

## — PARTICIPANTS

### Corporate Participants

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**Lynn Antipas Tyson** – Executive Director-Investor Relations, Ford Motor Co.

**James P. Hackett** – President, Chief Executive Officer & Director, Ford Motor Co.

**Robert L. Shanks** – Chief Financial Officer & Executive Vice President, Ford Motor Co.

### Other Participants

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**David Tamberrino** – Analyst, Goldman Sachs & Co. LLC

**Ryan Brinkman** – Analyst, JPMorgan Securities LLC

**Adam Michael Jonas** – Analyst, Morgan Stanley & Co. LLC

**Rod Lache** – Analyst, Deutsche Bank Securities, Inc.

**John Murphy** – Analyst, Bank of America-Merrill Lynch

**Colin Langan** – Analyst, UBS Securities LLC

**Brian A. Johnson** – Analyst, Barclays Capital, Inc.

**Joseph Spak** – Analyst, RBC Capital Markets LLC

**George Galliers** – Analyst, Evercore ISI

**Emmanuel Rosner** – Analyst, Guggenheim Securities LLC

**James J. Albertine** – Analyst, Consumer Edge Research LLC

**Itay Michaeli** – Analyst, Citigroup Global Markets, Inc.

**David Whiston** – Analyst, Morningstar, Inc. (Research)

**Jim Henry** – Reporter, Automotive News

## — MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Dorothy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford Motor Company Fiscal 2017 Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over Lynn Antipas Tyson, Executive Director of Investor Relations for Ford Motor Company. Please go ahead.

### **Lynn Antipas Tyson, Executive Director-Investor Relations, Ford Motor Co.**

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Thank you, Dorothy. Good day and welcome, everyone, to Ford Motor Company's third quarter 2017 earnings review. Presenting today are Jim Hackett, our President and CEO, and Bob Shanks, our Chief Financial Officer. Jim will begin with a brief review of our strategy and operating performance and then Bob will review the quarterly results in more detail.

Note that to provide you with more time for Q&A, Bob will touch on just the highlights of the quarter. For your reference, we've kept the same level of detail in the web deck. After Bob's section, we'll open the call up for questions. And following Q&A, Jim will have a few closing remarks.

Also here with us today, are John Lawler, Vice President and Controller; K.R. Kent, Vice President and Corporate Treasurer; Paul Andonian, Director of Accounting; and Marion Harris, Ford Credit's CFO.

Our results discussed today include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measure in the Appendix of our earnings deck, which can be found along with the rest of our earnings materials at [shareholder.ford.com](http://shareholder.ford.com). Today's discussion includes some forward-looking statements about our expectations for future performance. Actual results may vary and the most significant factors are included in our presentation.

Also, all comparisons are year-over-year unless noted otherwise.

Relative to our upcoming Investor Relations activities on November 14, Joe Hinrichs, Executive Vice President and President of Global Operations, will be at the Goldman Sachs Industrial Conference in Boston. And on November 15, Marcy Klevorn, Executive Vice President and President of Mobility, will be at the Barclays Global Automotive Conference in New York.

Now, let me turn the call over to Jim.

**James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.**

Well, thank you, Lynn. And, Lynn, welcome to your first call as Head of Investors Relations at Ford Motor Company. We're lucky to have you.

**Lynn Antipas Tyson, Executive Director-Investor Relations, Ford Motor Co.**

Thank you.

**James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.**

And good day to everyone on the phone. On October 3, I had the opportunity to meet with many of you and lay out our winning aspiration for the Ford Motor Company. Now, I'm not going to read it verbatim here, but the spirit of it is that we are marrying the trust of our brand that it has earned over time with the passion that people have for creating and owning great cars and trucks with a commitment to transforming our business to win in the future.

We are fully embracing an evolution brought on by the intersection of powerful computing concepts and the ability to development intelligent capabilities in our vehicles. And these vehicles won't be working in isolation, rather they'll be interacting with an independently smart world. We describe our strategy as smart vehicles in a smart world. And I will often return to this theme in future discussions about our company. For us, this means that we have a clear path to leverage what we've done well historically as we move toward this optimistic future.

Now, our approach is to link what we know now with what we imagine the future to be. And we're bridging the two in a way that satisfies our customers and provides a clear roadmap for investors. The first priority that I told you about was to reset revenue and attack costs in the near term, and our results this quarter demonstrate that we've embraced the deep commitment to making our company more fit. And we're also fundamentally redesigning our operations, that's the longer-term effort, in reallocating capital to where we can win in the future.

As you can see from our framework, here on slide three, fitness is really at the heart of our plan. Now on future calls, I will update you on key milestones as evidence of how we are evolving. And I just want to reaffirm that I know you're looking for specifics here.

If you turn to slide four, I'm proud of the efforts of the team to deliver a solid 2017 and pleased with results we achieved this quarter. We've already significantly reduced costs and we have accelerated plans to introduce smart, connected vehicles and services. We've made a number of

decisions in that vein. We're continuously innovating to create the most human-centered mobility solutions. And our team is empowered to make decisions and work together effectively. As I say, to compete and win. And I can assure you that we're committed to transforming our business.

Well, let me just mention a few highlights from the quarter before I turn it over to Bob. We successfully launched new products around the world, such as the new F-150. You already knew about that, but I want to reaffirm that it's already delivering higher transaction prices. We also saw good performance by North America, with an operating margin over 8%. We also saw a record third quarter profit in Asia-Pacific and another strong result at Ford Credit.

We reached important agreements with potential partners in India and in China that can help us improve our business in those critical markets. These are markets you ask about often. We launched collaborations with Dominos using our AV technology and Lyft we advanced our work on autonomous vehicles that can move both people and goods in the future.

Well, clearly we have a lot of work ahead of us. But this is a solid quarter, and I want to smile with the results today because we're going to build on this as we move forward.

