

**Ford Motor Company**

**Moderator: Executives, Ford**

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OPERATOR: This is Conference # 7595983

Operator: Good day ladies and gentlemen, my name is Holly and I'll be your conference operator today. At this time, I'd like to welcome you to today's Ford Motor Company First Quarter 2021 Earnings Conference Call. After the speaker's remarks, there will be a question-and-answer session. If you'd like to ask a question, please press star than one on your telephone. As a reminder, today's call is being recorded. At this time, I'd like to turn the call over to Director of Investor Relations Lynn Antipas Tyson, Lynn.

Lynn Antipas Tyson: Thank you, Holly. Welcome, everyone, to Ford Motor Company's first quarter 2021 earnings call. Presenting today are Jim Farley, our President and CEO, and John Lawler, our Chief Financial Officer. Also joining us for Q&A is Marion Harris, CEO of Ford Credit. Jim will make some opening comments. John will talk about our first quarter results and guidance and then we'll turn to Q&A. Today's discussion will include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck, which can be found along with the rest of our earnings

Materials at [shareholder.ford.com](http://shareholder.ford.com). Today's discussion includes forward-looking statements about our expectations. Actual results may differ from those stated. The most significant factors that could cause actual results to differ are included on slide 24. Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS and free cash flow are on an

adjusted basis, and product mix is volume weighted. A quick update on our upcoming IR events. I'm very pleased to announce that we will hold our Capital Markets Day on Wednesday, May 26. The webcast will open at 9.15 AM and we will start promptly at 9:30 Eastern and end roughly at noon. We will share more information about the meeting later on this call and invitations will be sent out shortly. On Monday, May 3, Wells Fargo will host a fireside chat with John Lawler and Kumar Galhotra, President Americas and International Market Group. And on June 17, Deutsche Bank will host a virtual fireside chat with Jim Farley. Now, I'll turn the call over to Jim.

Jim Farley: Thanks, Lynn. Hello, everyone. Thanks so much for joining us today. Our first quarter of the year really defies an easy explanation or a pity soundbite. But if I had to sum up one way, it would be this. We're executing on our plan and I'm excited to say Ford is becoming a stronger, more resilient company they can deliver under pressure, manage risk and seize opportunities all while generating consistent returns for our stakeholders.

In the quarter, we earned \$4.8 billion in adjusted EBIT. It's our best quarterly adjusted EBIT ever. And we achieved these results in the midst of a persistent global pandemic and an unprecedented supply shock tied to the global semiconductor shortage. We mobilized a global team as we always do in these times of crisis. And we rapidly adjusted the realities that we were seeing. Our team very skilfully navigated the supply constraints through sharp yield management, and a relentless focus on turning around our automotive operations. That means, improving our launching performance, improving our quality, enhancing our brand, strengthening our customer relationships and improving our go-to-market execution.

In Ford Credit, which, in our view is the best automotive finance captive in the industry also delivered an outstanding quarter. Aided by higher prices our results benefited from the industry wide imbalance of supply and demand given the semiconductor shortage. However, we also delivered improvements that will persist over time, including our global redesign in overseas operations, which contribute to the largest swing in year-over-year profitability for those operations that we've seen. The benefit of our incredibly fresh portfolio refresh which lowers the average

showroom age now in the US to just three years. And of course, we made progress on cost across the business.

As we share with you today, there are more white waters moments ahead for us that we have to navigate. The semiconductor shortage and the impact to production will get worse before it gets better. In fact, we believe our second quarter will be the trough for this year. We have work to do to get our industry footprint back to firing on all cylinders or maybe should I say, fully charged. Overall, though, I'm proud of the progress we made as a team. As our underlying strength at Ford improves, enhances our cash flow, access to capital, gives us financial flexibility to modernize and disrupt our business while investing in growth.

We are very intentional about this because these are the catalyst factors that will transform Ford into a far more vibrant company that will deliver not only our iconic must have products, but also, and I would argue, more importantly and always on ever improving customer experience, for both our retail and commercial customers. So let me share a few milestones from the quarter. Turning around auto. Over the past four years our overseas markets lost a total of \$5.8 billion in EBIT. This quarter the regions delivered roughly \$500 million of EBIT. That's a \$1 billion improvement year-over-year.

Let's look at those must have services and products. We'll start with the new F150 which gained share and also gained share of revenue. And it had new innovations like Pro Power Onboard. We showed again that we understand Ford customers at Ford — these truck customers better than anyone. And the Bronco Sport is off to a fast start, bringing 60% new customers to our brand. The new Mustang Marquee is proving to be a hit with customers, just a few days on lot with very strong demand in North America, now in Europe and coming to China. And it's also bringing in new customers to the brand, almost 70%. And we still have the Big Bronco the two and the four door with an incredible order bank, the F150 electric and the E-Transit and we have some surprises for you as well. Stay tuned.

Just as we are in the early stages of our electric vehicle plans, we are only scratching the surface of our customers benefiting from our fully connected vehicles. We have successfully deployed our first major over the air update — software updates to hundreds of thousands of customers

for Marquee and F150. And this pace will only accelerate in next several years. Making our vehicles better over time.

