

FORD MOTOR COMPANY

**Moderator: Ford Executives
July 30, 2020
5:00 p.m. ET**

OPERATOR: This is Conference # 6694664

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

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, you will need to press "star" "1" on your telephone keypad.

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

Lynn Antipas Tyson: Thank you, Sedarius. Welcome, everyone, to Ford Motor Company's second quarter 2020 earnings call. Presenting today are Jim Hackett, our President and CEO; and Tim Stone, our Chief Financial Officer. Also joining us today for Q&A are Jim Farley, Chief Operating Officer; and Marion Harris, CEO of Ford Credit. Jim Hackett will begin with some color on the quarter. And then Tim will talk about our results in more depth, and then we'll turn to Q&A.

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. In addition, unless otherwise noted, all comparisons are year-over-year.

Company EBIT, EPS and free cash flow are on an adjusted basis when product mix is on a volume weighted basis.

A quick update on 2 upcoming IR events. First, on Monday, August 3, RBC will host a fireside chat with us – Tim Stone, Hau Thai-Tang, Chief Product Development and Procurement Officer; and Gary Johnson, our Chief Manufacturing and Labor Affairs Officer, will participate. And then on Wednesday, August 15, Kumar Galhotra, President, Americas and International Markets Group, will participate in the Jefferies Industrial conference.

Now let me turn the call over to Jim Hackett.

Jim Hackett: Thanks, Lynn, and hello to everyone. In a moment, I will share with you how absolutely proud I am of the way our team has performed during the COVID pandemic which, of course, has challenged every aspect of our business. But before I do, I don't want this moment to pass without giving some important perspective on where Ford Motor Company stands relative to racial justice.

I've been heartened, frankly, to see our industry, like other industries, step up in the aftermath of the killing of George Floyd. And of course, hand-in-hand with others, there's a deep outpouring of collective grief and frustration that moved us all very deeply. It was much more than a moment in time that will fade, but rather, we must make it a turning point for our society. Ford is committed to leading from the front with action to enable social mobility and economic success in the African-American community, including programs in which the company has invested for more than a century.

The Ford Motor Company Fund, in particular, invest in a broad range of initiatives addressing social justice, racism, equality and economic opportunity, and we're looking forward to more opportunities to affect positive change. In the past week since Mr. Floyd's death, I have met nightly with a small team of people to think as deeply as possible about what has not worked in the past that we need to address in the future. We've begun to map the experience of black lives at Ford and see areas where improvements and enhancement would go a long way to address many of the concerns that have been voiced. Ford is committed to leading from the front and taking action, and the results will prove themselves over time. This is deeply a part of our culture and history and the Ford motor Company Fund, in particular, has invested over many decades at the ground level to address issues of social justice, racism, inequality and economic opportunity, and we look forward to sharing much more of this in the future.

OK. So let me turn to the quarter, which I would summarize in 2 ways – first, strong execution in this challenging environment; and second, meaningful progress on our plan to create a vibrant Ford Motor Company with exciting products that people want and well positioned to capitalize on the new technology and trends that are transforming our industry.

I couldn't be prouder, as I said, of the optimism and the effectiveness our team demonstrated managing through and beyond the COVID crisis. From the start, Ford has distinguished itself on 3 principles – protecting our team and doing our part to limit the spread of the virus, safeguarding the health of our business and stepping up to build and supply much needed personal protective and health care equipment. In all 3 counts, the team performed exceptionally well under difficult circumstances. The strong execution enabled us to deliver much better financial results than we expected just 3 months ago. For example, our team did a fantastic job safely restarting production and wholesale exceeded targets. Frankly, our focus on safety enabled our efficient restart as we followed our return-to-work playbook very, very closely.

Our focus on safety also extended to our supply chain as we work directly with our suppliers and logistics providers to minimize disruption. In addition, our team also worked hard on costs, including CapEx, which helped reduce

losses and cash burn in the quarter, and these factors are what led to our outperformance.

Another highlight of the quarter is our profitable commercial vehicle business. It continues to gain share globally. And Ford Credit, it remains a pillar of strength for our customers and it's a competitive advantage. Overall, I'm proud to tell you that the balance sheet remains extremely solid and positions us to weather further disruptions and headwinds. Tim will provide further details in a moment on the balance sheet.

Importantly, this intense focus on managing through the crisis has not knocked us off our mission to author our own destiny and shape the future of Ford. Since our last earnings call, we have revealed the all-new 2021 F-150 and our new Bronco family of vehicles. These vehicles, along with upcoming Mustang Mach-E represent Ford's modern product vision – highly desirable iconic vehicles packed with innovation and human-centered design features. And they're fully connected in ways that will enhance quality and constantly improving ownership experience through fast over-the-air updates.

Let me give you some color on the F-150. The all-new version we showed in June was born from decades of deep focus on what customers want and new human-centered design capabilities that helped us invent the unobvious features and capability customers will love in value.

The new F-150 is packed with dozens of new innovative features and upgrades that we believe will make this the market-leading truck for 43 years, and that's an even stronger proposition for our customers.

We're in great shape to launch the new one, the new F-150 on time and with high quality, which, of course, requires now changeover in our plants in Dearborn in Kansas City.

Now the important sell-down of the current model is also going well, as demonstrated by great news in our market share. For example, in the U.S., while sales declined, we performed better than the industry due in part to the strength from our trucks being the F-150 ranger and our SUVs, Explorer and Lincoln Aviator and Corsair.

Our total share was up 20 basis points in the quarter to 14.5 percent. And within that number, our retail share was up 120 basis points to 13.3 percent as F-Series gained 250 basis points of segment share to 33.3 percent.