And now, I'd like to hand the call over to our Chief Financial Officer, Bob Shanks. Bob?

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**Robert L. Shanks, Chief Financial Officer & Executive Vice President, Ford Motor Co.**

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Thanks, Jim. Well, as Lynn mentioned earlier, I don't plan to go through any slides today. Instead, before going to Q&A, I'm going to share remarks that provide our perspective on the quarter's highlights along with a few key facts that you might have missed if you haven't had a chance to go through the material yet that we filed earlier this morning.

So as Jim said, we delivered a solid quarter with more balanced results including year-over-year improvements in growth, profitability and cash flow. Let me provide a few highlights. First, our company adjusted pre-tax profit was [ph] \$2.0 billion (7:00). That was up 40% from a year ago and that was driven by gains in both our Automotive and our Financial Services segments.

Now, within our Automotive segment, we saw profit of \$1.7 billion which was up 54%, and that was due mainly to lower cost, but we also saw favorable market factors that are more than explained by higher net pricing. Our automotive operating margin was 5%. That was up 1.7 points, and we achieved this despite the commodity cost increases of over \$300 million.

Within Automotive, our profit was driven by solid performance at North America, where we earned \$1.7 billion, which was up 33%. The operating margin was 8.1% and that was up 2.3 points. The year-over-year gain of over \$400 million was achieved through favorable cost performance of over \$700 million which was inclusive of commodity cost increases of about \$200 million.

In addition, the results were achieved with less than 1,000 wholesales for the high-margin Expedition and Navigator, which were in launch. And, in fact, we didn't wholesale any of the new product; those were all old product. By comparison, we wholesaled about 19,000 of these products in the third quarter last year.

Now, outside of North America in the Automotive segment, results were about breakeven. This included a record third quarter profit in Asia-Pacific of \$289 million, more than doubling what we did last year, with an operating margin of 7.9%, which was up 3.6 points. Like North America, favorable cost performance drove the profit gain. I'd also note that the year-over-year improvement was driven by operations outside China, and, in particular, Australia and India.

On the other hand, we saw a loss in Europe of \$86 million, which was our first loss since the first quarter of 2015. This was nearly completely explained by Brexit effects but also affected by higher commodity costs along with the Fiesta launch effects. We expect to return to profitability in Europe in the fourth quarter and, of course, for the full year. Higher volume will drive the return to profitability. We expect production in Europe to be 116,000 units higher in the fourth quarter than the third quarter and 65,000 units higher than it was in the fourth quarter of 2016.

Finally, Ford Credit turned in another strong quarter, earning \$600 million, which was up 6%. Favorable volume and mix along with lease residual performance drove the profit improvement. Ford Credit also made a distribution to its parent in the quarter totaling \$378 million.

FICO Scores remained strong, and our origination, servicing and collections practices continued to be disciplined and consistent. As noted, we continue to see higher auction values than we had expected, and, as a result, we now expect three-year auction values for full-year 2017 on average to be down about 3% from 2016 at constant mix. As you'll recall, in both the first and the second quarters, we expected that decline to be about 6%. The operating results from Automotive and Ford Credit coupled with an adjusted operating tax rate of 11.8% contributed to a 63% increase in net income to \$1.6 billion and an adjusted EPS of \$0.43, which was up \$0.17.

Our Automotive operating cash flow was negative \$1.7 billion, which was an improvement from a year ago. The negative results were due to unfavorable timing and other differences along with working capital, mainly payables. We continue to expect cash flow to be positive for the full year, although lower than 2016, which is consistent with our prior guidance. Our balance sheet remains strong and investment grade and we ended with cash over \$26 billion and liquidity at \$37 billion.

So, with the improvement in our operating performance and traction against cost initiatives, we're fully confident in our ability to deliver on our previous guidance. And, in fact, today we're tightening that guidance to a range of \$1.75 to \$1.85, which is the upper half of the prior guidance. And, within this, we're raising our target for Ford Credit profit before tax to be above \$2 billion. The adjusted effective tax rate remains at about 15%, which is unchanged from prior guidance.

So overall, for us, a good, high-quality quarter for Ford and a down payment on our efforts to improve our overall fitness.

So, with that, I'd like to turn it back to the operator, who will get us started on our Q&A session. Operator?

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions] Your first question comes from the line of David Tamberrino with Goldman Sachs.

**<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>:** Great. Good morning, and thanks for taking our questions here. Let me just follow-up first on the Ford Motor Credit. You're taking your auction values from down 6% to down 3%. Curious to what you're thinking about for next year. I think the auto ecosystems improved from some of the hurricane recovery-related demand. But wondering what your view is for the fourth quarter for residual values and, again, moving into 2018 and 2019 where we still have off-lease vehicles coming back en masse.

**<A – Bob Shanks – Ford Motor Co.>:** Thanks, David. I'll take that one. And let me just give a general comment first. We're going to stay away from guidance for 2018, but where I think it's appropriate and we can, we'll provide some, maybe some texture and color. And I think we can do that in response to your question.

So, clearly, we've seen much better performance this year than what we had expected. We are still writing new contracts on an assumption that auction values will be lower. But I have to say that we expect them to not be quite as low as what we had thought previously. So our outlook has improved with regard to auction values moving forward.

**<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>:** Okay. Got it. And then, Jim, from an execution standpoint looks like a pretty good quarter from materials. Obviously you were lapping some headwinds last year from a warranty perspective. Fourth quarter you'll see some more warranty headwinds that were announced earlier. Do you think that the company has passed a lot of these one-time field service actions that you've seen so far this year and in last year? What is being done to address that from a manufacturing perspective? And is the warranty expense accrual that you're now booking appropriate, or does the level need to increase?

**<A – Jim Hackett – Ford Motor Co.>:** Well, I want to tell you it looks like a good quarter, it is one. And I'm not parsing words, but I'm really happy with the quarter because in the 100-plus days scanning through the company, there's definite improvements that show up in the financial performance. But I'm seeing things underneath. I hinted about them in my comments. For example, our decision-making, what we call role clarity in terms of [pf] who owns points of view (14:18).

