean for Ford given the importance of the UK market and your fixed cost basis and what strategy or plans do you have in place if it does indeed happen.

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

Thanks, George. Well, when you look at the issue around the Brexit, obviously, the UK is a very important market for us and what is important for us as a business is stability, particularly stability in trade, and that's important because that allows us to continue to build a strong business in the UK for the over 14,000 folks that are part of the Ford team there. And that's why our position has been that it is beneficial for the UK to be part of a single market, a reformed EU.

In terms of what may or may not happen, we will apply the same approach in the UK as we do in every other part of the world. Our aim is to keep our businesses globally competitive. So wherever that referendum comes out, we will do that.



George Galliers - *Evercore ISI - Analyst*

Thank you very much.

Operator

John Murphy, Bank of America Merrill Lynch.

John Murphy - *BofA Merrill Lynch - Analyst*

Good morning, guys. Sort of a simple question on North America. When we look at the guidance of 9.5% or higher, that would, at the low end of the range, indicate sort of a mid to low 8% EBIT margin or pretax margin for the remainder of the year.

As we think about this, and I know there's a lot of puts and takes and there's seasonality here, should we kind of focus a little bit more on the higher component of 9.5% or higher or do you think that 9.5% is something we really should keep in our thought process?

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

Again, let me just restate what the guidance says. It's not 9.5%; it's 9.5% or higher. So we do see upside potential from where we were last year and so we just need to let the year play out. We're in the first quarter. There's a lot of moving pieces, a lot of things that we have to manage. We will have, as I mentioned, lower production, which is normal. In the second half, we will have a launch, which will have an effect in the second half with all the benefits to come later, as Mark mentioned.

But we think we will come in at 9.5% or higher and I know Joe and the team are working as hard as humanly possible to make sure that we continue to get everything out of that business unit that we can and they certainly did in the first quarter. So we feel super good about where we are in the quarter and we will have an extremely strong year.

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

And we'll provide updates on this at the end of the second quarter when we do the second-quarter call.

John Murphy - *BofA Merrill Lynch - Analyst*

That's very helpful and thank you. Then on Europe, you kind of alluded to Russia not being as big a drag in the quarter. I was just curious if you could put Russia in context in the European business, sort of size and potential stability and recovery there because it seems like the rest of Europe is firing on all cylinders and if that ever stabilizes, you could even see some real upside to Europe.

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

Just to put it into perspective from just a sales standpoint or a share standpoint, in Europe in total, our share was up a couple of tenths to I think about 8% in terms of market share. In Russia, we actually doubled our market share in the quarter from a year-ago period. We are about 3%. So you can do the math and see the impact from a volume standpoint.

But our approach as you know in Russia going forward, we view that as it's going to be -- it's an important market. It will recover over time and the investments that we've made both on the product side and the distribution side and just the business structure itself I think will position us well for when the market does start to come back around and that will happen when commodities start coming back around.



Bob Shanks - Ford Motor Company - EVP & CFO

I think that is a really good point. That's one of the sort of on its own a big profit opportunity for us when the commodity cycle starts to turn.

John Murphy - BofA Merrill Lynch - Analyst

Then just lastly on slide 24, you gave us some great incremental data here on financial services at Ford Credit. As we look at sort of the slight extension in terms that are happening in the industry but don't seem to be happening for you and then also look at the percentage of loans that are above 73 months, can you talk about what's going on with credit scores and the consumer that's being offered extended terms? It seems like that's only occurring in high credit quality consumers.

And also maybe if you could just comment on prepayment speeds as you've seen an extension in terms, because I think they have been picking up.

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, I'll just give a high-level comment and then we will let Marion supplement.

What we are seeing and you touched on it and I think we talked about it at Let's Chat, we are seeing these customers have very, very high FICO scores. These are really high-quality customers.

The other thing that's interesting is we are (technical difficulty) come out of that contract early. They don't hang in till the bitter end, if you will. And so we are also not seeing any signs here or in Canada, which is about 10 years ahead of us in terms of this trend, in terms of extending the trade cycle.

So right now it just looks like these customers recognize it as being a good deal and they are taking it, but then they don't necessarily hold on to it as long as the contract would allow them to. So you're right in that the industry is higher -- I think is it like a 17% mix or something like that? That's around these 73 months terms. We are not participating in that. We actually are offering in very small volume even 84 months. That's something that is out there as well, but again, I think you'll see us trending well below the industry as that trend continues.

