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CORPORATE PARTICIPANTS

Bob Shanks *Ford Motor Company - EVP & CFO*

PRESENTATION

Unidentified Participant

Next up we have Ford. Ford, obviously, I think, at least from our opinion, is progressing well through a transition and actually largely through it at this point. Just finished the ramp of the F-150. There's still some benefits from commercial fleet this year.

On the road to launching another incredibly important product in the product portfolio, the Super Duty, late this year and will have, by our estimates, a ton of new launches over the next few years, which really is key to the story.

Along with this product success, there's been great execution, really stellar. It has positioned the Company in a great way on its balance sheet. It's allowing Ford to not just institute and raise its common dividend, but also to put a supplemental dividend in place of \$1 billion this year and I think we will probably see more in the coming years. That's by our estimates, not necessarily Ford's at this point.

But I think there's some great color we're going to get from Bob Shanks today, who is the Executive Vice President and CFO. He also oversees the global data and analytics team I think, which is a very interesting role in addition to his CFO position. And he has been at Ford I think -- we were just talking -- 39 years, which I believe means that Bob probably started when he was about three years old, given how great he looks.

We really appreciate, Bob, you coming today. I will turn it over to you for a couple of opening remarks and then we will get into the Q&A session.

Bob Shanks - *Ford Motor Company - EVP & CFO*

Okay, thanks, and thanks for having us at the conference today. I thought what I'd do is I'd just make a few brief comments about where we see ourselves right now and then what we will do is we will just leave the balance of the time, most of the time for just Q's and A's. Is that all right?

Unidentified Participant

That's perfect.

Bob Shanks - *Ford Motor Company - EVP & CFO*

Okay. So just to put into context this year, we are coming off of six years starting in 2010, and really kind of started in 2009 even as we were coming out of the Great Recession, of really, really strong results. We've been doing \$8 billion to \$10 billion of pretax profit at a company level each year.

We have had very strong cash flow and it kind of was capped last year post the F-150 launch, because 2014 was quite affected by that really unprecedented launch for us with a record company profit. We had probably the highest level of automotive cash flow that we have ever had, but we say since 2001 because that's when we started calculating it the way we do now. But I think if you go back, it had to be the best year of cash flow we've ever had.

We had our best operating margins since at least the 1990s. We saw a big improvement in our risk profile. We got all parts of Ford, other than South America, profitable for the first time since I think 2010-ish, so that was a great accomplishment for us. Particularly for the European team, because they finally got back to profitability, and it was in line with what we expected when we launched the European transformation plan back in 2012.



We had targeted 2015 for profit and they actually delivered that. The thing that's kind of interesting about that it was done despite the fact that Russia, of course, subsequent to 2012 when we developed the plan, went into a very deep recession driven by the commodity cycle and public sanctions on top of that. So we felt very good about that.

And when we think about where the Company is as we go into 2016, this year, we expect basically the business to do as well as, if not better, across almost all parts of the business than we did in 2015. So we are looking for another strong year, so a seventh year of very strong results by Ford.

In terms of -- just a brief comment about the external environment. I think you had IHS on prior to us, right? We're looking at this year as being a year of relatively moderate growth on a global basis. We do think that conditions are supportive of continued growth in the global industry volume. It's going to be different, obviously, by region and by market, but we still see a little bit of growth.

We see the US continuing to grow modestly in terms of GDP and we see 17.5 million to 18.5 million unit industry. We include medium and heavy in that.

We are seeing very strong growth in Europe in terms of industry; probably at the high end, if not a bit above, the range that we provided, which was about 18 million to 20 million units. So that's looking very, very healthy.

China started off very strongly. A little hard to tell in the first two months because of the impact of the Chinese New Year, but it looks really, really good.

Pricing there is starting to stabilize. We still expect it to be negative year over year, but certainly we are starting to see pricing stabilize if we looked at it on a sequential basis, which is a good sign.

I think the big issue that we have, and probably everyone has, in terms of regions is South America. The recession there probably is going to be even worse than what we had thought. I think the GDP, the decline in GDP will probably be greater than what we guided to, although interestingly we don't see the industry moving in line with that. It's still very low, but it still seems to be within the range that we had projected.