You'll recall in the organization that we've established we've linked under Joe Hinrichs our manufacturing with quality with procurement with product development with our FCSD group. And the premise with that organizational shift was that it would make the system more connected and linked relative to the design and execution of the product.

So, I'm not sitting on any news that there's something about to go over a cliff from a quality perspective. So I'm optimistic that the changes that we're making are going to show those improvements.

**<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>:** Understood. And just the last one for me is, as I think about we're headed into next year, your competitor is going through a large pickup truck refresh. A couple of years ago, you went through one as well. There was an opportunity for them to really take market share. Do you think about 2018 and the market backdrop where your competitors are as a real good opportunity to push the F-150 and take more retail share?

**<A – Jim Hackett – Ford Motor Co.>:** Well, it's one of those gifts that keeps on giving for us. And so you answered part of the question. So, we witnessed F-150 transaction prices increase in the face of the kind of competitive activity that you referenced. So we think we're in a really good

position. The Super Duty is doing extremely well, and we had counted on that. And so we're very happy with that franchise.

**<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>:** Okay. Thanks for taking our questions.

Operator: Your next question comes from the line of Ryan Brinkman with JPMorgan.

**<Q – Ryan Brinkman – JPMorgan Securities LLC>:** Hi. Good morning. Thanks for taking my questions. The first question is just about the guidance range. So, just backing into the implied total company pre-tax profit from the EPS guide, it seems to be \$8.2 billion to \$8.7 billion or \$500 million range. I appreciate that's narrowed significantly from more like a \$900 million range in the back half prior, but still it's a little large. So, I'm just curious if you can share why the range of guidance? What are the swing factors that you are thinking about that might cause you to potentially track more toward the low or the high ends of that range.

**<A – Bob Shanks – Ford Motor Co.>:** Yeah, I'll take that one, Ryan. What we do when we provide that, we go back and look at history in terms of what parts of the business have moved and to what degree from this point in time to the end of the year. And, frankly, it's all over the place. It could be around wholesales, it could be around production, it could be around recalls. We just had a question on that. Although we have picked up everything that we're aware of right now with that 8-K that we issued recently. It could be variable marketing. But we think what we see in front of us is – exchange I guess is another one as well, particularly around balance sheet effects.

We have launches underway, although I think we're coming out of those. So, I think we feel pretty comfortable. So, I don't see anything that suggests we're going to swing either one way or the other. But we just try to provide the range that's based on what our experience has been. And I can certainly say, obviously, that we're working to deliver the strongest possible result that we can and we feel very good coming off of the third quarter results. But we're comfortable with the guidance. We feel very confident about it.

**<Q – Ryan Brinkman – JPMorgan Securities LLC>:** Great. Thanks. And then just a last question from me is on South America. The losses, they are materially lower than they were a year ago, but they're still pretty material. I appreciate the cycle is at a low point and you're on track to, I'm sure, make a profit when the volumes return. But just given the magnitude of the losses incurred there in recent years and maybe the slower return to profit in the region relative to some of your competitors with larger market share and maybe even given the success of some of the newer entrants like Hyundai in Brazil, et cetera, just curious if you're thinking any differently at all about what you need to do long term strategically in that market, like, I don't know, maybe an alliance with another automaker, like you'd had with Volkswagen in the 1990s, or maybe to selectively exit certain markets or anything like that. Thank you.

**<A – Jim Hackett – Ford Motor Co.>:** Well, thanks, Ryan. In some of the discussions that are public today, I want to address that I get questions from October 3 about where the specifics are to the detail and strategy story that we've laid out. And I want you to understand there are a number of things when you're talking about the smart vehicle smart world, that in 100 days, we're working really hard to conceptualize and imagine the implications of that. And then there are real things coming from us about that strategy.

Then I would put in another pile issues like what you just talked about, that in the 100 days warrant attention, warrant attention in ways that you just talked about, in the nature of the investment, the nature of relationships, the nature of the markets, the nature of the history. And we've made a lot of progress in a couple of these areas. So, I'm not announcing anything today. But I just want to confirm that I don't want you to heap all of these unanswered questions in the same pile. And in a pile where, I believe, direction from us and point of view is what I use the term inside the company – is one that we're coming to grips with and will have a position on same.

<Q – Ryan Brinkman – JPMorgan Securities LLC>: Great. Thank you.

Operator: Your next question comes from the line of Adam Jonas with Morgan Stanley.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Hi. Good morning, everybody. First question. Does Ford need a restructuring?

<A – Jim Hackett – Ford Motor Co.>: I need you to ask that a second way, Adam. What do you mean by that?

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Sometimes when you have big changes of strategy, big management changes and fundamental pivots in the direction of the organization long term, when you reassess fitness, in this industry at least, there's quite a lot of precedence of restructuring actions, be it asset write-downs, head count adjustments, et cetera. Does Ford need anything like that?

<A – Jim Hackett – Ford Motor Co.>: Well, I think I'd stand with the comments I gave you in October which is that Ford is getting itself in a better position in the future. And we've undertaken two different tracks or two different kind of streams that are really time sensitive. One is the near-term things, and that's what the top-left of the diagram is showing you, that we've attacked revenue and cost in this 2017 working on 2018 period, and we created six work streams that are about redesigning the business operations. That work has been assigned. It's coming bottoms up. Very excited about what I've seen earlier. And so, I plan on reporting to you as the news in that area starts to present itself.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Great.

<A – Bob Shanks – Ford Motor Co.>: Adam, if I can just add before, if going to another question.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Yes.

<A – Bob Shanks – Ford Motor Co.>: So, I read your thoughtful commentary...

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Thank you.