Turning to the all-new Bronco. The outpouring enthusiasm from the public and media after the reveal earlier this month, candidly, speaks for itself. Reservations for Bronco, well, they've surpassed even our most optimistic initial projections. Our entire team, like the over 150,000 customers who reserved one, are super excited about the Bronco. This family of vehicles has big upside potential in the growing off-road category, and this is a category with a leading OEM that has not been seriously challenged until now. And we have proven credibility in this off-road space with Raptor, in particular. And we are the number 1 cross-shop brand for Jeep today.

Initial customer demand for Bronco is so high that we are actively working to increase our annual production right now. I also want to give you a quick personal story on the status of the Mach-E, which will go on sale later this year. I had an opportunity to drive an advanced prototype recently in Ann Arbor. The experience was just stunning from start to finish. When you sit in the driver's seat, everything is personalized. My profile automatically loaded into the Mach-E before I press the start button. Seat position, screen colors, preferences, Apple Car Play in ways were seamlessly integrated into the SYNC4 system. I then set off on the drive in whisper mode. Now the drive was astonishingly smooth and powerful. And I used the 1-pedal driving system, braking and battery regeneration were perfectly integrated. Then I did switch unbridled mode. You can see me smiling, and I can tell you the performance was pure Mustang. Sure-footed and incredibly quick as I took curves. The experience was incredibly intuitive and the cluster tells you exactly what you need to know with nothing extraneous. Yes, I left with a big smile on my face because I know our customers will soon enjoy the same experience.

When I see these products come to life, I feel better and better about our decision to reallocate capital spending from sedans to trucks and commercial vehicles and SUVs. Those controversy at the time, is paying off. And we have

even more new products in the pipeline in areas where Ford is strong today and in these white spaces where we can earn stronger returns and grow share.

Now these new products are critical to our target to reduce the age of our showroom in the U.S. by over 40 percent or more competitive 3.1 years by 2023. Really, with the highest replacement rate and younger showroom age have generally gained market share profitably. It's a good place to be in.

By several third-party measurements, Ford brand reputation is improving as well, and we believe we have much more potential for improvement as we launch these new exciting products.

I just want to take a moment and touch on our plan for electric vehicles. We're about midway through our plan to invest more than \$11.5 billion through 2022, and there'll be more after that with an increasing mix of spend on all-electric vehicles. We're bringing the power of choice to our customers with hybrids, plug-in hybrids and pure electric. By the fourth quarter, we'll have 15 electrified nameplates available to customers around the world, and nearly 10 percent of our wholesales will have come from some form of electrification.

We're deploying this technology across our lineup and price points to bring improved capability, fuel economy and emissions to as many people as possible just as we did with our EcoBoost technology a decade ago.

Nameplates that will follow our all-electric are the territory in China, our Escape and Kuga plug-in hybrids, which offer an estimated 100 MPGe and the F-150 PowerBoost hybrid, I just ordered one of these, as well as our Mustang Mach-E BEV. These will be followed by an all-electric versions of our market-leading F-150 and transit vans.

Electric vehicles are also a big part of Lincoln's future, and you'll see this unfold in the months and years ahead. As you know, in June, we finalized our strategic alliance with VW which will accelerate execution of our commercial vehicle and electric vehicle strategy. This alliance also significantly strengthens Argo AI, which now combines unmatched expertise with the global reach of Ford and VW together. This positions Ford well as self-

driving vehicles become a significant new source of revenue and profit in the years to come. The AV journey will be a long one, but Ford is now well positioned to run this race and compete like few others can.

Finally, in a moment, Tim will provide an update on the progress of our global redesign. We're aggressively reshaping our business and restructuring underperforming operations around the world, rationalizing our product portfolio to play to our strengths and attacking costs. Obviously, Ford isn't immune to the effect of the pandemic, including a new vehicle market that has been waylaid by the pandemic. But we continue to manage through this crisis even as we continue to create a vibrant, profitably growing company, one that we're confident will win in an era of smart vehicles for a smart world. With that, I'll turn it over to Tim for more color on the quarter and our expectations for the remainder of the year. Tim?

Tim Stone:

Great. Thanks, Jim. In addition to our operational execution this quarter, in the face of unprecedented industry headwinds, our results demonstrated progress as we fix areas of the business that have helped us back in the past, including cost and launch execution, an acceleration in areas of strength like commercial vehicles and SUVs as well as newer capabilities of connectivity. Tangible progress in electrification and autonomous vehicles, both essential to our long-term growth. And lastly, the favorable impacts of our global redesign and a more focused portfolio of fresh products for customers.

We also demonstrated discipline in the management of our balance sheet and continue to maintain strong liquidity to ensure financial flexibility in these uncertain times. We ended the quarter with over \$39 billion in cash and liquidity, reflecting almost \$10 billion of new debt in the quarter, including the \$8 billion unsecured issuance we completed in April.

During the second quarter, our working capital dynamics played out as we highlighted on our first quarter earnings call. As production resumed in mid-May, our payables and cash balance recovered sharply. The restoration of production payables will continue into the third quarter as we reach near full production in late June.

On July 27, we repaid \$7.7 billion of our outstanding \$15.4 billion corporate revolvers. We also extended \$4.8 billion of our lines of credit from April 22 to July 23. Our current liquidity of almost \$40 billion is sufficient to maintain or exceed our target cash balance of \$20 billion through the second half of this year even if global demand declines, or if there's a new wave of COVID-related plant closures.

Looking at our results in automotive, both wholesales and revenue were down due to the suspension in manufacturing. To give you some color on wholesales, earlier this year, pre-COVID, we expected wholesale units to be about 800,000 higher than the 645,000 we reported in the quarter.