Later this year, for example, we will offer our very first tested — fully tested Ford BlueCruise Hands Free Driving technology which will be delivered over the air to Mustang E and F150 customers. And by 2028 we expect to have more than 33 million over the air updated capable vehicles on the road. Now this installed base gives Ford a significant opportunity to develop products. And for us, very exciting new services that will transform the way we deliver products to our customers. We'll make significant improvements to our customers' experience and drive quality of our vehicles. And we're on track to lead the electric revolution in areas of Ford strength. For example, we announced we're investing \$1 billion in the new electric vehicle manufacturing center in Germany, whereby 2023, just a few years from now, we will be assembling our very first high volume all electric passenger car for Europe. A year later in 2024 all Ford Europe commercial vehicles will be zero emissions capable. And by 2030 all Ford European passenger cars will be all electric.

Now, these investments are part, just part of our \$22 billion commitment to lead the electric revolution in areas that we're strong. And yesterday we announced a very important new development, we have formed a new global battery center of excellence called Ford Ion Park which will accelerate our research and development of battery, as well as battery cell technology, including future battery manufacturing. This only starts to hit at our electric vehicle ambitions. There is so much more to come.

Now, before I turn it over to John let me share a bit more about where we in the industry are in semiconductors. When we initially gave guidance in February, we expected that the semiconductor supply chains would remain constrained through the second quarter. And we have an opportunity to begin recovering lost volumes in the second half. It kind of played out similar to that with one big exception, the industry faced another setback on March 19 when Renesas, a leading semiconductor supplier who manufactures about two-thirds of all chips in the auto industry experienced a significant fire at their Naka 3 facility. Multiple Tier 1 who supply global OEMs sourced their chips from this facility, including nine Tier 1 that supply us at Ford.

Now Renesas expects it will return to full capacity in July and they are making great progress. While most of the chips for our modules for this facility are definitely dual sourced, Ford and others are facing additional constraints. And we've yet to see significant new chip capacity come online for our industry. Estimates project the full recovery of the auto chip supply will stretch into fourth quarter of this year and possibly even into 2022, making industry volume recovery in the second half of this year even more challenging.

As you can imagine, we are working this issue 24/7 and engaging with key political leaders and decision makers globally, as well as the core shorts supply chain. Ford relationship with the new Biden administration rests on our distinctive profile. That we assembled more vehicles and have more US auto jobs than any other competitor. It's also well recognized that Ford sided with California on greenhouse gas regulations when that wasn't the easy choice to make. So, from COVID PPE to the current semiconductor crisis, to batteries for EVs, this past year has vividly spotlighted the importance of improving domestic supply chain for both our industry and our country.

Now, we found the White House and the new cabinet engaging, accessible and responsive. We look forward to being continued close working relationship as the country formulate policies to facilitate the transformation from ICE to BEV and finally address infrastructure deficits. As you would expect, we're committed to learn from this crisis to be a much stronger company. We're taking this opportunity to revamp our supply chain to eliminate vulnerabilities down the road. This is especially relevant as we consider not only semiconductors, but also battery cells and other commodities critical to our modernization and transformation. We're also learning as we operate in this extraordinary low stock, high demand environment in the US and around the world that we will see a leaner more efficient company in the future. We're getting more fit. And with that, I'd like to turn it over to John.

John T. Lawler: Thank you, Jim. So, heading into 2021 the run rate of our business was on track to deliver \$8 billion to \$9 billion and adjusted EBIT. And that's up about 33% versus 2019, and that of course is all before the impact of global semiconductor shortage. So, our confidence in the stronger run rate is built on the durable changes that we've made to improve our returns, improve our cash flow. And it also, of course, provides us with financial

flexibility to invest in growth. And these improvements were embedded in our original 2021 outlook.

So, for example, after shifting an overwhelming majority of our capital to our franchise strengths light trucks and utilities, we refreshed our product portfolio, we lowered our average showroom age and shifted our mix to our higher margin vehicles. And as a result, relative to 2019, the increase in our average transaction prices in the US was \$1,900 more per unit than the industry average.

Now, also the tough choices we made to redesign our overseas businesses has started to turn the tide. Rationalizing manufacturing footprints, strengthening the product portfolios, focusing relentlessly on cost and investing in areas of growth and strength are now producing results. Another item we've also talked to you about is warranty. Over the last three years our warranty expense has increased by more than \$2 billion. Now we've addressed this issue through changes in design, how we inspect vehicles, how we work with suppliers on quality, and now, how we're using connected data to identify issues early in the process and drive quality improvements.

And this quarter we delivered a \$400 million improvement in warranty expense year-over-year and we're intent on accelerating this positive progress. So, these are just a few — three of the many examples of how the trajectory of our business is changing and what gave us the confidence when we set our original targets for 2021.

Now, let me turn to this quarter. Wholesales declined 6% and in most cases that's due to the chip constraints. Now despite the declines in wholesales, revenue grew 6% aided by higher net pricing and favorable mix. We delivered \$4.8 billion in adjusted EBIT and an adjusted EBIT margin of 13%. And as expected, adjusted EBIT including an investment gain of \$900 million from Rivian funding round that they had in January. So that was included as well. And then adjusted free cash flow was negative \$400 million.