<A – Bob Shanks – Ford Motor Co.>: ...around restructuring. So, I would say, in addition to what Jim said, nothing specific related to the \$10 billion of material cost reductions or the \$4 billion of engineering. But I think when you think about the fitness paradigm that Jim talked to in New York, the reset and the redesign. Redesign means a substantial change to the business. How we do what we do and who we do it with and so forth.

So, I think in that bucket and consistent with what we've said since 2010, we will aggressively restructure the business as required to achieve the objectives that we've set out to achieve. So, nothing specific and certainly nothing related to those two big improvements we talked about in New York. But we're always open and prepared to do what we have to do.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Thank you, Bob. Just a follow-up. What are the arguments for and against a carve-out or separation of Ford Smart Mobility LLC into a separate, potentially publicly traded company? Can you argue it from both sides?

<A – Jim Hackett – Ford Motor Co.>: I think that the biggest advantage I could have one day is when you see the growth of that segment of our business such that you want to ask that question. And so it's one of the things that it's got to deliver on its promise and we've had really a lot of good things started there, but it isn't at the scale yet where it has any kind of that implication yet.

**<Q – Adam Jonas – Morgan Stanley & Co. LLC>:** Okay. If I can just sneak in one more. Your bonds have rallied hard. There's a saying in business, either you don't want to raise capital when you have to. You want to do it when you don't have to. Is this a good opportunity to sock-in some margin of safety to insure against a force majeure, uncertainty around the economic environment particularly at a time of strategic change? That's my final question. Thank you.

**<A – Bob Shanks – Ford Motor Co.>:** Well, we actually did that. Relatively recently, we took out a loan of nearly \$3 billion because we felt, to your point, that was a good time. We thought rates were going to be going up and we thought the balance sheet could take that. It's part of the cash we're holding right now, and we intend to use that for strategic purposes. But beyond that, no, I don't see the need at the moment to do that.

**<Q – Adam Jonas – Morgan Stanley & Co. LLC>:** Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Rod Lache with Deutsche Bank.

**<Q – Rod Lache – Deutsche Bank Securities, Inc.>:** Oh, man. They gave us some limitations here. I want a clarification and a question.

**<A – Bob Shanks – Ford Motor Co.>:** Well, we still love you, Rod. If you can put all of it in one paragraph, maybe that works.

**<Q – Rod Lache – Deutsche Bank Securities, Inc.>:** I will try to keep it simple. But just the clarification part is just dividing by your tax rate, like looking at the new guidance divided by your tax rate, it looks like you raised your guidance by a few hundred million dollars. Your Financial Services guidance is now greater than \$2 billion versus the \$1.5 billion previously. So just to clarify, is the guidance change basically the improvement in the Financial Services outlook?

**<A – Bob Shanks – Ford Motor Co.>:** Well, the tax rate is the same, as I think you noted. But Financial Services had been moving up over the course of the year actually. It's now at a point where we're – and we're towards the end of where we're declaring that. But overall, if I look at what we're going to be delivering for the company versus what we had expected, we'll be doing better than we had expected in Ford Credit, not quite as good in Automotive.

**<Q – Rod Lache – Deutsche Bank Securities, Inc.>:** Okay. And then texture. I know you're not giving guidance for 2018, but you did provide some texture around some of the big picture things we should be thinking about. I would think that, for North America, a key driver is going to be the Expedition and Navigator launch and whatever you're able to achieve on costs. How should we be thinking about those things?

And I'm just thinking back to the Super Duty launch. There was a big volume increase, you had a significant increase in content costs, so that mitigated some of the positives. And on the cost side, can you give us some brackets around what we should be thinking? Obviously, you've got some non-recurrence of warranty. But is there any big brackets that you can talk about for potential cost performance next year?

**<A – Bob Shanks – Ford Motor Co.>:** I think I'll take a pass on that, other than to say obviously the focus that you've seen on costs and the evidence of that in the quarter, the conversation around fitness, so we'll be providing more proof points on that as we move through the year. I have to say that we still see, as we look ahead at the moment to next year, we still see commodity prices going up when we look at the forward curves. So, that is something that we'll have to mitigate as we look at next year.

We have some significant launches around the world. I would note that in the case of Europe, something like 80% of the volume that we wholesale next year in Europe will be new product, so there's going to be a really strong year for Europe. And, of course, we've got launches elsewhere. And then I mentioned Ford Credit.

**<A – Jim Hackett – Ford Motor Co.>**: And I would add, Rod, that the Expedition, Navigator launches are a go. Everything's good there, ready to roll. So, just confirming that that's still the plan.

**<Q – Rod Lache – Deutsche Bank Securities, Inc.>**: When you've launched those new products in the past, very often there's been significant increases in costs that have offset some of the positives that you get from transaction prices and so forth. And so far, what we're seeing in terms of your cost structure, some of it is the non-recurrence of charges that you had last year. So, I'm just trying to get a sense of whether you're actually seeing some significant progress in terms of the cost structure on a go-forward basis?

**<A – Bob Shanks – Ford Motor Co.>**: Yeah, well, let's just look at the quarter. So, of that \$700 million, \$200 million is material cost excluding commodities. About \$100 million or so is engineering, about \$100 million is advertising sales promotion. So the majority is those factors, we did have the non-repeat of the recall. But to me, that means that we're back towards a more normal ongoing level of cost performance, and that's how I would think about this quarter.

This quarter, as I mentioned earlier, is really high quality in terms of there not really being anything unusual, good or bad, that I look at. I think this is a really good view of the business on a run-rate basis, recognizing we've got some launch effects in there both probably good and bad.

And the other thing, too, going back to next year – and I want to come back to the question, I can't remember if it was David or Ryan that asked about it, but let's not forget that we've just launched a new F-150 as well. And that's off to a very, very strong start. And already as we look early in October, that we're seeing transaction prices that are holding up which is not necessarily what I expected, I thought, once we started lapping Super Duty – it is getting tougher, no doubt. But we are seeing some good performance so far. And then of course, we've got a new Mustang coming as well, which is always a big event. So, I think we've got some good things that are going to help us as we move ahead into next year.