Our decline in automotive EBIT was driven by the decline in volume, but this was partially offset by over a \$1 billion improvement in both net pricing and cost. The cost improvement was the net of 4 primary areas – lower structural costs due to suspended production and onetime cost actions like reduced marketing, both of which were partially offset by higher material costs for new products and regulatory compliance and higher warranty. We do expect warranty to be up for the year.

Looking at our business units in more detail. North America was shut down for 6 weeks in the quarter, but like the other regions, manufacturing came up smoothly. In fact, North America was operating at about 95 percent of pre-COVID production levels by the end of the quarter. In addition to the improvements in share that Jim mentioned, the North America team is laser-focused on minimizing the impacts of lower volume through the aggressive management of costs, including reducing facility costs, media spend and the elimination of all discretionary spending. The team also focused on yield management actions, which benefit both revenue and EBIT.

In South America, our plants were mostly idled in the quarter. But as in North America, we brought production up efficiently. Market share declined largely driven by lower sales to rental companies and our global redesign actions last year to exit heavy trucks and unprofitable products such as Distant Focus. However, both Ranger and EcoSport did well as Ranger, the number 2 midsized pickup globally, gained share. Relative to profitability, this was the

third consecutive quarter of improving year-over-year results as we continue to hone our cost position, including lower headcount and improved mix.

In Europe, all of our plants came up successfully by May 4. Profitability was favorably impacted by the benefits of our global redesign as well as our more focused approach on 3 customer segments – commercial vehicles, select passenger vehicles and imports. Relative to global redesign, we are on track to deliver by the end of this year, roughly a \$1 billion improvement in structural cost since the actions began during the third quarter of 2018. This includes a 10,000 positions in Western Europe, of which 7,500 reductions have been completed and a reduction of over 2,000 positions in Europe. The balance of the positions in Western Europe will be limited by the end of this year.

We've also reduced costs by reducing our manufacturing footprint by 6 facilities down to a total of 17. Our sharper focus on product strengths allow us to extend our leadership in commercial vehicles as we reached 15.1 percent share in June, an increase of 220 basis points. We are on track this year to meet the new CO2 regulatory requirements for both passenger and commercial vehicles, supported by our growing portfolio of electrified vehicles. For example, in the first half of this year, our new Puma mHEV reached 80 percent mix, and Kuga PHEV and mHEV collectively reached 57 percent mix. And on the horizon, a better Transit will join our Transit family of ICE and hybrid powertrains.

In China, the only region to post the gain in wholesales, wholesales were up double digits. As we benefited from the newly launched Escape and Lincoln Corsair and strong commercial vehicle sales. Corsair, our first locally produced Lincoln product, contributed to a 12 percent increase in sales from Lincoln. And the all-new locally produced Aviator is launching now.

China also posted its second consecutive quarter of share gain, up 20 basis points to 2.5 percent, its highest market share since the third quarter 2018.

Our strength in commercial vehicles was supported by a 34 percent increase in sales at JMC, our JV partner, which gained 40 basis points of share. As with other regions, through cost discipline, China has done a great job mitigating

the profit in back to COVID. China's focus on cash flow also delivered a step function change in working capital, driven by the benefits of localization as well as CapEx efficiencies.

In mobility, we continue to make investments to commercialize our autonomous vehicle business, including product development, engineering and testing. Our 6 test markets for Argo AI constitute what we believe is the largest active urban test footprint of any self-driving vehicle developer. As Jim mentioned, in the quarter, we closed our new partnership with VW and Argo AI. This generated a gain of \$3.5 billion, which was recorded as a special item. Argo AI, which is the self-driving system portion of our AV business, is now deconsolidated. Despite the deconsolidation, we do expect our investment in AV reflected in our consolidated mobility results to continue at similar levels for the reasons I noted earlier.

In Mobility, we also continue to invest to build out capabilities in connected services, including our Ford Pass and Ford Commercial Solutions platforms. In fact, we have centralized our enterprise connectivity team to accelerate the delivery of human-centered connected experiences for our customers. We expect this sharpened focus to also provide benefits to the enterprise through improved customer experience and quality.

Ford Credit delivered a strong profitable quarter, demonstrating its uniquely compelling value for customers and competitive advantage. Our prudent actions in the first quarter ensured we were adequately reserved in light of the macro uncertainty created by COVID. Portfolio performance was strong and delinquencies and charge-offs were record levels – record low levels.

Ford Credit provided extensions to about 11 percent of U.S. customers through May, an unprecedented move. Over 90 percent of these customers have resumed payments without delinquency and we're very pleased with the performance of this portfolio. Lease share remained below industry average, and off-lease auction performance was better than expected, up 3 percent sequentially and down 2 percent year-over-year. We began the quarter with closed auctions, growing inventory and falling prices. However, in May, we saw a healthy recovery in auction volume and prices. At present, we forecast

lower auction values for the full year of about 5 percent, consistent with third-party estimates.

Now let me turn to guidance. Guidance assumes no meaningful change to the current economic environment, continued steady improvement in the stability of the global automotive supply base, and no further significant COVID-related disruptions to production or distribution.

In the third quarter, we expect to be profitable with adjusted EBIT of \$0.5 billion to \$1.5 billion, reflecting the economic impact of COVID, weaker global demand for new vehicles, parts and services and lower profit from Ford Credit.

Our recent practice has been to comment on the upcoming quarter only. But because of the significant launch activity in the fourth quarter, we thought some early color would be helpful. We expect adjusted EBIT to be a loss in the fourth quarter, driven by the volume impact of the new F-150 launch, and lower ongoing industry volumes. Note that our major launches in North America have shifted to the fourth quarter, in line with our COVID-related production disruption. We anticipate the downtime, changeover and ramp up will reduce F-150 wholesale significantly in the quarter. This launch impact will more than offset the nonrecurrence of the 2019 UAW contract bonuses in the fourth quarter, which is worth roughly \$600 million.

