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MANAGEMENT DISCUSSION SECTION

Operator: Good day, Ladies and gentlemen. 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 First Quarter 2019 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] After the question-and-answer session, there will be closing remarks.

At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations.

Lynn Antipas Tyson

Executive Director-Investor Relations, Ford Motor Co.

Thank you, Ian. Welcome, everyone, to Ford Motor Company's first quarter 2019 earnings call. Presenting today are Jim Hackett, our President and CEO; and Bob Shanks, our Chief Financial Officer. Also joining us are Jim Farley, President of Global Markets; Marcy Klevorn, President Mobility; Joe Hinrichs, President, Global Operations; and Brian Schaaf, CFO of Ford Credit.

Jim Hackett will begin with a brief review of our progress relative to our global redesign and then comment briefly on the quarter. Bob will follow with a more detailed look at our results. And then we'll turn to Q&A. Following Q&A, Jim Hackett 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 measures in the appendix of our earnings deck which can be found, along with the rest of our earnings materials, at shareholder.ford.com.

Today's discussion includes forward-looking statements about our expectations for future performance. Actual results may differ from those stated, and the most significant factors that could cause actual results to differ are included on slide 40. In addition, unless otherwise noted, all comparisons are year-over-year; company EBIT, EPS and operating cash flow are on an adjusted basis; and product mix is on a volume-weighted basis.

Now let me turn the call over to Jim.

James P. Hackett

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

Thank you, Lynn, and good evening to everyone. Before I begin the formal comments tonight, I want to extend a very warm welcome to Tim Stone who joined Ford Motor Company on April 15. Tim will assume the role of CFO on June 1, and we could not be more excited to have Tim join our team at such an important time in our transformation.

I also want to take this opportunity to thank Bob Shanks. Bob has left an indelible mark on this company in his 40-plus-year career. As CFO, he's been relentless in driving for results and pushing the company to greater heights. He's also been a wonderful colleague who's led with integrity.

Now this part's off script. As great as a CFO that Bob has been for Ford Motor Company, this is an extremely wonderful human being. The world is a better place with Bob in it and my team has decided to just for a moment here give him a standing ovation.

Robert L. Shanks

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

Cue a blushing face.

James P. Hackett

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

Yeah. Let the record show Bob's blushing.

Okay. So, let me turn to our results which we believe signal positive momentum for Ford. Our solid results this quarter, if you look at slide 2, and the recent strategic initiatives demonstrate two things in our minds. First, we have a solid plan to create value in the near and long-term. 2018 was a pivotal year for Ford as we mapped out a fundamental redesign of our entire company. And this was required to ensure we could simultaneously strengthen our core business, while making the necessary investments to be a successful player in the future. We know that our industry is entering a period of profound disruption and reinvention.

Second, we're taking action, moving decisively and building momentum on this global redesign of our company. 2019 is a year of action as we target sustained improvement across key metrics, including growth, profitability, cash flow, and returns on capital.

Now, if you look at slide 3, which is titled 2019 A Year Of Action, let me focus on some of the key enablers. Let's start with the winning portfolio. Across the world, we're fortifying our franchise strengths in trucks, commercial vehicles, and performance vehicles. We're bolstering our SUV franchise, executing a unique approach to electric vehicles that takes advantage of our strongest nameplates. And as you saw a year ago, we're phasing out vehicles that cannot grow and deliver the strong returns that are needed. And, as you will see when Bob reviews our results, these actions are already driving improved mix with higher average transaction prices and margins.

If you look there at fitness, I've often referred to this as the state of our ability to compete. We are improving operating leverage, we're lowering our breakeven, and we have reallocated capital to higher return investments. For example, over our plan period, globally, we now expect to dedicate 91% of our capital to trucks, utilities, and crossovers. And we will achieve this while we also lower the capital intensity of the whole business. We expect these actions to drive higher operating cash flow and that will be led by Automotive.

An essential part of fitness for Ford is partnerships and to this end, we've advanced our alliances, as you know, both with VW and Mahindra. And yesterday, we were proud to announce a partnership with Rivian.

Next, I want to focus on our global redesign. We are accelerating this. Our recent announcements in Western Europe, Russia, and South America, as well as the redesign of our global management structure show how we are rationalizing our cost structure, our portfolio and footprint to ensure the company overall in each of our regions drives sustainable, profitable growth. I want to touch on this a bit more in just a moment.

Finally, as you look at the smart vehicles for a smart world, we have the opportunity to help create a better transportation system that will improve lives. To this end, we made the decision to connect with modems virtually all of our new vehicles going forward and to leverage this connectivity to continuously improve our vehicles and services and create better experiences for our customers. We know this will build loyalty and deliver recurring revenue streams.

Well, for your information, by the end of this year, a 100% of new vehicles sold in the U.S. will be equipped with those modems and by 2020, 90% of our new vehicles globally will also be equipped with modems.

So, in parallel, we're laying building blocks in the form of platforms that help us realize the vision then of the smart vehicle for a smart world. Examples include Autonomic's Transportation Mobility Cloud, or we nickname it the TMC. This is the world's leading automotive cloud.

Earlier this week, we announced a global agreement with Amazon for our TMC to be powered by Amazon Web Services. This is great news because it expands the availability of cloud connectivity services and connected car application development services for the whole transportation industry.

In addition, we launched FordPass Rewards. Now, FordPass has been downloaded 6.4 million times and we now have 3.8 million members signed up. We do expect the growth of these members to accelerate. We also announced FordPass Pro. This is for our fleet vehicle customers.

Turning to autonomous vehicles. We've selected a third city for business operations and commercial deployment and we expect to announce the location later this year. Also, Argo AI recently received a license to test AVs in California, making it the fifth state we're now testing in.

If we can move you to slide 4 and you see announcements at the top. Here are some of the major initiatives we've announced or taken so far this year. Our North American operation continues to move closer to its longer-term EBIT margin of 10% with actions to enhance effectiveness and reduce cost.

The North American business will also benefit this year from a significant wave of product launches that includes some wonderful badges for us, Ranger, Super Duty, Explorer, and Escape as well as exciting new entries for Lincoln. In fact, by the end of 2020, we will have replaced 75% of our current U.S. product lineup.

We've also taken action to increase production of Expedition and Navigator in Kentucky for the second time to keep up with continued strong demand. It's over 40% greater than what we had planned.

We announced we're expanding the battery electric and AV capacity in Michigan. And we'll optimize costs by building the next-generation Transit Connect for North America in Mexico instead of Spain.