**<A – Rod Lache – Deutsche Bank Securities, Inc.>**: Great. Okay. Thank you.

Operator: Your next question comes from the line of John Murphy with Bank of America Merrill Lynch.

**<Q – John Murphy – Bank of America-Merrill Lynch>**: Good morning. I'll try to limit myself to one question and a clarification as well. The first real question, the question really is, I can understand on a first derivative basis how better realization of residuals at auctions helps Ford Motor Credit. But, Bob, I just wonder if you can talk about what that really means for new vehicle pricing, because down 6% on resids versus down 3% should mean a lot for new vehicle pricing. I'm just curious if you saw a benefit from that in new vehicle pricing in the quarter or that's on the come for what you expect that to mean going forward.

**<A – Bob Shanks – Ford Motor Co.>**: Well, this is something that we've all talked about isn't it? There is a relationship between what's happening with auction values and the pressure or lack thereof in terms of new vehicle prices. So I think that the way that we think about it, that I would encourage you to think about it is the fact that we're not seeing the decline to be as precipitous as we thought, should make it a bit easier for us to do better in terms of new vehicle prices going forward.

**<Q – John Murphy – Bank of America-Merrill Lynch>:** Okay. And was that a factor in the quarter as far as pricing on the new vehicle side?

**<A – Bob Shanks – Ford Motor Co.>:** I can't say that directly, but the fact that it hasn't been as bad as what we had thought earlier in the year, I think probably has been a positive for us.

**<Q – John Murphy – Bank of America-Merrill Lynch>:** Okay. And then the one quick clarification. The \$14 billion cost saves target you have going forward, should we assume the bulk of that is going to be reinvested in the business for future tech and development?

**<A – Bob Shanks – Ford Motor Co.>:** Well, no. In fact, I would expect the bulk of that to be flowing through to the bottom line. That will generate – if your question is around what are we going to do with the cash that it generates, we are clearly reallocating capital, both within the traditional business to the areas where we know we've got a winning proposition and a winning hand. And then we talked about in New York, Jim talked about the fact that we're going to be seeing less investment than we had planned or done in the past on ICEs and that would be giving us the ability to accelerate and invest more in EVs.

**<A – Jim Hackett – Ford Motor Co.>:** And, John, I would just remind you in the role that digital services play in that Smart Vehicle, Smart World, that's a much lower capital appetite kind of business. OpEx can be higher because of some of the software, but margins are better, too.

**<Q – John Murphy – Bank of America-Merrill Lynch>:** Okay, great. Thank you very much.

Operator: Your next question comes from the line of Colin Langan from UBS.

**<Q – Colin Langan – UBS Securities LLC>:** Oh, great. Thanks for taking my question. Any color on Asia-Pac? I mean, you look at the China joint venture profit seemed to have gone down quite significantly. But when I pull that out, the core ops seemed to have improved quite dramatically. What are the drivers and how should we think about, one, the China joint venture profits? And is this sort of consolidated Asia-Pac a sustainable number now? Because it looks like it's back to a positive number.

**<A – Jim Hackett – Ford Motor Co.>:** Well, I think I'm going to ask Bob for some history with this, but I would just tell you that Jim Farley's assignment to oversee all the global markets and our leader in Asia-Pacific, Peter Fleet, they have really attacked what I would say is the fitness in China as part of our overall effort. And some significant actions are being taken there.

And so, I'm optimistic about your inference that says that there's sustainability in the offing. I've got to pair that with the knowledge that in the time that you all have been covering China and Automotive, there's a lot more [ph] indigent (32:57) competitors there, and so pricing pressures and things like that are going to follow as well. But, Bob, what would you add?

**<A – Bob Shanks – Ford Motor Co.>:** Yeah. I would just add I guess a couple of things. One is, you're right that the improvement year-over-year is driven by the consolidated operations outside of China. And the thing that encourages me about that is not too long ago we're talking about the need to restructure or improve those businesses. That's been incredibly successful, and it's not just Australia, India, I mentioned, ASEAN, Taiwan, New Zealand, South Korea. I mean, it's pretty broad-based.

So, I feel fantastic about what the team was able to do as they set their focus on that and have done some really great things to achieve it. So, therefore, it gives me confidence as we look at China. As Jim says, it's a huge operation. And I think we see enormous opportunities to improve the overall business performance in Asia-Pacific by sustaining what we've delivered in the consolidated operations and really going after the opportunities that we have in China.

I would also further add that I think it's towards the end of 2018 that we have a lot of new products starting to come. There's like the next cycle of products coming for China, which is going to really help as well. But we've got a lot of opportunities on the cost front and I would say the quality of our marketing efforts.

**<Q – Colin Langan – UBS Securities LLC>**: Got it. And if I could just squeeze in one follow-up question, kind of unrelated but...

**<A – Bob Shanks – Ford Motor Co.>**: Well, let's just call it a clarification.

**<Q – Colin Langan – UBS Securities LLC>**: Well, can you clarify the cash flow? You've guided to it being down year-over-year, but year-to-date it's only \$1.6 billion. What are the key drivers? I mean, unless we have a really strong Q4, or should we expect that to kind of get closer to that \$6.4 billion in Q4? Or is there some issues this year that are dragging down cash?

**<A – Bob Shanks – Ford Motor Co.>**: No. I think that's a good question. I think we're going to have a very strong fourth quarter. So, I don't expect to get up to the \$6.4 billion that we achieved last year, but it's going to be much better than the \$1.6 billion that we have year-to-date.

**<Q – Colin Langan – UBS Securities LLC>**: Got it. Okay. All right. Thank you very much.

Operator: Your next question comes from the line of Brian Johnson with Barclays.