The global semiconductor shortage reduced our planned Q1 volume by about 17% or 200,000 units. And that's consistent with the 10% to 20% range of expected losses that we shared with you in February. In Q1, we fully offset the EBIT impact of the lost volume. But we reduced

incentives as part of the industry wide response to tight dealer inventories and that's especially in North America. We optimize the mix of our production to build our higher margin, higher demand vehicles, we also reduced our structural cost in areas, including manufacturing and advertising, we improved results in our FCSD parts business and in our joint ventures and we benefited from strong used vehicle prices in Ford Credit as customers and dealers drove up demand for our used vehicles as new vehicle supply fell. So some of these improvements like the lower manufacturing costs and a robust pricing improvement, we do expect those to moderate as the industry returns to full production when dealer inventories rebound.

Now our adjusted free cash flow in the quarter of negative \$400 million was significantly lower than our \$4.8 billion of adjusted EBIT. Now there's three main factors that contributed to this gap. First, our gain on Rivian was non-cash. Second, in the quarter we grew inventory by \$2.2 billion. Now, this includes parts for vehicles we could not bill due to the lack of chips, but it also included approximately 22,000 vehicles, those are primarily in North America that are awaiting installation of chip related components. And so, some of this inventory impact though was offset by a growth in payables. And third is timing differences. Now this primarily relates to the reserves for customer allowances for incentives and warranty.

This reserve — that reserve fell by \$1.6 billion in the quarter. The vehicle incentive portion is based on the number of vehicles awaiting sale and dealer inventory and the expected incentive per unit. And both of those fell in the quarter due to the supply disruption.

Now, we do expect the working capital and the timing differences to normalize as the semiconductor suppliers restored, dealer stocks rebound and incentives returned to more normal levels. And we believe this process will take several quarters and will most likely extend into 2022. Our strong balance sheet provides considerable flexibility to navigate times of stress, such as this chip shortage, while also investing in growth. So, we ended the quarter with over \$31 billion of cash, and \$47 billion of liquidity, which includes our recent \$2.3 billion convertible issuance. We will continue to be very proactive in managing our capital structure.

Overall, our business units did a fantastic job prioritizing newly launched products, making sure that we process customer orders in high margin vehicles quickly and that was all in a supply constrained environment. And the strong customer response to Marquee confirms our choice to shift more capital to BEVs, including investments to in-source key elements of the value chain necessary for competitive and sustainable profitability.

So, let me share a few of the highlights from the quarter. In North America, wholesales declined 14%, while revenue increased 5%. The revenue was aided by strong net pricing and favorable mix, robust customer demand for our new product portfolio, tight industry wide inventories and favorable cost performance on a year-over-year basis, and that included warranty, all of that helped us deliver \$2.9 billion of EBIT and a margin of 12.8%, which was North America's highest margin in five years.

In South America, wholesales and revenue declined 70% and 40%, respectively. And that reflects the exit of unprofitable products. The renewed focus on strengths like Ranger, Transit and key imports drove our best quarterly EBIT since 2013 and our sixth consecutive quarter of year-over-year improvement.

In Europe, wholesales declined 4% as revenue grew 13%, aided by improved product mix, led by our commercial vehicles and net pricing. These actions together with our continued focus on cost delivered \$341 million in EBIT, with a margin of 4.8%. In China, China delivered strong growth in both wholesale and revenue. EBIT was about breakeven, which marked the fourth consecutive quarter of improvement, supported by strength in Lincoln, Ford near-premium utilities and commercial vehicles. In fact, Lincoln now produces 90% of its products locally and was profitable hosting its best ever Q1 retail sales, nearly doubling its share on a year-over-year basis. And commercial vehicle sales were also strong and now comprise 48% of Ford's total China sales.

And IMG group of wholesales and revenue as they are on their franchise strengths of Ranger and Everest. And IMG achieved its best quarterly EBIT, reflecting strong cost performance, net pricing and favorable exchange. All markets in IMG were profitable, except for India. And IMG also committed to invest \$1 billion to expand Ranger capacity on our

South Africa export hub to meet customer demand in more than 100 global markets.

In mobility, our AV business continue to invest in refining its go-to-market strategy, it added a new 140,000 square foot Command Center in Miami and along with Argo AI it's stimulating ride hail and delivery across six cities. And I'd be remiss not to highlight the continued strength of our Ford Credit business, which delivered \$1 billion in EBT in the quarter.

Now turning to guidance. As we entered 2021, we were among the first to identify the potential for a 10% to 20% adverse impact in volume in the first half of the year due to the growing chip constraints. We said at that time that this risk had the potential to reduce our full year adjusted EBIT by \$1 billion to \$2.5 billion. That would take us off our original target of \$8 billion to \$9 billion in adjusted EBIT. So, we've updated our outlook to include the expanded impact of the Global chip shortage. And that's largely driven by the Renesas fire. While the situation is a significant headwind, we have definitive actions to address full range of potential outcomes. So, we now expect to lose about 50% of our planned Q2 production, an increase from the 17% loss in Q1, making Q2 the trough for our performance this year.

