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EDITED TRANSCRIPT

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Ryan Brinkman *JPMorgan - Analyst*

PRESENTATION

Ryan Brinkman - *JPMorgan - Analyst*

Okay, I think we're ready to begin with the next presentation. Very happy to have with us here the Executive Vice President and President of The Americas of Ford Motor Company, Joe Hinrichs. Also happy John Lawler, the Corporate Controller, is in the audience.

Thanks so much. Thanks for coming.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Thanks, Ryan. Appreciate it. All right. Thanks, Ryan; good morning, everyone. Thanks for the opportunity to be here.

I figured, given the last few weeks, that we'd do a nice little deep dive through some key topics that have been of interest to people in the last -- actually for many months, but given the last few weeks, probably be of more interest. So I'm going to talk first about our first-half results, which are very strong both corporately and in North America; and I'll deep dive into a couple key topics that are of interest to a lot of people in regards to industry sales, a little bit of our first-half to second-half look for North America in the business, and give you some of the perspective on that. And then a lot of questions on incentives; we'll talk a little bit about that with some data.

And our US stocks and inventory and how we're managing that with good discipline; and of course, one of the tenets of the One Ford Plan is matching production to demand. And then we'll end with all these products; it's always fun. We have very important launches this fall: Lincoln Continental and the Ford Super Duty -- Super Duty for the first time in 18 years, all new. And I'm proud to announce we started shipping new Super Dutys over the weekend to our dealers, so that launch is going well and moving forward.

But first let's look at our Automotive segment profits in the first half of the year. You've seen these; but just a reminder.

Start on the right at the bottom, record first-half operating cash flow. Very important, obviously, in this business environment to generating a lot of cash and to make sure that we're investing for the future.

You can see the profits are up 40%. You can see the operating margin up about 2 points globally. Our share was down a 10th, but revenue was up 8%.

So very strong start to the year. And obviously, questions about what that means for the full year, but very strong start by the Ford team in the first half of the year.

Importantly, driven by strong cost performance in the first half of the year. As was mentioned on the earnings call, $1.6 billion better than originally planned, so very strong cost performance in the first half of the year.

Now if you look at North America specifically in the first half, you start with the fact we had a $5.8 billion profit, which was a record all-time for North America. The previous record actually was $4.7 billion, so you can see the degree of strength we had in the first half of the year and how strong the results were compared to where we've ever been.

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Market share was up, especially up in US and Canada, which was good to see. Down in Mexico in a strong Mexican industry, but very strong performance in the US and Canada.

Revenue up significantly, 10%; and wholesale is up 9%. You know this; you see the operating margin in the first half of 12.1%, and clearly an opportunity for us to continue the strong performance we've had for several years.

If you look at the Automotive segment in North America, I thought I'd take a little bit of a historical perspective, go back to 2010, post the financial crisis. We've delivered strong results really ever since the restructuring and during the financial crisis: six-plus years of strong operating margin and profit; 27 consecutive quarters of profitable profit in North America.

And importantly, one of the things you see on this chart, as a reminder through history, there are seasonal effects to our quarterly profits, first and foremost, typically the second half being weaker than the first half. There are exceptions to that; I'll talk about that. And typically the fourth quarter being the weakest quarter of the year.

When you look at the exceptions, they are typically related to launches and most specifically around F-Series launches. That dip in between 2014 and 2015 on the blue line there of pretax profits are the three quarters we were launching F-150.

You know the prolonged launch we were in during the conversions of the two F-150 plants from steel to aluminum, and we had that dip. F-Series has a big influence on our business, as you know, and that impacted the difference and typical difference and sometimes between some of the quarters.

But you can also see in the last five quarters we have had our four largest profit quarters ever since we've had the North American CBG in around the 2000 time frame. So very strong results over especially the last 18 months, and as a team we're working to continue that.

If you look at -- on the Automotive side of the business in North America, first half versus second half, this is an extension of the discussion that was had at the corporate level in the earnings call with Mark and Bob a couple weeks ago. First off, you see those very strong first-half results of $5.8 billion in the blue bar on the left.

