Ford Motor Company

Moderator: Ford Executives
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OPERATOR: This is Conference #6478683.

Operator: Good day, ladies and gentlemen. My name is (Holly). I'll be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company First Quarter 2020 Earnings Conference Call. (Operator Instructions)

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

Lynn Antipas Tyson: Thank you, (Holly). Welcome, everyone, to Ford Motor Company's first quarter earnings call.

Consistent with social distancing, speakers today are connected from different locations. So in advance, I appreciate your patience, including any latency, as we answer questions. I also personally hope that you and all of your loved ones are safe.

Presenting today are Jim Hackett, our President and CEO; Jim Farley, our Chief Operating Officer; and Tim Stone, our Chief Financial Officer. Also joining us is Marion Harris, CEO of Ford Credit.

Jim Hackett will begin with a brief review of our results and how we are putting people first through this pandemic, including our team members, customers and partners. Jim Farley will cover the operational excellence required to execute solutions while ensuring Ford comes out of this even stronger.

And Tim will talk about the prudent and proactive actions we are taking to enhance our cash position while preserving the financial flexibility to fund our redesign and growth initiatives, including critical launches. Then we'll turn the call to Q&A, and Jim will close with a few remarks.

Our results discussed today include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measure in the appendix of our earnings deck, which can be found along with the rest of our earnings materials at shareholder.ford.com. Today's discussion includes forward-looking statements about our expectations.

Actual results may differ from those stated, and the most significant factors that could cause actual results to differ are included on Slide 23 of our deck. 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 Hackett.

James Hackett: Thanks, Lynn, and hello, everyone. And Lynn, let me thank you for doing an incredible job in putting this virtual call together. In addition to Jim Farley, our Chief Operating Officer; and Tim Stone, our Chief Financial Officer, I'm proud to say that Rudy and Ozzy, my 2 beagles, are joining me today in the call.

Well, you know the nature of times brings to mind the notion of paradox, and I like to think of the definition of a paradox as 2 truths that compete. Let me explain. The first truth is that safety is of the utmost concern in a pandemic, yours, your loved ones and the people you work with, the communities you live in and, amazingly, all other humans you're willing to interact with.

Their safety guarantees your safety. The second truth, there is no future if we don't have an economic system that is always on. We didn't realize there was an off switch. We knew it might go into a recession, more like a dimmer switch, but off?

Well, now as we bring these 2 truths together, they compete. Turning the economy back on challenges the question of whether it's safe enough. My goal today is to provide an update on where Ford stands and hopefully illustrate that Ford is doing a great job of managing this paradox and confirm that we have control of the business in a very difficult time.

I am pleased to report to you that we have the foresight to move early, ahead of the shutdown. We kicked off our coronavirus response task force led by about 30 senior leaders from across the company.

Independent of the virus, recall, we had, around the same time, reorganized our top team, enabled by a new Chief Operating Officer position held by Jim Farley. Candidly, this now looks quite prescient, as Jim, in his new role, was able to quickly marshal our operating team to focus quickly on the most important actions. Minutes that led to hours made a huge difference in our responsiveness.

We went from 1,000 people who worked remotely from home to more than 60,000. And we've had terrific productivity in the face of this unforeseen challenge, including our team in China, which preceded the economic closure around the world. Jim will talk more about that in a moment.

Now as we approach this challenge, we laid out 3 clear priorities underpinned by, what we would say, our Ford values: the first, undeniably, we have to protect the safety of our people and do our part to limit the spread of the virus; second, to leverage our knowledge and capability to deliver critical supplies to frontline workers and patients while taking care of customers, dealers and the communities in which we live; and three, skillfully manage our business through the crisis, safeguarding what we believe is a very bright future for Ford Motor Company. I have found this true that Ford people are at their best in tough times.

It was true when Ford was building aircraft and arms that formed the arsenal of democracy in World War II, and it was true just a short decade ago when we rallied to avoid bankruptcy and a government bailout. And we emerged from the Great Recession a stronger company. I want to confirm, it's certainly been true today.

Let me take you through a bit more detail on those 3 priorities. As I said, the first priority was to protect our people and do our part to limit the spread of this virus.

So in mid-March, we were among the earliest company -- the early companies to instruct the vast majority of our employees to work remotely. We also partnered with the UAW and other automakers to introduce new safety protections in our factories and warehouses and then to shut down those facilities worldwide.

In an illustration of the arc of a global pandemic, these actions were taken even as we were cautiously restarting operations with our joint venture partners in China. Sadly though, in the face of this, Ford has not been immune from the ravages of the virus. We've lost 11 colleagues in the U.S. and the U.K. to this pandemic.