Marion, do you want to add anything?

Marion Harris - Ford Motor Credit Company - CFO

No, I think you covered everything, Bob.

Operator

Adam Jonas, Morgan Stanley.

Adam Jonas - Morgan Stanley - Analyst

Really strong quarter. Question on -- for Smart Mobility LLC, I think that you made some really important efforts to identify some of the opportunities as the industry changes and to put some of these technologies within a kind of captive company.



I guess the question is: is there a rationale to take the LLC and to separately capitalize it or create a tracking stock or some form, which has been done by large companies in the past in your industry and in others, as a way to kind of find a mechanism through which to attract and compensate employees that would be -- that you would be recruiting in that battle for talent that could be done in a more customized way outside the scope of the traditional forces that affect an auto industry -- auto company's performance?

I say that seeing your stock up -- you posted an incredibly strong result. Your multiple is still really, really low. Stock is up a percent and change. At some point does the capital -- the mechanism through which you can raise and attract capital need to match the mission, if you follow?

Mark Fields - Ford Motor Company - President & CEO

Thanks, Adam. And those are some really interesting thoughts. I think, first off, the reason we set up the LLC to begin with is we wanted it what I call separate, but the connected. Which is to allow the Ford Smart Mobility group to have the organization and the structure to face off with some of the tech and mobility companies in terms of acting really fast.

And I think going forward it's still way too early to talk about some of the things you mentioned. I wouldn't put them off the table, but at the same token, what's really important is this Ford Smart Mobility group is working very tightly with our core operations.

I guess where we're at on Ford Smart Mobility, we are very focused, Adam, on where to play and how to win. And as you know, we are generally using experiments and pilots to (technical difficulty) technology and customer preferences, but very importantly test the business models, because at the end of the day you want to make money on these things. And we're doing that before we make, what I would call, major bets on investments, whether it's internally or externally.

And we will have more to say about this as our Ford Smart Mobility strategy progresses this year.

Adam Jonas - Morgan Stanley - Analyst

I appreciate that and look forward to hearing for Mr. Hackett. I just have one follow-up about the cycle.

Many industry leaders, including yourself, Mark, I think have made statements like -- and I'm not direct quoting, but -- that the automobile will see more changes in the next five years than in the last 50. If you just take that at face value -- first, do you believe categorically with that kind of sentiment?

But if that's even order of magnitude correct, what does that mean for the potential for super cycle of unprecedented replacement of vehicles in the parc now that might become obsolete a little faster than in the past? Where do you come out on this with your team? Is this good for SAAR, this urgency to replace and that buying a car is a life-saving decision? Or does it gets stunted by the fact that you have maybe trillions of dollars of used cars where the equity is kind of stranded and creates a credit problem as people -- trapped in that equity, that negative equity?

Mark Fields - Ford Motor Company - President & CEO

Thanks, there's a lot of kind of aspects to that question. I do think -- I do agree -- we've said that we are going to see -- we're at an inflection point as an industry over the next number of years, given the technology that's available. Not only in the product itself, but how to serve the customer.

So when you look at your comment around is there going to be a super cycle, listen, I mean there's hundreds of millions of cars, over 100 million cars here or -- I can't remember exactly the numbers. There's a lot of cars here in the US. It's going to take a long time, even with breakthrough technologies, where people will change that over. Just the math will show you that that will take a good amount of time.

In terms of what technology, whether it's autonomous or semiautonomous or all the connected cars will do for the industry, what is it going to mean? From our standpoint, we are looking at this -- first off, it's too early to tell, but we are really looking at this as vehicle miles traveled. You



could argue that in urban areas there may be less car density either because of costs or just outright legislation [not] to use personal vehicles, which could dampen car sales.

But also, at the same time, if you make something more available and you make it less expensive, it's used more. If you think about things like autonomous vehicles that will be used 24/7, they will rack up miles sooner, which will drive, as I mentioned earlier, more service revenue and, ultimately, more car sales.

So I think it's still too early to tell. But our strategy, very clearly, is to continue to make the investments on the technology side and the investments on the mobility side so that we can participate in both of those revenue streams.

Adam Jonas - *Morgan Stanley - Analyst*

Thanks, Mark. Makes a lot of sense. Cheers.

Operator

Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Good morning. Just wanted to go back to sort of more of the next five years in terms of North America and Europe. We seem to, as you have noted, had this heavy shift towards CUVs versus sedans; seems to be creating what some might call a sedan recession.