**<Q – Brian Johnson – Barclays Capital, Inc.>**: Yes. Just want to go back. And I know it's a theme that others have touched on, but a question/clarification. You've mentioned in the answer to one question about the work stream around it sounded like cost reduction, reengineering, the questions around that, too. Did I hear that right? Is that actual program office with cost-cutting goals, and is it rolling out across the business units?

And, second, whether it is or isn't that kind of top-down programmatic effort where the engineering and spending and perhaps even some of the material saves we saw in North America related to a specific cost-cutting effort or was more timing of spends and hence we shouldn't extrapolate from that.

**<A – Jim Hackett – Ford Motor Co.>**: You heard the first part right, Brian, in that, again, calling to mind this graphic on the screen we showed October 3, the fitness has two heads to it. There's a near-term and a longer term. You and I are talking about the longer-term effort we've identified and executives reporting to me directly.

And this small team that I have that's running the whole company sits in terms of review. There's six work streams that have been identified and definite goals and targets for improvement.

Now, you could ask a fair question is, okay, when are you going to give us that? The answer is, they're working on the design of the should-be state of these new ideas. So, think of the fitness as both a test of efficiency, but also effectiveness. So, the poster child I'm using publicly is the nature of the way enterprise computing systems drive factories and the way that configuration of products inform the factory about what to build, in companies of our age, those over time evolved into very complex systems in there.

And so, if you were doing a start-up today, like, let's say an electric car company, you don't have the money for a system like that, so you buy a really simple order management system, and it's a lot leaner and it moves faster. So, what Ford has to do is stare back now at the history of that system and make it modern.

And these are the kinds of things I know how to do and they create tremendous value in terms of reducing work-in-process capital, and they're going to improve warranty performance because of order errors and things like that. So, that's just a small example of what sits in the projects like that.

**<Q – Brian Johnson – Barclays Capital, Inc.>**: My questions is is there also a short-term cost reduction work stream and program office that's looking for – I mean, for example, like the cost saves we saw in North America this quarter, or were those just timing things that were already underway?

**<A – Jim Hackett – Ford Motor Co.>**: Yeah, I'm sorry to interrupt. That is explicit in the way that I'm describing these two approaches to fitness. So, there is a short-term effort; that's the reset that we're working on right now. You've seen the benefit this quarter. And there's, of course, things coming with the effort that both Jim Farley and Joe Hinrichs are applying here is why we had a quick turnaround in that effort. So, there's more to come there.

**<Q – Brian Johnson – Barclays Capital, Inc.>**: Okay. Thanks.

Operator: Your next question comes from the line of Joe Spak with RBC Capital Markets.

**<Q – Joe Spak – RBC Capital Markets LLC>**: Thanks. Good morning, everyone. Maybe just a follow-up on that last point, Jim and Bob. If we look at the lower structural cost in the quarter, which, I think you said is engineering and advertising, how much of that, I guess, was either already planned given the launch cadence, or just an easier comp versus having been reviewed since you started, Jim?

**<A – Jim Hackett – Ford Motor Co.>**: Well, it's a really good question, Joe. And I use a phrase in cost management called hold your breath, which means you can have a company this size where you just you just hold your breath for a quarter and then the costs aren't really gone. I want to get across that what we are working on here is the costs that don't return.

With regard to some of the marketing spend, some of that is correlated to in Europe, where the product launch wasn't in sync. So, we didn't spend the money and we would have spent some of that money had we had the revenue match that was coming. But I am saying since I've gotten here and the team, I want to give a lot of credit, they're identifying areas where it's not hold your breath kind of work, where we can substantially recast what it costs us, both in efficiency and effectiveness to realize value.

And what I want to do is I'm giving them the time to design those and then I want to bring those to you very quickly. I have a number of you that said the faster you can tell us what the value of that is, the more benefit that we see coming with Ford value creation. And I get that. And I know how to do this.

And so, I'm going to warrant to you that your instincts are these are the kinds of things that we have to prove quarter to quarter. Your instincts are these the kinds of things that you're talking about, I am. I'm talking about things that we can sustainably return to you each quarter.

**<A – Bob Shanks – Ford Motor Co.>**: Joe, if I can just add something. One is that, and I think you touched on it. Your costs will be variable by quarter. It's what happens in a quarter; it's what happened a year ago in that quarter. So, they'll be variable by quarter.

I just want to remind you to go back and look at the presentation that Jim gave in New York. The effort that he's talking about, at least through the business planning period, I would still expect in general cost trends to be going up, but we expect that curve to be much lower than what it was going to be otherwise.

**<A – Joe Spak – RBC Capital Markets LLC>:** Okay. Thanks. And then maybe just to follow on to that, and I think you mentioned earlier in terms of the guidance range change owing to Ford Credit. It would also appear then that was there some timing shift on the automotive side between the third and fourth quarter that came in a little bit differently than you had anticipated? And is that related to some of the cost conversation we just had?

**<A – Bob Shanks – Ford Motor Co.>:** Well, the most obvious thing is the announcement of the recall, and that was \$300 million that we just disclosed that we didn't know about at the time of the second quarter call.

**<A – Joe Spak – RBC Capital Markets LLC>:** Okay. Thank you.

Operator: Your next question comes from the line of George Galliers from Evercore.

**<Q – George Galliers – Evercore ISI>:** Yes. Good morning. And thank you for taking my question. On Tuesday, Mary Barra commented on their AV, saying she thought they'd be able to take the driver out in quarters not years. If they succeed, do you see that as a threat? And do you have data or good insight into where Argo and your autonomous programs are relative to Cruise?

**<A – Jim Hackett – Ford Motor Co.>:** The way I choose to run the company is I think about what Ford can control and the way we think about our evolution in this space, and it's very good. The investment that we've made in Argo, substantial. They hit a high watermark yesterday in the number of employees that are on staff.

