Ford Motor Company

Moderator: Ford Executives
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OPERATOR: This is Conference #6845877

Operator: Good day, ladies and gentlemen. Welcome to today's Ford Motor Company Fourth Quarter 2019 Earnings Conference Call. My name is (Holly), and I'll be today's operator. (Operator Instructions)

At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Lynn? And ladies and gentlemen, stand by, I believe we have lost our audio. One moment for the speaker.

Lynn Tyson: Thank you, operator. Welcome, everyone, to Ford Motor Company's Fourth Quarter 2019 Earnings Call. Presenting today are Jim Hackett, our President and CEO, and Tim Stone, our Chief Financial Officer. Also joining us are Joe Hinrichs, President, Automotive; Jim Farley, President, New Businesses, Technology and Strategy; and Marion Harris, CEO of Ford Credit.

Jim Hackett will begin with a brief review of our results, progress against our strategic initiatives and guidance for 2020. Tim will follow with a more detailed look at our results and guidance, after which we'll turn to Q&A. Following the Q&A, Jim Hackett will make closing remarks.

Our comments today will 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 call will include forward-looking statements about our business. Actual results may differ from those stated and the most significant factors that are included on Page 26 of our presentation. Unless otherwise noted, all comparisons are year-over-year. References to company EBIT, EPS and free cash flow are on an adjusted basis and product mix is volume weighted.

As a reminder, starting in 2020, we changed our business units in our Auto segment to align with how we now manage our business. To help you navigate this, in the appendix of our earnings deck is a diagram of the changes, including where results from certain joint ventures will be reported. We've also included 2018 and 2019 results by quarter that coincide with the new reporting structure.

Some minor IR housekeeping. Going forward, we'll announce the date for our next earnings release in conjunction with results for the previous quarter. For example, we are announcing today that the date for our 2020 Q1 earnings will be April 28. Please disregard our previously announced dates for July and October 2020. Now I'll turn the call over to Jim.

James Hackett: Thanks, Lynn, and thanks to all of you for joining us today. Please turn to Page 3. At the start of this new decade, we are also at a crossroads for our industry and for Ford Motor Company. I believe as I've said before, there is an incredibly bright future for Ford within what has become a very disruptive environment.

And to realize this future, we undertook a fundamental redesign of the company to compete and win in this new era of smart vehicles in a smart world.

Now on this call a year ago, I told you that 2019 would be a year of strategic action with potential for financial improvement. Now measured against the first part of that statement, 2019 was a year we took meaningful actions to improve our fitness and accelerate our transformation into a higher-growth, higher-margin business by leveraging smart connected vehicles and breakthrough customer experience.

A powerful example of our company's move into the digital future was the November reveal of our Mustang Mach-E, an exciting 0-emissions vehicle that will be fully connected and continually improved through over-the-air updates.

We're encouraged by the interest and early orders around the world. Moving forward, virtually all our new vehicles will be connected, enabling Ford to vastly enhance customer experience and our ability to leverage data and analytics to constantly raise quality and reduce costs.

Additionally, this past year, we forged strategic agreements and partnerships around the world with VW, Rivian and Mahindra. This is to help position Ford for leadership in autonomous and electric vehicles and create new business models for profitable growth in emerging and emerged markets.

We continued one of the most ambitious portfolio shifts in our history, focusing our capital on growing profitable segments and playing to the strength of our brand.

We are right on strategy to add compelling new products across segments, price points while phasing out unprofitable and commoditized vehicles and shrinking segments, and this will only accelerate moving forward, which benefits our share, bottom line and most importantly, customers.

We also made significant progress on our global redesign in 2019. We took tough but important steps to strengthen our capabilities and create a more resilient Ford. Those actions included: restructuring our operations in Europe and South America; assembling a talented new leadership team in China with strong local market expertise; and reducing the size of our salaried workforce around the world, flattening the organization and cutting down bureaucracy in the process.

In the second area I talked about last year, potential financial improvement, we fell short of our expectations and yours in 2019. What is particularly disappointing is that a primary reason for that shortfall was our operational execution, and this is an area we are typically very effective in.

Our execution was simply not nearly good enough. Clearly, we recognize this and of course, we're accountable for it, and we've taken steps to address these shortfalls.

An example of this was the manufacturing launch of our all-new Explorer. The lost volumes in Chicago during ramp-up marred the year and there were some important lessons that we learned. The good news is the Explorer is a fantastic vehicle and we've entered the year with strong customer demand for it. Financial improvement was also held back by the emergence of warranty issues, primarily for vehicles designed years ago.

So before I get into the numbers, let me make this very clear. Our leadership team is determined to return to world-class levels of operational execution. We will do that without losing any momentum in creating a Ford Motor Company that will thrive and generate long-term value in these fast-changing times.

To this end, we've made changes to our executive incentive plans, and we placed an even greater weight on free cash flow, which we think is the ultimate gauge of our success in driving growth and allocating capital to its best and highest uses.

Please turn to Page 4. Our full year revenue declined 3% and company-adjusted EBIT of $6.4 billion was down 9%. This yielded an overall margin of 4.1%, and adjusted EPS for the year was $1.19. Importantly, we generated $2.8 billion in total company-adjusted free cash flow. Our balance sheet, it remains strong with $22 billion in cash and $35 billion in liquidity, both of which are well above our target levels.

Please turn to Page 5. As I mentioned, in 2019, we significantly strengthened our portfolio around the world. New launches included that all-new Explorer I mentioned, Escape and Super Duty and the Puma in Europe in addition to the reveal of our Mustang Mach-E.

On a volume basis, this product renaissance will gather even more momentum in 2020, especially in North America. Ford F-Series was America's truck leader for the 43rd consecutive year. In the fourth quarter, F-150 volumes closed strongly with the segment share up year-over-year and sequentially.