While the new Bronco Sport and Mustang Mach-E are also launching in the quarter, the limited level of wholesales will not materially impact our fourth quarter results. We also expect lower Ford Credit profits in the fourth quarter versus last year.

All that said, we expect adjusted EBIT to be a loss for the full year. I'm optimistic that we're well positioned for what lies ahead and to deliver excellent products and services for our customers. With that, let me turn the call back to Jim for a few comments before we move to Q&A.

Jim Hackett: Thanks, Tim. Yes, just a few comments. I want to reinforce the following about the quarter in the second half of this year. In the face of unprecedented sector headwinds operationally, we maintained robust safety protocols and

aggressively mitigated production losses while effectively navigating a tenuous supply base. I mean, everything was in motion.

We are keenly focused on cost and cash discipline. Jim Farley led an effort here that's just extraordinary. We're optimistic and ready for the production ramp-up of the F-150, the Mach-E, as you've heard, the Bronco Sport and Bronco, all with the spirit of high-quality and extreme focus on doing a great job there. We continue important investments. We didn't stop spending on the future in commercial vehicles, AV, connectivity and electrification. We did continue to implement our global redesign and portfolio refresh and we have measurable results to show that this is going very well.

And as you just heard from Tim, we did a great job of this. We had a disciplined management of our balance sheet and an extremely strong liquidity position from all the actions we took earlier this year. This ensures our financial flexibility, particularly as we know in certain time. So operator, with that, let's move to Q&A, please.

Operator: As a reminder, to ask a question, you need to press "star" "1" on your telephone keypad.

Your first question comes from the line of John Murphy with Bank of America.

John Murphy: Just a first question, Tim, as we look at sort of the guidance you had given us on the second quarter, you kind of blew out of the water here. I mean, you're talking about a \$5 billion-plus EBIT loss, and you came in well better than that. I'm just curious, what changed? And what do you think the major factors are?

And then also, I mean, if you think about price and costs, which seem to be 2 big levers. How sticky could those benefits be going forward? So really just what changed? And how durable is the change?

Tim Stone: Great. Ultimately, the performance of the second quarter comes down to operational execution by the teams. And if you look at our return-to-work, we need to do it safely, but production in our wholesale vehicle sales came with

that inventory management, really strong performance by the teams. We were near full production by the end of the quarter, and we had greater cost reductions and cash reductions than we had anticipated initially as well, again, based on a keen focus on cost and cash.

There's also a favorable pricing environment for products and mix. And then Ford Credit, the auction values and credit losses overall portfolio performance was strong. So I guess, at the end of the day, it's strong execution.

And the second part of your question, again, was as it relates to how much that is going to prevail in the year?

John Murphy: Yes. How sticky is that sort of that outperformance? Because it does sound like a lot was micro. And as you said, just execution. I mean, do you think some of that was sort of transitory in response to sort of austerity measures? Or how sticky is this?

Tim Stone: I mean I think the operational execution is something we pride ourselves on and expect to work really hard to make sure it's very sticky. We've got a lot of work ahead of us, for sure, in the back half of the year with some really important launches in the fourth quarter and continue to drive improvements in the fixed accelerate grow areas that we've talked about. But reflected in our guidance for profitability in the third quarter, is that we're going to continue to operate in an operationally excellent manner.

John Murphy: OK. And then just a second question, I think, Jim Farley is on. When we look at the Bronco launch, a lot of hype around the truck, which is at least, from my opinion, is well deserved. A lot of excitement there around the Sport as well this year. But it seems like this is sort of the start of something much more than even just those 2 vehicles when you talk about the Bronco family. So just trying to understand, will we be looking at something 4, 5, 6 years down the line where there could be a portfolio of Bronco vehicles it mimics or mirrors sort of more what Jeep has? I'm just trying to understand what the potential is above and beyond what we know at the moment. And it seems like there's a lot more on the horizon.

James Farley: Thanks, John. As Jim and Tim mentioned, the Bronco reception has been very positive. The reservation numbers are far beyond what we expected. And these are 2 broad appeal nameplates and 3 body styles that we don't have in our portfolio today. So we're not getting ahead of ourselves on Bronco.

We have a lot of work to do to launch these products to deal with world-class quality. And don't forget, our ambition is to launch over 200 accessories and really create a brand – a sub-brand within Ford like we have like F-Series. So we have a lot to do, and that's what we're focused on.

John, there is no shortage of great ideas for Broncos at Ford Motor Company. But we have a great foundation to start with, with these 3 body styles. I would expect for – like we've always done, like we've learned from F-Series over the years, decades that will roll out a family of Broncos like we're doing in our own way, targeted to our own customers, where we see openings in the market for customers to be thrilled. And we do see that opportunity in the market. So I wouldn't hold ourselves or benchmark ourselves against another OEM. Our idea is to play to win by going after specific customers that are underserved.

Operator: Your next question comes from the line of Emmanuel Rosner with Deutsche Bank.

Emmanuel Rosner: My first question is I'm trying to understand a little bit better, how do you think about the rest of the year? When I look at your cost performance in the quarter, maybe on Slide 11, so \$1.1 billion overall on a net basis, but \$1.8 billion qualified as structural. Any way to dimension for us how much of those structural costs are more temporary actions in the quarter when you had shutdowns for an extended period of time versus something that we could assume could continue on a year-over-year basis going forward?

And then still about the rest of the year's outlook, any way for you to dimension for us the magnitude of the impact from the F-150 changeover either in terms of weeks of shutdown? Or units? Anything that could be helpful to dimension it.

James Hackett: So Emmanuel, it's Jim Hackett. I think I'm going to send that to Tim.