So I think everything is shaping up so far -- still early in the year -- to be the kind of year that we guided to. So we feel pretty good about where we are. Always lots of work to do and certainly working to do even better, but we feel pretty good about where we are right now.

QUESTIONS AND ANSWERS

Unidentified Participant

Great. I will kick it off with the first question, and this is sort of a ubiquitous question that we're all focused on, is: where do you think we are in the US cycle? And how do you think Ford is positioned, not just for the downturn?

You gave us some great metrics yesterday and help in understanding that, but maybe, as an optimist, more importantly if demand runs very hot, how are you going to keep up with potentially some real significant upside in the cycle from where we are right now?

Bob Shanks - Ford Motor Company - EVP & CFO

We see the US economy, as I just mentioned, growing at sort of probably the low 2%. We've got a range of 2.3%, 2.8%. We think we're probably at the low end of that range. We think the industry is going to be in that range I just mentioned, 17.5 million, 18.5 million, so that seems to be holding up well.

Pricing is looking good. Our pricing is up more than the industry, but the industry actually is up in terms of transaction prices, although incentives within that are up modestly. But pricing still looks to be healthy.



It's different by segment. We see cars as being under pressure and that's more, I think, driven by the fact that consumers, for quite some time, have been shifting from cars into utilities. Truck is holding up pretty well. And so I think that's really -- more of what's happening there is more of a consumer demand-driven dynamic than anything else in terms of cars, but the industry still looks quite healthy.

The leading economic indicators that we look at -- and we look at quite a number, as you might expect us to do -- all look, for the most part, to be supportive of that type of outlook. There's nothing that would suggest that we are imminently ready to go into a recession here in the US, which is what we've been saying for quite a number of months, which I think the market is starting to recognize as well. So things seem to be getting back on track in terms of even a market perception. So I think everything is being set up for the type of year that we had thought it would be in terms of the US.

Unidentified Participant

If we see the US --

Bob Shanks - Ford Motor Company - EVP & CFO

If it's stronger?

Unidentified Participant

-- ratchet up to an 18 million and 18.5 million, ramping up to 19 million, how do you respond to that and how do you think the industry responds to it? Because I personally think it's a high-class problem the industry is going to be facing.

Bob Shanks - Ford Motor Company - EVP & CFO

Yeah, you would have a high (multiple speakers), yes.

Well, I really -- again it will depend on (technical difficulty) running our production this year. Probably about 70% of it will be coming from plants that are running on three crews, which means that they are running flat out. And we run those types of operations day in, day out, constantly so that we can make sure that we have the appropriate supply of vehicles in the peak selling season, so the spring, late summer, and end of the year.

We don't have a lot of room in those plants. There's about 18 weekends where you can run overtime, but that's about it. Otherwise, you get what you get. We do have, obviously, some open capacity in other parts of our system, but they tend to be in the segments that are under pressure, which is the cars that I mentioned.

I think we will be very careful in terms of any further capacity actions, at least, for example, in trucks. I think where we are is fine. I'd be concerned about adding more capacity of any substance at this point in time.

We know that some of our competition are also going to be adding capacity. I think FCA is planning to shift some of its car capacity into truck capacity, so want to be kind of careful in terms of what the overall competitive dynamic is in that space.

We have also got the ability; with our One Ford approach to the business that we also have the ability to bring in vehicles, depending upon what the demand is, from other parts of Ford into North America, if that were the case. If there was a sustained level of much higher profitability, I think -- or volume, I think we would have to go back and look at that. But I think where we are we would probably just look at pricing opportunities or mix opportunities, things of that sort.



Unidentified Participant

And just on mix, when we see this phenomenon of cars shifting to crossovers, partially it seems like it's gas price, but partially it seems it's like a structural shift that's going on.

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, it's demand driven.

Unidentified Participant

As you look at your capacity right now, is there opportunity to move some of this car capacity over to crossovers? And do you think crossovers, as everybody is kind of making some of that shift, will remain much more profitable than cars and this may solve some of the industry's issues on the car profit side?

Bob Shanks - Ford Motor Company - EVP & CFO

I think we have that opportunity and we probably would do what we've already done on sort of an organic basis when we have normal model changes or even when we add a vehicle line to the lineup. And we've talked about adding four SUVs over the next several years to the lineup. I think we will probably make those choices in terms of what's built where on sort of an organic basis and I think you probably will see some shifting of capacity from cars into SUVs to some extent.