The new Ranger in its first full year of production in the U.S. earned a 21% share of the midsize pickup segment in the fourth quarter, and this contributed to our best year of total pickup sales since 2005. So we're quite proud with the F-Series and Ranger as a one-two punch. Ford was not only the leader in U.S. full-size pickups but also the leader in total pickup sales in 2019.

In Europe, we started the rollout of 17 new hybrid and all-electric passenger and commercial vehicles, including the all-new Puma SUV. This broader electric portfolio shows how serious we are about meeting the region's new carbon footprint requirements.

We launched our first-ever fully electric vehicle in China with a version of Territory, and we announced we would introduce more than 30 market-specific Ford and Lincoln vehicles. 10 of these will be electrified over the next 3 years. And as mentioned, our all-new Mustang Mach-E will reach customers late this year.

Now all of these products supports Ford's commitment to achieve the Paris Climate Accord Glide Path for lower CO2 emissions. And at the same time, we maintain leadership around the globe with our franchise vehicles. Mustang, America's and the world's #1 sports coupe.

F-Series, along with Ranger, which is the #2 medium-sized pickup outside the U.S. and #1 in Europe. Explorer, America's all-time best selling SUV and Transit, the top cargo van globally.

And while some automakers are clearly pursuing full-blown mergers for scale and cost sharing, Ford's strategy is based on strategic partnerships and alliances that will deliver benefits in key segments and markets while improving our cost and capital efficiency.

For example, our agreement with VW is structured to allow us to reap scale gains from our collective leadership position in light commercial vehicles and medium pickups and in electrification and autonomous vehicles.

Our joint venture with Mahindra will combine low-cost engineering and manufacturing, optimized for India and export to other emerged and emerging markets with more efficient levels of investment.

With our equity position in Rivian and well-matched strengths of the 2 companies, we can quickly bring to market an all-new BEV using Rivian's flexible platform. In fact, last week, we announced we are working with Rivian on Lincoln's first all-electric vehicle, building on the introduction last year of the Lincoln Aviator and Corsair Grand Touring plug-in hybrids.

In terms of global redesign, Ford took decisive actions in both Europe and South America to fortify and build on strengths while addressing underperforming parts of those regional businesses. In Europe, we announced the closure of 6 manufacturing facilities, which will reduce our footprint to 18 facilities from 24.

We also refocused our European product portfolio atop 3 pillars: one, strengthening our leadership in commercial vehicles; two, delivering a targeted portfolio of passenger vehicles; and three, importing iconic nameplates. Now in the process, we're reducing our workforce in Europe by 12,000 positions, with more than half of that completed in 2019.

In South America, we're moving to a lower-cost asset-light business model, and last year, we exited production of heavy trucks. We closed our plant in San Bernardo and discontinued the Fiesta and Focus models. Over the past 3 years, we've reduced our total workforce in South America by more than 40%. In China, we completed the build-out of an experienced local leadership team and localized the first of 5 products, our Lincoln Corsair.

The heart of Ford's vision is preparing the company to compete and win in this emerging era we describe as smart vehicles for a smart world. A practical effect is we continue to invest in and expand our capabilities in mobility, connected service and autonomous vehicles, areas that will provide meaningful opportunities for growth.

For example, Ford Commercial Solutions significantly grew its data and telematics subscriptions in 2019, building out the portfolio of services. We are leveraging those services in our large, profitable and expanding commercial truck franchises, which includes a sizable fleet market.

In terms of autonomous vehicles, we continued our credible and holistic approach to building a successful, scalable and profitable AV business, focusing on the customer experience, the self-driving system, lead operations and designing our purpose-built self-driving vehicle.

Ford AV LLC and Argo AI now have joint autonomous vehicle testing operations in Austin, Miami, Washington, D.C., Pittsburgh, Detroit, in the South Bay Metro area in Silicon Valley.

Now these 6 locations make up the largest urban AV testing footprint in the industry, providing us with a unique and invaluable diversity of real-world miles driven. With that information, we're continuously optimizing Argo's self-driving system and positioning Ford exceptionally well for commercialization and subsequent scaling of this technology.

Well before I turn the call over to Tim, let me briefly touch on 2020. As I said at the start, we begin this decade with optimism and the conviction that we're taking the right steps to redesign and restructure our business, improve our fitness and prepare the company to compete and win in the future.

2020 will be the year we reintroduce Bronco to the world, the year we completely redesign the F-150, the year we'll start seeing the Mustang Mach-E on roads around the world. All these vehicles will be smarter and more connected and ever improving.

We're focused on solid execution of our product launches this year, especially where there will naturally be downtime during changeover, like the F-150. The cadence of these launches, which are volume weighted towards the end of the year, will drive headwinds for us in 2020, but they will strengthen our earnings and cash flow potential heading into 2021.

Now let me briefly talk about what we are seeing and doing relative to the coronavirus. As you would expect, our Ford team is proactively monitoring the situation on several fronts, including the safety of our employees and their families.

This is paramount. Business continuity, including our JV partners in China as well as customers, supply chain management, logistics and, of course, where we can, we want to be part of the solution so we are donating money and equipment where we can be most effective.

Thus, my strong instinct is to want to tell you what the impact of this virus may be on our business and our guidance for this year. However, it's simply too early. China is only now starting to come back from an extended New Year holiday.

And many companies, including Ford, are currently hoping to resume large parts of their industrial operations next week. And that is, most experts are already saying, and we agree, that it will take weeks to begin to understand the implications of the outbreak.

In the meantime, we will describe our expectations for the business excluding the possible effects of the coronavirus. It is possible though that we could absorb a modest impact from the virus within our guidance range.

