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# Ford Motor Co. (F)

Q4 2017 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day. My name is Ian, and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford Motor Company Fourth Quarter and Fiscal Year 2017 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 call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please begin.

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### Lynn Antipas Tyson

*Executive Director-Investor Relations, Ford Motor Co.*

Thank you, Ian. Welcome everyone to Ford Motor Company's fourth quarter and full year 2017 earnings call. 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 and full year results in more detail. After Bob's section, we'll open the call up for questions, and following Q&A, Jim will have a few closing remarks.

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.

Before we begin, I want to bring your attention to pages A25 and A26 of our earnings deck, where we've provided you with P&L metrics for fiscal 2015, 2016 and 2017, consistent with the new reporting format we will begin using with the first quarter of fiscal 2018. As we announced last week, we're making these changes to enhance transparency and better align with industry reporting.

Now, let me turn the call over to Jim.

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### James P. Hackett

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

Thank you, Lynn, and good afternoon, everyone. I was looking forward to this call today, not only to discuss our fourth quarter and full year 2017 results, but also to have a dialog about our company and how we're managing both the near-term business, while simultaneously building out a compelling vision for the future.

I will start with some brief reflections on CES in Las Vegas and NAIAS in Detroit last week, and how they support our direction. In fact, I had a chance to catch up with some of you last week at the show in Detroit. I was really proud of how Ford brought to life our passion for great vehicles from the new Ranger, the Edge, and the Bullitt Mustang to the expansion of our unique EV strategy. Our ability to tap into the passion the people have for our vehicles is an advantage for us versus the tech world that might toy with cars. It is connected to our vision for the future in a really profound way.

At both CES and the Detroit Auto Show, I found myself constantly citing the role of human-centered insight and to help define the trajectory of our strategy. The importance of this is clear when you consider two major trends. First, cities, which of course house people are becoming ever more congested, and the vehicles which move people in city infrastructures will become smarter than we could ever, ever imagine. Our opportunity is leverage the capability of the smart vehicles in smart environments to attack that congestion problem. This new transportation operating system can add tremendous value to shareholders and we can help people have a better, more productive day.

We also have the opportunity to improve logistics. Currently, there is an inefficient operating system for goods delivery, as neither the vehicles nor the infrastructure are really smart enough. The growth of Internet sales is compounding the problem I cited above of congestion, and yet customers really prefer the convenience of buying over the web. Our early work with Domino's Pizza confirmed that people enjoy getting deliveries from a robotic vehicle versus a human. It's apparent to us that the potential here is dramatic, as we imagine a world where smart vehicles in the smart world not only improve traffic flow and reduce congestion, but also improve logistics.

Now, let me turn your attention to slide 3. I want to be direct and assure you that as we map out this exciting winning feature during times of what we see as profound change, we and I are intensely focused on fixing the health of the core business today. I know this is foundational to our success. And last week, we provided guidance for 2018. Clearly, I and my team are not satisfied with this level of performance, and we see 2018 as the opportunity to prove to you that we can sharpen operational execution, dramatically improve the fitness we're talking about, and continue making the big decisions strategically on where to play and how to win, and of course, properly allocate capital.

So, take your attention to slide 4. We continue to aggressively address this, the fitness of our business. This is both by resetting revenue and attacking costs in the short-term, but also redesigning our business to compete and win in the future. We now can commit that we have multiple work streams up and running, and we see significant potential benefits downstream which will dimension for you in the future. We think of operational fitness as much broader though than just cost cutting. It will certainly drive meaningful costs out of business, no question. It's really important, because it's ultimately the state of our ability to compete.

Ford is a strong company, I'm proud of it, but we simply have not done enough to truly be fit today. We have the opportunity now to make step-change improvements across our business, in areas like product development, manufacturing and marketing to become more common in our platforms, more efficient and more customer-centric in our design thinking. We're moving quickly to transform our business, though much of this work will really begin paying off, as you ask, in 2019 and beyond.

Okay. If you turn to slide 5, I'll hit some of the highlights of the fourth quarter. Significantly, we developed and announced a plan that ensures all of our new vehicles in the U.S. are connected by 2019, and that goes to 90% globally by 2020. At the same time, we continue to advance our autonomous vehicle plan, building out a robust business model and making rapid progress in the technology or the capability of the vehicle.

In the quarter, we were proud to announce that we will expand our investment and our workforce at our plant here in Flat Rock, Michigan, which will be our initial manufacturing hub for AVs. And as we discussed last week at the Auto Show, we have dramatically expanded and accelerated our EV or electric vehicle plans with an \$11 billion investment.

On the product side, we're poised to build on our success. Ford was the best-selling brand in the U.S. for the eighth straight year, and our F-Series franchise marked its 41st-year as America's best-selling pickup. The margin

between first and second continue to expand. The good news is that our investment in new product in recent years will really start to come to fruition in 2018. We have 23 global vehicle launches planned for this year, more than twice as many as 2017.

So, overall, I'm positive with the progress we're making toward our vision of becoming the most trusted mobility company, designing the smart vehicles for a smart world, and clearly, we're going to accelerate this work in 2018.

Now, I'll turn to Bob Shanks, our Chief Financial Officer, for more detail on the quarter. Bob?

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## Robert L. Shanks

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

Thanks, Jim, and good afternoon, everyone. I don't plan to go through any slides today, instead, I just plan to make a few remarks to share our perspective on the quarter and the full year, reconfirm the guidance for 2018 that we provided last week, and then we'll take your questions.

Let me start by stating that 2017 overall was challenging, including the fourth quarter. It also however was a year of progress, and I'll touch on that a bit more later. In the quarter, the top line improved with both wholesale volume and Automotive revenue higher than a year earlier. The volume improvement was across all regions, except Middle East & Africa, and 7% gain that we saw in revenue was due mainly to the higher volume.

Company adjusted pre-tax profit was \$1.7 billion, down \$395 million from a year ago, with the decline more than explained by the Automotive segment. The lower Automotive profit was due mainly to higher commodity costs and adverse exchange, but we also saw higher warranty costs, mainly recalls in North America and Europe.

Our Automotive operating margin was 3.7%. That was down 200 basis points due to declines in North America, Asia Pacific and Europe. Within Automotive, the largest profit contributor once again was North America, where we earned \$1.6 billion, which was down \$315 million. Operating margin was at 6.8%, down 170 basis points.

The year-over-year declines were due to effects from the Expedition and Navigator launch, and that was mainly lower volume and higher commodity and warranty cost.

