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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ford Motor Company Earnings Conference Call. (Operator Instructions)

I will now turn the call over to Ted Cannis, Executive Director of Investor Relations. Please go ahead, sir.

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

All right. Thanks very much, Maria. Good morning, and welcome everybody to Ford Motor Company's First Quarter 2017 Earnings Review. Presenting today are Mark Fields, our President and CEO; and Bob Shanks, our Chief Financial Officer. Also participating are John Lawler, Vice President and Controller; Neil Schloss, Vice President, Corporate Treasurer and CFO of Ford Smart Mobility; Paul Andonian, Director of Accounting; and Marion Harris, Ford Credit CFO.

The results today include some of our non-GAAP references. These are reconciled to the GAAP measures in the appendix to the slides. Also today includes Ford's earnings material and Ford Credit's earnings material presentation as we're no longer holding a Ford Credit call. So you have it all one -- in one package here.

Today's discussion includes some forward-looking statements about our expectations for future performance. Of course, actual results may vary, and most of the significant factors are included in the presentation.

So with that, what we'd like to do is pass it over to Mark Fields. Mark?

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

Okay. Thanks, Ted, and good morning, everybody. Thanks for joining us.

As you can see on Slide 3, we're focused on 3 sets of strategic priorities and, importantly, taking the actions that will drive value for our shareholders as we expand to an auto and a mobility company. And we are reallocating capital to fortify our core strengths, transform underperforming parts of our business and investing aggressively but prudently in emerging opportunities.

And while we reallocate capital in each of these areas, that decision-making is being governed by where to play, where not play and how to win. So with that as a backdrop, what I'd like to do is take you through our first quarter results.

So in the first quarter, as you can see on Slide 4, we delivered total company adjusted pretax profit of $2.2 billion, which was lower than our best-ever quarterly profit a year ago. Importantly, revenue was up, and that reflects favorable mix. All the other key metrics were down, and our adjusted earnings per share came in at $0.39.

We are reaffirming that we will remain on plan for our full year guidance. And we continue to expect total company adjusted pretax profit to be about $9 billion this year, with stronger profits in 2018.

Now turning to Slide 5. Our strategic priorities are focused on the 4 drivers of shareholder value: growth, risk, returns and rewards. So let me take you through each one of these.

In terms of growth. We grew our top line in the quarter with company revenue up 4%, and that was driven by favorable mix. Here in the U.S., our average transaction prices increased by nearly 4x the industry average. Lincoln sales continue to show improvement. They were up 24% globally in the quarter, and that was 9% in the U.S. and 114% in China.

In terms of risk. We're sitting at $28 billion in cash, which provides both protection in the current business environment but also reflects the potential for strategic acquisitions and other prudent investments in the years ahead.

In addition to that, we remain fit for any future downturn in North America, with a healthy break-even SAAR at 11 million units in the U.S.

And finally, in terms of risk. Our global funded pension plans are nearly fully funded and derisked. And Ford Credit continues to be disciplined while, at the same time, being a very healthy contributor to our bottom line.

In returns, we had $2 billion in cash flow in the quarter. We delivered our eighth consecutive profitable quarter in Europe, and we had our second consecutive quarter of year-over-year improvements across all key metrics in South America. And that includes market share.

And then finally, in terms of rewards. Shareholders benefited from our continued success and also our strong cash generation as we distributed $800 million in the quarter. And that includes a supplemental dividend that totaled $200 million.

Turning to Slide 6. This summarizes the progress that we're making on executing our strategic priorities. And we are fortifying our profit pillars, including our leadership and strong global franchise in trucks. We've announced that we'll be launching an upgraded F-150 in the second half of the year and reintroducing Ranger to North America in 2019. And this introduction will help us expand our 40-year leadership in full-size trucks while introducing a competitive entry into the U.S. midsize pickup segment -- pickup truck segment with an addressable retail market of more than $12 billion.

In utilities, we introduced the all-new Expedition, which is a critical vehicle in helping us capture market share in the small but lucrative full-size SUV segment. We also announced the global introduction of Bronco coming in 2020.

And in performance, we have a true global leader with our Mustang. Mustang is now sold in 140 countries, and Mustang was the best-selling sports car in the world in 2016. And to reinforce our continued leadership and to fortify that pillar in performance, our new 2018 Mustang is coming this fall.

When it comes to transforming traditionally underperforming parts of our business, our transformation of Lincoln continues to gain momentum. We introduced the first all-new Lincoln Navigator in more than a decade, and we also announced plans to manufacture an all-new Lincoln SUV in China for the Chinese market, which will have the benefits of improving profitability and cash flow while, at the same time, allowing us to better respond to market needs more quickly.

And when it comes to growing in the emerging opportunities, I think we've clearly laid out our electrification strategy playing to our strengths and electrifying vehicles to provide more capability and productivity and performance and better fuel economy for our customers.

And I believe a prime example of this is our unveiling a couple of weeks ago of the industry's first pursuit-rated hybrid police car. And I believe that further cements our strong franchise among law enforcement and cities by delivering a hybrid vehicle that will power the high electrical loads of a police vehicle but also reduce engine run time and reducing emissions.

So with that as an overview, let me turn it over to Bob, and he'll take us through the details of our business performance.

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

Okay. Mark, thanks, and good morning, everybody. On Slide 8, that's where we'll start. And what I'll do, as usual, Mark has already touched on a number of the metrics on the slide. I will also cover some of the other ones later in the presentation. So I want to focus my comments here only on the things that you'll only see on this particular slide. So let's start first with the special items pretax, sort of in the middle of the slide.

You can see that came in at a favorable $24 million, $210 million better than a year ago. And that is driven by the fact that we reassessed the cancellation charges associated with the cancellation of our plant in Mexico. We booked that in the fourth quarter. It was $199 million. We've taken that down by $46 million. So the cancellation charges on that basis would be $153 million. So that's what's driving the $24 million. The balance are European separation costs.

And when you look at the year-over-year, the $210 million good news is lower separation costs associated with our European restructuring actions as well as that $46 million improvement in the cancellation charges related to Mexico.

The second point I want to make is around our adjusted effective tax rate. It came in at 28.6% for the quarter. That was 80 basis points better than a year ago and consistent with our full year guidance of the -- an adjusted effective tax rate of about 30%.

And then the last point is on the lower right of the slide in the text. We came in with an adjusted EPS of $0.39. Only about a month ago, I suppose, I guided to $0.30 to $0.35 based on what we were looking at, at that time. The $0.39, that difference is due to favorable timing of cost performance and wholesale volume, largely in North America, but we did see some good news in other parts of the business. So this is timing, and we don't see it having any impact on our outlook for the full year.

All right, let's move on to Slide 9. What we're looking at here is total company absolutes and the reporting segment absolutes. So we had solid results for the total company, solid results for Automotive at $2 billion, which made up the bulk of the company's results. Solid results in the Financial Services segment at $466 million, and within that, Ford Credit at $481 million, which we'll cover a bit later. And then to the far right, you can see all other, a loss of $212 million. Most of that -- in fact, almost all of that was net interest expense on our Automotive debt. There was a very small loss at our FSM, Ford Smart Mobility LLC.

And then when you go below the chart, you can see the changes on a year-over-year basis. And I want to spend a little bit of time here. I'll do this in selected places throughout my comments this morning.

In the lower left, you can see a decline of $1.6 billion in the quarter year-over-year, and this was against last year's record results. We have guided for the full year to a total company adjusted pretax profit of $9 billion. Last year, we made $10.4 billion. So we're expecting a decline year-over-year of roughly $1.4 billion. Effectively, that decline has happened this quarter.