Tim Stone: Yes. Great. Thanks, Jim. So as it relates to the cost actions we've been taking, we've been talking about, for some time now, is the focus on fitness and design of the business. And so we're going to continue to be passionately focused on making sure the right design for the business and with fitness as a priority. And so certainly, there are things that we appropriately undertook to preserve cash and reduce cost in response to the environment. But we're also looking at opportunities to learn from this and identify areas to further accelerate our fitness and redesign opportunities that are ahead. And so that's really what I have to say in that. Otherwise, this is essentially reflected in the guidance we have for the third and fourth quarters as we look out. And on the quarter – go ahead.

Emmanuel Rosner: The second part was around the F-150 changeover?

Tim Stone: Yes. On the F-150 side, what we try to do is to characterize it as more impactful than the UAW launch essentially – sorry, UAW contract bonuses of 600 million. So beyond that, there's not much more we can say. Certainly, when you have America's best-selling vehicle for 38 years and gaining share with F-Series in the quarter, you can see the popularity of that vehicle is quite meaningful to our overall business. So ramp down and ramp back up with a successful launch will have a big impact on the quarter, which is why we're expecting to have a loss.

Emmanuel Rosner: OK. And then I was hoping to get, actually, a little bit more from your latest thoughts on the global redesign plan. And the opportunity to use this industry downturn potentially to accelerate this. I guess, in terms of the – I think you mentioned during the prepared remarks that you expect \$1 billion of benefit by the end of the year. I wanted to just first understand what basis that is? Is it for 2020 versus 2019? Or is it since the beginning of the program? And how should you think about the opportunity to accelerate it? What are your latest thoughts there?

Tim Stone: Yes. So as it relates to the Europe comment, by the end of this year, we expect to have roughly \$1 billion improvement in structural cost actions since the beginning when it was announced in Q3 '18, so it's cumulative. And that

includes the reduction of the positions I mentioned, 10,000 positions in Western Europe, 7500, which have been completed already as well as 2,000 positions in Russia as well as the reduction in manufacturing footprint by 6 facilities down to a total of 17. So again, we're going to just review what I said earlier. We continue to look at opportunities to make sure we have the right design for the business as we look out at the opportunities ahead of us. And nothing incremental to announce at this moment. But to date, we've incurred \$3.9 billion of EBIT charges and \$1.4 billion of cash. So we got \$7.1 billion to go – up to \$7.1 million to go in charges, up to \$5.6 billion in cash.

And the other thing is we continue to execute on the redesign of South America as well. So nothing new to announce at this time, but we're keenly focused on it.

Operator: Your next question comes from the line of Philippe Houchois with Jefferies.

Philippe Houchois: I've got a couple of questions. One is when I listen to you, Tim, about the Q4 guidance going back into loss because of launch costs, it seems like a lot of the assumption is also a weaker Q4. And it seems like you have said that you're definitely going back into loss. A lot would depend potentially on the SAR. I wonder how if you can comment and give us some kind of guidance on the range of outcomes potentially?

And my other question was also to you, in terms of – you've done quite an impressive work in terms of protecting cash and also starting to deleverage the capital structure. I couldn't help noticing your interest expense almost doubled in Q2, that was a point of discussion with a lot investors that the interest expense we put into earnings momentum. What are you doing? And how quickly can you actually get the interest expense in control so we can make sure we don't lose the operating basis into the financial leverage?

Tim Stone: Great. So let me start with the interest expense. It has ticked up as we bolstered our balance sheet and ensure we have not only a strong cash position, strong liquidity position, and it suits us very well. And then as we looked out, we feel comfortable with our cash position and confident such that we repaid roughly half of the outstanding revolvers that we drew down earlier

this week. And we'll continue to look at opportunities to repay additional debt, including revolvers over time, as the business performs. And we don't have anything announced at design, but certainly we'll be looking at opportunities to reduce interest expense and delever the balance sheet in that way.

Bear in mind, as the debt levels come down, of course, we have the \$40 billion of liquidity as we repaid a lot of the credit. So we feel, as I said, comfortable with our cash and liquidity position. The interest expense for the back half of the year, you could assume roughly \$0.5 billion per quarter will be a reasonable expectation.

And then your question on SAR. Year-to-date, SAR is about 13.4 million units in the first half, and we see this improving throughout the year. And beyond that, I think we'll add more color as the year progresses, but we do see, again, an opportunity for it to improve as the year progresses.

Operator: Your next question comes from the line of Rod Lache with Wolfe Research.

Rod Lache: I was hoping just to revisit that question about costs, that \$1 billion of Europe savings is obviously a big number. But when I look at Slide 11, on the bridge in Europe and I look at costs, I see 0. And I'm assuming that that's because your variable costs, mostly regulatory, is offsetting your structural cost savings. So just taking a higher level look, the question about the \$1.8 billion of structural costs and people are wondering whether that there's some significant proportion of that, that could be permanent or some of it may be shifting from the first half to second half or coming back, is there a risk here that your – the structural costs kind of get off – go away, but the variable cost inflation that we see like material freight, warranty, that kind of stays?

Tim Stone: Yes. I guess what I'd say is that the team has been very focused on opportunities, not just during this time of COVID crisis, but before that, to get more fit and improve our cost structure. And you're seeing that in our underlying results entering into the crisis. With the crisis, we've had an opportunity to further reassess how we work and what opportunities we have in our cost structure and we demonstrated to ourselves, we can take swift action.

And the team, again, the teams around the world have done a great job in all areas. We're certainly mindful of what you're suggesting that these costs come back into the cost structure in ways that are unwelcome. But we're going to do everything we can to make sure that – well, it's certainly they're volume-related costs, but that we're going to get more and more fit over time.