For the year, we are driving for at least nominal growth in auto as we continue our ambitious portfolio transformation. We expect this growth though to be offset by lower EBT from Ford Credit and a modest investment increase in mobility. Tim Stone, our CFO, will provide more color. In fact, now I will turn the call over to Tim.

Timothy Stone: Thanks, Jim. While our 2019 results were not okay, I'm confident we have abundant opportunities to improve our operational execution, drive growth, strengthen our financial results, including cash flow, and in the process, earn the confidence of our stakeholders.

We will achieve our potential and optimize long-term value through timely decisive actions to strengthen our business and execute on our long-term vision. These include applying sharp rigor to the allocation of capital to higher-return investments, including our franchise products.

As you heard me say in the past, we're focused on consistently improving customer experience and operational execution across our business. We're achieving important progress on our global redesign, making tough choices to lay the foundation for improvement in future growth, free cash flow, profitability and returns on capital.

We're driving fitness, for example, scaling or improving the operating leverage of our structural costs and capital efficiency and forming alliances and joint ventures that will enable us to drive durable scale benefits. We're prioritizing meaningful opportunities for profitable long-term growth in mobility. And we will continue to employ disciplined execution to drive strong results from Ford Credit.

Turning to our full year operating performance in 2019. Full year adjusted free cash flow of $2.8 billion was flat year-over-year as continued improvement in working capital in our auto business, lower capital spending and higher distributions from Ford Credit were largely offset by the UAW contract-related bonuses of about $600 million.

Free cash flow is our most important financial measure and we're committed to generating sustainable growth over time. Our cash and liquidity are $22 billion and $35 billion, respectively, above our target levels. We remain committed to a strong balance sheet and investment-grade credit ratings.

Revenue declined 3% for the year or 1% excluding the impact of foreign exchange, and adjusted company EBIT of $6.4 billion was down 9%.

While full year auto EBIT declined, the benefits of our redesign, fitness initiatives and stronger product portfolio, driven by our decision to reallocate capital to higher-return products, were evident in our underlying results. Led by North America, auto delivered $2.4 billion in favorable market factors, another strong year for us. This is supported by improved mix and pricing across most regions.

Auto structural costs, excluding pension and OPEB, were down for the year, primarily as a result of improved fitness and global redesign actions. The decline in structural costs was a sharp contrast to before we embarked on fitness when those costs were increasing an average of nearly $2 billion a year.

Within auto, these favorable trends were more than offset by: lower volumes, including the temporary effects of new product launches and the discontinuation of sedans in North America and low-margin products in other regions; higher net product costs as we continued to invest in the transformation of our product portfolio; unfavorable currency effects; UAW contract ratification costs; and higher warranty expenses.

Regionally, we cut our loss in China by 1/2 year-over-year and Europe was just shy of breakeven. Together, these regions accounted for $1.1 billion in EBIT improvement. Outside of auto, we increased our investment in mobility by more than 75% or $0.5 billion as we continued to expand our capabilities and prepare for the launch of our AV business.

Ford Credit had exceptional results, its best in 9 years, delivering $3 billion in EBT. During the fourth quarter of 2019, we generated $0.5 billion in adjusted free cash flow, down year-over-year, primarily due to UAW contract-related bonuses. Whole sales, which were (off) 8% in the quarter, contributed to a 5% decline in revenue.

These drops were driven by lower volumes in all regions, including the temporary effects of product launches and the discontinuation of sedans in North America and low-margin products in other regions.

Auto EBITDA of $0.2 billion was down $0.9 billion as higher net pricing and mix, led by North America, were more than offset by lower volumes, UAW contract-related costs, higher net product costs related to new products and adverse currency exchange. Our strategic investments in mobility increased more than 75% or $0.1 billion, largely driven by higher investments in autonomous vehicles.

Ford Credit delivered another strong quarter with $0.6 billion in earnings before taxes, down 5%. The decline was driven by lower receivables, partially offset by favorable residual and credit loss performance. Loss metrics continue to reflect healthy and stable consumer credit, and auction values for off-lease vehicles were down 4% for the quarter and 2% for the year. For 2020, we expect auction values to be down about 5%.

Company-adjusted EBIT declined by $1 billion to $0.5 billion, and our adjusted EBIT margin was down 227 basis points to 1.2% as improvement in China and Europe was more than offset by a decline in North America.

Looking at our largest regions in more detail. North America wholesale units were down 8% in the quarter. This is driven by a tough comparison to the fourth quarter of 2018 when we were at peak volumes with no major product launches as well as by the launches of Super Duty and Escape and the planned discontinuation of sedans.

The 2% decline in revenue was less than the decline in wholesales has improved mix and higher net pricing partially offset the decline in volume. EBIT was down 64% and margin declined 480 basis points, largely as a result of UAW contract-related bonuses and lower volumes.

In Europe, where we're carrying out a dramatic redesign of our business, wholesales declined 4% due to the planned discontinuation of low margin products. Revenue in Europe was down 4% or 1%, excluding the impact of exchange. The decline in revenue, excluding exchange, was less than the decline in wholesales as improved product mix, driven by our portfolio actions, largely offset volume effects.

Decline in Europe's top line metrics is an outcome of our redesign and portfolio shift as we exit low-margin businesses and refocus our portfolio on higher-growth and higher-return opportunities.

The benefit of this refocus is evident in a few areas, for example, profitability. In the fourth quarter, EBIT in Europe improved from a loss of $199 million to a profit of $21 million. This is the third consecutive quarter of year-over-year profitability improvement in the region. This progress includes stronger product mix and lower structural costs.

Our redesign and portfolio shift in Europe also make us better prepared to deliver on the region's new CO2 requirements. Compliance with these new regulations has been built into our product cycle and business plans for several years, and we expect to achieve the new CO2 requirements without incurring fines or purchasing credits.