You can see the progress we're making in our first quarter results as North America drove a 2% increase in revenue despite lower industry sales and wholesale volume. And at the same time, it achieved a 90-basis-point increase in EBIT margin to 8.7%.

In South America, we're moving to a more asset-light business model. The team has made some significantly tough decisions. One was to exit heavy trucks and close our facility in San Bernardo. Through our collective approach and collaborative approach, we're working to minimize the near-term impact on all of our stakeholders.

We're also deep now in the redesign of our European business as we have targeted a sustainably profitable business that delivers a 6% EBIT margin [ph] in the long-term (00:10:28). Our future business there will be leaner, more focused and that will capitalize on profitable franchise strengths in commercial vehicles and utilities.

We plan to significantly reduce our cost base there by discontinuing loss-making product lines and adjusting our manufacturing footprint. For example, we've announced the closure of our Bordeaux, France transmission plant. We announced the restructuring of our JV in Russia. We've offered separation programs in Germany and the UK and we confirmed we'll phase out two of these products, the C-MAX and C-MAX Grand models later this year.

If you look at slide 6, I want to just take you back to a decision we made a year ago when we announced our decision to phase out sedans in North America. Now remember, we want customers to understand the silhouettes that they prefer are the ones we're going to bring them. So in fact we don't intend to lose any of these customers long-term.

But now in hindsight, it was absolutely the right call. This slide underscores the benefit of thinking about a winning portfolio. We expect to drive over $1 billion improvement in annual profitability from our Michigan assembly plant once we fully ramp production for the Ranger and Bronco that are now being built there.

Okay, let's look at slide 7 and here I want to cover the financial highlights. And before I turn it over to Bob, let me touch on the quarter. We delivered good results and this is consistent with our view now that we will deliver better company results in 2019 than last year. Against a tough quarterly year-over-year comparison, the company-adjusted EBIT and margin increased despite a decline in wholesales and revenue, while we increased investments for future opportunities in Mobility.

On an adjusted basis, we grew EBIT by 12% to $2.4 billion. Margin increased 90 basis points to 6.1% led by the 8.7% EBIT margin that I mentioned in North America. We also delivered EPS of $0.44, which we're happy with the big beat there, but we're also up year-over-year.

These results clearly demonstrate the benefit of our fitness actions, the hard portfolio decisions and the aggressive business redesigns, all of which are still very much underway and we expect more to be generated from all these actions.

Lastly, we generated $1.9 billion in adjusted operating cash flow and ended the quarter above our cash and liquidity targets with $24.2 billion in cash and $35.2 billion in total liquidity. Needless to say, I and the team here are very encouraged by the strong start to the year.

With that, let me turn this call over to Bob Shanks for his last quarterly review as Chief Financial Officer. Bob?

Robert L. Shanks

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

Thanks, Jim, and good evening, everyone. I'd like to start with four key points. First, the results this quarter are high quality and driven by the key physicals of the business. Second, while top line metrics were lower than a year ago, the company's revenue decline was driven largely by exchange as strong mix and higher net pricing about offset the lower volume. And even though market share was lower, we're growing share in trucks and commercial vehicles and expect improved performance in utility segments as we launch new and in some cases new-to-market entries over the next couple of years.

Third, company-adjusted EBIT, the best since the second quarter of 2017, improved despite external headwinds of about $0.5 billion versus a year ago. This includes lower industry volume, continued though smaller increases in commodity costs including tariff-related effects, and adverse exchange. This $0.5 billion impact is net of pricing of about $100 million that we took in South America to partially recover the region's adverse inflationary and exchange effects.

Fourth and most importantly, we saw progress in each of the three regions that drove the year-over-year decline in company EBIT last year, China, Europe and North America, and I'll touch on each one of them.

First in China, we incurred a loss of $128 million on lower volume. This was an improvement from the $150 million we lost a year ago which was by far the best quarterly result in 2018. In fact, to put the current quarter into further context, last year in the second through fourth quarters, our average quarterly loss was $465 million. So the improvement in China from a year ago was driven by our consolidated operations offset partially by lower JV equity net income.

The main elements of the consolidated improvement were strong cost performance and favorable exchange, although we also saw favorable mix and achieved flat year-over-year pricing in a negative industry pricing environment. The favorable currency effect essentially was a reversal of an equivalent adverse impact we incurred in China over the past couple of years.

The lower JV equity net income was entirely due to lower volume. Importantly, we ended the quarter with dealer stocks in good shape and improving dealer profitability. While we have a lot of hard work ahead of us in China to return to sustained profitability, we are encouraged by the early progress Anning Chen and his team are making. So for the full year, we expect to build on the first quarter outcome and deliver a considerable improvement in profitability year-over-year, although still a loss.

In Europe, we were profitable but at a lower level than last year, more than explained by nearly $100 million of unfavorable exchange, most of which was a balance sheet effect. Within Europe's results we delivered strong EBIT and healthy returns for our growing CV and truck business. This was offset partially by losses on passenger cars, although the latter continue to generate positive current-period operating cash flow.

As you are aware, Europe's business redesign is underway and progressing well and we will have more to share with you as the year progresses. For the full year, we expect to deliver a substantial improvement in profitability versus last year driven by favorable mix, higher net pricing and lower cost.

Turning to North America. We achieved our best EBIT since the second quarter of 2018 and, as Jim mentioned, a margin of 8.7%, both improved from last year. The team achieved this through strong mix and higher net pricing aided by structural costs that were slightly lower than a year ago.

From a product standpoint, North America's EBIT improvement was driven by our F-Series, despite new competitive challenges; Ranger as it came to market; and Transit, America's bestselling van. The region's EBIT also benefited substantially from the decision to exit traditional passenger sedans.

The strong financial performance of F-Series was matched by robust performance in the marketplace. In the quarter and in the face of new competitive entries, F-Series customer sales and average transaction prices held strong from a year earlier while share of segment increased. And from here our plan is to strengthen our position further with a new Super Duty launching later this year, a new F-150 coming in 2020, followed by a BEV relatively soon thereafter. For the full year, we expect North America's EBIT and margin to improve from 2018.

Now coming up from the regions to our automotive segment. We saw improved EBIT from a year ago. North America's performance flowed straight through to Automotive as the combined loss in regions outside North America was unchanged from the year earlier. However, this did represent a strong $630 million improvement from the fourth quarter.