So as you think about your midterm capacity plans, putting aside NAFTA and political issues, just where do you think you need more CUV capacity? Do you have -- and I know I keep coming back to this question -- more ability to get additional factories to be able to flex between the two product lines?

Then, as you look across the industry, do you see maybe a risk of too much capacity coming in to the CUV category?

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

So on the CUVs/SUVs in terms of flexibility; clearly we've said, for example, we're going to come out with four SUVs in actually new segments over the next number of years. And what we are seeing, Brian, around the world, literally around the world, is this migration from passenger cars to small- and medium- and large-size SUVs and CUVs.

So, clearly, our planning going forward is looking at the marketplace and making sure that we are there for consumers in that. So I think you'll see that here in the US. You will see it in Europe and you will see it in Asia Pacific as well.

In terms of your comment of will everybody be going there, well, I think that's the nature of the business in terms of understanding where consumers are going. And that's why I keep bringing you back to our strategy of how we are differentiating ourselves on fuel economy, safety, quality, and smart technology, and using our brand.

If you think about this, Brian, whether it's CUVs or SUVs, this really plays to the sweet spot or really a strength of our brand. We are seeing it now in our results and I think that will bode well going forward.



Brian Johnson - Barclays Capital - Analyst

Will you be reducing car capacity and do you think -- will others do it such in a way to take some pressure off the car pricing?

Mark Fields - Ford Motor Company - President & CEO

I can't speak to others, but clearly, as I mentioned, when you think about the number of SUVs that we're going to be adding, you could see us do that. With the caveat that our approach as a company is to offer a full lineup of vehicles and that's for a couple of reasons. Obviously, one, to anticipate any changes in customer demand, any changes in the economic environment, or any changes in the regulatory environment.

Brian Johnson - Barclays Capital - Analyst

Final question on this shift. What happens when someone comes in with a five-year-old car, maybe a Japanese brand car, that hasn't held its value and they're looking to get into one of your CUVs? Are you hearing anything from the dealers about the need for trade-in allowances, underwater loans, or something to help that car buyer get into -- car owner get into a CUV?

Mark Fields - Ford Motor Company - President & CEO

We are not hearing anything above the normal kind of commentary we get from dealers on that, so nothing above the normal.

Brian Johnson - Barclays Capital - Analyst

Which means they always want money?

Mark Fields - Ford Motor Company - President & CEO

That was the politically correct way of saying it, yes.

Operator

David Whiston, Morningstar.

David Whiston - Morningstar - Analyst

Thanks, good morning. One question on leasing and one question on Europe.

Bob, your comments on leasing mix for Ford, if I heard right, you said it's going to be going down -- your penetration will be going down throughout the year. I just want to know how much of that is a function of not having, say, AA type of credit rating versus standard residual risk management. And related, do you think the industry is being too excessive in its leasing penetration right now?

Bob Shanks - Ford Motor Company - EVP & CFO

For us it's -- we do have what we call the ONE Ford lease strategy so we've got some analytics behind what we think is the right and appropriate level of lease. We look -- because we are really -- we want to make sure we can support what the market needs, but we also want to make sure that we are managing the concentration of risk.



We think that at 26% that will be sort of a high-water mark for us this year. And some of it is seasonal. When you get into the summer selling season, it tends to be much more of a -- it's a retail season and it's much around APRs and that sort of thing. So there is just a natural change that occurs in certain times of the year.

But that's one of the reasons why we think when we get to the end of the year we will be at something probably a little above last year, but below where we are right now. And we think that's the right level given where the market is.

The other thing I would mention is that, for us, there's a much lower percentage of leasing, in Ford anyway, on Super Dutys and F-150s, on trucks, that has not been -- that's been generally true across the industry, although some of our competitors got pretty heavy on that in the first quarter in some of the regions of the country. We didn't participate in that, so I think that's another factor as well. It's just our natural mix of product.

David Whiston - Morningstar - Analyst

Thanks. And on Europe, if I heard right, you said 60% of your passenger vehicle volume was on the high-end trim packages, which is impressive. I was just curious is the European customer trading up in price given an economic recovery or are you just attracting wealthier customers than in the past?

Mark Fields - Ford Motor Company - President & CEO

I think it's a combination, David, of both of those things.

David Whiston - Morningstar - Analyst

Okay, thank you.