Outside North America in the Automotive segment, results were combined loss of \$206 million with a profit in Europe, about breakeven results in Asia-Pacific and losses in South America and MENA. The combined loss of these operations was nearly \$300 million greater than last year due to weak results in Asia-Pacific, and that was driven mainly by China as well as Brexit-related effects and higher commodity and warranty cost in Europe.

Ford Credit on the other hand turned in another strong quarter, earning \$610 million, up 53%. Every causal factor with the exception of credit losses contributed to the better performance. Adjusted EPS in the quarter was \$0.39, up \$0.09, and that was driven by favorable tax planning, which resulted in an adjusted effective tax rate for the quarter of 10%. Net income came in at \$2.4 billion, that was \$3.2 billion higher than a year ago due to significantly lower remeasurement loss on pension and OPEB plans along with favorable tax planning.

Automotive operating cash flow was \$2.3 billion, up \$800 million from a year ago, and that was the strongest quarterly cash flow of the year. Ford's balance sheet remained strong with cash and marketable securities totaling \$26.5 billion and liquidity at more than \$37 billion.

Let's turn now to the full year 2017. Our Automotive revenue grew 3% and that was driven by favorable mix, higher volume within consolidated operations and higher net pricing. Wholesale volume on the other hand,

including unconsolidated operations, was about flat with lower volume in North America, MENA and Asia-Pacific about – offset by gains in South America and Europe.

Adjusted company pre-tax profit totaled \$8.4 billion, down \$1.9 billion from 2016. This was driven by \$1.2 billion of higher commodity cost and about \$850 million of adverse exchange, about \$600 million of which was Brexit related as had been expected. The company's entire profit decline in the full year was within our Automotive segment. Automotive operating margin was 5%, down 170 basis points due to North America and Europe. These two regions alone accounted for nearly 90% of the commodity cost and 80% of the exchange impacts we saw on a year-over-year basis.

Adjusted EPS was \$1.78 per share in the lower half of our most recent guidance and up \$0.02 from a year ago. This reflects a 15.3% adjusted effective tax rate. Net income came in at \$7.6 billion, up \$3 billion from 2016 due to the significantly lower remeasurement loss on pension and OPEB plans and favorable tax planning actions. Full-year Automotive operating cash flow came in at \$3.9 billion, down from the \$6.4 billion a year ago due to the lower Automotive profit, but also less favorable working capital changes.

As we look to 2018, we expect external conditions to be mixed with industry volume globally expanding, to some extent, in most markets, the exception of course would be the U.S. where we expect volumes to be lower, but still strong. Commodities and exchange continue to be headwinds. For 2018, we expect company revenue to be up to flat. This will be supported by 23 global product launches compared to 11 in 2017 as Jim just referenced. We see company adjusted EPS falling within a range of \$1.45 to \$1.70, assuming an adjusted effective tax rate of about 15%, which is similar to 2017.

Now, using our new 2018 reporting elements that Lynn just touched on, the top end of the range assumes an Automotive segment that is about unchanged from 2017 despite continued headwinds from commodities and exchange. The drivers, therefore, of our outlook for a decline in adjusted EPS are a lower profit at Ford Credit and an increased loss at Mobility. The Ford Credit change is due to a lower financing margin as interest rates rise, along with the valuation change for derivatives.

The lower result at our Mobility segment is driven by higher investments for our autonomous vehicle program along with increased investments at Ford Smart Mobility as we build capabilities and create future services opportunities.

Now, the low end of our adjusted EPS range reflects the normal volatility we could see from recalls and further pressure from exchange and commodity prices, but it also recognizes potential challenges in fully delivering the recovery actions we've developed and deployed to offset the adverse year-over-year impact of commodities and exchange.

I'd like to call out for your attention two slides, an EBIT margin bridge from 2017 to 2018 on slide 35 and on slide 32 a long-term view of commodity market price changes since the great recession and the impact that they've had on our bottom line.

As the commodities slide indicates, we've always been transparent with investors on the drivers of our profitability, including commodities, no matter if they're tailwinds or headwinds, and we're doing the same now with the guidance we're providing for 2018. We are confident in the processes our team use in managing our commodity exposures and their impacts on the business globally and we have applied them consistently during the inevitable highs and lows of the commodity cycle.

As of the end of January, a little more than one-third of our commodity exposures for the full year already will be locked in through fixed contracts, hedges or purchases made. I mentioned at the start that 2017 was a challenging year. Yeah, we did make important progress too.

The new organization and management team are operating very effectively. We established our vision [indiscernible] (00:16:19) smart vehicles in a smart world that sets out the path that we're following. And we made important strategic and capital reallocation decisions. And Jim Hackett initiated [indiscernible] (00:16:32), our global fitness reset and re-design initiatives, which are yielding, as he said, significant opportunities that will improve the business going forward.

So, we're looking forward to 2018. This is an important year in our journey to redefine and reshape Ford through our fitness initiatives and the strategic decisions we continue to make to become the world's most trusted mobility company.

With that, let's turn it back to the operator who'll get us started on our Q&A.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And our first question is from the line of Ryan Brinkman from JPMorgan.

Ryan Brinkman  
*Analyst, JPMorgan Securities LLC*

Q

Hi. Good evening. Thanks for taking my questions. I think, firstly, just relative to the softer year-over-year results in Asia-Pacific, could you talk some more about the drivers there by causal factor particularly net pricing? I see that incentives were a \$210 million headwind versus \$133 million last quarter, how would you rate the competitive environment in China and the relative competitiveness of your line up there? And then, with the 16 product launches in China you referenced on slide 33, should investors think about the net pricing for you may be starting to improve in that market this year?

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

A

So I'm going to ask Jim Farley to handle this one.

James D. Farley  
*Executive Vice President & President-Global Markets, Ford Motor Co.*

A

Hi. Thank you for your questions. It was a challenging year in China for us. We were down in unit volume 6%. But as you mentioned, the real change in the market was the incentives that affected our financials. Our average age of our product in China is about 4.3 years. So we're at the very end of our cycle, especially in the utility segment where we're seeing a lot of new domestic players. We did reorient our marketing in the second half of the year towards Kuga and Edge, which are responding. But the key is that in 2018 in the second half, we start a new wave of product launches in China.

And we believe that freshness is going to be really important part of our growth story in China again. So, we did see negative pricing last year, especially in the fourth quarter. I think December was about 5%. So, the overall year was like 4% negative. But it was most acute in the utility segment, especially for older vehicles, which is where we are with our cycle plan, but very excited about our new launches in the second half of next year.