Then you see the normal seasonality that comes with our business, as I mentioned; you saw that in the previous chart. There's fewer wholesales typically in the second half of the year, less production days, fewer production days given shutdown periods and holiday periods, especially November/December, and different types of seasonality as we take our inventories down leading into the winter, and then they grow during the -- into the spring and summer.

The Super Duty launch specifically called out here has a major impact on the second-half results compared to the first-half results. While the Kentucky Truck Plant where we build the Super Duty is in launch right now -- and I said we started shipping the trucks over the weekend, which is great news -- we built a new body shop. So we didn't have to take out the old body shop and put a new one in like we did on the F-150 plants, but still there is extensive downtime, a launch curve. It's an all-new product.

The only company that's ever tried to launch this kind of run rate of volume on aluminum is Ford in the F-150, and now we're doing it again on Super Duty. So it's a significant launch; there will be a launch curve; there will be launch losses; and of course there are costs associated with the launch of our Super Duty.

In addition to that, as was also discussed in the earnings call, there will be slightly lower margins on the new truck when we launch it, given the cost of putting in all the costs going into the truck, for the first time all new in 18 years. But as we've always done, we'll continue to take cost out and continue to have very strong margins in our F-Series business.

There are higher warranty costs in the second half over the first half. You saw the latch recall that we announced just a few days ago; that $270 million cost is largely in North America, and that's part of what's reflected here in the second half versus first half. We did an 8-K on that last week, as you may have seen.

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We are expecting commodities to be a little bit higher in the second half compared to the first half. Things like steel have risen a little bit compared to where they were in the first half, although still a good environment for the business.

And then fleet timing is noted on here. This is unusual, but we called it out in the earnings call. We have actually 170,000, 180,000 fewer fleet deliveries in the second half compared to the first half; and of that, 130,000 of that is daily rental timing.

As you may recall, in the beginning of the year we had very high daily rental numbers. We said on our sales calls that the daily rental numbers would be front-loaded given where the orders were this year, and that our full-year daily rental business would be comparable to what it's been the last couple years.

We took our daily rental adjustments years ago when we restructured the North American business, and we feel very comfortable with the level we're at when it comes to total daily rental. It's good business for us with good customers.

But there is a big difference first half to second half this year in the timing of the deliveries, so that helps explain a little bit why there's such a difference markedly in our expectations the first half versus second half. Of course, we'll continue to work to improve the business. I talked about how strong the first-half results were impacted by our cost efforts, and we'll continue to make those efforts going forward in the second half of the year.

Now I want to talk a little bit about industry SAAR. I know, Ryan, you asked the question in the last segment.

This is a look back by quarter, back into the first quarter of 2014. What you see, of course, are a very strong industry in the United States.

You can see at the bottom the retail SAAR as a part of the total SAAR. In the first half of the year, the retail SAAR was basically flat, down a 10th compared to the first half last year. So when you talk about stabilizing or using words like plateauing, that's what we're seeing in the retail business -- at a very strong level, but still seeing that.

Now you'll also see last year in the second half was a very strong SAAR rate, 18.3 million and 18.3 million for the third and fourth quarters. We'll watch to see if that repeats itself again this year.

We're off to a good start, with the July SAAR being 18.2 million units. But we're watching very carefully, because our point of view is that we don't see the strength second half over first half this year that we saw last year in the retail segment, although it's still a very strong industry and, as we're calling out, a range of 17.4 million to 17.9 million for the full year, which is still a very strong industry in the United States.

Now a lot's been discussed in regards to incentives and what's going on in the marketplace, so what I thought I would do is dive a little deeply into what we're seeing and what the industry is seeing in the marketplace in the US. This data comes from J.D. Power PIN data and ISR reports available; I know a lot of people see it.

I've broken it out into car, SUV, and truck segments and called out the year-to-date through July 24. When we put this presentation together, that's all we had; it didn't markedly change when July closed. And then also call out the second quarter.

A couple things of interest. First of all, as you might expect -- you can see it -- incentives are up as a percent of revenue or a percent of vehicle price more in cars then they are elsewhere, given the pressure that the car business is under. You can understand and appreciate that.