Operator

Itay Michaeli, Citi.

Itay Michaeli - Citigroup - Analyst

Good morning and congrats, everyone. Maybe just to continue on Europe, given the improvement in mix and pricing, and I know there's a lot of political uncertainty out there, as well, for early in the year. But could this be a year where Q1 contributes maybe what it used to contribute in terms of the quarterly cadence back in 2005/2006 when you were profitable in Europe? What prevents this from being sustainable?

Bob Shanks - Ford Motor Company - EVP & CFO

We think it is sustainable. I don't know if it's going to be sustainable at the margin, because we would expect -- again, going back to what is normal. The second half in Europe is generally not as strong as the first half because of the summer shutdowns and the end-of-the-year shutdowns. That seasonal cost effect that comes into play.

But, yes, we think that we're going to have a good second quarter. We think we will be profitable throughout the year and we're going to have strong results in Europe. But we do think that it will be a first half stronger than second half story, but it's still going to be a great story all throughout the year for Europe.



Mark Fields - Ford Motor Company - President & CEO

Which again is a normal kind of cadence of our profitability. Nothing unusual.

Itay Michaeli - Citigroup - Analyst

Absolutely, that's good to hear. Then maybe just going back quickly to North America.

I know you alluded to year-end inventory targets. I know you don't provide an annual North America production outlook, but as we think -- I think your first half was up about 11% for North America production. Any kind of ballpark of how we should be thinking about the full-year in terms of a range or kind of roughly where you think you might come out as you manage through the launches and some of the inventory?

Bob Shanks - Ford Motor Company - EVP & CFO

No, I don't think we want to provide a guidance for the full year because we still have a lot of year left in front of us. I think we're just going to continue to manage the production in line with demand.

You can see on Appendix A9, the call for the second quarter for North America, 850,000 units. That's up 35,000 from where we were a year ago and pretty much in line with where we were in the first quarter. So I don't see anything unusual in the year progressing.

Again, you will have lower volume in the second half, for the reasons we've talked about, throughout the call, just seasonal and also the effect of the Super Duty launch.

Itay Michaeli - Citigroup - Analyst

Okay, great. That's very helpful. Thanks so much.

Operator

Joe Spak, RBC Markets.

Joe Spak - RBC Capital Markets - Analyst

Congrats on a really strong quarter. First question is on commodities. I believe back in Detroit you had mentioned it would be fairly neutral for the year. It was obviously up by almost \$0.5 billion in the first quarter.

Is there a change there? Or given that commodities are coming back up a little bit, do you expect to maybe give back a little of that in back half?

Bob Shanks - Ford Motor Company - EVP & CFO

What I said at the Deutsche Bank conference was that we would have favorable commodities on a year-over-year basis this year versus last year. It just wouldn't be as favorable as what it was in 2015 versus 2014.

Getting to the neutral point, that was -- the point that I was making was that we would have favorable commodities, not as great as last year, but we'd also have more headwinds from exchange in 2016 than what we saw in 2015. So that was the neutral bit. It was good news commodities would be offset by bad news on exchange.



What I said earlier in the call, Joe, is that now we see commodities as being more favorable than what we thought, because the prices have continued to fall. So I think we will see commodities about as much of good news, based on where we are today, as we saw last year, which was over \$900 million. But we will still have more bad news on a year-over-year basis from exchange. So the net of those two, while it will be positive, won't be as positive as it was in 2015 versus 2014.

Joe Spak - RBC Capital Markets - Analyst

Okay, thanks for the clarification. Then on Europe, it sounded like mid- or long-term there is a little bit of a bump to that margin target, 3 to 5 to 6 to 8. Is it fair to think that maybe 1.5 or 2 points of that 3 points is related to the pension accounting change and then maybe 1 point is just from some better operations or mix outlook?

Bob Shanks - Ford Motor Company - EVP & CFO

Certainly the elimination of that drag that we had on pensions, which we were relatively unique compared to our peer set, that certainly helps. But actually what it is, it's our view of what we can get out of the business from a performance standpoint of change.

The team has done a really, really good job on all the various aspects of the transformation plan -- product, brand, and cost -- and we see more potential now in terms of driving the business to the types of margins that we need than where we were perhaps two years ago.