Now when we look at the next 3 quarters, they'll be up and down. But if we look at the aggregate of the second, third and fourth quarters and compare that to the same period in 2016, we expect those results to be essentially flat to a little bit better. So effectively, this is the quarter in which the full year decline flows through to our full year results.

When we think about what's going to happen in terms of our absolutes, we expect the third quarter to be the lowest absolute. And that's going to be driven by normal seasonal factors, the plant shutdowns in the U.S. and Europe but also the launch of the Expedition and the Navigator.

So with that, let's move on to the next slide, Slide 10. This is the Automotive segment absolute results. So $2 billion total profit. You can see North America, Europe and Asia Pacific profitable. We had losses in South America and Middle East and Africa. And when you below -- go below the chart, you can see that all of the operations were down on a year-over-year basis with the exception of South America with an improvement.

Let's go to the following slide. And here, we're looking at the key metrics for the Automotive segment. They're all down across the board with the exception of revenue. You can see revenue was up a bit, and that is driven by favorable mix. These metrics were in the context of a global industry that was about flat on a year-on-year basis.

And if you look at our market share, our market share was down 0.3 point. That was driven by China and by the U.S. And we'll get into the details on that when we get to the appropriate regional slides.

Let's go to the following slide. So this is what drove the change in profitability for the Automotive segment. So $1.6 billion for the company, $1.5 billion in Automotive. So this is where almost all of the decline for the company occurred. And as you look at it, you can see there are 3 major drivers. One, unfavorable costs. So if you look at contribution costs, structural costs, that's $1.2 billion. So $1.2 billion of the $1.5 billion was cost increase, and we'll talk about that in detail. Secondly is lower volume. So if you look at the volume and mix and look at the callout box above that, you can see we had $400 million of good news on mix. So that positive story continues in the quarter. So we had about $0.5 billion of unfavorable performance related to volume. That was the second factor. And the third was around exchange, and that was driven by the sterling, that's the Brexit effect that's coming through, the Canadian dollar and the Brazilian real.

So in terms of cost. The cost performance was basically around higher warranty expense. So we had guided to, during the quarter, about a $300 million increase related to 2 recalls. So that's one effect. We also had increased reserves for coverages. Engineering expense. So that is not actually emerging opportunities. That is increases related to, as Mark was talking about, reallocation of capital to our Fortify pillars. So this is around those utilities, the 5 new utilities we've guided to between now and the end of the year. So you're seeing the engineering come through for that as well as on trucks and vans and commercial vehicles.

Product cost, that's basically the effect of the launches that we had last year post-first quarter. And Super Duty is the biggest one, which took place in the second half. So on a year-over-year basis, we're seeing that cost because it actually wasn't in the first quarter a year ago.

And finally, commodities. And we'll talk about that next slide.

So when we look at full year for costs, we're up $1.2 billion in the quarter. So how should we think about that? If you look at the lower left or rather the left side of this slide, this is what we're expecting for the full year. It's just a bit more than $1.2 billion. So again, just as I talked about on profits, for costs, our view is that basically, the cost increase that we're seeing in the quarter is a cost increase that flows through to the full year.

When you look at the second, third and fourth quarters individually, there'll be some ups and downs. But again, if I look at the aggregate of those quarters, costs should be effectively flat or maybe up a little bit.

Now this is the same slide that we showed at Deutsche Bank when we gave our initial guidance for the year. The pattern of ups and downs is exactly the same as what we talked about at Deutsche Bank. If you go to the far right of the slide, those are the increases related to emerging opportunities. Those are the investments in costs, electrification, autonomy, mobility, connectivity, data and analytics. That is going to represent about 2/3 of the full year cost increase. So if you take that bar and move it all the way to the left, that's about 2/3 of that.

The balance is basically the net of the rest, which is around the core business. We're still expecting to see efficiencies net of economics of about nearly $3 billion, and that is net of commodity increases of over $1 billion. So those efficiencies mostly offset the investments in the core business; also price-related design, which actually brings revenue with it; and also regulatory costs. So this is our view for the full year. So just as with profits, we think most of the cost increase for the full year that's happened in the quarter flows through to the full year.

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

And let me just make an additional comment, an exclamation point on costs. We are continuing our intense focus on costs, and the reason for that is not only mindful of the current environment that we're in but also, I think, preparing us even more for a downturn scenario, which we've talked to you about in the past.

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

Okay. Let's move on to the first of the regions, North America. Many of the things I talked about for the Automotive segment apply directly to North America. So these are the key metrics. You can see they are lower with the exception of revenue. And as with the Automotive segment, that revenue is driven by favorable mix. This was in an industry that was down about 300,000 units. That was both for the region, but it was driven by the U.S.

Our market share was lower for the region. It was driven again by the U.S. Market share in the U.S. was down 0.4 point. That was more than explained by fleet. Fleet was down 0.6 point. Within that, about half of that was rental. The rest was commercial and government fleets. We think that's largely timing. That was offset partially by an improved retail share. It was up 0.2 point. And that was strong performance of F-Series, utilities and also Lincoln.

Let's move to the next slide and look at the decline in profitability. For North America, $1.1 billion from the record results last year. And you can see it's exactly the same pattern of things that I talked about for the Automotive segment, and it's exactly the same reasons. So I won't go into details here. But that pattern continued here.

In terms of guidance for the full year. It's essentially the same thing that I said earlier. We're expecting North America to be solid in terms of it's-- actually strong for its full year results but down from last year. It's going to be driven due to higher costs. We think we'll also see some efficiencies coming through in all the other cost categories that will give us a partial offset. We also see exchange as being unfavorable.

And the majority, just as we talked about for the total business in Automotive, the majority of North America's full year profit decline and increasing costs has occurred in the first quarter.

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

So if we turn to Slide 16, what I'd like to do is just dive a bit deeper into our disciplined approach to the marketplace. So for example, if you look at the upper left of the chart here, our average transaction prices in the first quarter grew nearly 4x faster than the industry. And that's really due to the great performance of F-Series and the continued growth of Lincoln, as I mentioned earlier.

In addition, like F-150, we reinvested some of the Super Duty aluminum weight savings into capability and features our customers appreciate and, most importantly, are willing to pay for. We also saw F-150 transaction prices increase with strong demand for the new Raptor.

At the same time, we also continued our disciplined approach to incentives. And while incentives grew for the industry, as you can see, Ford levels were relatively flat as we manage supply and demand and well and that we benefit obviously from the strength of our new products.

If you look at stocks. Our U.S. stocks are in very good shape, and we continue to take a disciplined approach to matching production to demand. And just to note, our days supply, Ford's days supply tends to be slightly higher than the industry average because of our stronger position in trucks due to the large number of product configurations, which is a real strength of ours.

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

Okay. Let's move on to South America, and this is a story of improvement. This is the second consecutive quarter where all the metrics have improved, and this was in an industry that actually did grow. You can see the SAAR was up 3%. Brazil, unfortunately, didn't grow. But the positive sign was that in the month of March, for the first time in 24 months, we had a monthly improvement in the SAAR. So we are seeing positive signs, even in Brazil, start to show up.

We did generate positive revenue in the quarter. And that was around volume, pricing and exchange. And our market share was up, and that was on the back of the strength of the Ka, our subcompact, as well as the Ranger.

If we go to the following slides, we can see what happened in terms of causal factor. It was driven by higher net pricing and volume. Those were the key drivers. Inflation is what was behind the total cost increase. And then you can see the exchange, which was driven by the real.

In terms of guidance. We are seeing signs of improvement in the economic environment of South America. PMIs are looking better. Consumer confidence is better. The Central Bank has been cutting its policy rates pretty aggressively. And so we believe that we are close to the trough of this current economic cycle.