And the talent that we've assembled is probably unheralded if you went back and looked at the number of different talents that they've recruited into that company. It's really a who's who. Came from a lot of the efforts that were adjacent and not as far along as reported. So, we have we have some sense of what the real evolution of this technology is.

We're saying that in 2018, this is the key time for us in that we're bringing AVs into a test market as well. We haven't announced the city or the number of vehicles yet. And this is something that I brought up on October 3 is the question about are we in market in 2021, which was the last administration's position. And I said the way I want you to think about this is that the technology is evolving in a non-linear way. And as all you write about it, I see you trying to peg when is it fully smart. And think about that as a really elusive question.

And because of that, the axis that corresponds with it is the markets that that technology will serve is an intersection of markets and technology. By the way, this has happened in the computing and smartphone world as well. They didn't evolve to their full capability in their first day in the market. So, the market applications correspondingly started in a narrow sense.

Maybe some of the people that are talking about launching vehicles are going to be geo-fenced, without a driver I know in a regulatory sense isn't really possible yet. And so there's news in the media last night about some of the other claims about vehicles' ability to be driven without any involvement of driver or observation. It's all a caution that the evolution of this technology in the markets is something we're going to talk about quarter-after-quarter.

So, let me summarize then by telling you I'm really happy in 100 days in my tour of this topic at Ford Motor Company. I remind you, 10 years ago we were one of the first DARPA participants, really the only OEM independently that was in that. You forget that we have test tracks all over the world, so we can be testing these vehicles continually, which we have. We're getting miles driven. And I've already mentioned the team that's being assembled to pull this off.

So I want to check the box that AVs is not a question here at Ford at all. It's something that is really on track and I'm very confident about what it's going to do for the company.

<Q – George Galliers – Evercore ISI>: Great. Thank you.

Operator: Your next question comes from the line of Emmanuel Rosner from Guggenheim.

<Q – Emmanuel Rosner – Guggenheim Securities LLC>: Hi. Good morning. On the clarification side, I wanted to ask you on your free cash flow. Can please go back over some of the drivers of this quarter's weak cash flow? It seems like you're highlighting some timing issues. And more importantly, what drives your conviction on the strong free cash flow expected in the fourth quarter?

<A – Bob Shanks – Ford Motor Co.>: Okay. I'll take that one, Emmanuel. If you look at – I'm looking at slide 26. It's driven by a pretty large negative timing and other differences of \$2.4 billion. Just under half of that is largely the difference between accruals and payments in areas such as warranty, marketing, compensation, pension and so forth. And that's just timing.

We have a little bit of intercompany differences that are adjusted as well. There's some differences on cash taxes, there's some differences in terms of the timing of the reversal of JV profits and the dividends from them. So, it's a whole host of things and it's pretty unusual in terms of how large it is in the quarter. As we look ahead, we don't see that type of activity. And we see good profits. Working capital, we expect to improve. So, we expect a much stronger fourth quarter, as I said, than what we're seeing in the third quarter.

<Q – Emmanuel Rosner – Guggenheim Securities LLC>: Understood. And then I guess, after this initial review that you've conducted of the company, do you feel that Ford's level of development cost towards mobility are appropriate, or do you think that they need to go higher?

<A – Jim Hackett – Ford Motor Co.>: Well, I think they're appropriate. And I think that they're de minimis in the sense of the way they're tipping our earnings per share. But as I said a moment ago, we've made a big commitment to this program. We've announced the investment in Argo and we've announced work that we're doing in terms of tests in various cities. So, the cumulative effect of this is something that we'll continue to report on.

I also wanted to add that, Emmanuel, in the last discussion about this, in a proof way that you think about our AV commitment, Ford has been very active in thinking about, as I talk about the market applications, you know about the Domino's test, but there's other things where we have business partnerships brewing and in development that are really new markets for us and new market opportunities for this technology where it solves some big problems.

The world knows about ride hailing, but I don't think they were writing about pizza delivery, which is in excess of billions of dollars in terms of the kind of potential. Well, there's a lot more that's in the realm of applications of this technology in terms of in businesses. So, as I answer your question about how much is it going to cost to develop this capability with partnerships, you know that that's part of the advantage of the partnerships, that they will help us in that investment. And, of course, we get the reward of new markets.

<Q – Emmanuel Rosner – Guggenheim Securities LLC>: Understood. Thank you.

Operator: Your next question comes from the line of James Albertine from Consumer Edge.

<Q – Jamie Albertine – Consumer Edge Research LLC>: Hi. Good morning and thank you for taking the question. I wanted to spend my question on a more strategic item. You've done a great job, I think, of laying out the emerging opportunities and as you see them with AVs and EVs and so forth. But what lacks for us and I was hoping you could help clarify, what's the vision for Ford Motor Credit's role in the next generation, if you will, of Ford Auto 2.0?

**<A – Jim Hackett – Ford Motor Co.>**: I want to thank you for that question, Jamie, because, Joy, who runs Ford Credit, and I just had a discussion this week. And this is a part of our enterprise that just deserves a moment of applause because it's really well run. I sat on a bank board for a long time, so I understand the financial services cost structure and efficiencies and risk profile. It's very well run that way.

But I'm probably as proud to know that they have thought about their business as FinTech, financial tech. And, of course, all the innovation that sits in the future about FinTech is the nature of the transaction structures. We read a lot about cryptocurrencies and things like that. But it's also the speed in which our customers can get financed, the speed in which we can deal with moving used vehicles around, et cetera, et cetera.

So, Joy and the team have made a big commitment to that and have some early wins. We've been doing a number of tests, very small. But that's the great thing about this business. We can put this in the market. And there's some really good things that we're going to scale that we'll be sharing in the future.

**<Q – Jamie Albertine – Consumer Edge Research LLC>**: Excellent. Appreciate the color, and best of luck.

Operator: Your next question comes from the line of Itay Michaeli from Citi.