I think it's helpful to look at blended incentives as a percent of vehicle price, because it takes a mix effect into account. Because if you are providing an incentive to drive mix up to a higher series, or if you're providing higher incentives on a truck versus a car, all that can play -- mixes itself out when you look at it as a percent of vehicle price.

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But you also see for the year-to-date numbers that in our business, in Ford, SUVs are actually down as a percent of revenue by a 10th year-to-date. That's on the strength of midcycle actions last year on Edge and Explorer and this year on Escape; so good timing for having midcycle freshenings of very important products for us in the SUV segment. You also see industry is up a little bit as a percent of price on SUVs.

And then you also see on the truck/van side of the business, which we're very strong in, our incentives as a percent of price are up year-over-year. But you'll see in a second that's more than explained by the fact that we had very low incentives in the first half of last year on F-150s specifically, because we didn't have very much inventory during the launch.

A lot of that gets lost in the quarter-over-quarter explanation. You'll see in a second just how low those incentives were; lowest we've had in many years while we were launching the F-150 and didn't have the supply that we normally have. Things have normalized now and you'll see that here.

What you see in the mix of all this, even with those tough comps year-over-year in the second quarter on F-150, that for the year-to-date number actually our incentives as a percent of vehicle price are up 5/10 while the industry is up 6/10. But the fact that it's up 6/10 in a very strong market is what people ask questions about, and this highlights it. But you can see where it's coming from: largely coming from cars, which we've seen some pressure on as a result of the industry moving to more SUVs.

Another thing related to that, of course, is what's happening to transaction prices. Because incentives mean one thing, but transaction prices -- and together you get the whole story. There's a lot of data here, but I wanted to also provide a view of what's been happening in the first half of the year and in the second quarter on average blended transaction prices, which includes the cash, APR, and lease, which is I think the right way to look at the business, because you can do things on lease and cash and APR differently.

When you look at year-to-date, what you might expect of course is happening. Average transaction prices on car in the industry, if you look to the right, are down 1.9%. Ford's average transaction prices for our cars is only down 0.7%.

But you can also see the strength of our SUV lineup. Our average transaction prices are up 2.9%, while industry for SUVs is up 1.7%.

Now a little bit of anomaly here, but you look at truck and van: at Ford our percent blended transaction price is up 1.9% and industry is up 3.5%. Again, I'll show you in a slide in a second that's because last year we had the highest average transaction prices in the second quarter that we've seen in quite some time, because we were primarily only building SuperCrew mix on F-150 and we had very low incentives.

But what may be hard to figure out by this math is -- you look at the bottom line. Because of our heavy mix on cars -- sorry, our heavy mix on trucks, vans, and SUVs and the industry move in that direction, our actual average transaction prices are up 3.9% this year through July 24, but the industry is only up 1.9%. So what you see is the mix effect that is happening on trucks and vans and SUVs is helping our transaction prices and helping our business.

Just for July alone -- this is year-to-date data in the far right column. In July alone, our average transaction price for Ford Motor Company was up over $1,450, while the industry was up about $670. You can see the strength of our lineup and how it's skewing towards those strong prices.

Those transaction prices are up at the same time -- on a year-over-year basis in July our incentives as a percent of revenue were flat, whereas the industry was up 0.5. So I hope all this shows you a couple things.

One, that we do have very strong incentive disciplined and we're very stable. There was tough comps in the second quarter, so people got a little confused on F-150 in some cases year-over-year; but once things normalize you can see the strength of our discipline.

In addition, transaction prices continue to be strong, which is a healthy sign for the industry. Of course, you'll see actions like we saw in July by one of our competitors that will spike the market on incentives, and we have to watch how that plays out over time. It affects the marketplace, but clearly we've been very disciplined and will continue to be very disciplined in our incentives and hopefully see continued rising transaction prices.

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Now I alluded to this, but I wanted to show you this slide. This is the F-150 transaction price and incentive data for the last -- getting back, go back to the first quarter of 2014. We're the blue and our two primary competitors are averaged out in the black line.

What you'll see there -- of course, go back to second quarter of 2015. You'll see that spike in the blue on average transaction prices and then the dramatic drop in incentives. That's when we, per plan, during the launch were at our lowest point of inventories and were building primarily just SuperCrew versions and high-mix versions of the F-150. So we had a bit of an anomaly.