Ryan Brinkman

*Analyst, JPMorgan Securities LLC*



Okay, that's encouraging. Thanks. And then just lastly from me, you've provided a lot of new and helpful data on the impact of commodities. I'd be curious though what your latest thoughts are with regard to commodity and currency hedging, so you mentioned that your commodity exposure is about one-third fixed for 2018. Do you think that's the right proportion to try to fix going forward about one-third or – can you discuss is there any particular commodity to that might be providing a particular pain point in 2018, like aluminum for instance, and what coping mechanisms, if any, might be available to you?

Robert L. Shanks

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



Ryan, I'll handle that. What I think – as I mentioned in my comments based on discussions that we've actually had – I think I mentioned that earlier at [indiscernible] (00:20:06) media. So you didn't hear what I said.

So, what I was saying is that to the media earlier this afternoon is that we understand, I think, a good sense what competitors generally do. Because we talk to suppliers and we understand what OEMs as a matter of course do. And the feedback we get is that they apply the same tools that we do, fix contracts where it's appropriate. For example, steel. There is no forward market that really can't hedge and so forth.

So, we kind of feather in through fixed contracts that are staggered through the course of the year are steel contracts. So you get some smoothing, if you will, in terms of the ups and downs of market prices. We hedge a number of currencies and we hedge out certain periods of time. But one thing I would note though is that I believe this is going to be true for everyone is that these are non-designated hedges. And so, for those of you that don't know what that means listening in, it means that you can lock in an economic value at the end of the contract but because they're not designated you actually have to mark-to-market in every quarter so you don't escape the volatility of whatever is happening in the market in terms of market price. So it doesn't help you from that regard. So we do that.

And then lastly we do have some spot buys for some of the commodities which, again, I think is an industry practice for those particular commodities. What's interesting when you look at the special slide that we included in slide 32 is the effects that we've seen on Ford's business has been completely correlated to what's happened to commodity prices and I would argue that that's going to be true for everyone because you may be able to delay volatility through what you're doing in terms of your own contract plan or hedges or so forth, but ultimately at the end of the day, that just smoothes out, it doesn't allow you to escape the overall trends or prices and as you can see on the slide that we provided, we've had some good years, we've had some bad years, and interestingly when you [ph] come (00:22:03) the result since the great recession through 2014, that [ph] come (00:22:07) effect is about \$3.4 billion.

If you see on the slide, there was a smaller, downward commodity cycle at that point in time, which we've benefited from for two years, about \$900 million each year. And what we've seen in 2017 and 2018 as the global economy is growing pretty much in a synchronous way around the world, commodity prices are increasing and now we're about at the point in 2017 and 2018, where we were in 2014 on an cumulative basis, and if you look at the trend of the prices, that's about where they come back to.

In terms of the effects as the slide indicates, two-thirds of the effect is largely around steel and aluminum. And for those of you that are interested in the aluminum story, because of the strategy that we're pursuing on our larger

pickups and on the SUVs, it's less than 25% of our impact, it's really steel that's a story and other metals, I mean, aluminum as well, but it's maybe it's not as much as what you had expected.

Ryan Brinkman  
*Analyst, JPMorgan Securities LLC*

Q

No, it's super helpful. Thanks a lot.

**Operator:** And our next question is from the line of Emmanuel Rosner from Guggenheim.

Emmanuel Rosner  
*Analyst, Guggenheim Securities LLC*

Q

Hi. Good evening, everybody. First, I wanted to ask you about your – the investments in electrification. So, I think, the slides from the Detroit Auto Show was showing there was going from \$4.5 billion planned through 2020, now it's going to be \$6.7 billion, so – but at the same time, it was not mentioned in the 2018 factor. So, first, which bucket will they be reported in? Is that Mobility? Is that in the regional automotive? And then, second, can you talk about what the cadence will be for the next few years in terms of these investments and if that's a major factor in the earnings progression?

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

A

I'll handle that one, Emmanuel, and thanks for the question. So, when you look at the cadence, I think the cadence is just going to be an ever increasing rise, I think, in the investments, because it's going to be driven by the PD Factory, would certainly have accelerated and made some choices around pulling the head of some of the EVs with us, so it will be sort of a progressive increase over the course of time.

And it will show up in automotive and it will show up in the regions in which those vehicles are sold. AVs are moving to mobility but everything related to EVs are staying within automotive.

Emmanuel Rosner  
*Analyst, Guggenheim Securities LLC*

Q

Okay. That's helpful. And then, specifically on the mobility investment [indiscernible] (00:24:41) moved out, similar type of question, and anyway it gets to reflect dimension, the progression here. I mean you obviously said that 2018 would be larger, any sense of size and then going forward that that also keeps going up like electrification or do you see that sort of leveling off and being a positive factor beyond this year?

James D. Farley  
*Executive Vice President & President-Global Markets, Ford Motor Co.*

A

Yeah. The thing that's interesting about that is, of course, you'll have an increase in the AV investment as we move through the program to launch the product in sort of the 2021 period and that will show up there. We'll also have investments associated with what Jim talked about at Deutsche Bank around the infrastructure to support it, the business operations, the terminals, that sort of thing. And so, I would see that increasing. There'll be no revenue obviously on that until we get to the point where the product and the services associated with that hit the market.

But on the other hand, while we're also making increased investments on the other part of Marcy's World, Ford Smart Mobility, which is – think of that as services – digital services, there what you will start to see as we move

to our business planning period is ever-increasing levels of revenue. And so, we actually can see the day even within business planning period where that part of our business is generating the profit and in fact quite a nice return. So, I think you have to look at the two parts of Ford world a bit differently, but that part actually will start to contribute to the bottom line, I think, over the five-year plan period.

James P. Hackett

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

A

And right now, Emmanuel, it's Jim Hackett, these are totally matched as you would imagine. The technology capability development for the AV is way ahead of certainly in 2018 any kind of revenue projections in the services, similarly Marcy's work is building out the capability. It's within the realm of what we've been believing would happen. There is – I don't think there is big surprises here, and we've felt it was time to be transparent about it, because the core investments really will matter as you look across competitors about people who are claiming to really be in this business and those like us that are inventing it.

Emmanuel Rosner

*Analyst, Guggenheim Securities LLC*

Q

Understood. And I guess, in the name of transparency, do you care to dimension the size of this increased investment in 2018?

Robert L. Shanks

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

A

Well, when we get to the first quarter, let me – give me a quarter to think about that. But...

Emmanuel Rosner

*Analyst, Guggenheim Securities LLC*

Q

Okay.