But we will do that sort of organically as those changes naturally occur.

Unidentified Participant

Okay. And then the other hot topic that we get, and we will maybe get some follow-up questions on, this is on auto credit and how overheated do you believe it is. Is this stuff that we are seeing on the fringes, in the subprime market, new? Is it just on the fringes? Is it something that you think is problematic for the industry?

And how is Ford Credit operating and how do you see the cost of funds for Ford Credit? Has it ratcheted up and are you seeing some pressure in the credit market on a cost basis, not necessarily on a crisis basis, if we're looking forward?

Bob Shanks - Ford Motor Company - EVP & CFO

Let me just talk from Ford's perspective and Ford Credit, not the industry. Ford Credit has been following very consistent underwriting policies for a long, long, long, long time. We haven't really changed.

So if you look at the portfolio of the business in Ford Credit, about 5% to 6% is what we call high risk. That is not necessarily subprime, because we actually have a proprietary way of assessing customer risk. So that has been constant; it's still 5% to 6%.

What we have seen is a continued shift -- and this has been something that has been happening for many, many years, not just recently -- to longer and longer terms. We've also seen more and more leasing in the industry. We're kind of under indexed in both of those instances, but our portfolio also is getting longer and longer and leasing has been going up, but again less than what the industry has been.

But again, we do all of that with these very, very consistent practices that we follow in terms of who we lend to and how we assess the risk. And so if you look at the portfolio and the robustness of the portfolio, it's very, very strong.

What we are seeing in the credit markets is I think credit is widely available. We have seen spreads increase, particularly given the overall volatility that we saw early in the year. I think they are coming in a little bit recently and certainly the upgrade that Ford got from S&P and Moody's has helped already.

So I don't think we see any constraints in terms of supporting the continued growth of Ford Credit as that supports the overall growth of Ford. I think everything looks good.

Unidentified Participant

When you think about Ford Credit, it's a big player in supporting the business in North America. It's a smaller player in Europe and a smaller player in China. Is there the potential opportunity to globalize Ford Motor Credit?

If you can just sort of talk about really what the support is in aggregate in the business and how important a role it is for the ongoing business and stability of earnings and cash flow going forward.

Bob Shanks - Ford Motor Company - EVP & CFO

Actually, Ford Credit does support Ford around the world. Now we do it in different ways; it kind of depends upon local conditions and does it make sense or not for Ford Credit itself to go in?

Sometimes we will do it with joint ventures. Sometimes we will do it with partners, but we're behind the scenes in terms of supporting that partner who may be, if you will, providing the direct support to the network or to customers.

We follow different models and we've got a specific approach that we will take depending upon conditions in each market in terms of what way we will go to market in that manner. In Europe actually, Ford Credit does provide a great deal of support, both on the wholesale side and on the retail side. It's more like North America than any other part of the world.

In Brazil, I think we work in partnership with local banks. In Russia, we work with local banks as well.

And China we are wholly-owned and supported there, although in China itself overall financing is much lower. It's just a market condition, which I think will change over time as consumers become more and more comfortable with taking on financing to purchase vehicles. But I think we've got a good position there.

The good news, I think, in China is that the regulators, the People's Bank of China, has been working very aggressively I think to continue to open up the capital markets there and make them more normal, if you will. And so we're continuing to see more and more opportunities to get local financing for the credit operations, which is great.

Unidentified Participant

Europe has been a really great turnaround. It's I guess the third consecutive profitable quarter. I know it's been a hard-earned success. If you could help explain what some of those milestones were and what some of the game plan was that you actually achieved and then give us a feeling of how sturdy that recovery in that business is going forward.

Bob Shanks - Ford Motor Company - EVP & CFO

And maybe a comment about what we're seeing so far this year as well.

If you go back to 2012, when we announced the European transformation plan, we said it was around three things. It was brand, working on the brand, because we do, at least versus some of our European competitors had sort of a brand discount in the way that we look at it. So it was working on the brand, working on product, and working on cost.

If you now look at what we've actually accomplished versus where we were in 2012, we have largely delivered on what we expected and in some ways we've done a bit better. And I will explain that.