As a result, we continue to believe that South America will see an improvement in terms of the loss this year relative to last year. And that will be driven by the favorable market factors tied to the economic recovery. We think most of the improvement for the full year will take place in the second half of the year, and that's tied to the momentum that we expect to start to occur in terms of the economic environment.

Well, let's move to Europe. Europe has another profitable quarter, the eighth in a row. So feeling very good about what's happening in Europe despite the effects of Brexit. We're seeing a growing industry in which we gain share. So very positive overall performance across our European business.

You can see that revenue was up. That was driven by volume and mix. The share was up. This was driven by Kuga and our commercial vehicles. And once again, in the quarter, the Ford brand was the #1 selling commercial vehicle brand in the market. So feel very good about that performance.

When you go to the following slide and look what's behind the results, you can see that the results, while profitable, they were down on a year-over-year basis. And this is due to higher costs, some of that associated with the launch of the all-new Fiesta, some of it related to increased manufacturing costs to support the higher volume that we're projecting for the full year, but also related to a recall. So Europe was one of the business units that was affected by the recalls that we announced during the first quarter. About $100 million affected their results for that particular factor.

In terms of our outlook for Europe. We continue to expect Europe to remain profitable although at levels below 2016. The key factors driving the decline are going to be the weaker sterling but also higher costs particularly associated with the launch of the Fiesta and the EcoSport, which is coming later this year, as well as for continued investment for future growth.

We do expect to see favorable market factors. And we saw in quarter, again, and we expect for the full year to see continued improvement in Russia. The majority of the full year profit decline in 2016 is expected to occur in the first half of this year due to cost and stock effects related to the Fiesta launch and also the major recall I just referenced to that took place in the first quarter.

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

So let me just provide a couple additional comments on our European business. And I just want to reemphasize that we remain committed to our strategy in Europe, as you know, which has been focused on product, brand and cost, and taking the actions necessary to ensure that our business not only remains competitive but also delivers sustainable returns.

So on that, on the revenue side, we'll continue to take actions to increase the mix of higher-margin vehicles. That includes adding the ST line for both EcoSport and S-MAX in the second half of this year and also launching what we call the Active and then the Vignale trim levels on the new Fiesta. So work on the revenue side of the equation.

But let me also just talk about in terms of what we see in the market and addressing specifically the drop in diesel demand in Europe. The industry in the quarter was down about 4 points to 46%. Our mix is about 45%, so just a tad lower.

And our product and our manufacturing plan is flexible. And I believe we're well positioned to meet customer demand and also the regulatory compliance through the success of our EcoBoost engines but also our plans for electrification in the region. And the diesel engines that we have meet the stringent Stage 6 requirements.

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

Okay. Let's move on to Middle East and Africa. And here, the story is -- it's basically one word: it's volume. The volume is affecting every metric that you can see here on the page, decline in volume. The industry in which we participate there excludes primarily Iran as the major market that we don't participate in, you can see the SAAR was down 12%. And we've also seen lower market share. That's primarily in the Middle East where we've had some performance issues, and also, we've had adverse market mix. So volume is the story in terms of the metrics in Middle East and Africa.

And if you go to the following slide, you can see that very, very clearly here, the causal factor slide, $124 million, more than explained by the volume decline. You can see across of the rest of the business, the team has done a great job of managing pricing, keeping that flat. And cost performance has been favorable. And we've seen some good news on the exchange, and that's related to the South African rand.

For the full year, we continue to expect Middle East and Africa to improve compared with 2016. And that's going to be driven by lower costs and favorable exchange, with lower volume being a partial offset. We do expect that the year-over-year improvement will largely be realized in the second half of the year.

If we move on now to Asia Pacific. In Asia Pacific, there's actually 2 stories. So there's a China story, and there's a story in the rest of the region. China, this was a challenging quarter. You can see the industry was down 1.6 million units, which more than explained the decline in the overall region. This was the effect of payback into the fourth quarter from the stronger fourth quarter performance related to customer expectation that the purchase tax incentive would be eliminated at the end of the year. As it turned out, only half of it was. But it clearly had an effect on the industry. It had an effect on us. Our share is down, and that was largely around the units that were most affected by that purchase tax incentive. That was the Escort and the Focus. And when you look at our JVs, you can see it affected them as well. We earned a good profit of $274 million on a net basis with a margin of 13%, but that was down on a full year basis.

The other part of the story is around the rest of the region. The rest of the region was profitable. Every market other than India was profitable, and every market including India improved on a year-over-year basis.

If we go to the next slide and look at the factors behind the change in Asia Pacific, largely driven by what happened in China. And you can see that with the net pricing. That's the negative industry pricing in China, the volume effect. And then you can see we're able to hold costs flat, and a bit of exchange that was more than explained by the weakness of the renminbi.

For the full year, we continue to expect to be profitable in Asia Pacific and to actually improve versus 2016. And that's going to be due to higher volume. We believe we'll see recovery of volume in the balance of the year. We expect costs to be about flat. We will continue to see negative net pricing, and we do expect to see adverse exchange related to the weaker renminbi.

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

And as Bob mentioned, obviously, the China tax incentive change drove a pull ahead in sales of cars, obviously, with the smaller than the 1.6-liter engines into the fourth quarter of last year. But there's no doubt we faced higher competition and also our own market performance issues in China. And we've taken actions to respond, and that includes changes in our go-to-market plan. And we do expect to return to growth in China from the second quarter onwards for the balance of the year as both the industry strengthens and our go-to-market changes take effect in the marketplace.

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

Okay. Let's move into Ford Credit. There's been a lot of concern, a lot of articles written, a lot of papers written over auto financing in the broadest sense of the word. And we've actually been talking about that for a year. All I can tell you is that we feel like we're in a really good place with Ford Credit and with Ford based on what we see today, what we know today and how we've kind of factored that into our outlook.

If you look at the metrics here, you can see in the second set of data there, that the business grew. Managed receivables were up 6%. Pretax results fell only 6% to $481 million.

When you look at some of the portfolio metrics, the next 3 sets of data, the FICO scores, very, very strong at 741. That's on average. You can see delinquencies are up a bit but still below the historical experience that we've had. But it's moving up. It's still not even half that level. And then in terms of the loss receivables, it's approaching historical performance but still at a very healthy level.

So the portfolio is performing as we have expected in the environment that we had expected. And that's because the team continues to follow the same tried and true, disciplined and consistent practices around servicing and origination that we've been following for many, many years.

If you go to the following slide and you look at the decline of $33 million of profitability and look at the very middle, it's around the lease residuals. And that's the supplemental depreciation that the team has taken in response to what we have seen in terms of auction values. The rest of the factors on a net basis actually improved, driven by the favorable volume and mix of the business on a global basis. So nothing that's here that to us is a surprise or was unexpected.

If you go to the following slides, looking at financing trends. Again, everything in line with our expectations. If you look at the upper left in terms of our lease share as a percent of retail sales, you can see that both the industry and ourselves are beginning to pull back. If you compare that back to the first quarter of 2016, we continue to track below the industry largely because of our product mix.

If you look at auction values in the upper right, we actually saw a sequential improvement in auction values. That's seasonality. If you look at the 2017 first quarter versus 2016 first quarter, that's a 7% decline in auction values. That's consistent with the industry. Our view for the full year is that it will be about 6% on average. So you'll see different factors by quarter point to point, but on average, about 6%. And everything we see says that we're on track for that.

On the lower left, everything looks good in terms of what we're seeing relative to repossession ratios and severity. And we've already covered the LTRs on the lower right. So again, everything very much in line with our expectations.

And then on the next slide, we just try to capture everything that we've been looking at and everything we've been reading about in terms of concerns and trends around the financing industry. And our view is that both Ford and Ford Credit's outlooks have incorporated these industry trends appropriate. And as a result, Ford Credit itself is on track for the profit that we've guided to for the full year of $1.5 billion, with an expectation that their results will improve in 2018 as a result of less supplemental depreciation.