Within Automotive cost was flat year-over-year. So as a result, we generated strong operating leverage in the quarter, which drove a higher Automotive EBIT margin. For the full year we expect Automotive EBIT to improve, driven by gains in China, Europe and North America.

Now moving to Financial Services, Ford Credit delivered very strong earnings before taxes; in fact, the highest in nearly nine years. All of Ford Credit's metrics were healthy including the continued focus on a lean, best-in-class operating cost structure.

In the quarter, Ford Credit benefited from lower depreciation on vehicles in our lease portfolio and improvement in credit loss reserves, reflecting continued strength in consumer credit metrics. For the full year, we now expect EBT at Ford Credit to be about the same as in 2018. This includes a continued expectation for auction values to decline on average over the year by about 4% at constant mix.

In our Mobility segment, we incurred an increased EBIT loss as we invested more as planned to build out our capabilities to win in the future with mobility services as we leverage the connectivity of our products, while also progressing our developments in autonomy.

For the full year, we expect a larger loss in Mobility as we increase our investment in mobility services and as our AV efforts move closer to commercialization with a bespoke product in late 2021.

Turning to company-adjusted operating cash flow, in the first quarter we generated $1.9 billion with the majority coming from the Automotive segment. As mentioned, cash and liquidity balances at quarter end were well above our target levels.

And speaking of liquidity, earlier this week we extended our $13.4 billion corporate revolver and we also closed on a new $3.5 billion supplemental credit facility, further strengthening our liquidity and providing additional financial flexibility. Unlike our corporate revolver, the supplemental facility is intended to be utilized and includes a $2 billion revolver and a $1.5 billion delayed draw term loan. We expect to fully draw the term loan over the course of 2019, however, the impact of any draws will be leverage-neutral after taking into consideration debt reduction actions we took late last year including a repayment of about $1 billion of higher cost affiliate debt.

Turning now to special items in the quarter, this represented an EBIT loss of nearly $600 million with negative cash effects of about $100 million. The vast majority of the charges in the quarter were associated with the redesigns of Europe and South America. And as you'll recall, last year we identified about $11 billion in potential EBIT charges for our global redesign actions with negative cash effects of about $7 billion all through our plan period but primarily through 2021. This year we expect to incur $3 billion to $3.5 billion of the EBIT charges with negative cash effects of about $2.5 billion. We expect almost all of the EBIT charges to be treated as special items.

Relative to our other calls on capital for the year, we continue to expect CapEx to be similar to last year, pension contributions to be about $650 million, and shareholder distributions to be about $2.6 billion.

Now before I turn it over for Q&A, just a few summary comments. Our view of the quarter is that it's a really good start to the year for the company. And while we expect our first quarter EBIT to be the strongest quarter of the year, that's due to seasonal factors and major product launches ahead, it does clearly put us on track to deliver better company results for the full year 2019.

Due to our intense focus on improving fitness across the company, the work on our product portfolio, the redesigns of our business and our disciplined approach to capital allocation, the business is now turning in a positive direction even as we continue to invest in future opportunities.

We clearly have a lot of work ahead of us, but we have a solid plan and we're demonstrating the ability to effectively execute a heavy work statement while concurrently delivering stronger business results.

Our opportunity and our firm intention in the months and quarters ahead is to build on the momentum we're generating and ultimately deliver returns that are among the best in our business on a sustainable basis.

Operator, we'd like to now turn it over to Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of John Murphy from Bank of America.

John Murphy
Analyst, Bank of America Merrill Lynch
Q

Good afternoon, guys. Good evening I should say, actually. It's been a long day. Bob, I just want to say congratulations. It's been a long, great career, and I only wish I had something in the slide deck to measure and give you a hard time about, but the results were really good. So congratulations. But you understand that.

Jim, just a first question. As we look at the discussion tonight in the slides, it seems like you're leaning back a little bit more on product being the core of the company here in the near-term and in the long-term a little bit more than you have in the past. And in the past, you've been a little bit more focused on sort of the future tech and the opportunity. Is something kind of shifting in your thinking here really, maybe it's an 80/20 shift or something like that, because it does seem like product really is king and you're starting to really grasp that a little bit more in the near-term and the long-term opportunities are a little bit more long-term?

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

Thanks, John. No, I don't think there's any shift at all. In fact, if I take you back to this regime's arrival in June of 2017, one of the first things that we attacked was the product portfolio. In fact, this recent organization where Jim Farley and Joe take on respectively new roles, I've explained to the company that we weren't ready for this current organization back in June of 2017 because we had to get the product in shape. And Jim Farley and Joe and how they did an incredible job in very fast order getting that turned around.

If you think about the essence of that, like is it in competition with the future, it's not, because as we're turning the product around, we're thinking about the design of smart vehicles for a smart world. What do they have to actually be capable of doing to enable the future things that we're seeing, including autonomy, connectivity and cloud-based interactions with cities. So, all three of those things are in our thinking.

So, what's nice is that the improvement in the product portfolio is fueling, of course, the good news tonight, because that's what Ford stands for. And it didn't depreciate any of the investment or effort in the future tech, that's all alive and well.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Great. And then just a second question. I mean, price and mix were wildly constructive and positive in the quarter. But maybe if we focused on slide 25, and I don't know if this is for Joe or Farley, but you have a $1.259 billion positive on mix and price in the quarter and we're still staring down the barrel of a lot of product coming at us. So, I was just wondering if you could maybe give us a little bit more detail about what the key driver is there. Is it the F-Series? Is there something going on with fleet and retail? Was there something really constructive maybe on the Super Duty side? Just a very big number and just trying to understand what's going on there.

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

A

Yeah. I'm going to hand that to Jim Farley, John.

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

A

Thanks, John. Look, F-Series is an incredible franchise, John. We gained share. We finished the quarter at 41% share of the pickup truck business. That's a nine-tenths increase. We had built a leadership position over the number two player by almost 100,000 units in the quarter. Our average transaction price was just under $48,000 for F-Series, and we have the lowest incentive spend for any of the major trucks. And that was a big fitness exercise for us in terms of yield management.

One of the big strengths, to your point, in the first quarter was commercial and government. We saw 11% growth for us in the first quarter, much higher than the industry. The sectors that drove that were telecom and utilities. We saw daily order rates grow. The strength of Super Duty is really one of the key facets for the quarter. And obviously, we also launched Ranger. In fact, with Ranger and F-Series together we had our best pickup truck quarter in 15 years.