If you look at that, we've done very well on volume and mix. Share is actually flat over that period of time. We've gotten favorable pricing and that is around all the work that the team did on brand and on product.

If you look at cost, I think we actually have done better on cost than what we had expected. We've had a bit of an increase in what we call structural cost, which was expected. If you look at the contribution costs, think of that as sort of variable costs, we actually have had a lot of good news and that is through I think the team doing more than what had been expected. We also benefited from the commodity cycle turning, so we picked up about \$400 million from that.

The thing that we have overcome; in our original plan we had actually expected Russia to be a much bigger and positive contributor to the turnaround because of the investments that we were making there. And our expectation that the Russian market probably by about now would be, if not the largest in Europe, among the largest.

And of course, the commodity cycle turned. It's largely a gas, oil-driven economy; sanctions on top of that, so it's in a very deep recession. The industry fell sharply and is still at sort of a 1.5 billion level and so, of course, we have losses there. We've been able to accomplish a return to profitability, despite Russia actually going in the opposite direction.

And we see actually, as you go forward, we're targeting a 6% to 8% return for our operations in Europe, including Russia, and we do think that eventually the cycle will turn on commodities. It will benefit Russia; that will be a positive contributor at some point in the future.

But so far this year we're seeing a really good start to the year for the operations in Europe. The team is continuing to focus on even making further improvements to our product lineup, really focusing on what customers really want and value. Walking away from products that we think are no longer relevant, if you will, in the future in Europe.

Doing a great job on costs, pushing even further on costs. We've announced a voluntary separation program across Europe that probably will give us about a \$200 million ongoing cost save versus where we were last year. And so we're not letting up at all.

And the industry, as I mentioned, looks like it's actually going to be a bit of a tailwind this year for us. It's coming on very, very strong, other than Russia.

Unidentified Participant

Thank you, that's helpful.

Bob Shanks - Ford Motor Company - EVP & CFO

So it's really -- Russia I think is a really good story and will be a highlight for us this year.

Unidentified Participant

That's awesome, thank you.



Unidentified Participant

Maybe, if you could just quickly before we open up for Q&A, talk about South America. Obviously it's a smaller piece of the pie, but with a big cost-cutting (multiple speakers).

Bob Shanks - Ford Motor Company - EVP & CFO

With big numbers, though.

Unidentified Participant

I know, but -- well, yes, yes. I mean, yes; big numbers and profits are small or losses are hopefully getting smaller. But the \$450 million that you saved last year in cost savings, which you showed and broke out very specifically yesterday, was wildly helpful and actually wildly impressive to do in the space of the year.

How much more of that do you see as an opportunity going forward to cut costs in response to a market that, based on IHS and I think a lot of our expectations, is going to continue to be very weak? Do you get that region back to breakeven in the next two or three years, even if we're still kind of chugging along at these very low levels because you are doing great cost cutting and great product launches?

Bob Shanks - Ford Motor Company - EVP & CFO

I think the team has done a really good job and that's why we wanted to show that particular slide that we did yesterday at the Let's Chat event. I think the team has done a really, really good job of responding to the crisis, if you will, that we have in the region.

It is entirely externally driven. It's an economic downturn driven by the commodity cycle, but it's also overlaid I think by all the political issues that we see in Brazil and read about every day.

Frankly, the turnaround is going to require the cycle to turn and I think resolution, to some extent, of the political crisis that we see. Because for Brazil to unleash its potential is really going to require some structural changes to the economy, which are going to take a government that has got the ability and the will do that. So I think it's dependent, in part, on that.

So I would say the turnaround of our business there is likely in probably the medium term. I don't think this is going to happen in the next year or two, but we do think the commodity cycle is likely to start to turn next year globally. And I think that will help, but I think the political resolution in terms of the fiscal and structural things that have to be done to the economy in Brazil is going to be an important factor in terms of how strong that turnaround happens to be.

So our team is still working on further things that we can do. We actually mentioned yesterday that we will be taking another shift, the third shift off at our big Camacari facility in Northeast Brazil, so that obviously is going to help. And we are going to continue to work on other things we can do.

We've actually challenged the team to think about what we're going through, as we did in North America back in 2008-2009, as an opportunity, as a crisis. What more can we do, even beyond the normal cost cutting, to restructure the business so that when things externally do start to turn that we can come out of it far stronger than we were than when we went into it. So that's work ahead of us, but I think team has got the charge to be creative and it will be interesting to see what they come back with.