Our second priority was to leverage our knowledge and capability to deliver critical supplies to frontline workers and patients. I couldn't have been more proud of our organization.

The bottom line though is when society needs you, you answer the call. In this case, we're doing that in many countries that Ford calls its home. Ford's always been a family business from the generations of leadership to the generations of proud employees. And with that, we believe, comes a special responsibility to take care of each other, and this pandemic, of course, is no different. In fact, it requires that in spades.

We know this devastating crisis will come to an end, but in the meanwhile, we're doing everything we can to help. As we suspended a large portion of our work on designing and building great vehicles, we rallied to begin producing vitally needed personal protection and medical equipment.

Around the globe, our people, including the UAW partners -- as I said, it amazed me every day as they engineer and produce hundreds of ambulances and up to 100,000 respirators for health care professionals with 3M; more than 8 million face shields so far; 50,000 patient ventilators with GE Healthcare; and about 1 million face masks, more like surgical masks, every day; and up to now 100,000 washable isolation gowns per week with Joyson Safety Systems.

Putting people first also means, though, taking care of our customers. We announced refined payments on new vehicles and a better online experience for customers; no-contact vehicle delivery and service, including disinfected products; and roadside and other services through the FordPass app.

We also worked quickly to take care of our dealers with digital marketing, sales and service tools and advice on managing liquidity, as you know, the government instituted a program that dealers could qualify for to enable them to keep their organizations intact; and taking care of our communities with millions of dollars in contributions of vehicles and cash.

The third priority, which will be the bulk of our call today was to skillfully manage our business through the crisis. One of the rallying cries for us through all of this, just as it was in '08 and '09, is not that -- sorry, is that we must not only weather the crisis, we need to emerge from it ready to build a brighter future.

So yes, even though we took measures to preserve cash, we are moving forward on our Creating Tomorrow Together plan. You're going to ask me about that, and we're totally committed to it.

This is going to leverage fresh new portfolio of vehicles, a commitment to autonomy and electrification, along with connectivity; global partnerships that are -- look prescient as well that they've started before this pandemic, and they're going to service in the future, including Rivian, because we've gotten questions about that; and a better customer experience.

In a moment, Jim Farley will provide more detail on the progress we're making in our underlying business during the crisis. I'm really proud of him. And he's just worked around the clock, frankly.

And so to say it's been a 24/7 effort is not an exaggeration. At the same time, we're pulling every appropriate lever to protect our core business, strengthen the balance sheet -- Tim Stone, also working around the clock, to make sure that the company led in this initiative -- and bolster our cash to optimize our financial flexibility. I'm proud that we have that all in place before the first quarter was over.

Part of skillfully managing through this crisis is having a well thought-out protocol, though, for back to work. And we did this for China. And I'm pleased that earlier today, we announced we'll restart our European manufacturing production with enhanced employee protection protocols in place.

It's taking a phased approach starting on May 4. We will restart vehicle on the engine production at most of our sites in Continental Europe, and there'll be a gradual ramp-up over the next few months before full production is resumed globally.

But still, there's no denying the negative economic consequences of a pandemic. In the first quarter, our adjusted free cash flow was negative by $2.2 billion. Revenue, amazingly, was still $34 billion, and we incurred, of course, an EBIT loss of around $0.6 billion. In fact, heading towards the middle of the quarter, listen to this, we were on track to meet or exceed our original guidance for adjusted EBIT in the quarter.

Well, as I said earlier, be assured that everyone at Ford is squarely focused on both today and our future. We believe it remains bright, and it's a great source of motivation for us as we serve that future and, of course, take care of all these immediate needs. Right now, I'd like to turn it over to Jim Farley. Jim?

James Farley: Thanks, Jim. Operational excellence, especially in this crisis, requires obviously the dedication but also collaboration, partnership and support from the entire enterprise: our suppliers, our dealers, employees, unions, our JV partners.

And our execution in this excellence demonstrated this early on in China, as Jim said. I know we're going to come out of this a lot stronger, but we need to be agile, have a bias towards action and be very transparent with our employees, our customers and partners.

Early on in China, we focused on business continuity. We mapped our suppliers for the liquidity and the supply chain. We created a unique logistics portal to track our supply chain.

We secured airfreight capacity to deliver critical safety equipment to our team in China, importantly, including our dealers, and we used the same air capacity to ensure a supply of critical parts to regions like North America outside of China. We then partnered closely with our dealers.

We tracked in-store traffic, inventory, their financial liquidity and health. And in the face of shuttering our dealerships, we turned together, worked together to drive demand and ensure quality service to our customers.

