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PRESENTATION

Rod Lache - *Deutsche Bank - Analyst*

So for those of you that know the Ford management team and have attended these dinners in the past, you know that this is certainly amongst the most strategic and thoughtful and most insightful leaders in the automotive industry and because of this, I always look forward to the insights that we get at our annual dinners here at this conference. And clearly, this year, we have a lot to talk about as the industry faces potential changes on many different fronts, whether it is technologies such as vehicle electrification and autonomous driving, new mobility paradigms and more recently political changes that have been making many headlines and I'm sure Mark will be very candid with all of us on those. So we are very grateful to have the full complement of Ford executives here with us at dinner tonight and I am very pleased to welcome Mark Fields, the CEO of Ford Motor Company.

Mark Fields - *Ford Motor Company - President & CEO*

Okay. Good evening, everybody. I, as well as the rest of my team are your dinner entertainment for tonight and it's a busy start for the year for us, as you can see and it's really a pleasure to be with you. Rod, we always appreciate the invite to come and talk during the auto show. And tonight,



what I would like to do is spend some time, about 30 minutes, giving you an overview of what's going on in the Company and then we will have about 60 minutes of Q&A and I will bring my colleagues up to have a good Q&A.

And so what I would like to do this evening is share some progress that we are making in expanding our business model to be both an auto and a mobility leader in the years as we go forward and what I will do is I will touch on our progress in 2016 and then, of course, we will touch on the outlook for 2017. So let's get started.

Okay, on this slide here, and I know we have folks listening in, so I will reference the slide number, so on slide number 2, very importantly building on what we said back at our Investor Day back in September, we want to equip you with the evidence that Ford is a solid investment with an attractive upside on emerging opportunities. And in the near term, we want to make clear that our core business is robust and defensible and we are much more, if I could call it, physically fit to withstand a downturn than I think ever we have been in our past. And along with that comes a stable and a sustainable dividend like the one that we just announced a little earlier today.

Now longer term, what I want to make sure we do is make clear the upside opportunities for you and for us from transitioning what we call underperforming parts of our business, but also reallocating capital to growth areas of the business like mobility, autonomy and electrification.

So looking at slide 3, let me just recap 2016 for us. It was another strong year of results for us and as you can imagine, we are still racking up the numbers, but we are confident that we will achieve our second-best Company pretax adjusted profit since 2000 and that's going to include a record profit in Europe. What's more, our operations outside of North America on a combined basis will be profitable and they will be improved on a year-over-year basis.

Looking at automotive operating margins, we will come in above 6% and that's the fifth time in the last seven years that we've come in above 6% and that includes double-digit net income margins once again at our joint ventures in China. Of, course we expect our return on invested capital is coming in and exceeding our cost of capital and with that strong automotive-related operating cash flow.

Our global funded pension plans are now nearly fully funded and as you know, we've talked about the last couple years our strategy around fully funding our pensions, so we are nearly there on that. Importantly, our risk profile was recognized with ratings upgrades from each of the four major rating agencies in the past year and of course, for our shareholders, they continue to benefit from our success and we had total distributions of \$3.5 billion last year and also including our first supplemental dividend of \$1 billion that we declared last year.

Now as a result of this strong performance and as you can see on this slide, we are confident that we are going to deliver on our guidance in 2016 of a full-year adjusted pretax profit of about \$10.2 billion. I would like to note, however, that based on our preliminary results, our full-year adjusted effective tax rate is expected to be in the low 30% range and probably around 32% and that's higher than we had forecasted and higher than the present First Call estimates. So let me mention that again. It's around 32% and this is higher than what we had forecasted and it's currently higher than the First Call estimates.

So there were several areas of the business that caught investors' attention last year for our business and on slide 5 here -- and I would like to go through this -- it shows and I think demonstrates we remain very, very committed to running a disciplined business as a company, balancing production with demand, but also at the same time delivering profitable share.

So let me take you through this. If you look at the upper left-hand corner there, of course, we continue to deliver on bringing exciting products to the marketplace and we've always said we want to bring to the marketplace products that people really want and value and importantly, you can see that's evidenced by our growing transaction prices, which are growing at a much higher rate than the industry.

Moving to the right there on incentives, we've taken a very disciplined approach to incentives and as we've talked about in the past, our approach is to be competitive, but disciplined on incentives and while the industry incentives were up, as you can see in 2016, I think our measured approach really allowed us to increase at a lower rate than the rest of the industry.

And then finally on the bottom there, as we look at the lease mix, we took steps to reduce our lease mix and we were doing that in response to the lower residual values that we were seeing and we not only widened our gap to the industry, it also declined for the most part during the year.