If we go to the following slide, which is Slide 29. So this is around cash flow. So solid performance on cash flow. If you look at the first -- maybe the fourth line there, I guess, Automotive segment pretax profit at $2 billion, it basically flowed right through to the operating cash flow. So the negative net spend was completely offset by the combination of the working capital and the timing differences.

If you look at the capital spending, the $1.7 billion, it suggests to us that we're on track to the full year guidance of $7 billion. If you go further down the page, you can see the changes in debt, $200 million. That is just us making normal debt repayments. The pension contributions in the quarter at $200 million, that's in line with our full year plan of $1 billion. No change there. And in terms of the shareholder distributions, Mark mentioned that. That's in line with our plan for the year of $2.7 billion.

And then finally for me, on the balance sheet. Very simply put, auto cash liquidity balance is strong. So Automotive is looking strong. Ford Credit is looking strong, well capitalized and strong liquidity. And when we go down and look at the pensions, everything that we're seeing right now relative to asset returns, discount rates, our plan contributions would suggest that our funded status at the end of the year should improve compared with the end of last year.

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

Okay. Thanks, Bob. So since our last discussion, we've updated some of our expectations for the full year industry sales for all the major markets.

So if we look at the new news here on Slide 31, it's really within the industry. And we now expect Brazil to be slightly higher in 2017, and that reflects, as Bob mentioned, better performance from the fleet sector.

In Europe, we expect the industry volume to be slightly higher compared to our prior guidance in 2017 and '18. And that really reflects gains across most of the EU 20 markets with the exception of the U.K.

And then turning to China, we expect the industry volume to be higher at 28.2 million units in 2017 and then flat in 2018. And that really reflects the positive economic momentum that we've seen in the first quarter.

Just to note, we continue to expect the U.S. to decline slightly this year but remaining at a historically high level.

On Slide 32, our 2017 company outlook continues to be consistent with previous guidance.

And then turning to our business unit guidance on Slide 33, you can see our latest assessment of what we call puts and takes for each of the regions or segments compared to the results from a year ago. And while our guidance remains unchanged, we are seeing a significant increase in headwinds from higher commodities, and that's mainly steel, but we see it across most commodity groups. And as I mentioned earlier, we're increasing our efforts to deliver greater cost efficiencies across all parts of the business to mitigate this headwind and, of course, further improve the fitness of our overall business.

Turning to Slide 34. Again, we expect total company adjusted pretax profit this year to be about $9 billion, and that sets up a platform for a stronger result in 2018. We do expect this improvement to be led by gains in our core business. And that's thanks to the full year availability of important new high-margin vehicles like the Navigator and the Expedition. But we also expect F-Series to continue to perform well in the market.

As Bob mentioned, we also anticipate Ford Credit to benefit from lower supplemental depreciation. And at the same time, we'll continue to invest in the emerging opportunities that will drive not only future growth for the company but profitability as well.

So putting it all together on Slide 34 -- 35, we delivered a solid quarter. And again, we continue to expect to deliver another good year for this year in line with our previous guidance.

And then just wrapping it up on Slide 36 before we open it up for Q&A. We have a very clear vision and strategy for our business going forward. We remain fully focused on the strategic priorities that will drive value as we continue our expansion to an auto and a mobility company. We're focused on fortifying our core strengths, transforming the underperforming parts of our business and investing aggressively but also prudently in emerging opportunities. And I believe that we're already well along the process of transforming our business from a business that's a strong healthy automotive company to one that will be even stronger and bigger going forward. And as usual, we look forward to sharing with you our progress throughout the year.

And with that, I'd like to have my colleagues join me, and we could take any questions that you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Colin Langan of UBS.

Colin Langan *UBS Investment Bank, Research Division - Director in the General Industrials Group and Analyst*

Actually, talking about the last slide, you talk about transform and the focus on luxury, small car and emerging opportunities. Can you give any color on what is the time line for getting those on track and fixed in particular there's been a lot of chatter around small cars and those may be possibly losing money. And so any plans to how could you get those back to profitability?

Mark Fields *Ford Motor Company - President and CEO*

Thanks, Colin. It's Mark. And as you said, we're going to stay very focused on our strategy of fortify, transform and grow. And as you think of the transform areas, listen, in some of these cases, we've said it's a journey and we want to show continual improvement. And if you look at each one of those areas, if you look at luxury, we've talked about not only the sales growth that we've had with Lincoln, but if you look at what I'd call the high gain factors of the brand in terms of how the brand is viewed in terms of customer sat, both on the service and the sales end, both here in the U.S. and in China, we've made a lot of progress. We've announced the localization of production of a Lincoln SUV in China, which is going to help the profitability. So we're seeing we have very clear metrics around this. We're on plan. And as we said, going back to our Investor Day, we want to make sure that our sales success is matched with financial success with Lincoln, and we're in the process of making improvements and on that journey. In the case of small vehicles, again, we've talked about some of the key elements that drive small vehicle profitability, reducing complexity. And we've talked about how we've significantly reduced complexity of vehicles, like our Focus and Fiesta, and continue that going forward with the next models. We've talked about low-cost production, and we've been very clear in moving our production here in North America for our small vehicles to low-cost areas and even in the case of Europe, with the launch of EcoSport in Romania. So we're going to continue to make progress on that and show you the proof points along the way. And then finally, in emerging markets, obviously, last year, we took actions to exit some markets and also to close our plant in Australia, which is one of the reasons, as Bob mentioned, outside of China, our operations are profitable, including Australia. And we said we're in the process of examining our strategy in India. And when we have something to talk about, we will. But we will continue to work this and keep you apprised.

Colin Langan ***UBS Investment Bank, Research Division - Director in the General Industrials Group and Analyst***

Actually, on your last point, that was sort of the more interesting comments when Bob was going through his question -- his commentary. So when we look at Asia Pac, we take out China, it's losing about $150 million, but everything except India is actually making money. So is India really losing? Is that the pace? And what can you do to kind of address that? Or are there other factors in that $150 million loss that I'm not thinking about?

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

Well, let me just be clear. First of all, China made money in the quarter. And you have to remember that China has a number of different components. It's the JVs. It's Lincoln. It's the imported Ford brand. It's also charges that we hold centrally like around engineering that we're incurring today that would be compensated for in the future through royalties from the JVs. So China made money. Outside of China, we made money. In fact, the only major market that didn't make money was India, and India improved. So we saw improvement everywhere through the region outside of China, and we're profitable. So it was -- if you will, both sides of the equation were working for us in terms of profitability in the region. But yes, as we talked about, China was a challenge. And as Mark mentioned, we do expect and already starting to see signs of that improvement both in terms of the overall market but our own performance as well.

Operator

Our next question comes from the line of David Tamberrino of Goldman Sachs.

David J. Tamberrino ***Goldman Sachs Group Inc., Research Division - Associate Analyst***

I think the first one I want to harp on is we've seen a lot of the banks' earnings so far this year and -- or this quarter. And most of them talk about pulling back on their auto loan profiles. So it seems as if credit is somewhat tightening from that perspective. Do you anticipate or do you expect to grow your asset base within Ford Motor Credit as you might see a little bit more challenging times for customers being able to get loans from your third-party partners or from other lenders?