We provided those customers with a more robust app to order vehicles online. In fact, in China today, over 1/3 of our sales are now direct online. We increased doorstep delivery of sanitized vehicles with what we called zero touch.

We quickly expanded to schedule remote service and vehicle pickup for maintenance to make it easy for customers. And our joint venture partners were up and running as early as February 10. In fact, as Jim said, one of them, JMC, repurposed our 2-ton transit van to manufacture over 1,500 Ford Transit ambulances in the first quarter.

From the start, we focused on a return to work protocol for our Chinese business. And that involved governance like reworking manufacturing safety requirements and restructuring a lot of jobs inside our facilities to ensure we can protect distancing. This protocol is being extended to Europe and will also be used when we restart our operations around the world. We call it our playbook.

In addition to those accomplishments, our China team also quickly honed in on costs. In the face of significant demand disruption, Ford China delivered year-over-year improvements in both contribution and structural costs.

Actually, they got close to their initial EBIT target for the quarter, offsetting all the COVID impacts. The actions we took in China became best practice for us, part of our playbook, and we tackle -- as we tackle the virus globally, protecting our people and limiting the spread of the virus, as Jim described.

I've been in the industry 30 years. I've been at Ford at 13. I've seen a lot of wonderful leadership even in '08 and -- especially in '08 and '09, but I have never seen what's happened at Ford over the last weeks.

Catalyst acts of leadership throughout every level of the organization replicated and added to the success we realized in China. Power Ford, it's in our DNA, and we're proud to have shared it with that capability for many other people.

The stark reality of a protracted global shutdown of our sector and our vertical has forced a laser focus on cost and liquidity. And just as we did in China, we have ratcheted down spending across the board, both fixed and variable. To ensure we come out of this stronger, we protected our cycle plan, our launches and our technology road maps, including connectivity.

We believe this pandemic could affect how customers live and work for many years to come with the zero touch now as an integral part of their lives going forward, perhaps spurring on even more interest and adoption of autonomy, especially goods delivery and micro mobility.

While effects of the virus may cause some shifts in timing, we are really excited about our forthcoming launch of the redesigned F-150. It's an anchor of our F-Series brand, it's America's best-selling vehicle for 43 years, and the launch will feature the first-ever hybrid electric F-150.

We're also revealing a new Bronco brand. We're going to continue our launch of 30 market-specific Ford and Lincoln vehicles in China over the next 3 years, 10 of which will be electric.

We're going to offer electrified versions of the Lincoln Corsair and the Ford Escape and Kuga, which is now in launch in China and in Europe. We're going to continue preparations for the much anticipated return of the legendary Ford Bronco next year.

And shortly, after I began my new role in February, I did a 2-day deep dive with the automotive leadership team, where we really were and how we were going to address the task and opportunities ahead.

And from the start, I was not only impressed with the diversity of skills and knowledge of our team but the look in their eye and the desire and accountability to take on those opportunities and move the company forward. Together, we came up with a simple frame: we have a few things to fix and accelerate, and we need a growth plan for the company.

The recent challenges presented by the virus have just amplified our commitment to these 3 areas. There is no grace period for transforming Ford. Two weeks ago, we announced a reorganization that will allow us to better execute against those things that we need to fix and accelerate and to establish our growth initiatives.

We empowered a talented and diverse group of leaders from inside but also from outside of Ford to drive transformation into high-growth, high-margin businesses.

Among the changes, Kumar Galhotra, who has been President in North America, will take on an expanded role for South America and IMG markets as well. Lisa Drake, a seasoned executive in our industrial system, was named Chief Operating Officer for North America and remains Vice President of Global Purchasing. She will be laser-focused on our launches, our costs in our industrial system in North America.

Gil Gur Arie, who has a distinguished career in the Israeli Military Intelligence Corps, has joined Ford as Chief Global Data Insights and Analytics. And Ted Cannis, whose team developed the revolutionary Mustang Mach-E and the F-150 battery electric, was appointed General Manager of Commercial Vehicles.

Now these leadership changes were specifically aimed at sharpening our focus on product and launch execution, fully leveraging smart connected vehicles and big data to serve our customers and the company, to improve our quality and lower our costs and creating a dedicated commercial vehicle business in the U.S. and Canada. I'm confident this new structure will facilitate a much faster enterprise decision-making and further efficiencies.

I want to assure you that the same commitment and excellence we displayed to overcome COVID-19 are what we are leveraging as we bring Ford's manufacturing and salaried population back online and turn our attention towards launching those incredible new Fords and our winning portfolio. Over to Tim.