Rod Lache: OK. And just a question on the launches that you're talking about. You talked about the disruption, but obviously, there's some pretty big benefits potentially next year. I was hoping you might just talk specifically about F-150 and what it would take to put that into the positive bucket. Do you need a significant amount of pricing to offset higher variable costs there? And on the Bronco, is it conceivable that you could produce 150,000 units a year there? Or is that just beyond the capability or the scope of what's possible?

James Hackett: So Rod, it's Jim Hackett. I'm going to ask Jim Farley. Can you imagine the calls we've gotten, Rod, about how many can you make, so he's been working on that day and night. So I'll give him that in just a second. But I just – I want to make sure I'm tracking with you on Europe in the sense that you understand that structural costs effort, ahead of the pandemic, looks to be really (inaudible) and the absorption there without the volume is because of the effort that these guys have put forth. So I'm not worried that as you just portrayed that there's a variable cost kind of avalanche that smothers us. I don't think that's going to happen right now. We're not anticipating a big inflation, for example.

In fact, suppliers, you know, are all trying to get back up to levels of efficiency where we start enjoying some savings. So I just want to add that color to the way I think about variable costs. I understand why you were looking at the forecast, but I just step back and think about that. But Jim, do you want to talk about the Bronco great news and the challenge?

James Farley: Yes. Thanks, Jim. Rob, so map right down the street from our Dearborn headquarters is where we'll make the Bronco, as you know, in North America, and then the Bronco Sport down in Mexico. As far as the Bronco that we've received over 100,000 reservations, that operations ought to shift pattern, so we have some upside. We have a lot of work to do because these are

reservations, not orders yet. So we have a lot of work to do to verify that. The mix is great. And enthusiasm, and we still continue to get lots of reservations. So the team has multiple capacity studies. We do have some opportunity. It would commit to another shift, which is a big deal for us, as you can imagine. But obviously, the reception has been really positive and looks sustained now.

On F-150, we're in the prototype build, both in Kentucky and Dearborn looks great. We're on plan with the supplier readiness, manufacturer readiness and all the software. Obviously, this is a big milestone for OTA and a lot of software for us. So it's an important deliverable for the team.

And we have a long way to go on the F-150 launch, but the team has made great progress. We're finding issues and addressing them immediately. So we're feeling like I would portray it as on plan. And yes, there's upside for Bronco.

Operator: Your next question comes from the line of Joseph Spak with RBC.

Joseph Spak: Tim, maybe I'd ask about the second half guidance this way, if there wasn't a program delay, would you have basically issued the same guidance, just the cadence have been a little bit different?

Tim Stone: It's hard for me to undo what's happened over the past few months. We've had – the delays that we're having are commensurate with what happened as a result of the production shutdown. And the teams, throughout that time frame, did a great job to get us ready for launch. And so I think the back – if you look at the back half of the year, in aggregate, we're essentially guiding to less than \$0.5 billion to \$1.5 billion of profit. And certainly, there's been a shift to the fourth quarter as a result of those launch delays, and a big impact on F-150 being in the fourth quarter.

Joseph Spak: OK. And then maybe just on cash flow and the balance sheet. So you paid back part of the revolver, if we pro forma that for June cash and debt levels you indicated, you're sort of back to the December net cash levels. But then you do have at least some losses, right, in the fourth quarter, or there's more CapEx. There's a little bit more redesigned cash this year, and I still think more beyond this year. So I don't – I know you sort of usually talk about

liquidity not necessarily sort of net automotive cash or debt. But how do you see that sort of playing out? How do you see the balance sheet sort of playing out over the next couple of years? Because there still are some calls on the cash it would seem.

Tim Stone: Yes. I mean, first, I want to emphasize, for the third quarter, we expect cash flow to be higher than EBIT, and the fourth quarter would be lower due to the timing of the working capital associated with the launches and the seasonal effects. As you look further out, from a liquidity standpoint, we have, of course, confidence in our ability to repay the debt that we have. We have net debt of roughly equal to cash. And what we said was that even in scenarios where we have COVID-related plant closures again and/or demand declines, that would have \$20 billion or more in cash. So certainly, our base expectation is for more than that. And as we look out to the future, we're focused on optimizing our free cash flow, driving toward our long-term margin opportunities. And with that will come even greater cash and liquidity opportunities for us to consider not only paying down lines of credit, of course, but through paying debt, reinstating the dividend and to dilute share repurchases as well.

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

Adam Jonas: My first question is on EV batteries. It's kind of a question about make versus buy. So GM is making their own batteries with a joint venture in Ohio with LG, you're not going that route in terms of owning the physical plant capacity. What drives that thinking? And specifically, there's a lot of options, and this isn't the only one, but Elon Musk has offered to sell batteries or like EV powertrain skateboards to other OEMS, would you consider doing that?

James Hackett: It's Jim. Thank you. It's a question that when maybe a year ago, we start to see lines starting to arrange around make versus buy, own versus source so we had a deep discussion about this. I've met with a number of the people that you know that are in the supply side of this. And it was our estimation, like our whole team went through a really deep dive on this 6 months ago, that the supply chain has ramped up since Elon built his gigafactory. And so there's plenty there that does not warrant us to migrate our capital into owning our

own factory. There's no advantage in the ownership in terms of cost or sourcing as what Ford can draw on. So I just can confirm to you that it actually works. It works for us to go the path we are now.

With that said, there's some challenges that are in that supply chain between themselves, there's some litigation that's going on. We're hopeful that, that gets settled quickly. It really doesn't matter to us how it gets settled, but it may – it confuses some of the suppliers about their investments in some of their plants here in the United States, which is another way of saying the way the USMCA would benefit as intended, is to have these factories be built in the United States for supply of batteries. And so we're well positioned believing that will happen.