In China, wholesales, which include JV volumes, were down 7%. This is the third consecutive quarter of moderating declines in volume. Consolidated revenue in China was down 38%, mainly because of lower volumes and component sales to joint ventures in the country.

Our EBIT loss in China narrowed to $200 million, an improvement of $300 million year-over-year, driven by a decline in structural costs and improved joint venture results. This is the fourth consecutive quarter of year-over-year improvement in results in China.

For all of 2019, we were able to cut our losses by 1/2 as new products supported improved market factors, including mix and net pricing. Lower tariffs and favorable exchange improved contribution margin, and our focus on overhead drove a significant decline in structural costs.

We continue to emphasize dealer engagement and profitability along with inventory discipline by keeping production aligned to demand. We've also made progress shifting our portfolio from imports to locally manufactured. In 2019, we launched Lincoln Corsair and expect to localize 4 additional vehicles in the future.

In the fourth quarter, we recorded $2.7 billion in special item charges with cash effects of about $200 million. Actions related to our global redesign accounted for $0.4 billion in special item charges and all the negative cash effects. The balance of special item charges included $2.2 billion for a previously announced remeasurement loss related to our global pension and OPEB plans.

In July 2018, we announced plans for our global redesign, which included a potential $11 billion of EBIT charges and $7 billion of related cash effects to fund the rationalization of our cost structure, portfolio and footprint.

Those changes were to ensure that Ford in each of our regional auto businesses drives sustainable, profitable growth. Since announcing that plan, we've incurred $3.7 billion of EBIT charges and $1.1 billion of related cash effects, with the majority of them in 2019.

Now I'll expand on our perspective on 2020. At a macro level, our guidance reflects our expectation for continued GDP growth globally and across our major markets. We also anticipate healthy industry volumes on an absolute basis but down modestly from 2019, including declines in the U.S., Europe and China.

This outlook does not factor in any assumptions for impacts from the coronavirus to our global business as it is still a very fluid situation, and we're still assessing the magnitude and duration of potential impacts.

For Ford, 2020 will be another heavy product launch year as we continue to shift investments to our franchise strengths. For example, in 2020, 75% of North America's volume will be all new or refreshed versus 2017. This is up from 40% in 2019, an increase of 35 points.

Another way to slice this is by looking at the average ages of our vehicles in our portfolio. In the U.S., the average age will drop from 5.3 years in 2017 to 3.3 years in 2020 on our way to 2.9 years by 2023. After that, we plan to keep a stable and competitive product plan with fresh products every year.

So looking at 2020 more closely, our launches include our new F-150, a new-to-the-lineup small off-road utility vehicle and Mustang Mach-E. We'll also launch our strongest lineup yet of electrified vehicles including HEV and PHEV versions of popular nameplates like Corsair, Kuga and F-150. At the same time, we'll ramp products introduced in 2019 like Explorer, Aviator, Kuga Escape, Puma, Transit 2-Ton and Super Duty.

In addition, late in the year, we will start production of our highly-anticipated all-new Bronco with availability for customers in early 2021. As you consider our guidance, you should be mindful of several tailwinds and headwinds.

For tailwinds, we expect full year sales of all-new Explorer and improved product mix and pricing from other new products, additional fitness and benefits from our global redesign and the non-repeat of the UAW bonuses.

For headwinds, we expect the back-end loaded nature of our launch cadence, especially F-150, the cost of CO2 compliance, increased investments in mobility, lower EBT from Ford Credit, largely driven by our assumptions for residual values and the non-repeat of mark-to-market gain on derivatives and a higher effective tax rate. All of these considerations contributed to our 2020 guidance for $2.4 billion to $3.4 billion in adjusted free cash flow.

For adjusted EBIT, we're targeting a range of $5.6 billion to $6.6 billion, which assumes at least nominal growth in auto, offset by lower EBT from Ford Credit and a modest investment increase in mobility. With an effective tax rate in the mid- to high teens, our adjusted EPS range is $0.94 to $1.20 per share.

In the first quarter, we expect adjusted EBIT to be down more than $1.1 billion from the first quarter of 2019, driven by the continuation of higher warranty costs we experienced in the second half of 2019, lower volume, lower results from Ford Credit and higher investment for mobility. And we expect our effective tax rate in the quarter to be at the high end of our full year guidance range.

Relative to calls on capital for the year, we expect CapEx to be $6.8 billion to $7.3 billion, as much as $800 million lower than in 2019, reflecting benefits from our fitness initiatives. Funded pension contributions of $0.6 billion to $0.8 billion and regular quarterly dividends of $0.15 per share, as always, subject to board approval each quarter.

For global redesign, we expect to incur $0.9 billion to $1.4 billion of EBIT special item charges with negative cash effects of $0.8 billion to $1.3 billion.

Our guidance assumes no material change in the current economic environment, including commodities, foreign exchange and tariffs.

As a reminder, our guidance does not factor in assumptions for impacts from the coronavirus as it is still a fluid situation. Our actual results could differ materially from our guidance due to risks, uncertainties and other factors, including those detailed in our filings with the SEC.

We have a strong bias for action to improve our operating performance, to protect our investment-grade rating and ensure a strong balance sheet. Specifically, our commitment to have, entering recession, a cash balance of $20 billion and liquidity at $30 billion; to preserve our debt capacity and to sustain the fully funded and derisked status of our funded pension plans.

All of our capital allocation decisions are made with these priorities front of mind, including funding our traditional product and nonproduct investment plans, our growth plans for electrification, mobility, connected services and autonomy and our regular dividend.

Before I move to Q&A, there are a few things I encourage you to keep in mind as you think about Ford today and for the long term. First, our customers are informing and driving everything we do.