Timothy Stone: Thanks, Jim. It's just over a year since I came to Ford. The primary reason I joined was my belief the company has abundant opportunities to improve customer experience, enhance effectiveness, grow and create superior value for stakeholders.

Being a part of this team as we tackle the crisis has further strengthened my confidence in our team and in Ford's future.

That's why throughout our comments on this call, even amid what we're doing to protect people from the virus and help stop its spread, our actions have been consistent with the priorities we've discussed with you for several quarters: first, improving customer experience and operational execution; second, progressing our global redesign, making tough choices to lay the foundation for improvement in future automotive growth, free cash flow, profitability and returns on capital; third, enhancing fitness, including structural cost and capital efficiency and alliances that can drive durable scale benefits; fourth, prioritizing meaningful opportunities for profitable, long-term growth in mobility; and fifth, employing continued discipline to drive strong results from Ford Credit.

In the first quarter, lower industry volumes across all regions contributed to a 21% decline in wholesales and a 15% decrease in revenue.

These results largely drove an adjusted EBIT loss of $0.6 billion and a negative $2.2 billion in adjusted free cash flow. Our results were constrained by the adverse impacts of the virus. We estimate the unfavorable impact to adjusted EBIT was at least $2 billion.

In our Automotive business, lower volume accounted for a $177 million loss in EBIT as $346 million positive EBIT from North America was more than offset by losses in other markets. To be helpful, and inform on your input, Slide 10 of our deck includes additional color on the drivers of the year-over-year change in EBIT, including warranty, which was higher by $0.5 billion; and structural costs, which were lower by $0.3 billion.

Looking at the business in more detail and provide some color on why, up until the middle of the quarter, we were on track to meet or exceed our initial EBIT guidance for the first quarter supported by improved product mix and the benefits of our global redesign.

In North America, while top and bottom line metrics were negatively affected by the decline in units, both revenue and EBIT did benefit from better mix, especially F-Series and Explorer. This improvement reflects our more disciplined approach to capital allocation, which is focused on investments around the globe on our franchise strengths.

This includes our upcoming launches of our all-new F-150 and 3 products that are new to the market, a small rugged off-road utility, Mustang Mach-E and Bronco. We will be able to update you on launch timing once we have a better understanding of our operational readiness as we bring our manufacturing back up.

EBIT was also negatively affected year-over-year by increased warranty costs as we roll forward higher accrual rates from the second half of last year. We also absorbed higher material costs for new models during the quarter.

In South America, wholesales and revenue declined 13% and 21%, respectively. In addition to the lower volume, revenue was also influenced by weaker currencies, which were only partially offset by higher net pricing.

Importantly, we narrowed our EBIT loss in the region to $0.1 billion, a 29% year-over-year improvement and our strongest performance since 2013. EBIT results do favorably reflect benefits from our global redesign, including exiting heavy truck production, discontinuing certain passenger vehicles and reducing headcount as we migrate to a lower-cost, asset-light footprint.

In Europe, wholesales and revenue were down 25% and 16%, respectively. In addition to the virus, wholesales were also weighed down by the timing of our all-new Kuga, which followed a normal launch curve.

We're also absorbing the effects of our decision to discontinue low-margin products as we focus our portfolio on industry-leading commercial vehicles, a more selective range of passenger vehicles and selected imports. All-new vehicles this year include Kuga, Puma and Explorer SUVs, which together will drive an increase in our mix of SUVs year-over-year.

The decline in volume also reduced EBIT, which is down $0.2 billion year-over-year. As expected, the region absorbed higher material costs to support compliance with new CO2 regulations.

The favorable shift in our European product portfolio, which we expect to continue once we restart production, supported higher net pricing, and the benefits of global redesign actions continued to drive down structural costs. We're on track to complete the balance of our headcount reductions, about 10,000 by year-end.

China was at the forefront of the crisis. Our team did a great job mitigating the negative effects of the virus on our customers, other stakeholders and on our business results. Both wholesales and revenue were down about 30%.

New product launches, including Escape and Corsair, and faster improvement in sales relative to the market, contributed to a 10 basis point improvement in share to 2.2%. Explorer and Aviator are on track to launch this year and should be important additions to our China portfolio.

Our China EBIT loss of $0.2 billion was down $0.1 billion year-over-year as lower volume and adverse exchange were partially offset by improvement in structural costs. Losses on mobility continued to reflect strategic investments in future growth opportunities in mobility services and vehicle and business model development for our autonomous vehicle platform.