Now looking at a few other things, we've said we have a very experienced and proven management team and you know us really well. We call them the way we see them and when we see them, we act on them. And I think we've done that again in 2016 and you can expect us going forward to continue to do that. So in 2016, if you look at the upper left-hand side here, we said we would reduce our days supply after we reached our desired run rate on Super Duty because remember, during the year, we had higher stocks and part of it was to anticipate the Super Duty launch. And as you can see here, we did just that. We came out of the year at 70 days supply, so we feel really good about where we are from an inventory standpoint, from an overall level and from a mix level.

We also said that if you move over to the right-hand side of the chart here that our higher rental volume in the first half of the year was temporary and the reason that was temporary, that was based on requests from our fleet customers on when they wanted deliveries and you can see in the fourth quarter and in the second half in total our rental volumes are down versus the first half and our full-year rental volume was the same as 2015 and that was as expected and as we guided to in I think it was our first-quarter earnings call.

In China, if you recall during the second-quarter earnings call, we discussed that our market share was down and that we were taking actions to address that. And you can see in our performance in the balance of the year, we improved market share literally in the remaining months of the year, so our team really delivered on that.

So we will talk more about our 2016 results at the earnings call a little later this month and what I would like to move onto now is spend some time talking about how we are creating value, our approach to creating value going forward as a company and as a team. Very importantly, and this is a slide that we showed at Investor Day, we have a very clear vision and strategy for our business going forward and our plan is pretty simple and straightforward. We want to achieve top quartile returns by expanding our scope from vehicles to mobility through business model innovation. And we are doing this by focusing on some strategic priorities that are going to drive value. And four of these strategic priorities focus on the core business and three of them focus on the emerging opportunities. And as we think through these, it's all governed by pretty simple questions that we ask ourselves -- where do we want to play; where do we not want to play; how do we win in those areas that we want to play?

And as we do this, our choices are really going to be driven by the key drivers of valuation as you see on this slide and this slide is very consistent with a slide we've shown here for the past two or three years because these are the things that drive value. Growth. We want to grow faster than global GDP over time. On risk, we want to have a very strong balance sheet and also counter volatility in the business. On returns, we are shooting for 8% operating margins on our core business and 20% on the emerging opportunities, particularly around mobility and of course, we want to drive rewards for our shareholders that entrust their capital to us.

Now we are very well aware that as we think about core and emerging that we keep our core business very, very strong because we need that so that we can then invest aggressively in line with the strategic priorities that we've laid out. And so what I would like to take you through is, in each of these areas, the progress that we've made since we last met in September and this is really again around fortifying our profit pillars, transforming the underperforming parts of our business and growing in the emerging opportunities. And you can see them there, our fortifying our strengths, trucks and vans, commercial vehicles, performance vehicles, utilities, our parts and service operation and our Ford Credit operation. Transform the underperforming parts of our business -- Lincoln, small vehicles in developed markets and emerging markets and then growing in electrification, autonomy and mobility.

So let me take you through what's gone on since the last time we got together in September. So let's start with our profit pillars. This is the foundation and it's the underlying strength of the business and we are not only focused on keeping it strong, but we intend to strengthen them further through new innovations to continue to address the needs of our customers. And with the recent introduction of the all-new Super Duty, which launched in the third quarter of last year, I think we are really solidifying our long-term US leadership in full-size pickups.

To put it in perspective, we sold over 820,000 F-Series last year in the US. That's one F-Series every 39 seconds. So since we have sat down to dinner, I think we've sold a number of F-Series, so it's a really important part of our business. But not only are we the truck leader in the US, we are also the



commercial vehicle leader in Europe as well and we also saw strong performance with our Ranger in a number of markets around the world in that mid-size pickup segment.

Now, going forward, obviously, as a leader, you have to keep setting your sights higher because everybody is always coming after you and that will be further strengthened. We showed at the show yesterday our new F-150, which features new powertrains, including our first diesel for F-150, but also, at the same time, we've equipped it with advanced connectivity to really provide even more productivity for our customers because keep in mind many of our customers that are buying an F-150, it's a tool for them and we want that tool to work better and better and better for them.

We will also raise the game again for F-150 in 2020 and that's with the introduction of the hybrid version and of course, that will improve capability. It will improve productivity, but also to boot it will give them better fuel efficiency and think about when you are at the worksite, that could actually be used as a mobile generator as well and if you have been on construction worksites, one of the things they are always looking for is an outlet to be able to power their tools.

In addition, as you saw yesterday, in 2019, the F-150 and the Super Duty are going to be joined by the globally successful Ranger, the mid-size pickup, which we just announced yesterday, is coming back into the market in 2019 and is going to add I think to our truck lineup and our truck leadership.