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

Well, let me comment first, and then I'll turn it over to Marion, CFO of Ford Credit, if he has anything he wants to add. But we are growing. I mean, you saw that in the first quarter. We would expect to see growth for the full year. It's not just here, but it's around the world. And I think you also have to remember what the role of Ford Credit is. Ford -- the role of Ford Credit and Ford is to be there good times, bad times. And that's why the practices that we follow around origination and servicing, we've been through the good and the bad. And we know how to manage the business appropriately in either condition, which is why we believe that we were ahead of recognizing some of these factors that are now being written about so much across the region. But we think that we will grow over the balance of the year, and we think that we'll grow in a way that's very healthy and supportive of the overall business. Marion, you want to add anything?

Marion B. Harris ***Ford Motor Credit Company LLC - CFO and Treasurer***

Sure, Bob. The growth is as much around the world as it is in the U.S. and with plateauing sales in the U.S., our growth in receivables here is really not that large. And for all that we've seen written about in the press, we have seen a number of banks start to pull away from deep subprime lending or longer-term financing, but it's really at a plateauing kind of level. And so we haven't seen a real retrenchment yet. And as Bob said, this is the value of the captive to ensure that we're able to support Ford when banks come and go.

David J. Tamberrino ***Goldman Sachs Group Inc., Research Division - Associate Analyst***

Got it. And just following up on that, is there a specific total asset base or total level that you'd get up to or maybe you'd stop yourself at?

Marion B. Harris ***Ford Motor Credit Company LLC - CFO and Treasurer***

We haven't guided on a number, but we would expect to continue to grow. But with North American volumes plateauing, we don't expect dramatic growth.

David J. Tamberrino ***Goldman Sachs Group Inc., Research Division - Associate Analyst***

Okay. And then just my second question. So I look at the European profit segments. It looked like incentives were much more of a headwind this year or this quarter than it was previously, and net pricing was down year-over-year. But on Slide 33, you're effectively looking for the full year to see a positive net pricing. So I'm just wondering what you're expecting in the back half of the year or even the second quarter onward from a pricing perspective within the region.

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

When you look at our European business, obviously, the pricing that we have was taken away by incentives. And that's really where we are in the cycle of some of our products, some of our key products in Europe that are aging. I mean, the example I'll use is Fiesta. We're on run out on that right now, and that represents 20% -- 25% of our volume in Europe. So what we do expect is when we launch the vehicle and what I mentioned earlier around some of the new additions in terms of the high end, that is -- that's the physical, if you will, that will kind of flip the outlook for the remainder of the year once it's launched at the back end of the second quarter.

Operator

Our next question comes from the line of Rod Lache of Deutsche Bank.

Rod Avraham Lache ***Deutsche Bank AG, Research Division - MD and Senior Analyst***

I had a couple of questions. First on Europe. How do you -- just given the declines in diesel that we're seeing in the market broadly, I was wondering if you can share some perspective on how you think companies are going to behave. Effectively, I think that as a result of this, CO2 emissions are basically moving backwards just given that diesels are more CO2 efficient. So is that something that is a risk for that region? Does spending on 48-volt or other technologies need to accelerate versus the prior plan? Or do you think that the industry starts to incentivize diesel a bit more to support demand?

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

Well, I think a lot of that, Rod, is just also going to be based on what some of the tax regimes are in the various governments. But it's very clear, as you know, that both consumer sentiment and regulation are going to -- we believe, are going to continue to reduce diesel. And that's why I think we're well positioned for a couple of reasons. First off, what we're not seeing is we're not seeing diesel demand decrease in the commercial vehicle end of the business. And as you know, that is a very important piece of our business in Europe and from a profitability standpoint. At the same time, even though we're not seeing it, we are making the investments, which are in some of our emerging areas. As you know, we're going to be introducing a plug-in Transit, hybrid Transit in 2019 into the region. And as you get back to the passenger vehicle side, our belief is we're well positioned from a couple of different aspects: one, manufacturing flexibility. If people swing more back to obviously petrol engines, we have the capability to have that flexibility. And we also have -- as I mentioned in my comments, we've built a very strong brand around EcoBoost engines. At the same time, to your question of whether we have to spend more, I mean, we are -- we've laid out our electrification plan, and that includes Europe. So I think our plans to introduce not only the plug-in hybrid Transit but also some of the other vehicles that we've talked about will serve us well. And we'll have to see how the market behaves in terms of incentive spendings in the interim. I mean, you've seen a number of our competitors make a number of announcements of moving towards electrification, et cetera. But I think either way, we'll be prepared for that.

Rod Avraham Lache ***Deutsche Bank AG, Research Division - MD and Senior Analyst***

Okay, great. And switching gears to China, I was hoping you can give us a sense of the full year earnings expectation there. Maybe you can define and quantify some of the key earnings drivers that are within your control and also what some of the factors you considered when -- looks like you're assuming flat demand into 2018.

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

Well, everything I guided to China, we guided to the region. So in terms of the region, as I said, we expect to improve. We think that will be driven by higher volume, and that includes China. So that'll be the industry that Mark talked about. We also believe, and we're already seeing it in the month of April, that we'll -- our own performance will pick up from where it had been in the first quarter, and that's against the backdrop of costs that we expect to be flat. They were actually flat, as you saw, in the quarter. We think they'll be flat for the full year. So that will be partially offset by the pricing that we talked about and the exchange, but it will basically be around volume.

Rod Avraham Lache ***Deutsche Bank AG, Research Division - MD and Senior Analyst***

Okay, great. And just lastly, really quick. You mentioned U.S. auction values down about $1,150 year-over-year. Pricing in the new car market is not down to the same extent. And I was wondering if you could just kind of square that for us. And from a consumer's perspective, obviously, there's an impact on affordability. But are you seeing any effect on mix? Or is it basically volume pressure that's coming in as a result of that?

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

Well, as you saw in the quarter, we had favorable mix. I do think in North America, when we look at the balance of the year, that -- while we'll hold on to the mix improvement that we've been getting over the last number of quarters, I don't think that you'll see that for the full year, I think, in terms of an improvement. I think we'll see probably mix about flat, if not a little bit lower, because the comps obviously get tougher as you get into what we had, Super Duty in the second half of last year and so forth. So I think the mix improvement in North America on a year-over-year basis will probably end in the second half of the year. We do expect that we'll still see negative pricing in North America for the full year on a year-over-year basis. So we actually were a bit positive in the quarter, but we've actually factored in some negative pricing in the second half of the year. And again, that's related to some of the timing of launches that we had last year, which helped us actually on that front. So I think we've factored in both an end of mix improvement year-over-year. We have factored in continued negative pricing other than the first quarter, and we've also factored in a lower industry. So we think that we've got a pretty good handle in terms of, I'll call it, the cyclical pressures that you're talking about that are affecting the region.

Operator

Our next question comes from the line of Ryan Brinkman of JPMorgan.

Ryan J. Brinkman ***JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst***

You previously communicated, I think, at your Investor Day that embedded in your 2017 guidance is an expectation for the Super Duty to be a year-on-year headwind to profits on increased cost to manufacture or higher amortization of tooling, et cetera. At the same time, looking at your slide deck today, you're ATPs on Slide 16 are extremely strong, and you're driving good mix benefits, as shown on Slide 15. That's not all Super Duty, I'm sure. But I'm curious if and my question is, if maybe the price and the mix benefit of this vehicle might be outperforming your expectations and how that is netting out against the cost of the vehicle relative to your expectation.

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

Yes. I would say that's a good observation. I would say that everything is coming out better than what we'd expected not just on Super Duty but F-150. The volumes are stronger. We've grown share. The pricing has been better. The mix has been stronger. We've actually seen some favorable performance on cost. So I think everything right across the board on the whole Super Duty lineup has been good. Of course, we've got -- diesel is coming in as well. So that's going to be another feather in the hat of F-Series in terms of what we can do to attract consumers in this segment. So I have to agree with you. Everything is better than what we had expected when we talked about that by about a year or so ago.