Ford Credit delivered EBT of $30 million in the quarter, down $771 million year-over-year. Portfolio performance was strong in the first quarter, and delinquencies and charge-offs remained at low levels.

However, the results include COVID-19-related accruals of about $700 million, the most significant of which is for future credit losses as well as lower auction values for off-lease units awaiting sale at auction. Lease share remained below industry average, and off-lease auction values performed better than expected, up 1% year-over-year and up 2% sequentially.

At present, most vehicle auctions in the U.S. are closed, sales volume is very low and prices are disruptive. As vehicle auctions reopen, we expect market prices to be disruptive for some period, and it's difficult to say how badly or for how many months. However, we do expect used-vehicle markets to normalize over time.

Managed receivables of $147 billion at quarter end were $9 billion lower year-over-year and $5 billion lower at year-end. At the end of the first quarter, Ford Credit had $28 billion in liquidity, which remains above target.

And Ford Credit has access to diverse funding sources to continue providing financing in the future. Ford Credit's balance sheet is strong with ample liquidity, and importantly, its funding structure is self-liquidating.

This means that Ford Credit generates liquidity, which reduces its funding requirements as the balance sheet shrinks with lower automotive sales. Ford Credit is an important source of support for customers and dealers during this crisis, and Ford Credit remains an important strategic asset.

Now let me turn to automotive liquidity and provide a little more color on some of the strategic actions we've taken since March to provide additional flexibility during this challenging time. In March, we suspended our regular dividend, which equates to $2.4 billion per year. We also suspended our anti-dilutive share repurchase program, which was $0.2 billion last year.

At the same time, we drew down over $15 billion under our corporate and supplemental credit facilities to bring cash on the balance sheet and provide greater certainty. Finally, last week, we completed an $8 billion opportunistic unsecured issuance to further improve our cash and liquidity profile while most of our global operations remain shut down.

As of April 24, our cash balance was strong at $35 billion, an amount we believe is sufficient to take us through year-end with no additional wholesales. Our plan though, as we announced today about Europe, is to begin a phased restart in the second quarter as we plan to have wholesales much sooner than the end of the year.

Relative to working capital, just like most other OEMs, there are 2 phases of cash outflow after a halt in production. For us, this began in late March. The first phase is more severe and is driven by about a 45-day runoff in supplier payables.

We have about $13 billion of production supplier payables after a late March production suspension, which will run off by early May. While this number can move around during the year, depending on scheduled plant shutdowns and other factors, it's a good approximation of that production payable number.

The second phase is post runoff, after production and payables have been extinguished. Once this happens, our cash outflow drops substantially. Our ongoing payments, which are fairly consistent, include structural costs and warranty and vehicle incentive payments.

Once production starts, there's an inherent cash flow leverage. Once even modest wholesales resume, our cash flow dynamics will improve driven by the restoration of supplier payables and, for the large part, immediate payment of vehicles upon wholesale.

We are also thoroughly assessing and aggressively addressing our operations and looking for opportunities to preserve cash, lower operating costs, improve fitness and drive our business to amplify our long-term potential. These include reductions in capital spending, deferring or eliminating nonessential expenditures across our business and deferring executive compensation.

The incremental cash from these and other actions provide additional flexibility as we navigate this challenging environment. For example, this year, we expect CapEx to be $6.3 billion to $6.8 billion, down by about $0.5 billion compared with our February guidance and $0.8 billion to $1.3 billion lower than last year.

Turning to our outlook. In mid-March, we withdrew our financial guidance for 2020. As a reminder, when we gave you our outlook in early February, we said it excluded impacts of COVID-19. Today, unfortunately, the economic environment remains too uncertain to provide updated guidance for the year.

However, assuming in the second quarter, we restart production in a phased way, we believe we will see the largest impact from this crisis in the second quarter as industry volumes continue to be down significantly in every region year-over-year. As a result, we believe adjusted second quarter EBIT will be a loss of more than $5 billion.

The recovery actions we've taken and are working on are in the billions, but we know we will not be able to recover everything or make up all of the lost volume. Lower industry volume will be our biggest headwind this year.

And any mix or net pricing benefit we may realize from our global focus on franchise strengths, including exiting lower-margin products, full year impact of Explorer launches in 2019 and new launches such as F-150 slated for later this year, will be overshadowed by the negative impact of lower industry volume. And relative to structural costs, we expect favorability year-over-year driven by actions to mitigate the impact of COVID-19 and our ongoing fitness actions.

Before we turn over to Q&A, let me close with, we remain committed to a strong balance sheet and doing what is right to preserve our future, which is why we've been proactive in charting our course and maximizing liquidity during this uniquely uncertain time. Our recent actions provide flexibility to weather the present disruption caused by COVID-19 and the confidence to continue to invest in growth opportunities.