So, look, we have a lot to do, it's a very competitive market, but we have a great team and we saw very strong demand for our product. And as Bob said, the product portfolios is chockful of new product. We have the new Super Duty coming later this year and an all-new F-Series next year. So, we've got a great franchise for connectivity services and automation as well. So, it was a very strong quarter for our trucks.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

And maybe if I could sneak one last one in for Bob. There's been a lot of speculation about a potential downgrade at Moody's for your credit rating. But with what we've seen in this quarter, it seems like that may have been staved off. I'm just wondering if there's any kind of update in your perception as what's going on there or maybe any update on the metrics we should be focused on as really kind of turning the ship on that negative review right now.

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

A

Yeah, well, thanks, John. Obviously, that would have to come from the rating agencies. But we talk with them a lot. We believe that we understand very clearly the areas of improvement they're looking for. And it is on the operating side of the business. As I said numerous times, it is not the balance sheet, it's not distributions to shareholders, it's on the operating side. So, I believe that while this is just a quarter, the fact that we saw the improvement in North America, we saw an improvement in China – although again, lots of work ahead – we got to a profit, which hadn't been expected in Europe, because a lot of that redesign is still yet ahead of us in terms of the impact of that and portfolio changes as well, I think that we are hitting the parts of the business that they want to see improvement in, not just a quarter, we got to do this quarter-in/quarter-out. But I believe it's a nice step forward in terms of the things that they are concerned about.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Great. Congrats again, Bob. Thank you very much.

Operator: And our next question is from the line of Colin Langan from UBS.

Colin Langan
Analyst, UBS Securities LLC

Q

Great. Thanks for taking my question. Can you just give us the sense, there's been a lot of announcements through the year so far in restructuring actions. I mean, where are we in terms of what we should expect for the year? I mean, is there more news to come as we go through the year or is most of it kind of out there and we should start to see the benefits coming? How should we think about what else might be coming on the plan?

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

A

Yeah, Colin, I just want to emphasize, because this is important in the trust that I build with you guys is we've been very consistent with what we've started with the fitness initiatives in terms of our target and where we are. So, I'll let Bob fill in the blanks, but there's not a lot of shifts here from what we've been talking about.

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

A

Yeah, Colin, I think the way I would describe it is, while perhaps the areas where you'll be seeing impacts on the business from the actions that we take won't be new news to you, for example, we've talked about the redesign of Europe is underway, but we haven't given you much of the details behind that, because we're in the process of the discussion with our social partners in terms of what that actually will be. We expect that to be completed sometime around the middle of the year and then we'll start seeing more specifics. So, you'll get more details. I wouldn't say that's more announcements. It's just more details of what we've already announced. We have talked about the fact that we're still chatting with VW and Mahindra about different opportunities. So there, again, nothing new in terms of areas, but potentially more in terms of what comes out of those discussions. Obviously that would be something ahead of us.

So, I think it's more of that more clarity, more details. And the way that I would further put into context what's yet to come is the commentary I provided on the special items. We only have about $500 million in this quarter of the $600 million which relates to business redesign. And as I mentioned in my comments, we expect to see $3 billion to $3.5 billion of charges for the full year.

So, you're going to have a lot more happen in terms of actions that are then from an accounting standpoint, it's going to hit the books. And that's going to be second, third and fourth quarter.

Colin Langan
Analyst, UBS Securities LLC

Q

That's very helpful. How about South America? I think in your past presentations you showed that there's – profitability there is very tough, there are not many products in that region that are profitable. You have the plant closure, have we seen any benefits from that in the quarter? And should we expect more actions considering the challenges in that region?

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

A

Yeah, I wouldn't necessarily assume that the announcement of the action on San Bernardo is a complete redesign of the region, because it's not. There's more and we'll announce things when it's appropriate to do so.

You're not getting any effect of that action in the quarter other than the special items, because the plant is going to continue to run until towards the very end of the year. So, there's no benefit today, but we do expect to have a good benefit. I think we've indicated a payback of about two years from that action. So, there will be more to come from the actions in South America.

The thing to note there is Argentina has really been hit hard with a very deep recession, extremely high inflation. It's affecting the industry. We're pricing as much as we can, but we're frankly not keeping up with the inflation, nor the effect on the exchange rate. So, that's sort of a unique factor in the shorter-term that certainly affected the business. Over time, our history tells us we recover those effects but in the shorter-term, a bit of a challenge.

The thing to me that's positive is they basically held constant on a year-over-year basis without new product, with the action in San Bernardo announced, with all this going on in Argentina, but they continue to find good cost performance that enabled us to keep the business where it was and so that was a win from our standpoint.

Colin Langan
Analyst, UBS Securities LLC

Q

Okay. Thanks for taking my question.

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

A

Thank you.

Operator: And our next question is the line of Ryan Brinkman from JPMorgan.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for taking my questions. It looks like the faster than many expected improvement in China was really driven by cost and exchange rather than volume. The JVs on the bridge side I know are shown as a single bucket. But Bob, you referenced volume being the main negative driver there. So, the question is really how to think about volume going forward for you in China. How should investors weigh on the one hand a still very soft industry with on the other hand some pretty easy compares in the back half of the year. And now this new comment that dealer stocks are in good shape. So, are the product launches enough to allow you to grow in China even in the current environment?

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

Ryan, let's turn that to Jim Farley.

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

Thanks for your question. Obviously we're working really hard to stabilize our sales this year. We've launched a new product, as you know, and we've gotten very positive pricing. We do have opportunity for momentum in the second half of the year. But right now we're focused on stabilizing our sales. It's great to see the profitability improvement for the dealers and the stock. Stocks have come down, which is really a health measure for us. But right now we're looking at stabilizing our sales.

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

Yeah. I would, if I can add to that, the way that I would think about the business, Ryan, is we're really focused a lot on the dealer profitability and the margins they're earning. And so we're being very thoughtful and very careful in terms of that particular part of the business. So we're certainly not pushing and driving for volume. We're really focused on the dealer profitability and their engagement. So that's the number one priority.

So as a result of that, I wouldn't expect to see significant if any volume improvement necessarily. This is really more of trying to get the margins back particularly at the dealer level, get the business stabilized on the locally produced front.

The thing that's interesting that you see in the bridge is the consolidated part of the business has turned around very, very sharply and very quickly. And that includes the imports of the Ford brand, those products, as well as Lincoln, in fact profitable frankly in the quarter and a substantial improvement year-over-year. So that part of the business that we control and have our arms around, we're making faster progress. We have a lot more work and are really doing it ground-up on the JV side.