Robert L. Shanks

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

A

...what you will see when you look at the bridge chart that you collectively look at slide 35, if you collectively look at everything related to Automotive, that's a pretty flat result. So what you can see is Mobility is the largest single reporting element in terms of impact on a year-over-year basis, and that's from those two investments. And I would just say, let's say, it's roughly split between autonomy and growth and capabilities and services expenses we create those opportunities.

Emmanuel Rosner

*Analyst, Guggenheim Securities LLC*

Q

Understood. Thanks a lot.

**Operator:** And our next question is from the line of Adam Jonas from Morgan Stanley.

Adam Michael Jonas

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks everyone. I got a couple of questions about the six global fitness redesign initiatives. First of all, Jim, what are the six initiatives? Can you tell us tonight, please?

James P. Hackett

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

A

Well, we have a slide on four that I think is as far as I want to go right now, Adam, and I'll explain the background. The slide on four is insight for you where I feel like the company over time, this happens I think generally, loses some of its fitness. So, I can take an example, a couple of them for you.

We've talked about product complexity back in October, we started talking about that. We found the product where – and had something like 30% of the sales and 95% of the part count. And so, what's taking the time, and I know that I don't have forever with this, is we're going through and doing all the fact-based work to find out where the biggest opportunities are, and that's an example in complexity. We've been working as we talked to you about product development. This is something that is an advantage for Ford that I think we haven't fully realized, which is having this capability all around the world with real-time technologies, how do we actually get the advantage of the clock and shared efficiencies because we can average costs down, given the capability we have around the world.

We've been talking about [ph] marking (00:29:37) inside the company. The hope here is if you stared at our advertising in the way that we buy media and things like that, it doesn't look like some of the companies that you follow in other industries that are using machine learning. I'll stop there because this night is not about those six projects, but I do want to tell you that the more time I've gotten with it, which is really October to now, the more hopeful and clear it's becoming to me about where we can find the kind of savings.

And so, I've asked the team to work with me on dimensioning that for our investors and – because we need it not only for you to understand the power of it, but I want to use it to prioritize first, second and third. Some of these are multi-year efforts. For example, the enterprise systems that underpin the different databases that we have in the company. There's things that I'd done before in this area that are really beneficial to the speed-to-market with delivery and efficiencies around the world. So, let me stop there...

Adam Michael Jonas

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay.

James P. Hackett

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

A

Say that's...

[indiscernible] (00:30:48)

Adam Michael Jonas

*Analyst, Morgan Stanley & Co. LLC*

Q

I mean – so Jim, I respect that you don't – you said you don't want to use tonight to talk about these initiatives, but I think a lot of the investment community on this call this evening, this is – this is the time, right, this is your – I know you haven't quite been a year obviously, you're still learning the organization, but I think it would be – it's a fair question to ask when are we going to know these six because I asked you a pretty straightforward question, you're alluding to the six in your slide, but you're clearly not wanting to talk about them. That's a problem, Jim. When are we going to be very clear and transparent about this so that we can – the investors and your associates at Ford can kind of rally around the mission?

James P. Hackett

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

A

It's a great question and...

Adam Michael Jonas

*Analyst, Morgan Stanley & Co. LLC*

Q

How long we have to wait?

James P. Hackett

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

A

Yeah. You don't have to wait long, you just have to stand in line, so you have to wait till our people know. And I don't want to communicate to our people through the shareholder call. So the way that we have that laid out is it means that it comes pretty quickly once we get the whole organization up to speed.

Adam Michael Jonas

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Then I won't be specific and I'll just finish with the question. Is restructuring – perhaps the restructuring that you've not announced to this point on the table is one of the many weapons, not your only weapon, but one of the initiatives at your disposal to execute on the six initiatives or some of them as we, as you learn and are able to strategize upon them? Thank you.

James P. Hackett

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

A

Yeah. And I think that's a question we answered two quarters ago, we said that the impact of the redesign of things means that we're going to have excess capacity in areas that we don't need. I'm not going to tell you which parts of the company that is, but of course we'll address that when the time is right.

But I also want to emphasize something here which is in the design of fitness, one of the things you have to do in addition to having you understand where we're going and our people understanding that is you can't disrupt the flow of the business. I can tell you legendary stories where certain enterprise systems were put in a prematurely and the business was disrupted.

So what you're – what you'll be witnessing now in the way that we started this work is we've long identified where we want to work, we're now in the redesign phase, we're now dimensioning the value, we've assigned responsibilities, I'm meeting with teams weekly. I just had a big meeting Friday with people in the company and it's getting close to the point where I think we can start to bring you under the tent, but it's not tonight.

**Operator:** And our next question is from the line of Rod Lache from Deutsche Bank.

Rod Lache

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi, everybody. I guess, my question is – it's kind of along the same lines, but I appreciate the long-term strategic objectives and initiatives you're talking about, but they're pretty high level. And I was hoping maybe you could at least give us a little bit of financial grounding towards that 8% long-term Auto margin target, it's about 250 basis points higher than you're doing now, which would be about \$3.5 billion of improvement. So my question is, is there at this point a specific bridge to get there, and can you give us some idea of what the high-level buckets

would be, maybe not specifically on restructuring, but when you're thinking about how much of this is net cost reduction, you've talked about some gross cost buckets, how much of it is mix repositioning for your portfolio?

Robert L. Shanks

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

A

Yeah. Let me take a first shot at that, and if anyone else wants to chime in they can. So as I mentioned, I think an answer at your conference, Rod, in our present business plan we actually see the business achieving the 8% margins towards the end of the business plan period, and it improves over the period. So we actually – and that's all physically based. That is without \$1 of the global fitness redesign efforts that Jim was just talking about. And while we haven't provided specifics as Jim mentioned in his response to Adam in the question before, what we did say, both Jim and I, at the conference is that the early work on monetizing the opportunities that have just been developed thus far there's more to come, it's really material in terms of impact on OpEx, but also on CapEx. And we think there'll be more as I said.

So, that would be incremental to what I just described. Now if you want to say that it's not unusual for a business plan to be – it looks like a hockey stick, I mean I take a lot of comfort, first of all we try to – we try to be very realistic and 50/50 in our calls, but we know you can't always anticipate the inevitable surprises that happen in this business, both externally but maybe internally.

So when I look at the opportunities of the fitness that that's already been at least preliminary tabled by the team, it gives me more confidence in our ability to at least hit the levels that we're targeting if not do better.