We have a strong bias for action to improve our customer experience, operational execution and drive our financial performance, including free cash flow generation over time. I'm optimistic we'll be better positioned than ever on the other side of this to achieve our long-term potential. Operator?

Operator: (Operator Instructions) Our first question is going to come from the line of John Murphy, Bank of America.

John Murphy: It's going to be tough to stick to one question, but I will. Typically, out of a very tough time like this, you get a very good recovery because a lot of the lessons learned in a tough time result in sort of real efficiency and focus.

I'm just curious, I mean, Jim, you were kind of talking to this, and Tim, you were talking about this on the balance sheet side. Just curious if you can really kind of illustrate or kind of explain any of those opportunities you're seeing here in the near term specifically.

And because you're kind of going through this rolling restart with China and then Europe and North America, I mean, you're seeing some of these opportunities already. If you can give us more details around that so we can understand that because, traditionally, 1 to 3 years out, your margins are significantly higher.

And in some cases, in the past recession, they were at an all-time high, 3 years after the -- we hit the skid in '09. So just trying to understand what you're seeing right now and what the opportunities are in China, Europe and ultimately in North America.

James Hackett: Thank you, John, Jim Hackett. I'm going to -- for all the questioners, I'll quarterback the call so that we don't have a big lag here. And John, just an observation that I agree with you. This is my third crisis in business.

This one's a unique one. The other 2 were substantial. And I observe that there's cost that comes -- that's added to income statement that comes from disruption. For example, we were shipping product, expediting product from China to get to the factories here of parts, I should say, so that we didn't have any disruption.

And as the virus spread like a water slick, the stuff that we were airfreighting was eventually going to get stopped in production, so we have the cost of that. And it's what Tim has talked about, that we've been working to offset those kinds of increased costs. And there's a lot of examples of that. It's in the billions that we've worked to.

Also confirming with you that in this time of focus, you start to think of things that matter to the company. I don't want you to think of them, well, you should have stopped then anyways.

These are things that there's no races going on. So some of the investments that you would have because the virus has diminished participation in things, we don't have that cost. So we have the savings there. And then having the focus that Jim Farley talked about, we find that we can actually improve our leverage. So I want to confirm with you that, yes, we're thinking about this the same way.

Now you asked for some specifics, and I'd like to turn it over to Jim because I think China is a good example of where there was advantage as we came out of this. Jim?

James Farley: Thanks, Jim. So in China, we learned a lot, not only to start up the operation safely -- we started in mid-February, we're now up to 90% of our salary workforce and all of our plants are up and running.

Actually, JMC never shut down, had their best quarter ever. But they get after cost really quickly. And we were able to offset all of the COVID impact in the first quarter, and we learned a lot.

We learned that the mix coming out is very different than the mix going in. And so our mix of product is quite different. It's very favorable. We went online for our sales. About 1/3 of our sales are now online in North America, it's north of 25%. That's an efficiency and improvement in our fitness. We did lower cost.

We expect that to -- some of that to flow, obviously. In North America, very focused on the recovery items, on material costs and warranty costs. Those are the kind of costs that flow into subsequent years. In fact, we're more committed than ever in that 10% EBIT margin in North America. And we're -- as Tim said, we're forecasting a lower SAAR. So that must mean, obviously, our costs are going down.

We do have some great launches coming up, which will be a tailwind in North America. The other things we learned in China that we're exporting is the shift patterns, as you come back, are very important.

So we're getting the launch teams in the facilities to work the launches because we're just in here -- in China launching Kuga and localizing some of our larger SUVs.

Those are very important for our profitability, very same kind of exercise we're doing in North America in the third and fourth quarter. And the last one is supplier readiness. What we learned in China was you got to make sure your supply base is ready.

So we surveyed almost 1,500 suppliers in Western Europe and the U.S. to make sure they're ready to come up and have the same playbook in terms of prioritization of safety. So yes, I mean, the bottom line is it's a very difficult time, but the Ford team is at its best, and we're going after costs that will flow. Thanks.

Operator: Our next question is going to come from the line of Rod Lache with Wolfe Research.

Rod Lache: Just wanted to follow up on that question. So look, at this point, if we back out working capital, it looks like the business and -- the auto business is running at around a $1.3 billion burn in the quarter.

And if you bring your CapEx down to the low 6s, maybe that could even converge on breakeven at something that looks like it corresponds with a 15 million SAAR.