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

Ryan, Jim Hackett here. I'd take my gaze a little further on the horizon with China as you might imagine. And the early question that John asked about product and was that a new leg under our stool, it's not. But I would admit that as we were rationalizing that product portfolio, what became clear to me is that our position in China had ascended very quickly. From where we started to where we hit at the peak was a function of we knew what the market was, but we lost track of that.

And we lost track of it in a way that was going to take advantage of the things that John was asking me about, like it seems like you guys are getting your act together on the product portfolio. So we're applying what we've learned about getting the portfolio in shape as we start to fix China. So there's a longer term opportunity here that we've got to prove to you that this team that really I think understands product. And we've got a wonderful leadership team there. I just want to warrant to you that there's going to be better solutions in China for Ford than we're seeing right now.

Ryan Brinkman
Analyst, JPMorgan Securities LLC
Q

Okay. Very helpful. Thanks. And then just lastly from me, you've been warning about the sustainability of Ford Credit earnings for some time now only to see the profit there just continue to inflect higher. You've been anticipating a normalization in used car prices. From some of the data we're able to track, I thought we started to see that in 1Q but you continued to record these big off-lease gains. Does the 1Q profit there cause you to think any differently about full year credit profit potential?

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

Well, it did actually because in January, I think we indicated that we thought the results would be lower than 2019 and 2018 and today in my comments I indicated that we expect them to be about flat, so that would be around $2.6 billion. We do not expect subsequent quarters to be at the level of performance in the first quarter. But if you – I mean, you've got last year's number, $2.6 billion, we made $800 million. You can do the math. It will be a very healthy second, third and fourth quarter, but it will not be based on what we see today at the level of the first quarter.

Ryan Brinkman
Analyst, JPMorgan Securities LLC
Q

Great. Thanks.

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. Hey, everybody. First I want to say congrats to Bob. And Tim, Bob has got the bar set a little higher for you. And don't worry; auto stocks go up 8%, 10% after quarterly results. That's very normal, so just get used to it. So, first question is for Jim, are we at peak trucks?

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

Are we at peak truck? What's interesting – and Jim Farley I know I think is the one you're after.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC
Q

Both Jims.

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

Okay. Well, I don't think so, because we've – in the face of some really good competition we're doing very well, Adam, as you can tell. And Jim talk about where we are in the Series evolution right now, what we've been winning with versus what we're going to have.

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

Yeah. As you know, we updated the F-Series year or so ago, which was great. But we have really strong product coming. So that bodes well for our chances. For the market in the first quarter, I think that the strength for Ford in commercial and government was a really important sign. We saw sectors, including for the growth of Transit, for package delivery, telecom, utilities that really drove Super Duty, F-Series and Transit sales in the U.S., double-digit growth year-over-year. So that's a really – those customers, as you know are, really driven by cost of ownership. They're very discerning customers. They want the best capability but they also want the best, most efficient vehicle. And I think that bodes really well.

The other thing to mention is that in the first quarter for us, Ranger, we only sold about 10,000. We're just still ramping up Ranger. And it was a very strong demand. I think our average turn is like 18 days now for Ranger, and that was incremental to our F-Series. So for us, we have a very new product cadence. We have more coming, and the strength of the commercial business is a good sign.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you for that. Second question is on the suppliers. If global auto production continues to, let's say, flat-line deeper in the cycle and trucks don't provide as much incremental profit as they have up to now, how big is the opportunity for smart redesign, intelligent de-contenting or rationalization of powertrain combinations that the consumer really doesn't care about, won't even notice to extract some seriously better pricing or terms from your supply base who in large part are out-earning you and tell us all the time that OEMs are just going to keep increasing content all the time and that they're just going to keep winning? Are they wrong? Is there an opportunity for you to kind of – I don't want to say turn the tables. That sounds too adversarial, but just say, "Come on, folks, pitch in here. We're going to simplify this and decomplexification can mean de-contenting." How big of an opportunity is that for you? Thanks.

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

A

Thanks, Adam. And I love the question, because like some of the comments tonight, this was one of the early things that we actually went after, which is in the fitness initiative. Joe Hinrichs, who's going to take this, and I have long talks about product complexity and how getting that right would start to be the gift that kept on giving. So Joe, you might talk about our efforts there and [indiscernible] (00:43:13).

Joseph R. Hinrichs
Executive Vice President & President-Global Operations, Ford Motor Co.

A

Sure. Thanks, Jim, and thanks for the question, Adam. I think certainly from our perspective, one of the major fitness initiatives has been around complexity reduction, and we're continuing to see good progress there. And it's not just de-contenting, but it's putting the right content in the vehicles, especially as we think about and contemplate the new vehicles that we're designing for the future.

I think what you're also seeing of course is the alliances and the partnerships that are taking place give us broader scale. When we partner with Volkswagen on van programs, we have the opportunity to get together both from an engineering savings but also from a capacity utilization in the supply base and ourselves, improvement there as well. So you're seeing a number of these partnerships start to come around, which are also helpful with how we work with the supply base for scale.

I wouldn't necessarily condition it like it's an adversarial relationship, because there is an increase in technical componentry and content going into the vehicle because of all the capability that Jim's been referring to in smart vehicles for a smart world. But rationalization of the powertrain portfolio is certainly a huge opportunity for all of us as we start this transition into electrification. So, those are the kind of areas I think you'll see progress: alliances, powertrain and also just leveraging the scale that the industry has to better utilize the suppliers' capacity.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, everybody.

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

A

Yes.

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

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Great. Bob, congratulations. First question, as I think about the cadence of your net cost savings benefits you're achieving from Jim's fitness initiatives, should we be really circling the structural costs improvement of $309 million in the quarter in the slide 23 walk or is there another level or a hidden layer of cost savings that you're already seeing achieved in the P&L?

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

A

Yeah, that's a good question. I mean, obviously every quarter is a bit variable, but I think the important message from today you can take from the quarter that applies to the full year, particularly on structural costs, is that they're not going up. And that's probably inclusive of headwinds on a lower level of income from pension and OPEB. As you know, that's been declining for some time, declining again this year several hundred million dollars. So, that's inclusive of that. And that's an important element because when you think about the contribution costs and the material costs and we're making a lot of progress there per the earlier comments from Joe, there is an element of those increases that do come with the higher pricing and so forth. So, it's not just pure cost, it's costs that gives us a benefit. So, that structural cost capping, if not slight reduction is going to make a huge difference in terms of our operating leverage which is what's driving the improvement in margin.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Got it. As a second question, curious as to what the company's plans are and what it has embedded within its long-term 6% margin guidance for Europe in terms of spend to meet the CO_2 emissions that are tightening.