Unidentified Participant

We can open it up for questions, if we've got any in the audience. I've got a bunch more.

Unidentified Audience Member

Yes, thank you. I just wanted to focus on the comment you made on the call yesterday about the lease returns and the impact to Ford Credit from residual pricing.

Just wondering, the comment about the less than \$100 million impact, is that based on current auction values or are we assuming further declines in auction values for the rest of the year? And I guess just stepping back, how quickly can Ford Credit respond by raising lease prices, monthly prices to offset the loss of some of the residual-related income?

Bob Shanks - Ford Motor Company - EVP & CFO

It's interesting what's been going on in the auction market and with residuals. Let's just talk about what normally happens.

Normally this time of year you start to see a seasonal increase in auction prices. Until very recently we didn't see that. They didn't go down, but they just didn't go up to the extent that they normally should.

Actually, in the last month or so, after I think we ended February, we started to see an increase in auction values. Still not back to the level that you would normally expect to see at this point in time, but nonetheless they actually are now increasing. In the aggregate; it's different by segment.

So one of the things that, at least from an internal perspective, we're looking at versus our plan and what we had expected, auction values are a bit of a drag on the Ford Credit business, which is what I talked about yesterday. We are working to contain that, but it is a bit of a drag on the business versus our expectations, for the reasons I mentioned.

When you look at what's happening on a year-over-year basis, on a year-over-year basis trucks were actually up so auction prices for trucks are up. In terms of utilities, flat to a bit down and, for us, that's really driven by the Escape.

We launched the new Escape, or what was then the new Escape, in the 2013 model. We, unfortunately, had quite a number of recalls on that model, if you remember back those days, and so we are really paying for that now as the vehicles come back into the marketplace. It's really a very specific, focused issue for us around the Escape.

Cars is a different issue. I think this is more of an industry issue. We are seeing the auction values of cars decline and pretty sharply. Again, I think this is going back to what I said earlier around the whole consumer demand shift from cars into utilities and that's playing out now in the auction place.

One of the things that is encouraging, if we look at our no-sale rates -- again, I'm just talking Ford -- the no-sale rates have been throughout all of this very, very normal. And in fact, recently I think they have even been strengthening. Just looking at last week's auction values, they were up several hundred dollars.

So I think things appear to be a little healthier than what we thought when we looked to January and February, but I think if you --. As I mentioned yesterday, when you see our results for the first quarter, our expectation is that when you look at Ford Credit's results, which I think will be quite good in the aggregate -- but within that on the year-over-year basis you will see headwinds from auction values not being what we had expected and certainly this year-over-year issue that I mentioned largely around the cars. And it will be less than \$100 million in terms of that impact.

Unidentified Audience Member

Just on that real quick, when you talk about pricing coming down that means -- how does that run through the P&L for Ford Motor Credit? That ultimately means that your depreciation expense goes up as the expectation for vehicle prices goes down?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, there is two aspects. In fact, I think you asked that; I maybe didn't complete the answer or forgot it.

So there's two things that are going on. First of all, you've got vehicles actually coming back and going through auction. And so how does that compare versus the expectation? That's really what I was talking to more so.

The other thing that's going on is we basically, largely use ALG in terms of setting the lease-end value expectation for contracts that we are in the process of concluding. What we have seen is that the phenomenon I just mentioned around cars in particular, that those values are lower and so as a result, on a go-forward basis, at least versus our expectations, those are less than what we had expected. And so that's another phenomenon that you will see in the results as we move forward.

Unidentified Audience Member

That would be an ongoing increase in depreciation if used vehicle prices came down in total? It wouldn't be a one-time big bang hit thing (multiple speakers)?

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, we kind of makeup that difference, if you will, over the -- along the way.

Unidentified Audience Member

Sorry, I was just going to ask: GM made a big purchase of a software company just a couple weeks ago and I'm just curious how you think about your spending levels organically versus inorganically, fixed assets versus software. Because that seemed to be a big price paid for a three-year-old company.