Now, while we expect the flow of chips from Renesas to be restored in July, we and many in the industry now believe the global shortage may not be fully resolved until 2022. So, our outlook now assumes we lose roughly 10% of planned second half production. In total, we believe the shortage for the year will drive a loss of about 1.1 million wholesale units, which translates to about \$2.5 billion EBIT. That headwind — and that headwind in EBIT is net of recovery actions for the year.

Now this EBIT impact was the high end of the range we gave in February and brings our full year adjusted EBIT guidance range to between \$5 billion and \$6.5 billion. And it's very important to highlight that even though our expected volume loss for the year has more than doubled, we have worked to contain the EBIT in back to the high end of our original range. So we now also expect full year adjusted free cash flow of \$500 million to \$1.5 billion and this includes a \$3 billion adverse impact from semiconductors.

The semiconductor impact on cash is \$500 million worse than the impact on EBIT due to timing differences and working capital impacts that will recover once our run rate of production is fully restored, dealer stocks return to more normal levels and incentives rebound. Our Q2 free cash flow will be significantly negative and that's despite additional Ford Credit distribution driven by our adoption of the updated tax accounting standard, which reduces our tax allocation of Ford Credit and supports additional Ford Credit distributions. However, we expect our cash and liquidity to remain healthy throughout the year, providing us with considerable flexibility to manage the present situation.

And this supports our growing confidence and the resilience of our business and our ability to effectively navigate the challenge just as we navigated the COVID related production disruptions last year. So now, I'd like to turn it back to Jim for a few comments about the Capital Markets Day.

Jim Farley:

Thanks, John. Before we turn it over to questions, I want to reiterate how proud I'm of this Ford team with commitment to deliver on our plan to fix automotive to modernize the company and find ways to disrupt our business and the traditional auto industry to create value that will be rewarded — that will reward our stakeholders. On May 26 we will hold a virtual presentation for an investment community where we planned to deep dive into our plan as Lynn said. We're going to cover how we're going to lead the electric vehicle revolution in areas that we're strong at Ford. Number two, we're going to build out our industry-leading commercial vehicle business with products, as well services that lead to growth and new revenue streams and we're going to leverage our connected vehicles to transform the customer experience and truly shift Ford from a more traditional OEM to a company where the manufacture and sale of the vehicle is just the very first step and then ever improving always on and pharma rewarding customer experience.

I so look forward to speaking to all of you soon as we continue our effort to create Ford that can compete and especially win in this exciting new era of our industry.

So, with that, let's start the Q&A.

Operator: All right. Ladies and gentlemen, if you would like to ask a question please press star than one on your telephone keypad. And our first question is going to come from the line of Rod Lache with Wolfe Research.

Rod Lache: Hi, everybody. Can you hear me? Hello.

Operator: Yes, we can hear you.

Rod Lache: Okay. Look, I wanted to just maybe get a little bit more clarification on the guidance. I think everybody understands that the underlying guidance ex the semiconductor shortage impact isn't really changing. And I don't think anyone would react to that at all if it wasn't for how surprisingly strong Q1 was. You almost did \$5 billion of EBIT including the gain and \$4 billion excluding it. So, the numbers obviously are going to be pretty low for the rest of the year. I guess my question is on this are, was there — first of all an unusual gain on incentives for inventory at dealers in Q1, could Q2 actually be as low as Q2 of last year? And then even more importantly, I was hoping you could talk a little bit about whether we can extrapolate anything from these kinds of numbers, you did a double-digit margin in North America, 5% in Europe. It looks like some pretty good warranty improvement. So, when the dust settles, what do you think we can pull out of this as we think about 2022?

Jim Farley: Yeah. Hi, Rod. Thanks. That's a lot there, let me see if I can unpack that and do justice to the question. So, as you said, the run rate of the business is \$8 billion to \$9 billion and without chips, we clearly believe that's where we would be. And I think you're seeing come through the quarter a combination of things. As I said in my remarks, you're seeing the strength of the underlying business is improving and you're seeing that come through. You saw that in the redesign of our overseas operations. You saw that in warranty expense improving, right? Those are two things that we said we needed to improve in our business as we move forward through the redesign, and you're seeing that come through.

You're also seeing the strength of our new products. Now, it's a little opaque, I think, for people to say, well, you also saw considerable pricing opportunity because of supply-demand imbalances, that is true. But — so we go back and we look at what's happened with the pricing for our products since we started the redesign, the refresh. And that's where we

come back to since 2019 if you look at our price increases, our average transaction price increase compared to what's happened in the industry, our transaction prices have increased \$1,900 more than the industry. So that strength is flowing through. Now we had additional pricing opportunity in Q1 due to the supply demand — supply and demand imbalance. And so that hit the quarter as well. We also saw very strong mix in the quarter as we had lower production, so we optimized the production to our higher margin and a higher mix futile. So, we saw that flow through as well.

So, you're seeing that combination happen — impact us in Q1. Now remember for the year, as we go through the year, we're also going to see a significant headwind from commodities. We saw very little commodity impact in Q1. That's because we still had our contracts from last year in place and we had our hedging. And so, as we go through the year, we expect as contracts roll off and we've seen the commodity prices increased primarily for aluminum, steel and precious metals, we expect to see about a \$2.5 billion increase in commodities Q2 through Q4. So that's going to hit us as we go through the rest of the year.