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

A

Yeah, thank you, David. This is something that we've talked a great deal about and I think I'm delighted with where Ford is relative to what's happened in Europe. I'll let Jim share more here.

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

A

Yeah, great question. Obviously, earlier this month the European team shared a plan to expand electrification from mild hybrids all the way to full electrics and it's a really aggressive plan with 16 electric vehicles.

One of the things that's just such a differentiator for us in Europe is our strength of the commercial vehicles. And so although there are costs going in for electrification and CO2 compliance, especially for 2025, we're in a really good shape to continue to nurture that commercial vehicle business which is really profitable and has more upside. For example, in the first quarter, we gained almost a half a share point in our commercial business. So, although there are more costs going in in Europe, as you say, for the more stringent requirements in 2025 with the 15% reduction, we have the opportunity on the commercial side to continue to grow our profitability.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Okay. But no quantification of how much you think that's going to put incremental cost into your vehicles for the region?

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

A

No, I'm not going to share that.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Bob, if I may, a comment on the press release attributed to you in regards to the seasonal earnings with 1Q being the strongest of the year, can you elaborate on that a little bit further? I think a lot of the investors will have a question on that.

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

A

Yeah, I mean, usually the first or second – not every year, but the first or second quarter is usually the strongest of the year. In this particular year, we have a lot of launches that are taking place after the first quarter. And while coming out of a launch, that's a lot of opportunity for us, the launch itself because of lower volume, launch expenses, we start to amortize the investment and so forth, it is a bit of drag over a short period of time. So that's ahead of us.

Also, as you know, in the third quarter Europe shuts down its plants for four weeks, so there's no production. North America does it for one or two weeks. So you've got in general lower volume in the third quarter because of that impact as well. In the fourth quarter because of the end-of-year holiday and that 10 days or whatever, we end up sort of draining the inventory that we have across the system and so therefore we have more labor and overhead that sits in inventory for most of the year and it kind of flows out and goes into the income statement in the fourth quarter. So that's a downward pressure there. So it's those types of things.

We're still going to have good quarters coming forward. It's just we wanted to signal that you shouldn't think of the first as a run rate. It's a very good quarter. We've done better in the first quarter before. So, no, we need to restrain our enthusiasm but we are extremely pleased with the start to the year because it gets us off to a good start in a year that's got a lot of heavy work ahead of us, but it's a wonderful way to begin that journey.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Appreciate all the color. Thank you very much. Congratulations again, Bob.

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

A

Thank you.

Operator: And our next question is from the line of Rod Lache from Wolfe Research.

Rod Lache
Analyst, Wolfe Research LLC

Q

Hello, everybody, and congrats to Bob from us as well. Really enjoyed working with you over the years and I do wish you the best. I'm interested in just following up on some of the questions about China and the China plan. You had $160 million of structural cost reduction year over year in the quarter. And it seems like a lot of the restructuring that you were pursuing actually started late in the quarter. There was a shift, for example, to Nanjing from Shanghai. Can you talk a little bit about what we should be expecting going forward, what the magnitude of the structural cost reduction could be to correspond with your plan?

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

A

Yeah, again, I just want to remind everybody that this is on the consolidated part of the business. So, just to simplify what we need to think about, so that's the net engineering. So, that's the engineering we incurred net of the royalties we receive as the vehicles are produced. It is the import business both Lincoln brand and Ford brand. It's the overhead of the team that's there in Shanghai. There's also a portion which is component sales that we ship the components into the JVs and so that's a piece of it as well. So, I'm just talking not about what's happening in the JVs, which is where really the bulk of the business is, but in that portion I just described.

And so, what we've been focusing on is driving down cost as quickly as we can. We've seen less engineering, less manufacturing expense from – this is also fitness, right? This is fitness of Ford on the imported vehicles that's now benefiting China as those vehicles go over. Certainly, Anning Chen has been thrifting out and addressing the size of the workforce in Shanghai. That's an opportunity that's probably more ahead of us than in the quarter but it has begun. So, it's really broad-based, it's not any one thing, it's across the board, but the results have been very encouraging in the first quarter. And I would expect as we kind of look at the full year that that would be an important element of what will be the improvement of the loss that we had last year in China relative to what we deliver this year.

Rod Lache
Analyst, Wolfe Research LLC

Q

So, just to clarify, is this the run rate of year-over-year cost reduction or do you anticipate that it actually increases from here?

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

A

I think it's pretty representative. It's going to be plus or minus [indiscernible] (00:52:32).

Rod Lache
Analyst, Wolfe Research LLC

Q

Got you. And just broadly on strategy. Maybe this is a question for Farley. You're consolidating in almost every region the segments that have very strong brand equity. So, in Europe, you're going to be mostly in commercial trucks and the Ranger, South America presumably at some point a lot of it's going to be pickup trucks and in North America, a lot of what you guys are emphasizing now is products with very strong brand equity that's established. China is obviously very different. There seems like there are a lot of new products. It's expanding pretty widely. Obviously, it's a tough market. It's a fragmented market and you're a 2% player there. So, could you just maybe from a 30,000-foot view just help us understand what you want to be in this region, how broad you want to be and what kind of investment you're willing to put behind that?

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

A

Well, thanks for your question. First of all, I just want to reiterate the ambitions we have to grow our utilities business globally. We have a great opportunity in North America and in Europe with our utilities.

For China, the story is a growth story. I mean, as Anning shared last week with his 30-30 plan, in the next three years we have 30 new products, a lot of those are utilities. You can expect Ford to really lean into the utility space. If you see the success we've had in Territory, which is a new nameplate for us, that's great, but we have the opportunity to localize a lot of utilities in China and also refresh the products that are at the very end of their lifecycle. So, you can expect China to be a growth story for Ford over the next several years as well as a lot of localization and growth in our utility lineup.

Rod Lache
Analyst, Wolfe Research LLC

Q

Do you have a target market share or sort of size of the business that you'd like this to ultimately achieve?

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

A

Yes.

Rod Lache
Analyst, Wolfe Research LLC

Q

Could you share that? No? Okay.

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

A

No. I think it's best just, Rod, just to leave it with our growth ambition. I think that's the most important.