Obviously, they're buying talent. The purchase price is maybe for some unique software that doesn't exist internally at GM or very much outside of GM. I'm just kind of curious how you, as Ford, think about that, because you guys are investing heavily in your business. But obviously over time, if more value is accreting to the software side, will you be shifting some of your investments more to software as opposed to fixed assets?

Bob Shanks - Ford Motor Company - EVP & CFO

That's a great question and actually for quite some time now we've been talking about the business in sort of two ways. We talk about the core business, which is the business you're all very familiar with, which is the business that is generating all the profitability, all the cash for us to invest in going forward, however we choose to do that.

And then what we see is a lot -- this is not just us, I think this is the industry. This is also some of the larger non-OEM tech firms; they see the same opportunities, but coming from sort of the other end of the spectrum around how you take new technology, connectivity, and think about the vehicle as a new big thing on the Internet of Things.

How do you take the ability to connect to the customer in the 900-plus hours that they spend every year in a vehicle, how do you take that, all of that together in a way and monetize it and develop a relationship with the consumer as they use that product in their day-to-day lives?

And so what you have is all of us trying to figure this out. I don't think anybody has yet; this is still a lot of work in front of us, but clearly it's going to require a lot more of a software-type focus and solution than hardware.

We do a lot of software today inside Ford, calibrations and all the electronics that are in the vehicle, but I think it's true and a fair statement that going forward, to fully leverage the opportunities that we see in what we call the space of Ford Smart Mobility, it will require different solutions, different expertise, partnerships. We will have to make some investments.

It's just going to be a whole new space that we believe -- and I think everyone has the same point of view. It's just who's going to get there and how are they going to do it and what's the combination of places that they are going to invest in specifically to create new business opportunities and new business models in that space to combine with the core business to create, in our point of view, a bigger and stronger business?

So I think you've seen GM do that; you've seen Toyota do that. You're going to see us do things. But what we will want to do as we go forward -- and we're not there yet, frankly -- but we will want to explain how we see the space, where we're going to place our bets.

And as we do make these investments, particularly if they are material, we will want to explain why we've done it, how does it fit in; how does it move us forward, if you will, in terms of driving and delivering value so that the investors understand the context in which the investment is made. And we commit to you that we will do that.

But this is a space that is going to be rapidly evolving and you're going to see it across a number of OEMs. And I do think you will see -- and we know that from at least the rumors around Apple, the rumors around Google and so forth. You've got these big tech firms who are starting from the software side. They have to go the other direction in terms of how they try to leverage and capitalize on this opportunity.

We're all seeing the same thing; we're just coming from different directions and working in different ways that will be unique by company to leverage that opportunity. That's a lot of work ahead of us.

Unidentified Audience Member

You did an excellent job improving the profitability of the business and the return on you getting capital investment, and yet the equity markets were obviously still tough on you and others. There's some voices, one particularly loud voice, that speaks about the need to consolidate the industry.

Do you see opportunities to get step-function improvements in capital investments to generate free cash flow, either through scale, either combining companies, or coordinated development of engine technology and transmissions and all the other things that are very costly to develop?

Bob Shanks - Ford Motor Company - EVP & CFO

I don't actually -- let me come at it from a different direction. I do think going forward that we, in particular, we will look for more opportunities in the parts of the business that probably the customer doesn't care that much about in terms of whether we did it all ourselves or did we do it with other people.

I think that there will be opportunities for us to partner. We are doing that already; for example, in Europe on diesel engines we partner with PSA on that. Here in North America on both the 6-speed transmissions, automatic transmissions, and now these new 9- and 10-speed transmissions that will be coming, we are developing those jointly with General Motors. We then both build on our own, because the scale that each of us has is so large it just makes sense to do that.

But I think you'll see more and more efforts underway, probably across the industry, but including at Ford, to partner and to join with others in various aspects of the business where the customers don't really care. And I think that we can probably get better capital utilization by doing that and better scale by doing that.

I think you will also see -- I don't think you will see -- I'd be surprised if you saw successful consolidations, if you will. Because one of the things that we have learned, particularly as we have developed the One Ford plan and basically merged ourselves, is there is a certain level of benefit that you get at sort of the global level; you put all those units together. It's largely around engineering, frankly.