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

And I would just reemphasize that this is another example of how we're fortifying the profit pillars because when you look -- Bob mentioned our overall F-Series performance. And not only were our transaction prices up significantly and much more than the competition, but our share of the segment, our share of the full-size segment is over 38% now. It's up over 1.5 points in the first quarter. So customers are really seeing the value and the capability that we've made and the investments in the aluminum body and the high-strength steel frame. And we're not resting on our laurels. We have the updated, the freshened F-150 coming in the fall of this year. Then we have the Ranger coming, et cetera. We're going to continue to reinforce this profit pillar and, as I've talked about in the past, kind of build out our moats around this because it's such an important part of our business.

Ryan J. Brinkman ***JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst***

That's great to hear. And then just lastly for me, probing the implications of GM's exit from Europe. Firstly, is the sale of Opel/Vauxhall to PSA a threat because it makes a stronger competitor with more scale? Or is it instead maybe an opportunity because it removes a weaker competitor that was maybe competing on price? And then secondly, I know you mentioned in your prepared remarks that you're committed to your operations in Europe, and of course, you had a really great 2016 there. But can you just sort of summarize for the investors what you think are maybe the biggest differences between your European operations and GM's such that staying in Europe is the right thing for you to do for your shareholders even if leaving was the right thing for theirs?

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

Well, again, I'll just talk to Ford. And in the case of the PSA purchase of Opel, I think the answer to your -- first part of your question is yes in that I think there's some opportunities, particularly near-term opportunities. And we're actually seeing that in the marketplace right now in terms of share and things of that nature. But I also think longer term, it does take out one more competitor. At the same time, it -- we have a bigger competitor. And I think we're factoring that into our plans. In terms of Europe as we go forward, I won't kind of do a comparison. But I think from our standpoint, our business we have -- we're going to stay focused, as I mentioned, on that strategy of product, brand and cost. And importantly, our strategy in Europe is really to play to our strengths, commercial vehicles, utilities, which we've grown a lot, and where the market is moving. One out of every 4 vehicles on the passenger side part of the market in Europe last quarter was SUVs and performance vehicles. And as we do that, we can leverage kind of our global scale and technology, at the same time, as we go into not only improving our petrol engines but electrification and diesel. And the other element that's different is, remember, we decided to stay in Russia. And you heard from Bob, we're seeing improvement in that Russia business. So this is where we take a point of view on the future. We put a plan together. It's starting to bear fruit, and it's helping our European business.

Operator

Our next question comes from the line of George Galliers of Evercore ISI.

George Galliers-Pratt ***Evercore ISI, Research Division - MD and Fundamental Research Analyst***

Just following on from Rod's questions around diesel, I was wondering if you could give any indication of your exposure to diesel residual values in Europe. And have you made any adjustments to those given declining share, changes in consumer sentiment and clearly political risk?

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

Well, in terms of lease, I think we actually provided some data on that at the Let?s Chat event back in March. We actually do almost no leasing in Europe. And so from that regard -- which is different than some of the competitors that we're up against in Europe. So from that regard, there's no lease exposure relative to residuals. If you think about just the overall market in terms of residual values, I mean, that would -- depending upon how that plays out, as Mark was talking about, I think that would be impacted -- it would be an industry effect that we would have to deal with as it happens. But it wouldn't be an impact that would affect leasing because we don't do that to any significant degree in Europe.

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

The only other thing I'd add, George, is when you look at -- and I mentioned, our mix in Europe is about 45% diesels, which is about a point or 2 below the industry. And if you look at the U.K., which is our largest market, represents 30% of our sales, our diesel mix is somewhere in the neighborhood of around 35%. And that's just due to the mix of our products, right? We're selling more SUVs, more larger vehicles. And so we're -- I think we're -- it's an important market for us, and we're below the rest of the industry.

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

Yes. And the other thing, too, is it will be an interesting shift as it plays out. But if there is that kind of shift, you would think it would also start to give you a balance on -- in terms of the residual values of your petrol vehicles because of the consumer movement into that and the demand for the petrols relative to the diesels. So it's not just one way.

George Galliers-Pratt ***Evercore ISI, Research Division - MD and Fundamental Research Analyst***

Okay, great. And just to be clear, and I probably shouldn't maybe ask this, you're not on the line on your retail products, on the sort of trade cycle management products with respect to the minimum future guaranteed values of the Ford Credit on the diesel?

Marion B. Harris ***Ford Motor Credit Company LLC - CFO and Treasurer***

We are, George, but it's at a significantly lower level than what projected residual would be. It's a trade cycle management product in Europe, and it's more like a balloon where a customer does have the ability to turn back in a vehicle, but the product is structured with a deep equity position.

George Galliers-Pratt ***Evercore ISI, Research Division - MD and Fundamental Research Analyst***

Okay, great. And then the second question I just had was sort of a bit of housekeeping. In the deck, you gave distributions for this year was $2.7 billion. I think on the Detroit deck, it was $2.8 billion. Is the difference related to some of the anti-dilutive buybacks?

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

Yes. I finally found something good about lower share price, and that's the fact that the cost of the anti-dilutive share repurchase program isn't as great as what we had thought.

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

It?s the only thing good.

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

Yes, let's be clear on that.

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

That's how we think of it.

Operator

Our next question comes from the line of John Murphy of Bank of America Merrill Lynch.

John Joseph Murphy ***BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst***

Just 3 quick ones here. First, as raw material costs go up, is there an opportunity to potentially share that with some of your partners, namely your suppliers, if that becomes a real headwind?

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

Well, the way that we structure our interactions with the supply base on commodities, it's a number of things. Steel has a contract, right? So I'm sure that our purchasing organization is negotiating as hard as they possibly can in terms of those contracts to make sure that we get the best price that we possibly can. If you look at many of the other commodities, though, we actually index. And so as a result of that, I think that's probably one of the reasons why when commodities are falling, we tend to get a much faster and quicker improvement because it will flow through to us relatively quickly from the indexing. I think the converse is true when prices start to go up. So I think the team actually is working, though, with the supply (inaudible) the amount of various commodities that we have in our components and then the suppliers' components, but they're working on that. The other thing that I would mention is that we do some hedging. And so there's some protection for hedging. So in fact, at this point in time, about half of our full year exposure is already locked in through the combination of contracts as well as hedges. The other thing that's interesting about the commodities is there's actually a correlation of some commodities with some of our currencies. And so what we'll see as well, there might be bad news on a particular commodity, oftentimes it's going to be offset by good news on appreciation of a currency. Australia dollars are a really good example of that. So you can't just look at the one factor. It's actually something that we look at across both exchange exposures as well as commodity exposures.

John Joseph Murphy ***BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst***

Okay, that's helpful. And just the second question, on cash conservation or really, I mean, really your cash balance is a little bit higher than, I think, that you've talked about in the past. I mean, at this point in the cycle, are you just going to let the cash build up on the balance sheet and really just be set to take advantage of opportunities and to be incredibly cushioned in case we do go into a downturn sooner rather than later?

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

Yes. So let me make a number of comments. So as Mark mentioned, we're not uncomfortable at all with the fact that we have a lot of liquidity at this point in the cycle. But I want to remind you, John, that about $3 billion of that is related to the debt issuance that we had back in December, which was very specifically for -- it should give us the capital that we could use at some point in the future to support both the core business and the emerging opportunities around strategic opportunities, whether it's equity into something -- purchase of something. As Mark said, we're going to look at that very prudently, and it has to be completely consistent with our strategic framework and our objectives. But that -- $3 billion of that is for that. So think about the rest of it is around $25 billion, which is still above our minimum cash of $20 billion. So we think that that's not a bad place to be at this point in the cycle. But also depending upon our results, it gives us the ability to provide a very nice supplemental dividend, which is the other means that we'll use to provide distributions to shareholders above and beyond the regular dividends. So we'll have to see how the performance comes out in terms of the year relative to net income, but that's the other way that we would utilize. That's consistent with our strategy of the supplemental dividend.