Moving on to utilities, another key strength for us. We are taking actions to strengthen our utilities and that starts this year. We are going to introduce an all-new aluminum bodied Expedition. This is the first redo of the Expedition in over 15 years, so it's a really important introduction for us and that's going to be followed by five new SUVs through 2020 in segments that we don't currently compete. And of course, that includes the all-new Bronco that we talked about yesterday at the show, but also our fully electric, long range small utility vehicle, which will have a range of at least 300 miles.

Moving on to another profit pillar for us, performance vehicles. These vehicles are not only fun, they are profitable and they help build our brand. And globally, in 2016, to put this in perspective, we sold over 200,000 of these vehicles and we are absolutely on track to deliver 12 new performance vehicles by the end of the decade. And as we speak right now, we are starting to deliver F-150 Raptors to our customers. And we've started to build and deliver the Ford GT and we announced another two years, additional two years to the Ford GT. So if any of you are interested, we will have another application process and I encourage you to check out the stand because it's really a fantastic vehicle and showcases our technology, our powertrain technology, our fuel economy, our light-weighting, etc.

In addition on Mustang, in 2020, we are going to be adding a Mustang hybrid and that will give customers the equivalent of V-8 power with even more low-end torque, which is important for our performance and Mustang customers. And of course, to boot, they will get better fuel economy. Ford Credit is another profit pillar, again, delivering strong, consistent financial results for us, but doing it in a way that not only supports our business around the world, but also provides leading US customer financing satisfaction as measured by J.D. Power both for Ford and for our Lincoln brands.

And then, finally, we don't talk a lot about this, but we have a highly profitable and growing parts and service organization, consistently delivering strong results and we feel we have lots of opportunity to continue to expand that business around the world. And it has the ancillary benefits of not only being highly profitable, but adding to customer satisfaction and to owner loyalty. In the case here in the US, our owner loyalty, we are tops in owner loyalty here and we want to build on that.

So in addition to the profit pillars, another really important piece is transforming the underperforming parts of our business and you can see in -- let's start with Lincoln. In the case of Lincoln, there are many signposts of progress and these include strong global sales. Our sales last year were up 24%. We sold a little bit more than 159,000 units, but also at the same time third-party recognition for our product appeal, our quality and our customer satisfaction. And we are going to continue to strengthen our Lincoln product portfolio. We've just launched the Continental and we have the new Lincoln Navigator coming a little later this year.

Now despite the progress that we've seen, there are -- we are evaluating further opportunities to improve returns on capital in the Lincoln business. Small vehicles in developed markets is another area of challenge. We have talked about that a number of times before. We have learned a lot in

recent years on what it takes to generate appropriate returns for products in these very competitive segments and we've begun to implement actions in this area.

A couple of things that we've done even since Investor Day. We've repositioned and we have capped capacity for the next generation Fiesta in Europe and then we've underpinned that with an attractive value entry, our KA+, which is made in India from a low-cost operation. So it provides a really nice pricing floor for the Fiesta.

We are producing the EcoSport mini utility for Europe and North America in low-cost manufacturing locations. And of course, we are matching production, but also capacity, to demand. And, as you know, we opted to build the next-generation Focus in an existing Mexican plant and the reason for that -- and as you can expect, I got a ton of questions and I'm sure there will be a few tonight, but the bottom line is we didn't need the capacity anymore. The small vehicle segment is coming down in North America, so we decided rather than build that \$1.6 billion new plant in Mexico, we are going to put it in an existing plant in Mexico.

Moving onto emerging markets, as you can see on this slide, on slide 14, we've made progress in a number of areas. As you know, we have exited Indonesia in 2016 and in Japan because there just wasn't a clear path to profitability. In ASEAN, we did turn a return to profit in 2016 while in Russia the business improved substantially and we expect further improvement this year particularly as commodities and the price of oil firms.

If we look at South America, we do expect results to improve in 2017 as the economic conditions have started to stabilize and will begin to improve. In Middle East and Africa, we do expect our results to improve in 2017 as we work to strengthen distribution, particularly in the Middle East. And we did achieve significant double-digit growth in production in India in 2016 and that's been driven primarily by exports, but despite this, India remains a significant challenge for us and that's why we are continuing to work this year to evaluate different business models for this market.

Now let's move on to growing in the emerging opportunities. And we are driving for leadership in three key areas -- electrification, mobility and autonomy. And in each, as you can imagine, we are leveraging strengths in the core, but also looking for synergies across these three areas. And in electrification, as you can see on this slide, bottom line is we are focusing on our strength. We are focusing on our profit pillars -- the trucks, the vans, the commercial vehicles, utilities and performance vehicles -- to provide customers more. We want to give them more of what they love about our products today -- more capability, more productivity and more power and oh, by the way, you get better fuel economy.