I would say that a lot of that is around product. I think – we've also talked to you – you saw the big increase in product launches this year versus last year. And I think Jim mentioned at Deutsche Bank there's even more to come when you look at 2019, 2020.

So I think that is going to help drive the top line. We do think there'll be opportunities in terms of mix as we continue to work on that and revenue. And then the good news on the costs side is, well, we would expect costs to come up to some extent – come up to some extent over that period, we're getting the appropriate amount of operating leverage from the top line, and the amount of the increases isn't as great as what we've seen over the last eight years. So I think we're starting to get the balance right, with balance better with the fitness to be an opportunity on top of that.

Rod Lache

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. And I guess just two other questions. One is when Jim Hackett said that we're going to start seeing this pay off in 2019, some of these initiatives. Can you just give us a little bit more color on what that means.

And also just a point of clarification on Asia, Jim Farley mentioned that you've got a lot of product coming on the back half, so of 2018, so should we be thinking that the results are pretty much what we see right now through the first half and you start to get some traction financially in the back half or is that more of a 2019 benefit?

Robert L. Shanks

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

A

Let me answer that one first. We would expect – and I'm going to stay away from providing as much as I can business unit guidance tonight, and certainly [indiscernible] (00:37:59). But building on the comments that you made, we do expect the second half of this year to be a better half than the first half for Asia Pacific driven by

those launches. So they're not launches that are all like at the very end of the year. We actually will see effect in the second half of the year as well. And then – what was the other part of the question? I forgot.

Rod Lache

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just – yeah, Jim Hackett was mentioning that we're going to start to see some benefits from your initiatives starting in 2019?

James P. Hackett

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

A

Hey, Rod. So, it's Jim again. Let me – as Bob is spooling up to, to talk about what he's recorded, I want to reaffirm something. So, we've identified the six work streams, they're up and running. And the benefits, we're talking about 2018 and 2019, some of them, the bulk of what I'm feeling from what I see comes a little later because some of these are substantial redesigns. And I think that what we really need – what you're asking for is the dimension of what the value of that is. And so that's just – we're not ready to release that tonight. It's not because we don't know it or we're not working on it. It's as I said, I want to have a plan to include the people in the company. So I'm sitting here thinking identifying the six work streams for you might build more crede that you're on the right things, but I think you've got to trust we've got that part right. I think you really want to understand what the yield is going to be and that's a really fair question and when we plan on answering.

Rod Lache

*Analyst, Deutsche Bank Securities, Inc.*

Q

Understand. Thank you.

**Operator:** And our next question comes from the line of David Tamberrino from Goldman Sachs.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

Wonderful. Thank you. Jim, I just want to follow up on a couple of your earlier comments about your mobility partnerships. And, you mentioned what you saw from the customers, from the partnership with Domino's, but I'm more interested in what your partners have seen from that business. Has there been an increase in their products being ordered as a result? Is there any potential to see these developments convert into commercial opportunities and to deploy and for it not just to be a test or demonstration? And ultimately my question is what's the feedback from your partners on the impacts to their business both from a cost and an incremental revenue generation standpoint?

James P. Hackett

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

A

Yeah. I think – I'm going to ask Jim Farley to add to this. But if you -Patrick Doyle at Domino's just announced that he'll be stepping down in June and so there are some interviews online about their experience with Ford. He highlights it as one of the really big things he's excited about. So I'm going to let you read between his lines of how he's talking about their business, but they've re-upped as we expand soon in some other markets are testing, Domino's is asked to continue. So, Jim?

James D. Farley

*Executive Vice President & President-Global Markets, Ford Motor Co.*

A

All right. What they've learned are a couple of things. First of all, for those who spend a lot of a – lot of their cost is local delivery, this is a really important leverage to lower the cost. Because the driver cost is meaningful. But equally interesting like – companies like Postmates and others that we haven't announced yet, they're excited about the revenue expansion. So, let's take like a local home improvement company, you can imagine that it's a big revenue opportunity for them to have a fleet of automated vehicles to deliver work materials to the worksite.

That's one thing. The second area that maybe is a surprise to us is the data they're getting back. So especially for the companies that are looking to grow their revenue, they're very interested in the data that comes back from the delivery, where it is, exactly what was – digitizing all that, so they can really forecast that revenue growth. Good example would be a local home improvement, they know if it's wood that someone's framing out of the house, maybe next will be insulation. So, they kind of know what the business opportunity is based on the data where it's going and what it is. I hope that makes sense.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

I think you might have lost me a little bit within there. Maybe just as a follow-up to help clarify. I think what I heard was you are seeing some increased orders and increased demonstrations from your commercial partners here. At what point do you think that could be or become into something more of meaningful revenue generation from those partnerships?

James P. Hackett

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

A

Yeah. I think though – I think we're answering the question, did Domino's sell more pizzas and that's why I want to draw your attention to them, now are you asking are we realizing more vehicle business, is that what you're asking?

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah. I'm trying to understand if that partnership specifically is going to move towards more units being delivered or a significant commercial deployment for...

James P. Hackett

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

A

Yeah.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

...that customer of yours?

[indiscernible] (00:43:16)

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

...from your feedback.

James P. Hackett

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

A

Yeah. Right now, we're [ph] still in (00:43:20) testing with them, so I'm going to just again point you back to their comments. They're very positive.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

Understood. And just my second question for you tonight is that the launch issues with the Expedition and the Navigator. Have those been controlled or is there still going to be some issues hitting the 1Q 2018 P&L?

James P. Hackett

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

A

So Joe Hinrichs is here and I'm going to ask Joe to speak to the launches.

Joseph R. Hinrichs

*Executive Vice President & President-Global Operations, Ford Motor Co.*

A

Yeah, the Expedition/Navigator launch is going extremely well. In the fourth quarter, we got off to a little slower start than we anticipated due to some availability of some parts from one of our suppliers. But the products being incredibly received and feedback on the quality has been great. And we're building to plan right now and we plan to do that all year.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. So the issues have been fixed is what I heard?

Joseph R. Hinrichs

*Executive Vice President & President-Global Operations, Ford Motor Co.*

A

Correct.

David Tamberrino

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

**Operator:** And our next question is from the line of Brian Johnson from Barclays.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Yeah, a couple of questions. First, when you came in, Jim, you, I understand inherited the executive performance compensation plan that was in the March proxy. Consistent with what you've been saying about 2018, it sounds like a transition year kind of stronger performance for 2022. How are you thinking about the mix of short-term and long-term and how are you going to be thinking about compensation recognize, of course it's a board decision going forward?