That is why 2019 was and 2020 will be such robust product launch years for us. We are bolstering our winning portfolio of vehicles based on what our customers want and need, reallocating capital to those higher-return growth opportunities and carrying out changeovers of our highest volume and most profitable vehicles.

Second, we are determined to always get better, to persistently improve our fitness and our operating execution. We have abundant opportunities across our business to drive free cash flow along with long-term growth in revenue and profitability, including adjusted EBIT margins of 8% or better. We remain committed to maintaining a strong balance sheet and holding investment-grade credit ratings.

And third, as I look ahead, I'm optimistic. We have many opportunities to improve our operational execution, drive growth, strengthen our financial results, including cash flow, in the process, earn the confidence of our stakeholders. Now let's open the call for questions. Operator?

Operator: (Operator Instructions) And our first question will come from the line of John Murphy, Bank of America, Merrill Lynch.

John Murphy: A first question. As we look at what you're working on right now, there's kind of 2 layers of rationalization. Sort of there's this near-term operational execution turnaround that needs to occur and then there's the global redesign.

And as we look at this, I mean, you're staring down the barrel of great product launches or great products and you got to get those launches right and products that have just launched.

So I mean, in the near term, it just seems like you got the product, the operational execution is just a real issue. I'm just curious, yes, I mean, we can all see that. You're kind of identifying it, but what really turns that around?

And it's not -- the product's there, just trying to understand what really gets this operational execution turned in the near term, hopefully. And then sort of as you look at the inflection point on the global redesign, is that the kind of thing that's going to hit in late 2020 or early 2021 because what you're indicating as far as the charges looks like you'll be halfway through.

So it just -- it seems like that inflection point is not going to come until 2021. It might still be a headwind in the near term. So in those 2 layers, if you can kind of talk about actions you're taking near term and the inflection point on the global redesign.

James Hackett: Jim Hackett here. I think that's well said. I'd characterize it in the company that we're always managing the now and the far in parallel. They're synergistic. They feed each other but they have totally different kind of requirements, right? And so in the now, the message in the company is we work really hard to get the portfolio rationalized, communicated.

We -- just to remind you, we went to work really hard on the platform, architectures underneath that whole portfolio. At the same time, we tethered in connectivity. We're working on car architectures that power the vehicles. We're talking about propulsion inside of them with electrification. So there's a lot in that product turnaround.

And the market, it's too early for me to tell you the new portfolio, share improvements better than the old one but the market is giving us really good signs there. It does boil down to, we can't miss a beat now in the product launches. Today, for example, I spent a lot of time with Joe and others working through the F-150.

So that's the state and spirit in the company is we saw the mistakes. We x-rayed that deeply for you in the last call so that you knew we went to -- kind of went to the desert to get to the bottom of that. I got 0 question that we have identified, what was at risk there?

What bad decisions we made, what new things we have to change. That's all kind of in the rearview mirror, and now it's about executing on the things that we've laid out this year. So that's my perspective from the product. Tim, maybe you can address the global reason? The thing I just want to sneak in on the global redesign.

This is -- this has to happen in parallel. I give our people a lot of credit because their day jobs of managing what I just laid out runs in parallel as they redesign the company. And there's some really bright spots in that. For example, the Europe team has a lot of momentum right now. And you might mention that, Tim, in your summary of what's been going on there.

Timothy Stone: Yes. So from a redesign standpoint, we made, as Jim said, strong progress in 2019 and it's a highlight for the year. Europe, for example, is carrying out strong execution of the redesign of its business.

Announced closure of 6 manufacturing facilities, eliminated a total of 12,000 positions and focused on leadership and doubling down on that leadership in commercial vehicles and (inaudible) iconic nameplates as well as passenger vehicles.

South America continuing to move to lower-cost, asset-light footprint, including exiting the production of heavy trucks in San Bernardo, as you know, and discontinued Fiesta and Focus models.

And for the year, we saw charges this year of $3.2 billion and a total thus far of $3.7 billion. If you factor in the guidance we're giving on restructuring charges to be at $4.6 billion to $5.1 billion through the end of '20, and from a cash standpoint through the end of '20, $1.9 billion to $2.4 billion.

And I think the benefits of the redesign as well as the fitness are starting to show through. If you look at 2018, for example, structural costs were flat. 2019 structural costs were down year-over-year. So you're starting to see it reflected in the underlying fundamentals of our results. And as you suggested, they continue to build over time as further actions are implemented.

John Murphy: Okay, that's helpful. And then just a second question just quickly on Europe. I mean, with the CO2 regs tightening this year, next year and going forward, I'm just curious if you think with your current product portfolio and what you have in the works with the VW Alliance, that you'll be able to meet the requirements over there?

Or will you have to do some kind of pooling or pay fines over the next 1 to 2 years? And I mean, do you think this is something you can solve in-house with product solution or you're going to have to go out house pool or pay fines?

James Hackett: Yes, a fair question. This has come up before, John, in previous quarters, but Joe, you might confirm.

Joseph Hinrichs: Yes, John. So we do expect to be able to achieve the new CO2 requirements in Europe without incurring fines or purchasing credits, just want to make that clear. It's a product-driven plan. We've known about these regulations for several years. They were first public back in 2012, 2013.

We've been playing the business accordingly since then. By the end of 2020, we will have 14 new electrified offerings in the market in Europe. And by the end of '24, we expect to have 17 electrified vehicles, including a number of mild hybrids, plug-in hybrids, some full hybrids and then a call -- including all-electric models.

So this also includes improvements in our diesel offerings and other products that are internal combustion engines as well.

So we feel really good about the plan. We need to execute the launches on time to make sure that we get the products that we're planning to meet those. But our plan is definitely product-driven and we do not expect to incur any fines, you have the pool of anybody else or purchase credits.