John Joseph Murphy ***BofA Merrill Lynch, Research Division - MD and Lead United States Auto Analyst***

That's helpful. And then just lastly, and I hate to ask a question like this in this forum. But I mean, on cadence of earnings, traditionally, you guys have been around 60-40 first half, second half. This -- the way you're talking about the guidance per region as you went through your comments kind of like indicates that the second half might be equal to or maybe even a little bit stronger than in the first half. I just wondered if you could give us some color there because it looks like estimates are still looking for the first half to be a bit stronger than the second half, and it sounds like your commentary is more equal weighted to maybe even a little back-end loaded.

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

My least favorite subject is calendarization. It's like trying to grab Jell-O. So the third quarter will be the weakest absolute of the year, so I can say that with some confidence. I think in terms of first half, second half, probably the historical experience is more or less right, probably 55%, 60%. Somewhere in that range would be about right. But I have a big asterisk beside anything I say with calendarization.

Operator

Our next question comes from the line of Adam Jonas of Morgan Stanley.

Adam Michael Jonas ***Morgan Stanley, Research Division - MD***

Grabbing Jell-O, I like that one, Bob. Mark, Continental in their Powertrain Capital Markets Day a couple of days ago said that they are engineering what they see as their last generation of internal combustion powertrain to be launched in 2023. Do you agree with that kind of spirit, that this is the last generation of ICE?

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

Well, I can't speak to Continental. I did see Elmar and what they laid out in their plans, how they were going to spend their capital. Listen, our view, very simply and you've heard us, that in the next 15 years, we expect, in the industry, there to be more electrified options in the marketplace than ICE ones, and electrified being hybrid, plug-in hybrid and full BEV. At the same time, there will still be a market for ICE engines. Part of that is due to the job to be done in the duty cycles for things like truck applications or heavyweight applications or climatic applications. And our view is that over time, the cost of ownership of a internal -- internal combustion is going to cross with an electrified. They'll probably do it first for hybrids, then for plug-ins, and then after that, somewhere down the road, in BEVs. And that's going to be a combination of improvements that we see in the technology, in the scale and also the infrastructure for electrification. And on the other hand, you're going to see costs go up on the ICE side of the house because of regulations. So that's why we're making the investments. But I can't speak to individual suppliers, but I do believe that there will be some portion of this industry where ICE applications will be very appropriate. Plus, at the same time, the world's not sitting still in terms of the technological advances in ICE engines.

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

Plus, their hybrid and the plug-in hybrid includes an ICE.

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

Right.

Adam Michael Jonas ***Morgan Stanley, Research Division - MD***

Got it, got it. And Mark, you actually kind of brought up my second question, which is, when do you see that crossover occurring? I mean, you guys are obviously doing a ton of work on this space, and you have your own assessments and experiences of the sell costs at the pack level, et cetera. When do you see that for, let's say, the average application of a pure EV? Forget hybrid for a second, but pure EV being the lower cost to ownership than an ICE, whether it has a -- whether it's a hybrid or not.

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

Well, we haven't really talked about that because there's lots of moving parts on that. But I still think that's a ways away. I still think that, that is a ways away. And I said, I think it will happen first for hybrids and then plug-ins. BEVs, there's still -- when you look at the cost per kilowatt hour and some of the advances that have to be made, I still think that's -- that we're a ways away on that.

Adam Michael Jonas ***Morgan Stanley, Research Division - MD***

Okay. And my last question on cars. There's this old adage out there that it doesn't matter what happens to car sales because car companies make all their money in trucks and SUVs. But my understanding was that you, Ford in particular, relative to your U.S. domestic peers, used to make some really good money in passenger cars through your global platform architecture and the right product, the right place and EcoBoost. And that was a different environment perhaps and hindsight is 20-20, but I just want to understand, is that true that you used to make good money in cars? And does this mean that the segment shift that the industry is going through of -- we kind of have a shunning of cars, if you will, whether it's cyclical or secular, that you have to kind of overcome those decrementals with something else on that? Yes.

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

Well, I'd actually turn that around and say the industry shift that we're seeing around the world from cars to SUVs plays to our strengths.

Adam Michael Jonas ***Morgan Stanley, Research Division - MD***

Okay. But that's not to say -- I mean, again, I know you don't disclose profitability on a model line basis. But you -- are you able to say -- are you able to comment on directionally whether that is accurate that you had been making positive -- yes, you had been making positive profit on the cars throughout much of the cycle?

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

Well, I'm not going to comment on our past profitability around cars or any of our vehicle lines. But we are obviously want to make sure that as we go forward, we're allocating our capital to those areas that are going to drive value in the company. And that's why I think when you look at how we're doing that and some of the examples we talked about earlier, plus the segmentation around the world, it's going to play to our strengths, Adam.

Operator

(Operator Instructions) Our next question comes from the line of Brian Johnson of Barclays.

Brian Arthur Johnson ***Barclays PLC, Research Division - MD and Senior Equity Analyst***

Two questions, one about Ford Credit and then just a kind of broad strategic question. The first question on Ford Credit. Okay, 7% auction declines year-over-year, a couple kind of subquestions around that. As you look -- first, as you look forward to the remainder of '17 and since 2/3 of your lease book almost by definition is in the out years, what sort of auction declines are you keeping? And has it already been factored into the supplemental depreciation or if we see further weakening on a -- on further weakening will there be more sequential depreciation that's going to be needed?

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

So Brian, what I would say is that, as we've mentioned already, we're expecting an average decline of 6% this year. We also have assumed and we haven't provided nor will we today further declines in the forward years. So we are writing new contracts, if you will, on the assumption of those lower declines. So we believe that we've called that right, that we have factored in what is going to happen over the next several years and have that reflected appropriately in the books that -- what's going on the book today. But that would not be supplemental depreciation. I mean, that's us just writing the contracts at the right level, look at the right return. It would mean, for example, if those released vehicles that -- the leasing expense will be more expensive for Ford Credit, they can either pass it along, absorb it and variable marketing. But we think that we've called that right, and that's how we've set up the business.

Brian Arthur Johnson ***Barclays PLC, Research Division - MD and Senior Equity Analyst***

I guess my question just in the weeds was, if you had a 1Q '16 origination, and that car is not going to come back until 1Q '19, what have you assumed? Have you taken the hit that you think you're going to get in '19 now? Or do you have to wait until ALG walks those guidelines down?

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

So you don't take any hit because you basically have written the contract with the assumption that, that is the lower -- that have a lower value. Obviously, that means that for Ford Motor Company, in terms of what it may have to do in terms of subvention and so forth could be more expensive than in the past. But let me have Marion just add a supplement if you want to.

Marion B. Harris ***Ford Motor Credit Company LLC - CFO and Treasurer***

Yes. So you have to -- it's complicated. You have to understand the accounting around this. But in your example, if a contract had been written in the first quarter of '16, and ALG. So if the contract had been written in the first quarter of '16, and ALG subsequently lowered their outlook on that, we immediately start to take supplemental depreciation for that. So we're taking a substantial amount in supplemental depreciation. This year, as we talked about at the Let?s Chat event, we took a lot in 2016, and we took our first cut of the -- bite of the apple the beginning of '16 and then second cut of the apple the end of '16. So we're taking more supplemental depreciation in '17 than we did in '16. And that is for the entire portfolio all the way out through '18, '19 into '20. And it's completely contained within our outlook. And that's why we've guided that we expect our '18 results to improve from '17 as we would expect to have lower supplemental depreciation. We've factored those sequential declines into our outlook, and it's rolling through our accounting today.