James P. Hackett

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

A

I think what you're asking is, have we changed, have we announced any compensation changes. Is that what you're asking me?

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Well, or – well, are you considering shifting for example the focus between short-term and long-term, it was 60/40 in last year's plan, as part of the go forward plan?

James P. Hackett

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

A

I would tell you that I've had discussions with the Compensation Committee about the short-term and long-term plans here at Ford and got their support that the vision that we're painting for fitness, quality improvements, the smart vehicle, smart world can be really supported by the leverage that we have with our share program and a long-term program. We have a performance share program that's tied to shareholder return and in a time-vested stock. That's a smaller portion of that. That's what's you're reading in the proxy, I guess.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Well, that was last year...

James P. Hackett

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

A

So, I'm just ...

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

...proxy.

James P. Hackett

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

A

Yeah. So we – and look forward to news on this year as we publish that.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Okay. Does it sound like you want it tilted more towards the longer term performance. Is that fair?

James P. Hackett

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

A

It's already ahead of the market in that regard. I mean this is the kind of stuff that's – I just want to confirm with you that everybody, I think, is in the right place with alignment of the compensation and the plans we have.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Okay. Second question, you talk in the 2018 guide about mix improvements yet – we certainly had at the auto show two competitors unveiling new pickup truck products, your biggest and high segment that enjoyed strong

ATP increases. So, are you thinking mix and price could improve in pickups despite that fresh competition or you're really talking about the other 20-some product launches around the world?

James P. Hackett

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

A

Jim Farley is going to take that one.

James D. Farley

*Executive Vice President & President-Global Markets, Ford Motor Co.*

A

So, great question. We are very fortunate because we're going in the year with essentially new F-Series, as well as a very fresh Super Duty, and we saw even in December our price – transaction price has stiffened in December.

As Joe mentioned, we have the Navigator/Expedition, so part of the opportunity for us is definitely going to be those other launches. The first six months of the year when everyone's selling down their own model, we expect a very competitive environment. But over the second half of the year with the new products, obviously there's going to be more pricing in the market for the goodness of those.

So, I think we're going to see, on the pickup truck market, a very competitive environment, especially for the next six months. But we've been in that for a couple of months now and we have been growing our transaction price in that more competitive market, for example, the [ph] 2017 sell-down (00:48:10).

As we go into the first six months, we do expect that competitiveness to be there and our performance to be there. But we have the addition now, as Joe said, of good availability for Navigator and Expedition. And of course we have other vehicles coming as you alluded to in North America, for example, a new Mustang, as we go into the spring market. So, I think we're really well positioned, it's going to be a combination of both.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Okay, thanks.

**Operator:** And our next question is from the line of John Murphy from Bank of America Merrill Lynch.

John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

Good evening, guys. I just have a first question for you Jim, I mean as you're going through the review of the company, and looking at fitness, as well as where you want to shift the product portfolio as well as your smart vehicle efforts and really sort of your total review here. I am just curious, if you're coming across anything, or think there is any way that maybe if you accelerated sort of spending and committed larger chunks of capital that you might either be able to sort of accelerate the fitness of the company or potentially develop AVs faster. And I guess that would be sort of – maybe sort of internal spending that might make a lot more sense or maybe even some acquisitions outside for technology?

James P. Hackett

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

A

Thank you, John. So, I heard really three different kind of streams in that. Let's take the first one, spending on AV. Right now, we're making a big commitment to that with the Argo AI investments and things that we're doing, and I do believe there is art and science at work here. So, I'm not sure more money is the answer there.

We're looking at really a solid underpinning to the way we're writing the software for these vehicles, so that as you have over-the-air updates and you have changes, we're not going to have a lot of problems in the future with updating kind of that capability. That's an example of taking a long view in terms of getting that right.

The other area that you mentioned is fitness and that is a great – that's a really great question, it is. Absolutely, if I saw payback for fitness returns, Bob and I are really interested in short-term pay, less than two-year kinds of things, we would be all over that. And so, nothing like that is being held up in any kind of bureaucracy. And what was the third area you mentioned?

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John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

No. I mean, just in your smart vehicle. So, I mean it kind of falls into AI, but just in your smart vehicle efforts for the smart world, I mean just in this [ph] greener plan (00:50:50).

---

James P. Hackett

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

A

Yeah. Yeah. And I think you asked about acquisitions.

---

John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

Oh, yeah. Would any of [indiscernible] (00:50:55) acquisitions pile into any of this as well?

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James P. Hackett

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

A

Yes. Yeah. Yeah. I'm very, very open to that. Look for news, as you will, in that area. We're very interested in that. So, all three of those things, I want you to feel like we're not capital constrained in the sense of moving faster. It's having the designs right, having the right ideas, getting things situated to go. And I approve, the progress that we made, which is hard to see from your perspective, as I walked into the job, there was a lot of kind of backup of decisions that had been stuck for a while, and we've let some of that tension out and gotten things moving. So, we're building an all-new dedicated AV vehicle and that platform is – we now have that decided, we're working on that. So, I'm confident that if you're wondering, if there's any hesitancy in spending or time, that's not the issue.

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John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

Okay. That's incredibly helpful. And then just Bob, as we look forward to 2018, I'm just curious if you could sort of outline your view on used vehicle pricing for – particularly for the U.S. market, what that means for Ford Motor Credit, because that was a big benefit – unexpected benefit, maybe at least from my perspective, in the second half of 2017, and sort of how you're thinking about that for 2018? And what that means for Ford Motor Credit, but also sort of your view on new vehicle pricing?

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Robert L. Shanks

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

A

Yeah. I mean, as you saw with Ford Credit page in the deck, I mean they benefited across broad parts of the business, but certainly that was the factor. And for the full year, they came in about, I think, on average the portfolio we saw a decline of about 3% which, if you remember the conversations that we had at the beginning of last year, I think it's about half or so of what we thought was going to happen. When we look at 2018 in terms of the assumptions we've built in, we've assumed something around 4% on average.

John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

Okay. And then, if I could just sneak in one housekeeping on the [ph] RAWs (00:53:04). Bob, is there any way that you could share more of this raw material risk and pressure maybe with other partners in the value chain, particularly maybe some of the suppliers or is there no way to really kind of shift around sort of this exposure and things aren't going to change there?