Adam Jonas: And then I got a follow-up for Jim Farley. Jim, and I'm asking you specifically just because you're kind of – I'll still consider you new in your role – your new role. If you think 3 years out, how different – how radically different is Ford Motor Company 3 years from now versus today? Can you kind of – what are some of the big, big changes, not a subtle stuff, the major stuff that you want to highlight to folks on this call tonight?

James Farley: Thanks, Adam. Yes, I would say – I would characterize Ford's transformation as we know what we're really good at. And we have tremendous opportunity to grow in those areas. And commercial is a great example. It took us decades to build the commercial ecosystem we have today, exclusive distribution, bailment, upfitters, deep relationship with customers, real deep know-how in the company.

As we look forward in the next 3 to 5 years, you can expect Ford's commercial business to change a lot. And part of that is cooperation with Volkswagen in places like Europe, but other parts will be the e-mobility transformation of commercial. So I would say, Adam, you can expect Ford's transformation to be in the areas that we're already really good at. We have capability. And that we are humbly approaching the business model and the ecosystem build-out for those new growth opportunities with a fresh set of eyes. And just like we hit decades ago when we built these businesses like commercial and a tremendous opportunity for value creation and for our

customers, especially. I think that gives you a good taste for how we see things as well as a much tighter geographic profile.

Operator: Your next question comes from the line of Dan Levy with Credit Suisse.

Dan Levy: I wanted to start with a question on Bronco here. And I know you don't disclose your exact variable profit per unit, but maybe if you could just give us a sense from perspective of variable profit per unit, how we should think of where Bronco potentially could stack up versus other vehicles in the Ford lineup? Obviously, it's not going to be at the level of F-Series or I would think that to be the case. But I would venture to guess, though, that it could be right up there, maybe above an Explorer or just below an Expedition or Navigator? Just give us some sense of, from a profit per unit standpoint, how we should be thinking about Bronco and the opportunities? We know that your competitor in this area is doing quite well in that product.

James Hackett: Yes. So my first reaction, I think, thank God, we made the decision, right? Because you know what replaced in the facility where we're making it and some of the sedans that weren't making money. So you got to think of that with Adam's last question about the makeup of Ford and what's going on and what's coming in, in product. But Jim, I'll let you talk about some of our targets there.

James Farley: Sure. Thanks, Jim. I appreciate the question. The real breakthrough for us on Bronco was the localization of the Ranger, the very successful global Ranger here in North America. And we're already – we already have very strong scale and performance with the Ranger in the U.S. large Bronco and the C2-based Bronco Sport are both based on existing platforms that we have executed many times. And so we're not going to go into specific profitability, but you can imagine, compared to a Ranger, the kind of pricing that a Bronco top hat would get. And obviously, we already have a great scale for the actual industrial part of the product so – and again, the platform has been very well executed. It has global scale as does C2 for the Bronco Sport. And so we see these – and the pricing premium we carry in the utility market, the off-road market, is pretty well known. And I would say, very robust in terms of – we've delivered it. It's not a maybe.

So from our standpoint, as Jim said, we not only replaced the Focus in the case of Bronco and Ranger, but we're coming off of very high scale platforms, C2 and Ranger, and we know that these segments executed right, the product are premium segments. So we're feeling really good about the margin.

James Hackett: And Jim, I just – I want to sneak in because you've all seen our campaign about we build more vehicles in America for – by Americans in our – in the whole industry. And this Bronco is – look, we're hiring people here in Southeast Michigan to build this product, 2,000 to 3,000 additional people. So it's a – I know I get teased about it because it came up in the discussion with the President, but I was just so proud to be able to explain that here we are in the middle of a pandemic with kind of challenges in the job market, and Ford is going to be hiring people to build this product. So it's really a great new story.

Dan Levy: That's really helpful color. If I could just squeeze one more in on EV and just a question on EV budgeting. Your release said you spent half of the \$11.5 billion electrification commitment through '22. And I believe that the starting point was '16, so it sells as clearly your spend is more back-end loaded. But obviously, 2022 is not an end goal, and you're going to be spending EV. You're just starting on the journey then. So is it fair to assume that if I assume OK, so you still have a \$3 billion to \$4 billion – \$3-plus billion a year that the spend will only accelerate after 2022? So how just how to think of the electrification spend?

James Hackett: Yes. Jim, do you want to take that one?

James Farley: Sure. Again, appreciate your question. Yes, obviously, of the \$11 billion, we're at the very tail end of Mach-E and our 2 commercial vehicles. And they're really key for us, the commercial vehicles, the Transit Electric and the F-150 electric. We've announced the MEV and a number of nameplates. And so you can expect in '22 and beyond as we refresh our product lineup once again globally, that electrification will be a key component. And so the spend will continue to play out.

That figure was given a few years ago. So as you said, '22 seems like right around the corner, but we're not done. And with the \$11 billion, we have some really exciting products coming up like the F-150 and the Transit and with the growth of package delivery and a large customer – commercial customer network for F-150, we're are seeing a ton of interest from customers on both of those. But we have lots of passenger cars to come as well. We're not going to be specific more than what we've shared, but I think you've characterized it fairly and accurately.

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

Ryan Brinkman: First, on South America, I would have expected your losses there to grow considerably in 2Q, given a 75 percent decline in revenue, but instead, profitability improved slightly. Now it looks like more of the help was coming from price than cost. But how would you rate the progress of the restructuring in that region? Are there more cost savings to come from actions already announced but not fully implemented? And do you think you're at the point now that if the volume returned that you would already be profitable? Or are there more restructuring actions needed to get there?