But you talked about coming out of this stronger. So I was hoping maybe you could just tell us a little bit about some of the approaches that you're taking here. Are there any opportunities to accelerate restructuring maybe in light of this crisis? And what do you think you might actually look like when we actually do recover to a 15 million SAAR?

James Hackett: Thank you, Rod. It's Jim Hackett. Let me start with saying to you that 26 years in a job like this, I never had a business plan that was called pandemic. So -- and I mean that in all sincerity because we just never imagined the economy turning off. In the other 2 crises that I was in, we had deep troughs of issues, but this was unique.

Secondly, Ford has been really diligent at working on a number of fronts that I'm proud to tell you, as I look back at other companies, which I would admire in our industry, that some of you referenced, and I take the beginning point of when I guess they started and where they are now, I would say that our -- the effort to get all the new products in the portfolio are going to be extraordinarily beneficial to the company.

You just got to remember, we're going from one of the oldest product lines to the new. And in the course of this, a pandemic comes in and kind of interrupts. And it's going to slide the timing of that. But we've got a new F-150.

We've got a new small rugged off-road SUV. We've got an all-new Bronco. We got the Mustang Mach-E. So all of the work on that before the pandemic is value that we're going to enjoy.

This is why we believed -- we thought last year was going to be the tunnel year and we had the problems in Chicago. We've totally fixed that. Explorer was doing really well. And now we were waiting for this new product.

The second thing is we started on restructuring, particularly in Europe. Just want to comment, again, I'm not being cynical, but that was 40 years of problems that we took on in a very short time.

We actually sped up the commitment for restructuring. Bob Shanks and I had one plan. We turned up the vitality of it. We spent ahead. We actually borrowed money to match the kind of returns we were going to get, and it all worked out. We're not done there. I'll let Jim, in a minute, explain what's going on.

We initiated a redesign, and I don't know whether that's sunk in, but we took 20 -- over 25% of the management out of the company in advance of what we didn't expect, which is the pandemic, although we thought a recession was in the offing.

Many of you said this is the longest expansion, well, we were getting ready for that. So that's serving us well. And in fact, the way the team is working now with the recent management change I made, it is moving much faster with much more clarity.

So I just want to confirm that the only thing that I would witness with you is I didn't expect China to be a problem in the last 2.5 years, the way it turned out to be. But I now feel that there was more problems there than just what Ford enjoyed.

And now the work we did earlier to start getting things turned around, we actually are feeling confident that China is actually -- the picture there is going to improve, particularly with the emphasis that we put on to get the product right in that market, it wasn't right, which is the gestation period for getting all that flipped around is not the kind of thing that happens in the course of 90 days or 6 months.

But that's not asking you to wait longer. It's just saying that if you're impatient about all the stuff we've done and why aren't we seeing the value, I'm trying to portray to you they are synchronous and they will yield that. But I didn't expect the pandemic.

So Jim Farley, let me just tie this back to you and let you add virtue in terms of the way you see the restructuring in Europe.

James Farley: Got it. Thanks, Jim. Very quickly, just want to emphasize that the EU and South America restructuring are no-regrets move. We reduced the headcount in Europe by 12,000 people, teammates by the end of this year. We closed facilities. Bridgend is still to come. We've cut costs, especially structural costs in South America. We have 40% less staff. We've gotten out of Fiesta and Focus.

We got out of the heavy truck business, consolidated Sao Bernardo. So those are no-regrets move. But the hangover COVID is obvious, and everything is on the table. Our team owns the plan. It's theirs to lock down and execute. In North America, we see a lot of opportunity. And we want to make sure we have the capital to invest in North America.

We do see a way to 10% EBIT in a lower industry even with the flow-through of the cost actions we're taking plus, as Jim said, those great new products. And really, for my team, they want to make sure that we have room for growth, especially in North America. And so that's why we're going to look at all the operations critically. Thanks. Over to you, Jim.

James Hackett: Yes. Rod, and just to confirm, the -- there's not -- there's that one truth, right, don't waste the crisis. So I want to confirm to you that the attitude and the spirit is if we can speed things up or we can now have, what I would say, more productive discussions with social plans or governments, of course, all that's on the table and the kinds of things that we would be working on, but nothing to announce today.

Operator: Our next question is going to come from the line of Emmanuel Rosner, Deutsche Bank.

Emmanuel Rosner: I was actually hoping to ask, yes, another follow-up on the restructuring plan. So I hear you loud and clear, no grace period to fix Ford. Don't waste a crisis. That's certainly not just the right attitude, obviously, it's very much needed, especially if the industry doesn't recover to previous levels anytime soon.