Rod Lache
Analyst, Wolfe Research LLC

Q

Okay. Great. Okay. Thank you.

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

A

Thank you, Rod.

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

Steven Hempel
Analyst, Barclays Capital, Inc.

Q

Yes. Hi, team. This is Steven Hempel on for Brian Johnson. Just wanted to drill down a little bit further into the North American profit improvement here and maybe just discuss how to think about the sustainability of North American EBIT for the year and maybe discuss the quarterly cadence throughout. I suppose maybe a two-part question split out between costs including the launches. I understand obviously launches are going to ramp up for the remainder of the year, but maybe discuss which quarters you expect to see the largest year-over-year headwind from those launch costs. And then secondarily, pricing, which has been obviously a key, strong year-over-year tailwind now for the past two quarters. Maybe discuss that business and the key drivers of that North American pricing improvement in the quarter bucketed out between F-Series, yield management and any others we might be missing.

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

A

Yeah. I guess, the way I would describe it is, first of all, quarters are unpredictable to some extent. But actually as I look ahead, based on what we see now for North America, I think every quarter should be a pretty good quarter. You'll be plus or minus where we are at this quarter, but I think every quarter looks good, strong. They are benefiting or being hit by the things I touched on earlier. But, in general, I think strong performance by North America throughout the year.

It will feature costs that are relatively flat, in fact flat if you exclude the impact of the pension OPEB that I referenced earlier. The volume probably is not going to be as great, so that will be a headwind in parts, that's the industry that's coming through. But, in addition, what you'll see that will drive the business will be favorable mix and you'll have very strong pricing throughout the year. And against that flat cost, it really just kind of flows right through to the bottom-line.

I would refresh everyone's memory. I think we talked about this at Deutsche Bank. There is a new contract this year with the UAW. So, in the fourth quarter, in general, there's large charges that we usually pick up once the ratification is achieved and that's probably to the tune of about $0.5 billion or so, and I mentioned that back in January. So, that would be something that would be unique and one-time in the calendarization of the results in North America this year.

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

A

And Steven, I got to slip this in because I don't know how close you've been to Ford. But the management team that's running North America is exceptional. Kumar Galhotra was put in that job and we're just reviewing today kind of their serial quarter-to-quarter-to-quarter kind of improvement that they've generated. In fact, he from a method standpoint was one of the first parts of the world to build this new flat agile structure with these energy rooms. This is all serious commitment to moving faster and moving collegially across the company, reducing bureaucracy and it's being copied. And now I'd just add that the people leading the other parts of the world have similar kind of talent. So when Bob just talked to you about a way to think about the rest of the year, I was thinking about the guy running it and wanting to make sure you know how solid he is.

Steven Hempel
Analyst, Barclays Capital, Inc.

Q

Yeah. That's definitely helpful. I guess switching gears here and turning a little bit south to South America [indiscernible] (00:58:39), more so specifically the long-term outlook. It's basically saying it's a two-year payback for the current restructuring that's in place, which would basically get to roughly flat or breakeven which is clearly an improvement from where we're at today. But I guess, how do we think about this business long-term? I believe back in 2014 you mentioned a long-term target of 7% to 9%. I'm not sure if that's really realistic anymore given you're exiting some of the businesses, but maybe it is. And I guess is it more realistic to maybe think that Ford will actually exit South America completely and redeploy capital to higher margin businesses?

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

Yeah. I think where we are today is a consistent message that I've said, did we have the right or wrong design in these markets. And so you're seeing us tackle both in Europe and South America as examples that are now playing out.

As Jim Farley has talked about the portfolio strategy there, we're working on a better design for South America. And there is more to come there, but these initiatives to get us in shape so that we have the right cost structure and all that will be followed by really the right kinds of things to win in those markets with where we want to play to win.

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. And I wanted to echo my congratulations, Bob. The first question is just turning back to China. I think in the past something else you mentioned that was impacting was the widening royalty. I think that was an impact in the back half last year. And also, some of the excessive structure in the Shanghai regional office. I was wondering if you'd talk about how you think those two things trend as we move through 2019.

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

Yeah. We've worked hard on both of those.

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

Yeah. The net engineering actually is still going to be a substantial drag on the business in an absolute sense, but it will be less so than what it was in 2018. Obviously, part of that very much dependent upon the volume because that is what drives the royalties. And you asked me about the central admin costs. Is that what you were asking me?

Joseph Spak
Analyst, RBC Capital Markets LLC
Q

Yeah.

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

In terms of Shanghai.

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

A

Yeah. We would expect to see improvement there, probably more second half weighted than first half as Anning's working through the redesign of his organization. But yes, there will be an improvement in that that will contribute towards the year-over-year lessening of the loss this year.

Joseph Spak
Analyst, RBC Capital Markets LLC

Q

But that's still to come, that's not in the results we're seeing today?

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

A

I would say it's part – I think we've seen some improvement in the quarter. There's no question about that, but I think there's more opportunity ahead.

Joseph Spak
Analyst, RBC Capital Markets LLC

Q

Okay. And then turning back to just the question about CO2 compliance in Europe. I understand you're not going to sort of give us the cost. But maybe you could just help us understand – I mean, I think it's a mass-based target. So maybe where are you – or what is your actual target and where is the portfolio today?

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

A

Well, as you know, between now and 2025 or compared to 2021, the CO2 targets for passenger cars and commercial cars are a bit different. And so I think by 2030, the current regulation is about a 30% improvement in – or reduction in CO2 for LCV and more for passenger cars.

In the short term, obviously we had the 6.2 emissions last year in the second half which Ford really weathered very well. And between now and 2021 there's another new set of requirements which we're in a great position for because of our new lineup. But the requirements in Europe really start to ramp up between 2021 and 2030 with the new regulations from the EU.

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

A

So the parallel there, Joe – the parallel is that it couldn't have been better coincidence, which is at the time we're trying to figure out the redesign in Europe and the product portfolio going forward, we were aware of this kind of influence. So we've been addressing that all along in the strategy.

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

Great. Thank you. Good evening. And, Bob, congrats. So I want to ask a high level question on North America. I think this is the third quarter in a row where you're growing EBIT with a declining SAAR. And clearly a lot of the investors who look at Ford start the analysis looking at the SAAR when it seems like a lot of your profitability has been driven by the F-Series franchise and so forth where the fundamentals seem very, very different from SAAR and have for a long time.