We also won't have the non-recurrence of the \$900 million Rivian gain and we also expect that as we go through the quarter and we get to more normalized levels of production, albeit, we said 10% lower in the second half, we should start to see more and a gradual normalization of those incentives that experienced in the first quarter of the benefit of that. And then at Ford credit, we did benefit again in the first quarter from the strong residual values and we do expect those to moderate as we go through the rest of the year. So we've taken all that into account as we've gone through and I have to say that what's encouraging to me and what the team's been able to do is we've been able to maintain the impact of the semiconductor chips to that high end of our range the 2.5 billion despite the volume impact growing significantly.

Male Speaker: Yeah, thanks for that. Could you maybe just to ask this a different way, the 8-9 billion guidance excluding the semiconductor impact, that includes things like the inflation from commodities and so forth. It does include Ravine as well. But maybe you could just speak to at a high level, can we think about that \$8-9 billion is kind of a launching point if we wanted to think about bridging to next year. Is that sort of the run rate of profitability for the business and you know there's obviously adjustments

in warranty and South America restructuring new product and things, maybe you could just speak to that and how we should be thinking about the run rate of profitability.

Male Speaker: Absolutely, that is that is the run rate leading into next year. And we still have new products Bronco coming this year, the two and four door. We have some surprises Jim talked about. We have the F150 electric, we have the transit electric. So, we have more products coming next year. We're going to continue to be aggressive on our cost structure pushing back. And the other thing that we're learning coming out of this situation that we're in is how do you operate in a lean environment. And we've learned some quite a few good things about operating with leaner inventories and I think there's opportunities there as well as we head into '22. So absolutely the 8-9 is a launching pad. We see that as a launching pad in '22.

Rod Lache: Okay and it's just lastly, it sounds like there's some permanency to this transition to the lean inventory sales model. Could you speak to what kind of changes you're expecting here to distribution.

Male Speaker: So, we're, we've been doing quite a bit of course to get customers vehicles to move people to more on order process. We've made changes to our processes to lower the gap between the time and order goes into the time we can deliver the order. And we're also seeing that as we look at making these types of changes to modernizing or improving our processes in the lower inventory environment, you get benefits across the patch, right. It would allow us to have lower capital required at Ford credit. If we have to finance less dealer inventory for our dealers, that could free up some capital to invest in other growth areas.

We would see better quality because we'd have fresher vehicles and vehicles wouldn't be sitting on the process along. We'd have improved dealer profitability because they wouldn't be financing that [Ford play] and we'd have lower incentives, we believe we'd have lower incentives, because we'd have quicker turning vehicles and we'd have higher orders. So as we're working through this lower inventory in these opportunities that we're seeing today, we're working on how we make them a normal part of our business as we go forward.

Male Speaker: Okay, all right thank you.

Operator: And our next question is going to come from the line of John Murphy with Bank of America.

John Murphy: Good afternoon everybody. I just wanted to follow up on that line of reasoning. I mean you guys first kind of apologizing you know in some ways for the yeah, the good environment and what is kind of forced you into in its lean the inventory situation. Obviously, that's forget up in second, third and fourth quarter because they're gonna be disrupted by the chip shortage. But it means you're seeing and you saw us in the third quarter of last year, you know these incredible margins particularly North America and then international second, but that's you know being positive.

Your kind of you know rolling off this list of things that have happened and that you may be able to maintain. Why wouldn't you maintain them. I may team this supply demand balance or imbalance as you call it, but really you know some people might say it's a great balance and really focus on you know the higher mix vehicles and drive similar performance and you've just seen it happen, you know third quarter, fourth quarter there was you know some watch cost, but you saw it happen in the third quarter, you saw it happen in the first quarter. I mean why would it, why would you let reverse. I mean, and obviously there is some industry dynamics that are the other people or in the other companies are in the same situation, but you yourselves are controlling this, you know can't control this going forward on your product mix and what you do with your own production and it's produced wonderful results. I mean why would you let it reverse.

Jim Farley: We won't. Hi, it's Jim. I want to make it really clear John. That's not our intention. We're a smart team, we're running our business responsibly and there's real goodness here. This is personally ten years ago; I saw this industry go from thirty day supply all the way back up to a hundred in ten years. I'm not gonna let that happen. This is the better way to run our business, it's even more important now why? We get to move online. We get use a reservation system with customers for most customers when products are lean. We can simplify and extend it; we have the most complicated go to markets system I think from planet earth. We can simplify all that with tighter inventories. And it's better for the fitness, it

also requires our industrial system to be more responsive. So no, I want to make it extremely clear to everyone. We are going to run our business with a lower day supply and we have had in recent past, because that's good for our company and good for customers.

John Murphy: Okay and investors too, which is important. And you I guess as you think about you know the experiment or not the experiment or what you're executing in South America of backing away and putting just a few vehicles, sporty few vehicles in that market. It seems like you Europe and China are kind of heading in that same direction. I mean are you learning, I mean I know it's early days in South America from that you know to that business plan, and I mean and we're looking at Europe it'll be centered more around commercial vehicles with maybe just a few easy passenger vehicles and then China which will be mostly linking and you know maybe some commercial vehicles and then ING which is you know with the Transit and the Ranger and that's it.