John Murphy: Great. And then just 1 just last quick question on Slide 14, Tim. This $500 million of negative cost, I mean, that has the $600 million of the UAW cost in. And so on a like-for-like basis, costs actually improved in the quarter, would that be a fair way to read that?

Timothy Stone: Slide 15, you said? 14?

John Murphy: Slide 14, you have cost was a negative $0.5 billion but I would imagine that's got the UAW contract, $600 million.

Timothy Stone: Sorry. Yes, on Slide 14, North America, UAW's included in other.

Operator: Our next question will come from the line of Rod Lache, Wolfe Research.

Rod Lache: So I was hoping you might be able to give us a little bit more color on your regional auto EBIT expectations for 2020, because it seems like you would have a few pretty significant tailwinds set up, which don't really appear to be flowing into your 2020 EBIT guidance for auto, which you said was up nominally.

I guess essentially, I'm hoping that you can talk a little bit about the direction that you're expecting for each of the key markets. So like North America, obviously, non-recur of the Explorer launch issues and UAW Bonus, which are collectively pretty big.

Is that offset by the -- completely offset by the F-Series launch and other items? And in Europe, I think Joe Hinrichs, you said that most of the 12,000 people that you had commented on leaving were still on the payroll through the end of last year and would have a bigger impact this year. Are those just swamped by the CO2 compliance costs?

James Hackett: So Rod, it's good to hear from you. It's Jim. There's not a point tonight where we're going to go market by market. We just don't do that for obvious competitive reasons. But let's just repeat what is in -- what color is in the guidance we've given.

Timothy Stone: Great. So I'll take that, Jim. Thanks. So as we said, at least nominal growth in auto. As Jim just said, we're not going to spread that around by region. With Ford Credit being lower, you may have heard on the call, we expect the auction values to be down 5% year-over-year -- 2%, sorry, in 2019.

(inaudible) the driver there and then increasing investments in mobility, as we saw in 2019, a $0.5 billion increase, for example, in mobility investments. So that's the primary color we're providing on the different segments as opposed to the regions.

We also -- I can go through the headwinds and tailwinds for you, but they're not to be underestimated that the headwinds, for example, of (20) launches late in the year, F-150, for example, CO2 costs, mobility, as I just mentioned, Ford Credit as I just mentioned, and the tax rate up to mid- to high teens compared to 11% in 2019. Those are the primary headwinds.

Tailwinds, we certainly have a full year benefit of the sale of the Explorer, for example, as well as mix and price on new products. And then as I mentioned in the earlier question, the benefits of fitness and the global redesign. And of course, the nonrecurrence of UAW, it's about a $0.6 billion impact.

Rod Lache: Yes. Did you just say that the mobility investments would be up $0.5 billion in 2020?

Timothy Stone: I was -- thanks for asking. I was saying they were up in 2019 by $0.5 billion. And in 2020, they'll similar -- they'll be up. We're not giving the magnitude.

Rod Lache: Yes. Well, look, I'm sure you -- I mean, there are reasons to not provide color on the regional numbers, but from an external standpoint, you start adding up maybe $1 billion tailwind from Explorer and $600 million from UAW and certainly more than $1 billion from this headcount in Europe and big plant closure in South America.

It's -- those -- not quantifying that is -- makes it very challenging for us to really assess what you're facing and what's in there. Do you have an assumption in there for a further increase in warranty costs this year?

Timothy Stone: Yes. It will potentially only add to your comment you just made, but I think we took a step forward this quarter in providing the segment level commentary connected with the cash flow and EBIT guidance that we gave.

In addition to not providing regional commentary, we're not speaking to the specific attributes from a cost standpoint, such as warranty and so forth.

Rod Lache: Okay. And maybe just lastly, you talked about that $7 billion of cash spending on restructuring. The number has been quite low, I think lower than you had originally anticipated in 2019 and it's only up a bit in 2020.

Presumably, some of the cost savings are kind of tied to the cash restructuring rather than the headline GAAP charges. Could you just give us some color on what's going on there and changing the timing and whether we should be reading into the trajectory of the turnaround plan based on that?

Timothy Stone: Yes, I think Slide 20 illustrates the $11 billion in charges and $7 billion and how we're progressing against that. $3.7 billion thus far. As I mentioned, when we factor in the guidance for 2020, that would be $4.6 billion to $5.1 billion. Potential actions that we're still considering there. From a cash standpoint, we're $1.1 billion thus far. And with the guidance we gave, we'll be at $1.9 billion to $2.4 billion.

As far as the calendarization of that, we still have several years to continue to execute. I mean, global redesign. I don't have any new announcements to make today, but I think one of the things you're seeing in the cash side --

sorry, the savings, the team is here especially thoughtful about how we execute on the restructuring actions in Europe and South America, for example, and taking every opportunity to save cash in the process.

Rod Lache: Just to clarify, Tim, are you suggesting that the number -- the cash number may be lower than the $7 billion or that it would just be more spread out over the next couple of years?

Timothy Stone: I was addressing the next question about -- apologies. I was addressing the question as to why we made them lower that you might have been expecting through 2020. The number is still $11 billion and $7 billion.

James Hackett: Thank you, Rod. They're overperforming, which is a good thing. That's kind of in the reviews I've been really impressed with, particularly in Europe as we said.

Operator: Our next question will come from the line of Adam Jonas, Morgan Stanley.

Adam Jonas: I'll first echo Rod's comments and -- about transparency because it really would be helpful. And we understand that you won't be -- you can't note with 100% certainty these items, but we're certainly used to management teams, given their best guess, particularly at a time when there's so much pressure and when the stakes are so high. So I'll just say good on Rod for zoning in on that.