At the same time, I'm a little bit struggling with, I guess, the budget set for restructuring that you have for this year, which just remains pretty minimal, was actually tweaked down a little bit even versus the last update. And I view it somewhat as inconsistent. So what is -- why can't you do more? Why can't you spend more?

You've raised recently another $8 billion. It feels like now would be the time to do faster actions to accelerate the process. And it seems like -- it doesn't seem to be budgeted. How do I reconcile that?

James Hackett: Yes. Well, I guess the confirmation I want to make is, yes, your instincts are that there can be more that can be done. We're talking about -- I'd just draw the parallel to you, in 14 days, we got a ventilator designed and built for the country. So I know Ford can move really fast. And the pandemic, we sent everybody home on March 13.

So I don't know if you're asking, in that time, you would have expected a plan that would change the strategy of the company, I'm -- the way I think about the crisis is you've got a priority first of stabilizing that you can operate and recover some of the costs that are just flying out the door, and that's where we did a really great job.

In parallel, we've begun planning and discussions with the spirit of don't waste the crisis. And I just confirmed, there's nothing to announce to you today. But it would not be fair for you to walk away and say, "Ford's not doing anything." I don't think that would be right.

And I'd like to clear up what you just asked about the budget. So I'm going to turn it to Tim to make sure we're -- you're reading correctly the way the cash flows are working given that we had the roll-off of the payables and what we have committed to restructuring. Tim?

Timothy Stone: Great. Thanks, Jim. Thanks, Emmanuel. So as it relates to the restructuring, the charges and the cash for 2020 that we commented on of $0.7 billion to $1.2 billion are associated with the redesign actions that have been announced.

And the cumulative of that will be $4.4 billion to $4.9 billion in charges on the way to up to $11 billion, as we've talked about. And the cash would be $1.8 billion to $2.3 billion cumulative on the way to up to $7 billion over time.

So to the extent that we are thoroughly assessing and aggressively addressing our operations, we look and identify, as always, opportunities to improve our fitness and redesign the business to amplify our long-term potential, that's why we give the longer-term view of the $11 billion -- up to $11 billion of EBIT and up to $7 billion in cash. But the specific amounts we're guiding to are related to actions we've announced thus far.

Operator: Our last question for the day will come from the line of Joe Spak with RBC Capital Markets.

Joseph Spak: Maybe just one quick one on Ford Credit. I understand you said you took the write-down of vehicles awaiting auction. I believe the way it works is you've got to also take the supplemental depreciation for the remaining term for the rest of the book.

So how should we think about that over the course of the year? And then are you still expecting Ford Credit to dividend anything back to the Motor Company this year?

James Hackett: Thank you. I'm going to hand that to Marion Harris who's the President of Ford Credit. Marion?

Marion Harris: Thanks, Jim. So a good observation. So let me talk about what was in the quarter and what was not in the quarter and then talk about the forward quarter.

So in the quarter was credit loss reserve changes for the retail loan book and for our commercial lending as well as credit loss estimates on the lease book, which actually flows through lease accounting as well as a reduced valuation on those vehicles that were just off-lease and awaiting sale at auction.

You correctly pointed out that in the period, it was not included, any changes in outlook on future auction values of the portfolio. Those changes in auction values will flow through the future periods according to lease accounting. And we described this in great detail in some of our educational disclosures that we have on the topic.

We're not going to disclose today or giving guidance on what we think that will be in the future. It's still too uncertain. As Tim said, we don't know the depth or for how long the auction market will be disrupted, but we are very confident that the used-vehicle market will return to normal.

And then on dividends, the only thing I would say is that they're a function of net income and balance sheet size and leverage, and it will be what it will be. We're still continuing to target an 8 to 9 leverage.

Operator: I would now like to turn the conference back over to Jim Hackett for closing comments.

James Hackett: Yes. Thank you. And thank you, callers. As I mentioned, this represents the third meta-level crisis I've been involved with as a CEO. And yes, this not -- this one not only tragically has had a larger human toll, it also represents a first where, for all intents and purposes, the economy was turned off.

In the face of all these events, I've been able to pay witness to those who rise to be better and likely surprise you with their resourcefulness, selflessness and ultimately, resilience. Companies, too, define themselves in the times of crisis.

We hope that we've been able to talk to you why we think you're seeing Ford at its best as we protected our people, and we did all we can to serve our fellow man, and we believe we've safeguarded the bright future of Ford Motor Company.

We look forward to sharing more of our response and the ideas that you've asked about and impact as there will be lingering effects of the virus until it's totally contained. With that, we're all adjourned, and thank you for joining us tonight.

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

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