Mark Fields - Ford Motor Company - President & CEO

To put that into perspective, Joe, again we're using this momentum to really drive us towards those margins. Not only is the product launches that we have this year, but we're looking at the product portfolio we have. We are focusing on the products that have high growth and high profitability, and we will drop products that actually don't have either of those characteristics.

At the same time, we are going to continue to work on the costs. As we've said before, we have a voluntary separation program going on right now in Europe which, when all is said and done, should save us around \$200 million a year annually going forward. So we're going to continue to work every element of that to make sure it's a sustainable and vibrant part of this.

Bob Shanks - Ford Motor Company - EVP & CFO

And I would just add, when we had that conversation in 2014 it was only about two years into the plan, so we didn't fully see the potential that we are now seeing from the business. The aspects of the plan are very much the same; it's just the team is really, really delivering and we see a lot more potential now for Europe than perhaps what we had before.

Joe Spak - RBC Capital Markets - Analyst

Okay, thanks a lot, guys.

Operator

Colin Langan, UBS.

Colin Langan - UBS - Analyst

Thanks for taking my questions and congrats on a great quarter. I understand the comments about second half getting weaker from a seasonal cadence perspective, but how should we think about quarter over quarter? You are going off record margins in North America, you had a \$600 million accrual in Q1, and production in North America looks flat. So should Q2 also be a very strong quarter?

The same thoughts on Europe. It looks like production is even up quarter over quarter. Should Europe actually maintain a very strong level in Q2 and then fall off in the second half?

Bob Shanks - Ford Motor Company - EVP & CFO

The only thing that I will say about the second quarter is we expect it to be strong, but I don't want to get into calling quarters because I'm always wrong. But it will be a strong quarter.

The first and second quarter, again going back to this theme around what's normal, they are the stronger quarters of the year. I would expect that to be the case this year.

So we will have a strong second quarter, I won't characterize it any way other than that. And then we will have the seasonal effect in the second quarter, along with the product launch impact. And then a really, really strong year.

Colin Langan - UBS - Analyst

Is there anything unusual in Q1 that we should be aware of, though, in North America and Europe that actually helped it out that won't recur?

Bob Shanks - Ford Motor Company - EVP & CFO

No, I'm glad you asked that question, because there is actually nothing in the results in any of the business units that you would consider to be unusual. This is really quality earnings right across the board.

Colin Langan - UBS - Analyst

Okay. Any color on --? I saw in the press release you mentioned FordPass is rolling out. How has that rollout gone? Is that going to be something you are going to advertise going forward? Any just color there on that launch.

Mark Fields - Ford Motor Company - President & CEO

What we're doing, Colin, right now is we should be launching that in the next month or so and we are very excited about it. Think about -- we will, obviously, communicate it, because we think it really provides a way for us to have a fundamentally different relationship, not only with our customers, but customers that don't own Fords.

And so what you will see is -- think about it this way. It's a launch, but then we will be continually improving it to improve the experience for our customers.

Colin Langan - UBS - Analyst

Okay. Thank you very much for the color.

Operator

Keith Naughton, Bloomberg.

Keith Naughton - *Bloomberg News - Media*

Good morning. Mark, there has been some headlines recently that have said that Ford did not plan to offer a 200-mile electric car to compete with the likes of the Tesla Model 3 and the Chevy Bolt. And I just wanted you to clarify, does Ford plan to offer a long-range electric vehicle?

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

Absolutely. Our approach, very simply, is we want to make sure that we are either among the leaders or a leadership position in the product segments that we are in. And if you look at our BEV today, our Focus has about a 100-mile range and that is very competitive for the price point that it's at in the marketplace right now.

That is why, as you know, we've made the announcement late last year where we're going to invest another \$4.5 billion into our vehicle lineup on electrification. And by the time we end the decade we will have 40% of our nameplates around the world that will be electrified. They will be very competitive from a cost, quality, range standpoint to allow us to move the business forward.

Keith Naughton - *Bloomberg News - Media*

And will your long-range electric vehicle go 200 miles and when will that come?

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

Well, our electric vehicle will be -- as I said, it comes down to we want to make sure we are among the best or the leaders in those areas. In that timeframe, when you look at some of the competitors, what they've announced, clearly that's something that we want to -- we are developing for.

Keith Naughton - *Bloomberg News - Media*

Thank you, Mark.

Operator

This concludes the Q&A portion of today's call. I would now like to turn it back over to Mark for any closing remarks.

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

Thank you very much.

Operator

This concludes today's conference call. You may now disconnect.

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