And we'll see some stability in these international regions that hopefully will be profitable, but we won't always trying to be you know running around you know freaking out about lack of moving. One of the regions you know blowing up on us, it just seems like you're getting a handle on South America, you get to handle these other regions. I mean is this slim down product offering and maybe smaller size with more stability and better profitability, you know really the direction that you're heading in these international regents.

Male Speaker: Yeah, we had a billion-dollar swing year over a year. We've been at this for a long time in Europe. We're entering a new phase in Europe. So, John absolutely, the focus in Europe is in commercial vehicles and passion specialty passenger cars. In International markets is the ranger and derivatives of the Ranger. And in China there's a China like North America will have a more diverse product range than the other markets, but let's be really clear we're doubling down on our iconic name plates and building out a family of products.

We just localized exploring in China, it's doing great, linking this process in China I mean the growth rate linking in China and the profitability improvement as we localized the 90% as John said, it's been very encouraging to us. So, in China and North America we'll focus on

these real passion segments. Where we think we naturally do well. But the big change is not just improving the profitability by simplifying where we compete. The big change in the company is going to be investing to an always on relationship with the customer. That is the real change at Ford. The change of simplifying our line up and focusing on markets where we can be profitable is necessary. It's the important foundation. But what's sufficiency for us is to evolve into a different model with the customer and you will hear more about them in capital markets say.

John Murphy: It's great. And so just quickly on FMCC. Obviously receives there probably gonna stay stronger this year. I think you're probably being a little bit conservative there on your expectations. But if you also once again think about this you know focus on mix and price and not over producing you know the net beneficiary also is FMCC, you mentioned the balance sheet being potentially little bit to smaller in the future as you know you can give more with less, you know maybe everywhere. You know what is the FMCC gonna look like. And I think we you know Trish like I was thinking about a \$100 billion balance sheet. But it sounds like it might be somewhat smaller and have better returns and maybe more stability in it. You know what the benefits to the FMCC overtime as the strategy are emerges.

Marion Harris: Hey John, it's Marion. I think you covered a lot of it. So, we do see used vehicle prices being stronger throughout this supply shock and so they're gonna remain strong through for quite some time. Just as John said earlier, and I think that's gonna provide a lot of support for new vehicle pricing as well. The 100 billion you mentioned is about the size of the U. S. balance sheet. The forward credit and totals they're in that 130 billion this or. So, you were down quite a bit, but it's all dealer for planned and so that's affecting that's the downside to our profitability, but on the other side of it is a strong used car prices.

John Murphy: Okay, could that be so much structural going forward or if you really can this is transitory through the course of this year.

Marion Harris: This page that says transitory.

John Murphy: Okay, all right thank you very much.

- Operator: And our next question will come from the line of Colin Langan with Wells Fargo.
- Colin Langan: Oh great, thanks for taking my question. I just want to step back, if we look at the semi issue. Do you think you're more impacted than the industry, we're just trying to understand if you lose 1.1 million? Do you think you're able to recoup those in '22 or other competitors maybe going to a sweep in and take some of them, because they have maybe a better supply chain to try to understand it maybe you could kind of recoup that loss volume into next year.
- Male Speaker: Great question, thank you Colin. I'd say it's difficult to just make that judgment. If you look in the change of inventory, which is I think a great predictor of wholesale back in the quarter competitively. I think you know most of the major brands were impacted almost equally. So you know a lot in different news releases, a lot of different opaque data coming out I can understand why you ask the question. We don't we don't know yet how this will play out competitively, but we do know the first quarter actually played out a lot more evenly than maybe even we thought.
- As it goes on in the second half and into 2022, you know we're starting to grow in confidence that we can support our recovery volume. We think it's prudent to have the 10% in our planning, but we are going to work very hard to make sure that doesn't happen. It's just too early to tell, the Renasis impact as we think is going to be largely finished by the second quarter, if they execute. And they're just in the middle of that right now. And so that kind of leaves us back with the time when these foundries and how persistent that's going to be. And right now, I just think it's a little too early to declare what that's going to look like, but what we do know is the first quarter kind of turned out that most major players except for some of the companies who read buffer stock and saw this coming. They weren't affected, but I think Renasis now swept up most everyone in the industry. Just hard to tell how long that's going to be across different brands.
- Colin Langan: No, thank you. That's a very helpful color. Just were strategically you made the announcement on Ion park yesterday, I mean how should be dealing this, I mean is this an effort to make your own batteries or is this trying to build that expertise in house so you could provide that two year

battery partners. They're trying, not sure if we should read more into that announcement.

Male Speaker: Thank you so much for asking this question. The answer is this is a very important announcement from Ford strategically. In the first inning you know we could buy off the shelf and cherry pick the technology and energy density and the cost where we've totally entered a different zone now with our volumes, plan volumes going up so much. So, we have already made the decision of vertically integrated company. We're now building on motors, E-axles, now we've been riding our own battery management software for quite some time. And now it's time for us to a lock in on the latest technology and to have secure cell production relationships. There's no news to make today but the reason why the [?] announcement is so important is because it's our place where we will learn. We will learn about with our partners how to transition to the very best in technology energy density, the minerals, all the supply chain for batteries and cells, but also the manufacture ability, and ultimately I think to be competitive in this industry a major brand like Ford will have to vertically integrate all the way through the system.