But you also can see the trend. The trend has been upward in average transaction prices, our blended transaction prices for cash, APR, and lease. But you can also see that our incentive spend is pretty much normalized. Matter of fact, it's slightly lower than what it was even before the launch of the new truck even though our transaction prices are up significantly.

You can see the stability at which we've managed our incentive support on F-150 on a spend per unit basis, except for the dip in second-quarter 2015, which makes those difficult comparisons. So it's very strong discipline on the F-Series side of the business, especially F-150.

And I can say without hesitation, very strong performance by F-150 in the marketplace since we launched it. Matter of fact, the last four or five months we've seen exceptional performance by F-150 in the retail space as well.

Now a lot's been discussed about inventory levels in the marketplace and where we are in this industry. I wanted to also show you this data, which I think is very interesting.

First of all, this is days supply data broken out by again cars, SUVs, and trucks, and that in total for Ford in the United States. What you'll see is remarkable stability on cars. You see that 66 days supply. This is July, so I want to take July, the end of each year: July 2014, 2015, 2016.

You'll see 66 days supply consistently on the car side in July. We take that down a little bit as we get more towards the winter.

You can see on SUVs, though, for the last couple summers we were lower than we wanted to be. We've been working very hard on getting our capacity up on things like Explorer, Escape, and Edge.

We're able now to make that happen, so our days supply is a more normalized 63 days in July of 2015 -- I'm sorry, July of 2016. But that took our overall -- helps buoy up our overall industry level -- or inventory level because SUVs have grown by design, because that's what's hot in the marketplace and that's where we needed more capacity.

Then on trucks, on the orange bar you can see the effect of launches. In July of 2014, we were building up stock to get ready for the F-150 launch which started in September, August/September of 2014, and we had a high level of F-150 inventory. Then last summer we were down a little bit lower because we were light on F-150s in the May/June time frame, but got back to normal in July and August.

And you can see this year we're heading into a Super Duty launch with significant launch curve for the new Super Duty. And we have a little bit higher F-Series inventory, both F-150 and Super Duty, than we normally would carry to get us through that launch. It's very prudent to have a good supply of F-Series while you're going through the launch in case there's any issues.

So you can see what's happening. We were at 74 days supply at the end of July. I went back and looked at December 31 the last three years: we were 73, 72, and 73 days supply the last three years. So you can see that remarkable consistency.

But one of the things that needs to be understood for Ford in North America is that we aggressively restructured our manufacturing footprint during the restructuring period of 2006 to 2009. Matter of fact, we have a better utilization rate of our manufacturing plants than most of our competitors because we run most of our large-volume plants on three crews.

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But when you run three crew seven days a week, you don't have upside capacity, so we have to manage our production on an annualized basis to be able to deliver the full year without the benefit of having any excess capacity in many of our plants. So we will run harder in the first half of the year, build inventories typically through the spring and summer.

And then starting in the summer shutdowns in July, we'll not work a lot of overtime in August when it's hot and people are on vacation. And then the holiday periods, November/December, our inventories come down.

That's the cycle that we're on is, but we have to utilize the full year to meet some of our high-demand products. So you will see our days supply fluctuate a little bit differently than some of our competitors; but we think it's a major contributor to our operating margin strength and is a strength overall of our business.

But our stocks are getting where we want them to be at this time of year. In the third quarter we'll take them down a little bit more once we see the Super Duty launch proceed and we're comfortable with where that is.

Now, I talked about two products, very important products for Lincoln and Ford launching in the third quarter. The Lincoln Continental is back; we're excited about it. We're in the launch right now, and we should be shipping vehicles soon to dealers.

Of course, you know the 400 horsepower, a 3-liter Twin-Turbo engine, all kinds of technology, great-looking vehicle and, along with the MKZ, bringing the new face of Lincoln to the marketplace this year.

You can see the interior; it's a gorgeous interior. Very excited about it. If you need it, you have 30-way Perfect Position seats in the front.

But also just all kinds of features inside that people are going to love, both in the front row and in the second row. And we're very excited about what this means for Lincoln. It's a flagship sedan that Lincoln really needs, and we're so excited about the reception we're already getting about the Continental.