Robert L. Shanks

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

A

Well, I think the area that you would look at is the indexing I suppose, because in terms of the indexing, one of the things that we, I think, learned a long time ago is that there was a point where we would negotiate and try to withhold giving them good news when the commodity prices were low, and then fight with them when the reverse was true. And I think we found that we were spending a lot of time and not getting a lot of long-term benefit by focusing on that as opposed to working with the suppliers on their best innovations, their best designs, material cost reductions, and really getting their – the best cost at job one. So, we have deployed the indexing across the board on certain commodities as I said one quarter, one month, in some cases, I think if you're 12 months, and we just feel that that's – if you're not going to avoid the long-term trends, that enables our team to focus on what we think is a better long-term play for us in terms of getting true low cost, excluding the commodities.

John Murphy

*Analyst, Bank of America Merrill Lynch*

Q

Okay, great. Thank you very much.

**Operator:** And our next question is from the line of Joseph Spak from RBC Capital Markets.

Joseph Spak

*Analyst, RBC Capital Markets LLC*

Q

Thanks. Bob, if I heard correctly, the EV spends not is included in Automotive. So, if I look at slide 35 where you provided the bridge, I'm assuming that's in the cost ex commodities bucket. But you also have, obviously, a bunch of structural contribution costs with the Navigator, Expedition ramp, the EcoSport launch, and then just broadly more content increasing from connectivity and active safety. So, can you provide any sort of breakdown between electrification and sort of the more traditional structural contribution costs in that headwind for 2018?

Robert L. Shanks

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

A

Well, I'm not going to break out EV, I understand the question, but let me answer the question this way. So, when I look at that bar of margin change around cost excluding commodities, about half of that is depreciation and amortization. So, if you think about that that's investments across the whole business, not just EVs, which to some extent is already behind us, because we've spent the money and this was just the D&A of that, some of which though will be spent during the year, and then the amortization begins.

So, about half of that, and then the other two pieces that make up the rest of it is essentially, a relatively modest increase in engineering. And that is largely on EVs is part of that, but it's also pretty much on trucks and SUVs. There is a reduction on cars. And then the balance, which is a smaller piece, is around launches. The increased number of product launches that we saw, some of that will show up in higher launch costs [indiscernible] (00:56:16). But the biggest piece, like three-quarters of it, is around D&A and engineering, with the D&A being the bigger portion.

Joseph Spak

*Analyst, RBC Capital Markets LLC*

Q

Okay. And then, just a housekeeping on the FX side. I mean, in the past, I think one of the biggest crosses you talked about was pound to euro, which I think is actually moving in your favor here. But I just want to understand with these sort of FX component of that \$1.6 billion you talked about.

Robert L. Shanks

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

A

Yeah. The FX component is a little less than half of that, it'll still be Europe, but that will be well down from what it was this year. And some of that is the continued impact of our revenue exposure on a net basis to the sterling and cost exposure to the euro. So, it's actually more of the cross rates between those two currencies than it is vis-à-vis the U.S. dollar. But it will be coming down, which is what we had expected. And then, the rest of it is largely in South America and somewhat in Asia Pacific, not much effect in North America at all.

Joseph Spak

*Analyst, RBC Capital Markets LLC*

Q

Okay. Thank you.

**Operator:** And our next question is from the line of Itay Michaeli from Citi.

Itay Michaeli

*Analyst, Citigroup Global Markets, Inc.*

Q

Hi. Great. Thanks. Good evening. So, just the first question on Mobility and autonomous. I think as you plan to rollout the self-driving vehicles on your partner networks and your customers in 2019 and 2020, two questions there. Can you share when you think you'll actually be able to run a true driverless to actually moving the driver again the vehicles to that state, as well as what the fleet size will look like forward in 2019 and 2020?

James D. Farley

*Executive Vice President & President-Global Markets, Ford Motor Co.*

A

It's Jim Farley. So, as we announced, we're going to our first city this quarter. So, the fleet we have in the market is going to be business model like people driving the vehicle. Our goal is now just implementing the first cycle of new prototypes and we won't go into specifics, but 2018 is the year where you're going to see a lot of progress on our VDS and the vehicle being autonomous. But that's going to be development work for the next several years until we launch in 2021, and we're going to be using existing products because we're developing an all-new product, which obviously won't be ready until the prototypes – Joe's team is building the prototype, so for the next couple years.

The fleets over the next couple years will expand, but they're going to be different types of hybrid Fords and that that will play out over the next 24 months. Our goal is to get people in the vehicles this year to see how our VDS works by itself. So you'll have a feel for how fast we're going with the VDS itself done by Argo this year. So I think 2018, you'll have a good chance to assess that in-person. And we now have a very concrete plan to roll out the prototype fleet of those autonomous vehicles over the next two years in multiple cities.

So, please know that fleet will grow in size. We're not going to be specific what it is, but it's a very meaningful investment moneywise to build that all those prototypes. And of course we have different cycles of prototypes that have updated not all algorithms and computing software, but also perception equipment.

James P. Hackett

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

A

So one thing I would bring to mind, in Vegas, two weeks ago at CES, you could search some blogs, there were people that were in vehicles in that test market [ph] – what was it – I think six or seven (01:00:22). And this lady wrote a really telling article about how she got carsick and every one of them, but not any one of them completed the trip as advertised.

And the reason I'm doing this, I don't want to talk down the capability because it's very promising. But I feel in the questions that you want to see if we're behind or ahead, and the way you're going to be able to judge that is the performance of the product. So in this case, we are going to tests, we are expanding, I mentioned the Domino's test, we are – Argo is actually building vehicles as well as Ford, and in doing that you'll have more to write about and understand [indiscernible] (01:01:12) Ford performance. But I also am holding the company accountable for Ford performance here on a quality basis and people trusting us in this product and that is the new world of the AV is that one test is getting there and then the other test is really of high quality and I'm asking to think about both of those goals.

Itay Michaeli

*Analyst, Citigroup Global Markets, Inc.*

Q

That's very, very helpful [ph] a lot (01:01:36). Thanks so much. A quick, quick follow-up. Just switching back to the financials on slide 35, I think you alluded to it to a prior question, I'll make sure I have it correct in my notes. But for full-size pickup performance and how that relates to the positive market factor. Can you share a little bit of just kind of what you're looking at for Ford's full-size pickup, North America, the F-150 platform in terms of revenue and variable profits 2018 versus 2017 and how that relates to the overall positive market factors?

Robert L. Shanks

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

A

No, Itay, we're not going to provide that information.

Itay Michaeli

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay, great. Thanks so much.