And so us going from 27 platforms down to nine and we're working to get to eight, we've seen tremendous opportunities and efficiencies from the engineering side. But when you get down to actually then building that vehicle, you build it in a plant and a site, the scale is really at that site level and with the suppliers around you, which can be 50,000 units or 100,000 or 300,000, based on whatever is the economic scale of a particular commodity or a different part. It's not 7 million units, it's at that level.

So if you were to take two big enterprises and mash them together, I think you have to keep that in mind. You may over time, and it would be a lot of hard work -- I can tell you from us doing it ourselves, a lot of hard work to get the scale advantages that are available at that global level. But the real -- the pedal meets the road when you get down to that site level and that's just a lot of hard work and leveraging the local supply base and so forth. It's not at that big, massive put-it-all-together level; that's not where it happens.

Unidentified Participant

I have a quick balance sheet question, if it's all right. We have a lot of fixed-income investors here, so the balance sheet has really been extraordinarily strong.

Bob Shanks - Ford Motor Company - EVP & CFO

Did I tell you we got upgraded recently?

Unidentified Participant

Yes, I saw that. You [read] about 1 turn of gross leverage, which is really great, and over time Ford has in the past talked about increasing their rating as a long-term competitive advantage in a cyclical industry. Can you just touch on that really quickly?

Bob Shanks - Ford Motor Company - EVP & CFO

In terms of how we think about that or --? I think we are cyclical. We've been through downturns and I think none of us will ever forget what happened in 2008 and 2009. Of course, we started a big restructuring of North America before that, so we had a number of years that were extremely difficult.

It was difficult back then to fund Ford Credit, for example. So we know -- we feel viscerally, know what it's like to be in a position where the balance sheet is not strong and what happens when a cycle turns and you're not positioned well. Particularly having the credit company, but not just the credit company.

Since then we have really worked hard to make sure that we've got a very, very strong balance sheet and we are absolutely committed to keeping a very strong balance sheet. That's also one of the key reasons why over the last six years at least we have had a very committed strategy to fully fund and derisk our global-funded pension plans, because that was one of the bigger issues that we were facing. Because what happens when interest rates go the wrong direction or asset returns don't work out? You could be forced to make capital contributions just at the time where you don't have the capital to do that.

We're almost there. This year we are going to invest \$1.5 billion into our global-funded plans, and once we do that, those plans in the aggregate will be fully funded. We're done. And then going forward, all we have to worry about are basically the ongoing service costs, which should be \$500 million, \$600 million, \$700 million a year, and that's that.

That really is an important part of strengthening our balance sheet and I think it's one of the key elements that influenced the rating agencies in terms of giving us this next move up, along with the fact that we are starting to see better performance in the operations outside North America.

So we are absolutely committed to keep the balance sheet strong and to make sure that Ford Credit itself remains strong, because that's a really critical aspect that we see in the support of the automotive business around the world, going back to the earlier conversation.

Unidentified Participant

Maybe just one quick follow-up. When you look the assets and liabilities in the pension, to get into esoteric discussion on pensions, they are largely at this point duration-matched, so interest rate moves will have a relatively similar impact on the liability --

Bob Shanks - Ford Motor Company - EVP & CFO

That is the whole strategy.

Unidentified Participant

-- and the assets. So once you are fully funded, presumably -- there can always be shocks in assets, but that is a fairly locked and loaded position.

Bob Shanks - Ford Motor Company - EVP & CFO

And as part of that, as we progressively have gotten more funded, we have been increasing progressively the percent of the assets that are in fixed income investments, but we're targeting 80% for the most part. We still want to have 20% in equities, alternative investments because we still would like to get a little bit of a higher return than what we'll get on the fixed income side, because that will be largely matched.

And I think you saw that in terms of what happened with the overall funded status of the plan this last year. There was a lot of bad news, if you will, both in terms of asset returns but also the interest rates didn't really move as much as what we had expected and we end up improving the funded status overall. The US actually got worse, but it was offset by the funds outside, so it all works.

It's never going to be perfect. It will always probably be a little good, a little bad, but it's just not going to be the big risk that it was if you go back to 2005-2006 and the very unfunded status that we had at the time.

Unidentified Participant

That's great. I think with that we have to wrap up; we are out of time. We really appreciate you coming, Bob, and good luck with the rest of the day.

Bob Shanks - Ford Motor Company - EVP & CFO

Thank you, it's great to be here. Thank you.



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