It's just too early to make a bunch of announcements, but this is our dream team who will be developing that capability in the company.

Colin Langan: Okay, thanks for taking my question.

Operator: And our next question will come from the line of Joseph Spak with RBC Capital Markets.

Joseph Spak: Thank you, good afternoon everyone. Actually, wanted to go back to something Ron brought up earlier. I know you mentioned you know 700,000 units out in the second quarter of course, we don't know what you are originally planning, so is it likely the second quarter looks similar to the second quarter of last year and somewhat related you know to your point John like the 2.5 billion dollar headwind for the year is really just the high end of your of your prior range, but is the gross number higher and that's been offset by other factors such as stronger pricing and maybe Ford credit that bring it back down to that high end.

Jim Farley: Yeah, thanks great question. So, it is similar to what we saw last year, we're going to lose about 700,000 units we said was 50% roughly 50% of the plant production we had made. If you look at second quarter of last year and it was very similar to that, and I would say as we got into this through the quarter we have seen the team identify opportunities to offset more of the impact that we had originally thought that's why were able to contain you know a much higher miss on the volumes within that original guidance. And so the teams have been working extremely hard to bring the goodness that we're seeing in the core run rate of the business through and to find other opportunities so absolutely on both of those.

Joseph Spak: Okay, and then second question you know I'm glad to hear the discussion about you know trying to keep dealer inventories more balanced. I guess the other lesson that could be learned here and I'm curious [?] have any preliminary thoughts is do you just need to you know we've gone through a couple of these crisis, do you need to change how you think about assuring supply and of key components including trips, and/or that sort of keeping more inventory historically maybe it's more direct by not relying on tier ones. And if so, you know maybe again at a high level how should we think about that practically working like where in the value chain will that inventory be stored and it is that you know maybe a cost you're willing to incur for greater stability in the future.

Jim Farley: Thank you. The answer is, yes. We have learned a lot through this crisis that can be applied to many critical components. That will be the essence of our new business, our modernized Ford, and it goes far beyond semi chips, there are other components that are really key enablers. It was very interesting for me, personally as the CEO, to talk to many of our colleagues in other industries and to find out how common buffer stocks are and how common direct buys are for the width of boundaries. Even if the company still buys the components with the chips on them from a supplier, they still negotiated a direct deal.

These are all on the table of Ford right now, as you can imagine, yet we're also thinking about what this means for the world of batteries, and silicon and all sorts of other components that are really mission critical for our company and our capability. When I look at the company and what we need to vertically integrate, these are the areas. These are the areas we're going to bet on moving inside the company for core competency. And as

we do that the supply chain becomes even more critical, but we also know more about it. So, thank you for the question and you can imagine everything is on the table like you mentioned, from buffer stocks to direct deals with the foundries.

Joseph Spak: Thank you.

Operator: And our next question will come from the line of Ryan Brinkman with JP Morgan.

Ryan Brinkman: Hi, thanks for taking my questions. Obviously, a standout performance in North America despite downtime and costs associated with the F-150 launch and the semiconductor shortage and a lot of moving pieces with regard to the guide and the rest of the year with the changes impacting the chip issue and now the Renesas fire, et cetera. So I thought maybe it would be great to just sort of zero in on your performance in the first quarter itself and get your thoughts on what a 12.3% North American margin in 1Q might imply for margin potential in a normalized environment.

Kind of looking at the historical cadence of North America margin over the past five years or the five years ended in 2019. It seems like 1Q margin averages just about 40 BPS higher than the full year amount. And so maybe you're already operating in 1Q at almost a 12% kind of annual run rate. And that's amidst an F-150 launch and before any contributions from the Bronco. So how would you rate the underlying performance in North America? And does that performance in 1Q suggest once all the supply chain dust settles a stronger than targeted 10% regional margin?

John Lawler: Thanks, Ryan. So, I think we have to go back and just ground ourselves again, in that run rate of the business of 8 billion to 9 billion. And I don't want to get too far out ahead of ourselves on North America and what this quarter might mean for the run rate going forward. Given as you said, there's just a lot of moving parts within this quarter. I think the team's done a great job of managing through it. We really saw the 8 billion to 9 billion as the run rate heading into '22. We're going to do everything we can to continue to drive margin improvement, both here and overseas. And the team is focused and Jim's pushing us really hard to continue to modernize and improve the business in every place that we can. But as far

as trying to predict coming out of this quarter what that means for the margin in North America in putting a number on the table. I'm not going to do that right now.

Ryan Brinkman: Okay, thanks.

Jim Farley: And Ryan just - it's Jim. Quickly, I'll be really quick. I've been in this business worked for different brands, I can't remember a time in my life, in my career, to have had so many hot products in one market like North America as Ford does right now. I mean, Mach-E sold out, Bronco Sport sold out, F Series sold out, Super Duty sold out, we have a very - our fresh new lineup is not only fresh, but it seems to be hitting the mark of the side case of the customer right now. And I don't know where that's going to take us. Yes, a really good question. I don't know where that's going to take us. But I do know it feels like we're going to be chasing demand for quite some time.