I mentioned we're shipping Super Dutys. You know the share we have there: over 40% segment share, one of the strongest products in our portfolio. This is the first all-new Super Duty in 18 years, so you can imagine how excited our dealers, our customers are for this product.

The attributes are -- think about the progress we made from the previous generation F-150 to this generation of F-150, even more dramatic progress on the Super Duty products. Best-in-class towing and hauling and torque; unsurpassed fuel economy; great to drive.

High-strength steel fully boxed frame, so we're really excited about that. But also aluminum body that you know we've been able to do so much with on the F-150.

17 class-exclusive features -- you can read it. Very excited about it.

This is a slide that I like to show because it just demonstrates how strong our fleet business is, and how strong our Super Duty is within the commercial business. Because the fleet is more than daily rental. Daily rental is a good business for us, but government and commercial business is very strong for Ford, as you know; it's very good business for us.

Look at these segment shares that we have in these different work environments for the Super Duty and for F-Series. I mean, we dominate work on F-Series, and that's very important to this customer and very important to our Built Ford Tough brand.

So let me summarize from a few key takeaways. Very strong first half of the year for both North America and the Company. 2016 US industry volumes we think will be about the same or slightly lower than last year, but still at a very strong, healthy level.

I already took you through how disciplined we are in incentives and what you're seeing as what Ford is doing and how consistent we are. We believe our inventories are in good shape and we'll continue to monitor them progressively through the year.

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We do expect a weaker-than-normal second half of the year, especially the third quarter. In the 8-K last week we noted that we expect our third quarter corporately to be about 10% of the full-year profit number, so we gave some guidance there: due to the Super Duty launch, this recall that we just had, and some other things going on, including the fleet timing that I mentioned in North America. We do still expect very strong full-year results, and we're continuing to deliver our financial guidance. And of course, we'll always be focused on great products and doing everything we can for quality.

And with that, I took a deep dive through a few key topics for North America that I know are of interest to a lot of people, and now I will take your questions.

Okay, Ryan? I'll come over there. Is that all right?

QUESTIONS AND ANSWERS

Ryan Brinkman - *JPMorgan - Analyst*

Thanks for that overview. I'll ask one, maybe two questions at most and turn it right over. So the first question is, I think you can remind us. I think you guided to 8% to 10% normalized margin over the course of the business cycle in North America. It's obvious that you can do 10% margin in good times; you've shown that repeatedly.

I think investors are not giving you full credit, though, for the 8% to 10% over the course of the cycle. They are using a through-the-cycle EBITDA number or EBIT number North America that is lower than you're indicating.

So can you remind us of downturn planning? Can you remind us of how you think you might perform in a downturn? How low -- how your margin might track as the SAAR moderates lower, and your latest thoughts on a breakeven point at which the margin would actually be zero.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Yes, so, lots of questions in there. Let me touch on them. First and foremost, as you know, the business structure in North America is far different than it was 10 years ago: a lot more flexibility on the labor side of things, including the ability to eliminate excess labor when and if we need it, if it were a downturn scenario; much better structural cost base; better-margin products, frankly; and also more discipline for ourselves and the industry.

We guided or we gave some -- earlier this year that North America could be -- we thought North America could be profitable around 11 million SAAR with the adjustments that we've made. We still believe that.

Important to remember that a lot of assumptions go into your analysis: what happens with pricing, what happens with volume. But we believe given, what's happened with the structure -- not a lot of excess manufacturing capacity in North America -- that we'd see a healthy environment -- well, we'd see an environment that would respond differently than it has in the past to a downturn scenario. But we feel good about where the North American business is in that case.

We did -- we have for many years guided 8% to 10% over the cycle. We still believe that we can be profitable in a downturn.

We've been beating 10%, which has set high expectations for everybody. Of course, 12.1% in the first half of the year sets high expectations too. But I feel really good about where we are.

We know we could take more cost out if we needed to. Compensation would come down; advertising and marketing costs would come down; I mentioned the manufacturing and labor. And of course, we'd slow down other spending where and if appropriate in an environment like that.