James Hackett: Well, I think Jim mentioned this, and Tim did, is that South America, the journey there, as compared to some of the other markets, started, we phased out of unprofitable vehicles. We ended Focus production and (inaudible) exited heavy trucks business, discontinued Fiesta, ceased operations at San Paulo manufacturing, (inaudible) the Sigma engine production. But Jim has been really working hard on the restructuring to serve our dealer network better in terms of their customers and improving the viability for the remaining dealers. So I think this is a story that's still yet to be completed. But Jim, I want to let you answer why you think in the short term, we had this better-than-expected performance.

James Farley: Thanks, Jim. The second quarter marks, I think, the third consecutive quarter of year-over-year improvements although still losses. And it really reflects, as Jim said, the progress that we put in place many years ago to restructure South America. We had a lot of cost containment. We've taken a lot of headcount out of the business, as you would expect. And we've also, in the second

quarter, took a lot of pricing, which is consistent with the currency situation down there. But I think Lyle and the team got ahead of the downturn we saw in the market with COVID. That's been a big beneficiary for us for a while.

As Jim said, we're going to keep restructuring our businesses until they're sustainable. So still more work to do. South America looks pretty challenging. But the team is doing a great job. We had a slurry of new products a few years ago, and there was cost associated with that. So I think we have a really good – still fresh lineup. We gained a lot of share in the second quarter. It was down about 1 point from last year, but that was a lot to do with the vehicles that we discontinued. So the vehicles we do have are very well accepted.

I just would portray it as we are not – we have more work to do, as Jim said, but really big credit to the team and weigh down revenues to have a third consecutive improvement in our profit or losses.

Ryan Brinkman: That's helpful. And then just lastly, it seems like your market share in China is beginning to rebound. What would you primarily attribute the recovery to? Is it the products? The relationship with Changan? Distribution strategy? Localization of Lincoln? Et cetera. And then are the pieces or future product programs in place to continue to grow that share, which I think had been like 4 percent at one point. Is there a market share target that you have in mind that is materially higher than where you are now, such that you could continue to grow your sales in that country, even if the market sort of languishes for a while?

James Hackett: Well, I'm excited to tell you that the plan is working there. COVID was kind of help focus us. But the commercial vehicles strength was supported by a 34 percent increase in sales at JMC, which gained 40 basis points of share. And the second – it's the second consecutive quarter of share gain of 20 basis points, which is what you're hinting about. We were talking about it in a way that this was the breakthrough that we were looking for. And then Corsair is – comes in the middle of it – middle of this.

It's the first locally produced Lincoln product, and it breaks all records that we've had in 1 month for the sale of a product like that. It contributed to the

12 percent increase in sales for Lincoln. And now the new Aviator is following on. My only regret is that the whole board was going to be there in October. Just to kind of review the progress that you're noting, and we can't travel now because of COVID. But Jim Farley and Anning Chen, our President there, have done a really good job of getting our arms around that market.

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

Itay Michaeli: Just a couple of cash flow questions, maybe for Tim. I think year-to-date, the working capital and timing differences has been a use of about almost \$5 billion. Curious if you can share roughly how much of that you think you might be able to recover in the second half of the year? And then secondly to that, with CapEx coming down from the original guidance, should we expect that to be recovered next year? Meaning CapEx would be higher than normal as you kind of recoup some of the deferrals from this year?

Tim Stone: Let me start with the last part first, thanks for the question. We haven't completed our planning process for next year yet. We have said that we were going to – for some time now that we're focused on fitness activities, which not only includes cost but also CapEx to make sure that we're efficiently and effectively allocating capital. So we'll continue to focus on that. And you're seeing some of that reflected in the results CapEx this year.

So fitness, you're also seeing the ebb and flow of product programs. But we're pleased with the progress that we're making and \$1 billion to \$1.5 billion down year-over-year. But again, nothing further to share at this stage on 2021.

As far as working capital goes, bear in mind, in the second quarter, the working capital dynamics played out that we talked about. Production resumed of course, during the shutdown period, we had payables we repaid and as production resumes, those payables start getting built back up. But the restoration of payables will continue into the third quarter. And that's one of the reasons we said that the third quarter cash flow will be better than EBIT in the fourth quarter and cash flow the shutdown seasonally. And the launches that are happening, particularly the F-150, this cash flow would be lower than

EBIT. So I guess what you're seeing is not only the benefits from our fitness and our redesign and our underlying results improving in light of the COVID environment, but even underlying that, that will continue to play out for the back half of this year. And then into '21 as we're keenly focused on all – in all cost and cash opportunities.

We talked about earlier, we're in a position now where we have a very strong cash position and liquidity position, and we're comfortable with the outlook as we look ahead.

Itay Michaeli: Great. That's very helpful. And if I could sneak one more in. Just curious, what are you seeing initially on the Ford promise campaign that you launched about a month ago? Just curious if you're seeing a fair bit of traction there.

James Hackett: Jim?

James Farley: Yes. Thanks. One of the really encouraging things for us, the leadership team, as Jim said, is we went out and promoted the reality that we're the highest employment in the U.S. of all the OEMs and also our volume in the U.S. And that plus new product is really – we've seen the strengthening of our brand. The promise campaign seems to be doing really well. We had a great second quarter in terms of share performance in the U.S. Retail, as Jim said, was way up a full point. And part of that was mix, but it's great to see the momentum behind the brand. Third quarter looks not to be dramatically different. We continue to have good momentum. Sales, still a lot to do. We have good supply situation at Ford in the 70-day range. And so the campaign seems to be doing really well. Brand is getting stronger, and we have product to sell.

Operator: This concludes the Ford Motor Company's Second Quarter 2020 Earnings Conference Call. Thank you for participating. You may now disconnect.

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