Ryan Brinkman: That's helpful color. Let me ask just lastly, around the commodity inflation you're seeing and your ability to price for it. You've called out to 2.5 billion headwind for the year, you did take 3 billion of price in 1Q, although I'm cognizant, there's a lot that goes into that calculation including relative to new launches, et cetera. I think pricing is historically positive on launch models. Thankfully, as you mentioned, you have a lot of those this year, but it tends to be negative for carryover models, and I'm just thinking back to like, 2011, 2012 kind of coming out of the financial crisis in '08, '09 after a lot of final assembly capacity have been taken out every call you and others reporting on the relative anomaly of positive pricing on even no carryover model.

So I'm just curious if we could see something similar now, say if the commodities headwind were to grow worse if the supply demand dynamic puts the industry in a position to pass really all the incremental costs on to the consumer or how do you see maybe the share of the burden taking place maybe the higher commodity is being - the cost of it being shared between yourselves versus the consumer versus suppliers, dealer margin. I don't know what you think.

Jim Farley: Yeah, I would say, we're definitely feeling the commodity headwind, as John said and inflation, it feels like we're seeing inflation in variety parts of

our industry kind of in ways we haven't seen for many years. On the other hand, it feels like it's all due to a lot of one timer as the economy comes out of lockdown. So, I think it's a bit too early to declare the run rate, where it's going to be, it's just too hard to tell from my standpoint. I will note though, based on your question that many of the vehicles that are supposedly ageing at Ford or normally would be ageing are still relatively new. Super Duty is relatively new, Explorer is relatively new. Yeah, Escape - we have all the Lincoln lineup is brand new. So normally we wouldn't have so much new at the same time. And even the vehicles that are one or two years old are still relatively new in their segments.

Ryan Brinkman: Very helpful. Thank you.

Operator: Our last question for the day will come from the line of Emmanuel Rosner with Deutsche Bank.

Emmanuel Rosner: So, I'm still trying to better understand the \$8 billion to \$9 billion run rate, which is unchanged from your view earlier in the year. So, let me try and ask it this way, did the first quarter earnings results play out as you had expected at the beginning of the year? And if it played out better, what are some of the expected offsets which are non-semi related that would prompt you to keep the same basis as the underlying profitability?

John Lawler: No, the quarter did not play out as we originally expected, right. It came in much better, we did not expect that we would be able to more than offset all of the impact of the chips in the quarter, which was 17%, or about 200,000 units. So, we saw incredible opportunity there from the industry wide supply and demand imbalance. So, we saw pricing increase significantly. We also then, because of the supply imbalance, we really pushed hard on mix. So those were things that allowed us to improve the quarter. We did not expect to use vehicle prices to increase 14% in the quarter. And they did and that helped. And that was part of what's happened with Ford Credit and the performance of Ford Credit.

And then as we go through the year Emmanuel, one of the things that did not hit us in the first quarter that's going to hit us through the rest of the year is the commodity cost increases that come in quite significantly through Q2 to Q4. So those are some of the things that are coming back and are going to come through in the second half of the year. And then the other

thing is as production normalizes a bit and supply and demand comes worn balance, we do expect that we should see some of this pricing that we saw in the first quarter moderate a bit. And we should see some of that happen through the second quarter - through the second half of the year.

Emmanuel Rosner: Is the commodities impact larger, much larger than you had thought originally?

John Lawler: When we had first looked at it, we thought it was going to be significant, somewhere between 1.5 billion to 2 billion. So, it's slightly higher than where we had thought coming into the year.

Emmanuel Rosner: Okay, and then follow up question. I find very impressive some of the improvement that you're showing in the first quarter in terms of net pricing and cost in some of the international markets and showing some good traction with the fitness initiative. I was hoping you could comment directly on Europe in particular around - and South America around the sustainability of some of these performances that we're seeing? How much you think is sort of market driven versus some of your own actions, both on the net pricing side, and also obviously on the cost side, the sustainability of those.

John Lawler: Yeah, so in Europe this is the second strong quarter that Ford of Europe is printed for us. And I think what you're seeing there is the redesign flowing through and showing up significantly again in this quarter. And of course, the market was aided a bit by what we're seeing the dynamics in this quarter, but the fundamental underlying strength of the business in Europe has improved. We took over a billion dollars of structural costs out as we relooked at the footprint. We've moved into commercial vehicles and improved our share there. We have a higher mix of utilities. All of that is providing a much stronger business for us in Europe.

And you've seen that two quarters in a row now. Then when we look at South America, we reduced our volumes significantly and we improved our profitability. And that just comes back to the point that we brought to the market and we are and now we're going to focus on our higher margin vehicle or smaller footprint or smaller business down there leaning into Ranger in Transit, which are good vehicles in the market. And they're

strong vehicles for us as a company and so you're starting to see that redesign really take hold.

Emmanuel  
Rosner: Good to hear. Thank you very much.

Operator: Thank you. And with that, we must conclude today's Ford Motor Company first quarter 2021 earnings conference call. We do appreciate your participation and ask that you please disconnect.