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So we feel pretty good about our preparedness for that, and we'll watch what happens in the future.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. And you give us a great rundown on what's happening in the US relative to sales and whatnot. I think your responsibility is for the Americas. So maybe you can just touch on some of the other markets, what's happening in Canada and Mexico, for example -- which I think is better than in the US -- and then what's happening on the downside maybe in some of the South American countries, Brazil, Argentina, God forbid, Venezuela.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Yes. We have very strong share in Venezuela but it's very few number of units.

Well, let's start with North America first. We're proud of the fact in Canada we've retaken leadership overall for sales through July. Our business is up significantly there in market share this year.

Given the fact we've been able to give the Canadian business more trucks and SUVs, given the capacity we've been able to free up over the last couple years -- we were constraining them in the last 18 months or so prior to that, which was affecting our ability. So we're number one in share in volume in Canada.

We were for five years straight, up until 2014. Last year, FCA declared they took over leadership; and then this year we've retaken it.

So we feel good about the Canadian. Industry is strong. It was a record last year and probably going to be another record this year.

The Mexican industry was a record yare last year as well and looks like it's going to be another record year this year. We don't have the same share in Mexico that we have in the US and Canada, so on balance that's a negative effect in North American share. But we do see strength in the Mexican industry.

A lot has been at the lower end. Of course, with exchange rates there's been a lot of pricing, trying to catch up with where the peso is. But the Mexican industry looks strong and will probably continue to be so for a while.

In South America, it's a very different -- no matter where you are. We've seen very good signs of progress in Argentina since the [macro] organization came in and we've been able to see what's happening in that political environment. The industry has been strong; the economy is getting better; the currency situation has stabilized a bit.

Brazil is still a difficult environment for all the reasons that you know. The industry is still in decline, although we think getting towards the bottom. Pricing is difficult. People have been aggressively going after fleet share and other things to keep up their share.

And I hesitate to give any prediction on Venezuela.

Ryan Brinkman - *JPMorgan - Analyst*

I know you deconsolidated anyhow.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Yes, it's deconsolidated, but we still have a business there. We have -- and we're still producing there.

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Ryan Brinkman - *JPMorgan - Analyst*

Maybe just one anticipating -- I get a lot of questions about profitability of the aluminum trucks. Obviously, when you first launch a truck the profitability dips as you lose production and whatnot; but then profitability is greater initially: there is pent-up demand, the mix is strong.

So it might take a while to understand what the actual impact is. So as you estimate, having gone through the F-150 launch and now you have the Super Duty launch, your estimates of the overall profitability of those vehicles in a normalized environment, the new versus old versions.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Yes, there certainly are costs associated during the launch period which, as you highlighted and as you can see in our financial results. The way I'd answer that question is, post F-150 launch, getting up to full speed of production, we've set records for every quarterly profit. All four record quarterly profits in North America are post F-150 launch.

So that's the way I'd answer that question. Well, of course, we'll do the same with Super Duty. The Super Duty launch --

Ryan Brinkman - *JPMorgan - Analyst*

(inaudible - microphone inaccessible)

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Not predicting that. But Super Duty launch will go through the same cycle of cost to launch, and then we normalize, then we work to cost-reduce the vehicle where appropriate once we get things stable. And we believe there will be a very strong acceptance for the product, as there has been for F-150, strong pricing, and strong mix which has been very healthy for the F-150. Actually, SuperCrew mix has gone up with the new F-150 compared to the old, which has been good for the business.

Ryan Brinkman - *JPMorgan - Analyst*

Great. Any questions out there in the audience? Looks like a couple.

Unidentified Audience Member

I actually have a follow-on to Ryan's question that he just asked about the implied margins on the F-Series going to the aluminum bodies. Should we be thinking about this straightforward as product line, implied margins, incremental/decremental results? Or is there something larger as you think about your overall corporate CAFE and the possibility that you can use a smaller displacement engine? And then looking forward, your move to go this route is driving something larger?

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Yes, thanks for the question; it's a very insightful question. The F-150 today, with the aluminum body and with the powertrains that we have is a positive contributor to our overall fleet compliance in the US, which is the first time for F-150 since we -- when we launched the new truck. So that's important for the total business. Even though F-Series business is strong for us, it also contributes to our fleet, so we don't have to do some other things some other places because of that positive contribution. And it's a significant positive contributor.