**<Q – Itay Michaeli – Citigroup Global Markets, Inc.>**: Great. Thanks. Good morning, everyone. Maybe I'll start with a quick clarification. Jim, you mentioned that Argo recently reached a milestone for employee staffing. Can you share the number of employees currently at Argo?

**<A – Jim Hackett – Ford Motor Co.>**: Nope.

**<Q – Itay Michaeli – Citigroup Global Markets, Inc.>**: Okay. Fair enough. So, I'll move on to the next question. So, of the – going back to the \$10 billion of material cost savings in the next five years, can you share how much of that \$10 billion might be reinvested in variable cost or content in the vehicle that might show up as kind of materials ex-commodities that you could potentially price for?

**<A – Bob Shanks – Ford Motor Co.>**: Well, as we look at the impact that that has had as we've rolled it into our forward-year plans, the majority of that is flowing through to the bottom line. So, I think the way I would characterize the answer to your question is that we already had in our plan what we thought we needed in terms of product content, features, technology.

In fact, if anything, I would say that's probably an opportunity because we may have too much or the wrong things or the right combination of things. And certainly that's a work stream that's underway to assess that. So you should think about the \$10 billion as largely incremental opportunity to flow through to the bottom line.

**<Q – Itay Michaeli – Citigroup Global Markets, Inc.>**: Great. That's very helpful. Thank you.

Operator: Your next question comes from the line of David Whiston with Morningstar.

**<Q – Dave Whiston – Morningstar, Inc. (Research)>**: Thanks. Good morning. My question is on Lincoln and the recent personnel changes. Kumar's role now being split between Lincoln and the broader CMO role. I was always under the impression that you wanted someone thinking about Lincoln 100% of the time and you were really stressing the Lincoln Motor Company brand coming back. So, is that changing at all? Is that your plan to have someone not be on Lincoln 100% of the time?

**<A – Jim Hackett – Ford Motor Co.>**: David, this is Jim. That's a really fair question and you shouldn't assume that we've broken stride with that commitment. What I'd like about when you make changes like this and I like to turn the people, say, hey, we're running the company. You can do this any way you'd like. There's not a force that's pushing us in a direction that isn't our choice.

In this case, our choice is to have Kumar retain ownership of that position as we then address how we want to sequence oversight. So, I want to give Jim Farley and Kumar time to do that. A part of that needs to be noticed. Kumar has done an extraordinary job in Lincoln's revival. We've hit new share marks with that. We have customer sat ratings that I don't think anyone in the industry would have believed in terms of some of the people, I want to give them credit, that used to kind of own top-tier rankings, and we've gone past them in some of the recent surveys. So the inside logic is we want to keep the stability of this, as Jim Farley, again, he's with me a little over 100 days, in building this whole part of our business over. So, don't assume that we've broke stride with that discipline. It's just work to be done there.

**<Q – Dave Whiston – Morningstar, Inc. (Research)>**: Okay. And just to clarify then. Are you saying on Lincoln going forward, are there going to be some more significant changes to strategy once Jim and Kumar have some more time? Or is it more keeping the course that was in place under Mark?

**<A – Jim Hackett – Ford Motor Co.>**: I'm saying that it's really achieving much of the evolution that we were looking for. The luxury market shrunk in recent periods, and Lincoln gained share in that. Those are usually the most difficult times. So, I want to say that I'm really happy with that. But I also want to say having Jim Farley and Kumar compete and win, there's lots of things they still may want to do. And I want you to look at it as we're building credibility here in terms of the way we're managing that business.

**<Q – Dave Whiston – Morningstar, Inc. (Research)>**: Okay. Thanks very much.

Operator: Your last question comes from the line of Jim Henry with Automotive News.

**<Q – Jim Henry – Automotive News>**: Hi. I had a Ford Credit-related question. I am clear that the long-term, or long to medium-term strategy, with regard to used car prices can change. You still expect used car values to go down. And you said earlier, we're writing contracts with the expectation that values are going to go down. How does one contrast this expectation that values are going to go down. I can make some educated guesses, but better coming from you. Is that thing like limiting extremely long-term contracts, that sort of thing? How do you do that?

**<A – Bob Shanks – Ford Motor Co.>**: No. What I was saying is that in terms of what the auction values will be for lease contracts, we are assuming that the auction values will be declining, but not as much as what we had thought early in the year. So, our outlook, if you will, for that aspect of our business around leases and the lease-end values has improved from earlier this year.

**<Q – Jim Henry – Automotive News>**: So that means what? That you're able to set higher future residuals on leases that are originated now? I'm not sure whether this means that since used car values have hung in there for so long, have they begun to affect your future outlook?

**<A – Bob Shanks – Ford Motor Co.>**: Well, it has to the extent that we expect that decline to not be as steep as we had previously. But we do expect them to decline from where they are today at a constant mix.

**<Q – Jim Henry – Automotive News>**: Okay. All right. Thank you.

**James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.**

Thank you, Jim. Lynn, with the operator, I want to just end with some comments. If you all can turn to slide 32. I just want to recap the key highlights of our performance in this third quarter. And we do believe that we hit the solid quarter with more balanced results with improvements in growth, profitability and cash flow. Those are great indicators to point out.

We do want you to see this as some of the questions today asked, are these hold-your-breath kind of things, or is this because you're becoming more fit? We believe they are indications of us improving our fitness.

The balance sheet, of course, stays strong, growing stronger and substantial cash and liquidity. You hear the great news about Ford Credit. It's in great shape; it's got the right kind of reserves, it's earning the right kind of margins. It understands the residuals, as we've talked about. And we're fully confident in delivering the full-year guidance that Bob has adjusted today.

So, once again, I want to thank everyone for joining us. And I look forward to continuing our dialogue about Ford Motor Company, our plans and our progress and to give you more specifics in the future. Thank you very much.

Operator: This concludes the Ford Motor Company fiscal 2017 third quarter earnings conference call. Thank you for your participation. You may now disconnect.

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