**Operator:** And our next question is from the line of David Whiston from Morningstar.

David Whiston

*Analyst, Morningstar, Inc. (Research)*

Q

Thanks. I heard a lot of talk from the team lately on fitness and some examples such as too many vehicle combinations. And a two-part question is, I guess, where – if this weakness – is it – regionally speaking, where is it? Is it pretty much all over the globe or is it really skewed to one or two regions? And also why wasn't this rectified more during Alan and Mark's time?

**James P. Hackett**

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

A

Well, I'll just take the second thing. You got to look at I'm here because it wasn't. And that's as much as I want to comment on two really fine people I have a lot of respect for, but I'd rather make the issue the company's fitness than those two folks.

And this problem that you're talking about, I mean, I just picked one for Adam so he could be satisfied that we weren't just doing [indiscernible] (01:03:12) here that we really are working on the right things. That problem is all over the world, and underpinning was a nice try to try and get more efficient model by building platforms around the world. We've learned a lot in doing that and we're going to be a lot better as we adjust in that single category of complexity. And we're not the only OEM that's dealing with that problem as I read. Now the question is can we be more clever in the way we address it and I think we can.

**Robert L. Shanks**

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

A

Can I just add something?

**James P. Hackett**

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

A

Yeah.

**Robert L. Shanks**

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

A

So, David, the only thing I would add is when I look at the business, North America has been operating at a very high level of margin for a long time, it's starting to come off of the level it had been at. So I think you're starting to see the impact of the fitness, because as it is affected by increasing regulatory costs, the commodity costs and so forth, I mean, we're not able to get to same level of margins that others may be able to do. So I think that shows the gap, if you will, that we have to address in North America.

Obviously in the markets outside of North America, if you go back and look at history, I mean, we've done reasonably poor, I would say, across the collection of those markets ever since the downturn. So to me the issue there clearly is a fitness issue, but it's probably as much as – as much as if not more than a strategic issue in terms of how we've approached the markets. The business models we've brought to bear, our expertise and confidence in some of those markets, the products themselves, one Ford versus something that's more regional, all sorts of things in that space and that's something that we are actively addressing through the strategic work streams that we have underway.

**David Whiston**

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. Thank you.

James P. Hackett

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

A

And also, David – David, it's Jim again. Because these are moments for me to give you insight as well, that this team is – I went from – Mark had 19 direct reports, I have 8, and you have 3 of the key leaders sitting here at the table with me that own all parts of this business. Joe Hinrichs and Jim Farley, there's really just two people that have to deal now with that product complexity around the world, that wasn't the case in the previous organization? So that's an insight for you about why should you have more confidence in our ability to address something like that as I'm inferring.

David Whiston

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. Thanks for all the detail.

**Operator:** And our last question comes from the line of James Albertine from Consumer Edge Research.

Derek J. Glynn

*Analyst, Consumer Edge Research LLC*

Q

Yeah, hi. This is Derek Glynn on for Jamie. Thanks for taking my question. So, we discussed partnerships you have in place with Domino's and Postmates. Can you just provide an update from a regulatory standpoint as you pursue all these new initiatives and collaboration, what's the dialogue been like with regulators. Do you see any near- or medium-term hurdles in this regard?

James P. Hackett

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

A

I think we're – let me just clarify. Jamie (sic) [Derek] (01:06:20), you're talking about regulators oversight of AVs.

Derek J. Glynn

*Analyst, Consumer Edge Research LLC*

Q

Yes, exactly.

Joseph R. Hinrichs

*Executive Vice President & President-Global Operations, Ford Motor Co.*

A

Yeah. Hi, it's Joe Hinrichs again. I mean you're hearing this play out in a lot of the government debates and discussions are taking place, we're – our government affairs team, we're optimistic that we're going to get the support necessary to move this technology forward on the AV front. I mean when you think about it everyone you talk to realizes the long term benefits that Jim Hackett's been describing as a potential for our company and for others in the mobility space.

So, we don't see any obstacles at this point. Jim Farley talked earlier about we're going to make a lot of progress this year in the testing – in the market. So it's not – we're not being held back from that. Obviously, we're expecting over time to be able to advance the number of vehicles and locations. But that's not holding us back right now and we're optimistic that the governments understand the opportunity here and are moving it forward.

Derek J. Glynn

*Analyst, Consumer Edge Research LLC*

Q

Okay, thanks.

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**Operator:** And at this time, I'm sure we have no further questions. I'll now turn it back to Mr. Jim Hackett.

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## James P. Hackett

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

Yeah, thank you. So let's close out the call today with some emphasis on key points that come through. 2017, I came here in June 1. And in that six months, we worked extremely hard on resetting revenue and cost expectations for that year. And a lot of the underlying work that resulted in the performance we had should not be unappreciated, with the team did a really good job, I'm really proud.

Meanwhile, we reorganized the business. I told you about streamlining the leadership team. We have written a new winning aspiration. We took important decisions that was asked on this call to accelerating key areas. So, for example in the connected vehicles, that's a big investment. The AV strategy, I want to emphasize that's on track and investments flowing there. And of course you heard about the new EV plan, which Ford did not have a complete story about electrical vehicles. And we've gone from being incidental about that so it's a key part of our future. You heard us talk about this fitness thing ad nauseam. But it's really starting to take hold in the company. I've mentioned this already so I'll just emphasize the six work streams, they're up and running, they're staffed, their dimensioning is starting to come on, and that dimensions are – and values of that need to be shared with you and we plan to do that this year.

Our approach to capital allocation is also evolving as well. We're looking at markets and the where-to-play questions. We've already shared how we're shifting the vehicle portfolio around the world, I can attest to you that we've sped up decision making, that's going to continue in 2018, there's no wasting there in terms of waiting for things to get done and you're going to see us make important capital allocation decisions. We have Bob Shanks who put together a board plan for the year for us to review strategy with the board in each quarter that's all something that wasn't there before, it's all been mapped out.

We're also moving quickly to advance the Smart Mobility business and look forward to some announcements from Marcy's organization soon in that space, exciting things that will be developed. So you can see that – as I stare back from that June 1 to now, I have this feeling that I am really happy with the things that we've laid, the pipe we've kind of laid, not happy at all that we're not proving to you what that's going to yield and really confident that you will be happy with us as we bring that forward.

So I want you to understand that I get how important that dimensioning is, I get how important this year is to prove this management teams' ability to convert, and I look forward to proving to you that our vision is really going to make Ford an exciting brand in the future. Thanks for your time today.

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**Operator:** Ladies and gentlemen, this does conclude the Ford Motor Company fourth quarter and fiscal year 2017 earnings conference call. We thank you greatly for your participation. You may now disconnect.

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