First question for me is Tesla. Stock's worth -- it's kind of a historic day as Tesla's now worth over 5x the market cap of Ford. Jim or Tim or Joe, can you guys understand -- can you -- are you sympathetic to why that is that state of the world? Does it make sense to you? What's the message the market's sending Ford Motor Company?

James Hackett: Adam, it's good to hear from you and the first comment on transparency did not bounce off the atmosphere. I do understand that in this transformation of Ford, the to kind of calculus isn't always apparent.

For example, consider we've got a portfolio that's in the midst of some things are sunsetting and all these new things are coming out, and you want to know what can we project in terms of your earnings performance. And it's my instincts that back when we first started talking together, that this is going to make a much better Ford and in fact, in I'm now more certain of that.

What I didn't count on, and we're going to address, of course, is that we can't fumble execution because we -- the value of Explorer launch back in our year is a different kind of story about Ford. So that's just to confirm that we're doing our best to try and teach you about where we are in the transformation. But it's my confidence that you're going to be happy with that.

Now the thing about Tesla is CEOs don't ever talk from this table about competitors, but I have been really candid in the company since I came about the -- what is the business model that's there and what frankly about it is attractive. And what you can see in Ford's commitment, I'm really proud of the team here as we arrived in June '17, the propulsion strategy was kind of nil and we've got that squared away.

We have 17 new hybrid and all-electric models across the entire lineup. So picture that Ford is in a position where it's got a portfolio of products for its customers, including a bigger extensive offering than the other guy.

But the key component of this is the need to have these vehicles connected and over-the-air communications and the kind of configuration that one can bring to the customers. We already know that the kind of volume we're going to have in car years usage by 2025 will be over 100 million car years of usage, updating, so just let that sink in.

And that's what the market sees, right, in the future of the car industry, that there's this kind of opportunity for expansion and growth. But I haven't forecasted that in tonight's discussion. It's not -- it's because we got to prove that we can get this done and get it to produce the kind of results that you're seeing there.

But I think we're much further along in that journey than we were just 2 years ago when you and I first started talking about it. How do I know that?

This Mach-E has generated more attention and kind of interest than in recent memory of any kind of product. The kind of searching that's going on about Bronco would amaze you. And so I know that is really high, given the execution and the kind of improvements that I just mentioned. So let me let you react to that.

Adam Jonas: No, it's fine, Jim. And I think -- I appreciate the thoughts. And I can't wait to get my Mach-E and my kids really can't wait to see the Mach-E in the garage. One follow-up for me, Jim, regarding Volkswagen. Is there any limit to the level of collaboration that you can conceive between you and VW?

I'm just wondering if there's anything that's theoretically off-limits between the 2 houses during a really historic kind of tectonic time for the industry where it seems like global major OEMs are forming super groups. I'm just wondering if there's anything off-limits here?

James Hackett: Yes. Well, thank you for ordering the Mach-E. I got to tease you. I just ordered mine last week. I want the world to know I waited. I want to get in the middle of it. I didn't want to be first in line. And it went really well, and they said that I'm right behind Adam Jonas. I just want to...

Adam Jonas: Well, I'm probably higher on the list than you, but I reckon you'll still get it before me, but...

James Hackett: No, no, no. That's not the deal. I want to live it. So thank you. VW, so yes, I'm proud of in the repetition of the good things that happened last year, how well that came together in kind of an early phasing of what you're now witnessing.

And the commentary that we made in the opening was that you don't have to combine human resource departments to get the kind of value in the automotive industry that we think we can get in arrangements like that.

So I want you to see the optimism that -- and hear the optimism in my voice that we're open to lots of ideas there. And I want to also stress that Mahindra similarly is proving to us that in emerging and emerged markets, it really is expanding the power of Ford.

So right now, the plate is full build with the things that we've committed to each other, those 2 companies and Ford. We've really got a lot going on. And I want to see the conclusion of that before I start adding a lot more to the fleet.

Operator: Our next question will come from the line of Dan Levy with CrŽdit Suisse.

Dan Levy: First question. Your dividend is a $2.4 billion commitment annually. Obviously, we've seen some profit compression and you do still have to fund your restructuring. So it just means that the dividend right now is being funded by the balance sheet. Can you just talk to the rationale of maintaining the dividend at this level? And what are the threshold of business conditions for you to maintain it?

James Hackett: Well, we like to return value to shareholders. I know that's a really bad answer but it is true. And the dividend's been a legendary value creator at Ford. We're really responsible about the way, like you say, that you think about the use of the balance sheet to fund that.

A year ago on this call, I made it clear that my objective and the way I was thinking about all the things coming in front of us is I want to continue to pay the dividend, I wanted to be able to fund the restructuring and make all the investments in the future. That those -- the balance, all those interest was behind the business plan that is rolled out. And so I want to continue that because we said we could do it and right now, we can. And Tim, I don't know if you want to add anything?

Timothy Stone: No, that's well said. And that's one of the reasons why we look at our targeted cash and liquidity positions, we established those targets of $20 billion and $30 billion, which are $22 billion and $35 billion now, heading into a downturn so we could be in a position to invest in our long term, invest in the customer experience and fund the dividend for shareholders.

Dan Levy: So I guess the view is that the liquidity you have plus the stream of cash flow that you do have, you still feel comfortable enough with this level to maintain the dividend, that's a fair assessment?

Timothy Stone: That's right. That's why we gave the guidance for the $0.15 per share dividend throughout this year per quarter.

Dan Levy: Got it. And then just as a follow-up. I think a year ago, you disclosed that your global truck, van EBIT margin was 14% in 2018. I think actually, it's maybe a little higher when you strip out the corporate costs.