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

And Brian, I just wanted to just reconfirm, though, that for new contracts, not only have we obviously assumed what we expect to happen this year, but we have further assumed declines post-2017 and factored that into the new business that we're writing.

Brian Arthur Johnson ***Barclays PLC, Research Division - MD and Senior Equity Analyst***

Okay, great. Second question for Mark. There is an automaker who makes about 100,000 run-rate cars a year who's valued higher than Ford, roughly the same. We could debate the valuation of that company, but in terms of your investments, whether it's big data, autonomy, mobility, electrification, what do you think the market is missing in that comparison?

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

Well, again, I can't speak to Tesla. I know you didn't mention the name, but I know that's who you're referring to. And we're just going to stay focused on our strategy. First off, I just want to say, on the valuation, we are absolutely committed to making sure that we create value for our shareholders. And as we execute this strategy of fortifying our profit pillars and transforming the underperforming parts of our business and growing in the emerging opportunities, that I'm confident that we're going to create value, and we'll continue to return value to our shareholders. In terms of maybe what the market is missing in terms of if you look at the valuation of our business, and I'll -- first off, I think we have a strong -- a robust and defensible core. And you've heard this morning how we're fortifying the efforts around that. The cost structure that we've put into the business and also the strong balance sheet allows us to pay a nice sustainable dividend, which by the way has a nice yield, and I think the upside around as we transform the underperforming parts of our business and grow in the emerging areas. And I think on the growing in the emerging areas, and you mentioned them, mobility and data and autonomous vehicles and connectivity, I think we need to do a better job as a company in dimensioning what that means for us in the future in terms of revenue and profit growth. We've talked about the investments, and we'll do that going forward.

Operator

Our next question comes from the line of David Whiston of Morningstar.

David Whiston ***Morningstar Inc., Research Division - Strategist***

ALG had said yesterday they were looking for industry incentive spending to peak in July. And I was just curious if you're that optimistic or you think the industry might continue to remain somewhat irrational to keep the SAAR above 17.

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

Well, I don't think the industry has been irrational, let me just say that first. If you see what's happening, there's been a very, very slow, long, progressive increase in incentives going all the way back from when the downturn ended. So we're just on that track. We have so far seen the ATPs continue to stay ahead of that. So it's inclusive of that. So I don't -- and I don't see any particular manufacturer on a consistent basis doing something that I would think is unhealthy for the business. I think everyone's very much focused on margins, profitability. If there's anybody in any particular month or quarter maybe trying to address an inventory situation or gain a tactical advantage, yes, sure that happens. But I have not seen that in terms of a consistent approach to this business. So I think, overall, the industry is relatively disciplined. And Mark talked about what we're doing, and we're going to continue to do what we're doing. I am not aware of anything that would suggest that, that trend of small increases -- progressive increases is going to end.

Operator

Our next question comes from line of Justine Fisher of Goldman Sachs.

Justine Beth Fisher ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

The first question that I have is just following up on 2 questions ago in terms of the outlook for used values in '18 and '19. I know, Bob, you said that you guys weren't going to put specific numbers around your expectations in '18 and '19. But we do know that the off-lease vehicle supply increases significantly in '18 and '19. So could you give us color as to whether you expect the declines to accelerate or decelerate year-over-year in '18 versus '17?

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

Well, we expect the declines to continue. And in fact, we have factored in exactly what you referenced, which is the fact that we know how much is going to be coming back because we know what's been leased. And so we've factored that into our thinking. So we do see a continued decline, but I don't want to get into any characterization of the slope of that decline.

Justine Beth Fisher ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Okay. And then the second question is following up on something that we talked about at the Let?s Chat. You mentioned that you expected used -- lower used vehicle prices to manifest themselves more in new vehicle volume than in new vehicle price, i.e., that the OEMs would cut production instead of just lower their prices on new cars. So can you give us color on what the size of that price-insensitive market is? I.e., how much would vehicle production have to go down in order to shrink the consumer base to that population that will still buy a new car with trim and features even if used car prices have -- are down? Have you guys done work on that?

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

My head just exploded from that question, but -- [straight to] the answers. So let me just explain how we think about it in my very simple way of thinking. So the reality is that, first of all, people that buy used vehicles tend to be people that buy used vehicles. People that tend to buy new tend to buy new. So there is some sort of area where maybe people will flip back and forth between the 2, but they actually tend to be quite separate consumer sets. Second thing I would say is that clearly, with lower used vehicle values, it's going to have an effect on the ability to price for new. It'll put tension on that because of residual values and so forth. So it would mean an effect to mix. You may find people that start to move down series or even down from segments potentially while staying in new, so there could be an effect there. It could affect variable marketing because again, what we've talked about earlier around subvention costs. So there's so many different impacts that could take place. The way that we have generally and largely expressed that is our view of just lower volume. And so that's one of the key factors that is behind our view that the industry will decline this year from last year and will decline in 2018 from 2017. Now it may play out a little bit differently than that, but the thing that is interesting so far is that what we've seen to date would suggest that, that is what's taking place right now. I don't know if Mark wants to add anything.

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

One other thing. When you look at the data, Bob mentioned the small overlap between new car buyers that buy used and vice versa. When you dig into the data, actually, the segments that are a little bit indexed a little higher are cars. And that's mainly compact and midsize cars where you see that. So you could see that manifest itself on the volume side of the house on the car side of the industry.

Operator

Our last question comes from the line of Dee-Ann Durbin of The Associated Press.

Dee-Ann Durbin

I just wanted you to talk really briefly about recall costs that hit you in the third quarter that hit you again. What are you doing to improve quality or tackle these kind of recurring big, huge costs?

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

Well, first off, Dee-Ann, thanks for the question. And obviously, we are absolutely committed to making sure that we provide top quality to our customers. And when you look at some of the work that we're doing, we're doing a lot of work obviously in making sure the initial quality of our vehicles is very good because that gives you an indication to the long-term quality. And whether it's our own internal measurements that we have but also external, J.D. Power and others, it shows we're making very good progress along those ways. At the same time, one of the reasons you see, when we do have, in some cases, a recall and it's fairly large -- remember, we were a little bit ahead of the industry in terms of reducing our platforms and getting more commonality of parts across our vehicle lines. And so when there is an issue, whether it's our own issue or with a supplier, it tends to hit a bigger population. And as usual, whenever we see something from a quality standpoint, we are going to act very proactively to fix that for the customer. And that's exactly what we're going to continue to do.

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

And Dee-Ann, if I could just add to that, just maybe to help understanding. So what we do in terms of costs related to quality, I'll say, is we actually reserve with every single vehicle sold a certain amount for coverages. So that's the 3 years, 36,000 miles, if you will. But we also reserve for every single vehicle we sell an amount that goes into a reserve for what we call field service actions, which are our recalls. So we reserve for that. So what happens, though, is that if we get a particularly large recall that comes through that is above and beyond what we can manage within that reserve, and then effectively, it forces us to let it flow through to the bottom line more or less. And then we've got to top up the reserve back to the level that-- we've developed a minimum level that we have to have. And so we have to go back up to that minimum. So a lot of recalls, you never hear about because it's covered by the reserve. It's these sort of big onetime large ones and driven in part for the factors that Mark mentioned that force us to handle it on more of a "flow right to the bottom line" basis.

Operator

That does conclude the question-and-answer portion of the call. I will now turn the call back over to Ted Cannis for any additional or closing remarks.

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

All right. Thank you very much for participating in today's call, and we look forward to the next one. Thank you very much. Have a good day.

Operator

This concludes the Ford Motor Company Earnings Conference Call. Thank you for your participation, and you may now disconnect.