I guess the question is, as you think about how investors might appreciate results like this, what are the merits and the pros and cons to disclosing the F-Series franchise or the pickup truck franchise separately, to let investors see what's the key drivers away from the SAAR itself?

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

A

Well, we have the option of doing that. And in fact, in a couple of the disclosures we've made over the last, what, year or two, we've provided sort of segments and things of that sort, trucks or whatever, high-performing products. So we're starting to show you more on a product line basis. I don't know where that will go frankly. As you know, one of the big changes in our organization has been to provide a much – I call it a third leg of the stool of the lens on the business. We've got central, we've got skill teams, regions. Now we're going to have a much stronger product line focus. That's our EPLM organization that Jim Baumbick talked about at a conference in the last week or so. So I think – and I in my comments gave you a little bit more texture than what we have in the past. The improvement in North America was driven by the trucks. But I have to tell you also, the improvement was driven by the fact of the decision we made around the passenger sedans. That was hundreds of millions of dollars, or will be over the course of the year. So it's not immaterial, but it's something that we have the option of doing I suppose. It's not how we report the business, but we will be very thoughtful going forward, Itay, in terms of what we do with this information to inform investors going forward.

But clearly, and I know your thesis, and we don't disagree with it, Ford Motor Company has a moat of trucks, particularly F-Series, but not just F-Series. We're the biggest player in the world on vans. The Ranger, we're number two or three, depends on how you cut it and that's without North America in the mix. And now we're going to combine forces to some extent with VW who is also a strong player. So more to come I guess on that.

Itay Michaeli
Analyst, Citigroup Global Markets, Inc.

Q

That's very helpful, Bob. And then maybe my follow-up, maybe for Jim on the expansion of the autonomous development to other cities. I'd love to get a little bit more color on the decision behind that. And the reason I ask is because some of your other competitors seem to be consolidating testing in one particular city just to kind make sure that they are able to conquer that city first. So I'd love to get an understanding of the decision to expand it. I think you mentioned California testing as well and what's gone into that, as well as if you have any kind of updated size of the testing fleet over the next maybe year or so.

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

A

Yes, I appreciate that, Itay. I think, let me – I'm going to ask Marcy Klevorn to help me with this because she and I just were in Pittsburgh two days ago for a full day reviewing with Jim Farley our development there. I want to report it's – what a great team we have in Argo AI. And take you back to Miami, when we brought investors and media there, I think we got at large really thumbs up for the experience and intentional is the fact that we're testing in some really challenging areas. I mean, I don't want to pick on any competitor, because it's not my purpose, but you could put these vehicles in places where the weather never changes, there's not a lot of intense urban kind of challenges, mostly everyone's retired and the roads don't change a lot. I mean, we've opted into some really difficult settings to prove this capability. So Miami's going really well. Washington D.C., all of us on the call and at the table have been in that city, so you know the challenges.

And in fact, the long-term viability of this capability is its ability to work in cities. And so that's why I think you're going to love the Ford position.

Now, to the direct part of your question and how we're picking cities and where we are going from here, I'll let Marcy fill in what the plans have been.

Marcy S. Klevorn
Executive Vice President & President-Mobility, Ford Motor Co.

A

That's a great question. And as you say, some are choosing to focus in a limited geographic location and in that regard, it might be easier to rack up pure like point A to point B miles. But what we believe, to build on Jim's comment, is that complex miles are more important. And so we're picking cities, as Jim said, like Miami that are very complex. For those at the Miami event that heard Senator Brandes's opening remarks, he said Miami was a black diamond city because it has so much going on in the city. And we embraced that, mapped it, and for those of you that participated or that read about it saw that it was a great event that showed that we could handle complex miles, different types of construction, different types of activity in the city, a bilingual city and doing that well. So, now we're on to D.C. We've got a third city selected for deployment which we'll announce later this year, but it's to continue to really build out complex miles.

And in conjunction with that, what we also do is we partner with businesses, so we've announced the likes of Postmates and Walmart, but also partnering with local businesses to become a part of the fabric of the city. And that helps us learn how cities operate in urban settings, very important, and it helps us learn how to monetize the autonomous vehicles in the future by working with local businesses and these big partnerships. And then finally, it helps inform the SDS, self-driving system, software in addition. And that's really important, because over time as standards emerge and legislation takes place, pieces of that will have to be codified and those pieces in the SDS will become a commodity like happens over time in technology.

And so because we're learning these complex situations, because we're learning how we might monetize working with these businesses, we will be left with some IP that will help us set us apart.

And then finally, to build on Jim Hackett's idea around human-centered design, it helps us really learn more about in these complex situations how humans want to interact with the vehicle and helps us build those human center use cases into our thinking and into our testing.

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

A

Yeah. We laughed that if autonomy was only destined for the L.A. freeways, you don't have to deal with dogs and baseballs running across them and no need to recognize them. And so the argument that you see in the press about how intense the LiDAR commitment has to be is a function of that. It's our intent to have these things perform really safely as I've said.

Another interesting thing is, is that we've been intentional about the way we think about the external environment and the vehicle relating to each other. And I've been on record at the CES talk a year ago describing how cities are going to be communicating back to the vehicles and vice-versa. We're experimenting with that in all these tests. So there's a lot more in terms of the systems evolution that I think is going to be wonderful to talk about as we get there.

Marcy S. Klevorn
Executive Vice President & President-Mobility, Ford Motor Co.

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And to answer your second part of the question about how many vehicles, we'll have 100 on the road by the end of this year.

Operator: That concludes the Q&A. I'd like to turn the call back over to Jim Hackett for closing remarks.

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

Thank you. And before we close, again I want to welcome Tim. Bob, thank you for incredible service.

I want to reinforce four key points. First, we have a solid plan to create value in the near and long-term. We believe we're gaining credibility with you that we're doing as we said.

We also, as we said, this was the year of action and making these decisions, building momentum with the global redesign of the company as we target sustained improvement across key metrics. And we're mindful of growth, profitably, cash flow and returns as we do that.

Third, our results this quarter clearly demonstrate the benefit of our fitness actions, portfolio decisions that we've labored over and the business redesigns. And we do want to assert that there's more to come there.

And fourth, we want you to know that we really do believe we've delivered a solid quarter. This is not just one thing, it's across the board. And we now believe we're on track to deliver better company results for this full year and recognize in parallel that we have a lot of work ahead of us. So thank you for joining the call tonight.

Operator: This concludes the Ford Motor Company First Quarter Earnings Conference Call. Thank you for your participation. You may now disconnect.