So as we think about the deterioration in 2019 and what was the likely deterioration in '20, help us maybe understand, if we look back at the profit pools, would you say that the truck margin has remained intact, and that it's really deterioration in other parts of the business? Or has that truck margin deteriorated as well?

James Hackett: I'm going to ask Joe to answer that because this is a primarily North American kind of question as well. So Joe?

Joseph Hinrichs: Thanks, Jim. I mean, first off, we're very pleased with where we are with our F-Series and Ranger here in North America and the Ranger performance in places like Europe and other places around the world.

Without getting into specifics of the margins in 2019, I also will say that our pricing, transaction prices, incentive levels relative to competition and our overall sales volume were all very good in 2019 here in the U.S. And so we feel very pleased with our progress going into a year when we have a new F-150. We had a new Super Duty at the end of last year.

So we're not worried at all about where our competitive position is on our F-Series trucks. In fact, we're really excited about the new trucks that we have coming this year. And if you know the cycle times of where things are, we get the benefit of a new truck after seeing what GM and Ram have done and actually held on very strongly to our volume and our pricing.

If you look at the pricing specifically, we continue to have the highest transaction prices in the segment with the oldest truck on F-Series, F-150 specifically and adding a range of the portfolio, just added to the business, and in fact, gave us the largest pickup volume in the U.S. last year of all manufacturers combined so -- or all manufacturers that we compete with.

So we feel really good about where we are on F-Series. And as Jim mentioned, we feel really good about where we are right at this point in time when the launch is coming up in the second half of the year on F-150. So we're not -- F-150 and F-Series is, of course, the crown jewels of our company, and we feel really good about where they are competitively and where they are from a profit standpoint.

Operator: And our final or last question will come from the line of Joseph Spak, RBC Capital Markets.

Joseph Spak: First question is maybe just a clarification. Tim, you mentioned mobility investment up modestly. Is that apples-to-apples because aren't you deconsolidating Argo in 2020? So shouldn't that help with your share of the loss being lower?

Timothy Stone: Yes. So again, in 2019, mobility investment was up $0.5 billion and in explaining our range of EBIT guidance for 2020, along with at least nominal growth in auto and Ford Credit being lower, now we're saying mobility investments to be up again year-over-year, not quantifying the amount.

We will be deconsolidating Argo when that transaction closes. As a reminder, that's the self-driving system only, the SDS. The go-to-market and other aspects of that autonomous vehicle customer value proposition is a separate level of investment, but we're taking a very decent approach to.

Joseph Spak: Okay. But just to clarify then, the -- we should expect to see the mobility loss higher in '20 even with a deconsolidation?

Timothy Stone: Correct.

Joseph Spak: Okay. And then just maybe a follow-on to Adam's question earlier. And I guess in the spirit of disrupting yourself from within, which Jim, I think, is something you mentioned to me once.

Now that you have some units coming through in '20 and '21, is there any thought to actually just taking and separating out all the electric assets, the

Mach-E, the MEB and Rivian derivatives and break that out as like a Ford similar to what you've done in mobility to sort of help show us that transition?

James Hackett: Joe, it's an interesting thought. I'm actually going the other way emotionally, which is I don't think the company can keep itself like it's straddling in an old world and a new world forever. It kind of confuses the organization.

And so in some of the challenges that I have on my to-do list, I have a friend in the business who said he carries around card with, what are the toughest conversations and issues that he's got to address that no one really wants to deal with.

From my perspective, the transformation has to accelerate. And so I don't want to do anything that makes the organization feel like we can park it on the side and if it does well and grows up, it gets attention. But if it doesn't, we didn't really integrate it. And so I have stronger instincts the other way.

But I understand your question also in terms of, can we do something to prove that our transformation and our strategy is actually accelerating. And I get that, and I'd like to take that away as something that we ought to do is try and show you how the compounding of our new ideas are actually taking off because that's the confidence I want you to have tonight is that I have seen them.

It's just not material enough to move the needle. And that's what I want you to get confidence in is that it is -- it will move the needle and it will have impact.

Joseph Spak: Okay. And maybe if I could just squeeze 1 more. The $7 billion cash restructuring, you've only spent a little bit but it looks like you almost spent a little bit over $2 billion through 2020. I understand that sort of comes when you could sort of make announcements. But should we think that, that remaining just under $5 billion will be done by '21? Or is that also pushed out versus prior thinking?

Timothy Stone: As far as the time frame of that, as you said, it's $1.9 billion to $2.4 billion through the end of '20, of the $7 billion. And beyond that, we haven't given specific time lines or calendarization over the next several years. We'll update everyone as we have more information.

Operator: And that's all the time we have for questions. I'd now like to turn the call over to Jim Hackett.

James Hackett: Thank you. And tonight, our slide started with a picture of the Mach-E, and I was inspired by the picture as I waited for you to ask questions. This product that's on that slide lives in great respect for the Ford legacy. But as it respects, it's not in reverence. It's not in such reverence that it can't change. So this vehicle is an iconic example of what we've been working on. The company has to change.

It's changing its portfolio. It's restructuring markets like Europe and South America. Europe hadn't been touched for years. It's taking on the bureaucracy. We cut it by 1/3, $700 million likely in run rate savings. We mandated connectivity, which was a multibillion-dollar commitment before we had the kind of software to run on this. We build agile teams. That's how this vehicle was created.

And then there's an obvious question, as you look at that and I look at that is, can we execute, and of course, we can. We will promise that we will earn your trust in that area. And I don't want you to think that we have to struggle on the way to the future. We're not going to cancel the future because of the focus on earnings.

We think these -- the improvement in earnings that we all want and the requirement that we have to get to our future can live in a synergistic way and build the kind of excitement in Ford Motor Company that you heard Adam and I are talking about tonight. So thank you for your time on the call.

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

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