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It's different with Super Duty. Because of the over 8,500 it's a different environment. But we're also very pleased with where we're going to sit competitively on the Super Duty.

Also, the investments we've made in F-150 with the new platform, with the aluminum body, is a long-term investment. So we won't need to redo the platform for a long period of time. We won't need to go to aluminum in the next cycle; we're already there.

So while we incurred some spending and some D&A upfront with that, with all the conversions of the plants and all the launch costs, we feel that investment was well merited and well timed, actually, for the requirements that are coming over the next five, 10 years. We're well positioned.

We don't think we'll need to make investments others will have to make to get there given what we've done. So there's both a short-term benefit and a long-term benefit, both on fleet compliance but also on where we think people are going to need to go to be compliant with their trucks into the future.

Ryan Brinkman - *JPMorgan - Analyst*

I'll ask one while they're thinking.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

While we're thinking about that, though, also what -- the great thing about the decision to go to aluminum on the trucks was that lightweighting allowed us to give truck customers what they want the most, which is more capability. Even though we talk about the corporate benefits and the fleet benefits, truck customers want capability. And having a truck that's lighter allowed us to haul more, tow more, brake in shorter distance, accelerate better, and get better fuel efficiency, the things that are important to truck buyers, especially hauling and towing.

So we got the added benefit, which is one of the reasons why I think you've seen strong transaction prices. Customers value that.

Ryan Brinkman - *JPMorgan - Analyst*

Any more questions in the audience? I'll ask one on -- we discussed the relative profitability of trucks, new versus old. What about the relative profitability of cars versus trucks?

This is something that's not disclosed on an ongoing basis. But in 2012 and 2013, Ford executives let slip every now and then that they are profitable across the entirety of their lineup. You don't talk about that as much anymore. I imagine with the decline in fuel prices, Chrysler not even building cars in the United States anymore, right?

So what's going on here? Nobody out in the audience cares about this too much right now. I'm sure you guys are thinking in the back of your minds, though: What if there was some sort of repeat of oil price inflation or something? So how do you think about managing your car operations to better profitability?

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Well, you're right. We been in this business a long time; we've seen a lot of cycles, and we want to have a balanced portfolio and need to have a balanced portfolio to go through any of those different cycles.

We're taking pretty aggressive actions to improve the profitability of our small car business. You know the actions we're taken with moving production outside of the United States, freeing up capacity here for incremental products. We've announced we're bringing four new incremental SUVs to the lineup over the next four years in the US, so we freed up some capacity to do that.

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But we also can lower the cost base for small cars for the future, which is very important for us. We don't break out profitability by segment, but you can see by what's happened with incentives and pricing that the small car -- the car business, rather, both on a volume basis and also on a pricing basis is under some pressure in the US. So it's important for us to continue to find ways to get more cost-effective on that part of the business and stay in it for the long term.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. There's one of the audience here, and this will have to be our last question. Up front here, sorry.

Unidentified Audience Member

Hi. What's the right level for trucks inventory in 2017 in your view? Because right now if you look at the slide you show in July it's always been higher than the group inventories. It would be very interesting to understand if you want to keep trucks inventory higher than the Group average or at the same level.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

That's right. We do keep trucks and vans days supply higher than the average, primarily because of the complexity of the builds and the vehicles.

So you have all different cab configurations and different bed lengths and different powertrains, and truck customers and van customers want their specific tool that they need.

So if you can think about it this way, roughly -- it's not this simple -- but cars and SUVs are pretty comparable; and trucks would be a higher days supply given that complexity and given the strength of our business, being with such strong share in trucks and vans. But you'll see them average out.

As I said, the last three years we were at 73, 72, 73 days supply in total. We were higher on trucks, lower on SUVs and cars; and that's what you'll see in the future as well, given the complexity of the sales.

Ryan Brinkman - *JPMorgan - Analyst*

And unfortunately that's all the time we have, so please thank Joe for taking the time out to come to the conference. Appreciate it. Thanks so much.

Joe Hinrichs - *Ford Motor Company - EVP, President - The Americas*

Thanks, Ryan.

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