And last week, we announced seven of the 13 electrified vehicles that are coming by 2020 and this is part of our \$4.5 billion investment in fuel economy and these include, as I mentioned, an F-150 hybrid, a Mustang hybrid, the Transit Custom plug-in hybrid, which will be in Europe and of course, the all-new small SUV, full-battery electric SUV, that will have the range of 300 miles plus two electrified police vehicles. That's an important business for us and it fits into our view of the City of Tomorrow, which I will touch on in a moment.

We also announced a memorandum of understanding with a number of OEMs in Europe for an ultrafast charging network in the region and then finally we announced that -- a little earlier this week -- that we are piloting new wireless charging technology both here in the US and Europe.

Looking at autonomy, as you know, last August, very simply we announced that our intent is to have a fully autonomous SAE Level IV vehicle in the marketplace in 2021. And last week, at CES, we debuted our Fusion Hybrid autonomous research vehicle, our next-generation research vehicle and I think this vehicle really demonstrates Ford's in-house hardware and software engineering efforts and if you get a chance to go down to our stand where we have the vehicle, I encourage you to check it out.

We also announced earlier last week that we would invest \$700 million in our Flat Rock, Michigan plant, not only to build the autonomous vehicle hybrid, but also the long range, fully electric small utility vehicle. And last year, we expanded our test fleet from 10 to 30 vehicles. We will have this month 30 vehicles on the road and then we will triple that during the year to have 90 by the end of this year and we begin testing in Europe, which complements the testing that we are doing in Michigan, in Arizona and in California.

On mobility, which is covered on this slide, slide 17, our team is very hard at work developing services and related business models really designed to reduce transportation congestion and increase transportation capacity in dense cities. These cities face these issues, this paradox of they need more capacity, they need more flow, but, at the same time, they need to reduce congestion and they need to reduce pollution. And we have a very



clear understanding of where we intend to play and how we propose to win. Our ridesharing play is Chariot, which is our crowd source shuttle. We are now in two US cities, in San Francisco and Austin. We are going to expand to eight cities by the end of this year with one market being outside of the United States and Jim Hackett and our Ford Smart Mobility team is building technology platforms to support both the shared, but also the owned business models and at the same time aggressively developing new products and services.

And as you heard maybe a little earlier or yesterday, we are moving quickly to develop partnerships with major cities to co-create solutions for the future and that's why we talked about the City of Tomorrow yesterday in addition to talking about our core products to show you how we are thinking about these things so it gives you a perspective of our strategy as we make plans and announce plans and how it fits in within that. Importantly, we want to make money on this stuff, so we've done our early work. Shows -- indicates a realistic potential of earnings of about 20%, operating margins of 20% or more.

Now another area of emerging opportunity for us that you see on this slide is connectivity, which is really an enabling platform that supports really good growth opportunities for us both in our core and our emerging business. And last week, at CES, we announced a number of new initiatives on this that you can see on the screen here, one of them being our -- working with Amazon to integrate Alexa, the most comprehensive integration of Alexa into our vehicle so you can do home to car and car to home and make people's lives easier.

So that was a brief run-through of what's been happening and hopefully you can see that we've delivered not only another strong year financially, but also operationally in 2016 and one that's completely in line with the guidance that we provided last September. We are making progress on our profit pillars, transforming the underperforming parts of our business, but also developing our points of view and the action plans on where to play and how to win in the areas of emerging opportunities.

So the next step on that transformation obviously is 2017, so let me get into some specifics on what we expect for the outlook for 2017. So let's start with GDP and industry volumes. Bottom line, we expect the global GDP to grow at a 3.4% rate, positive rates across all regions, including Brazil. We expect the global industry to grow about 2% with higher volumes in all markets with the exception of the US and in the US, we do expect a small decline off the record level that we saw in 2016 and our view is that the market has plateaued, but it has plateaued at a strong level.

Now one other note, and I am sure we will get some questions on this on the business environment in the US. We expect significant action by the new administration and Congress on pro-growth policies, particularly around tax and regulatory reform and also action on infrastructure and while it is too early to speak about specifics because it has to go through the process, we are encouraged by what we have seen so far, including the blueprint tax proposal that's under discussion right now in Congress. And as usual, we look forward to being part of the dialogue with the administration and the Congress as these new policies are debated and finalized in the months ahead.

Now turning to launches, in 2017, we will have 11 global launches, which is the same as 2016. It includes a new EcoSport, a new Focus Electric, the all-new Fiesta, both the three door and the five door and the new F-150, as well as the all-new Expedition and the all-new Navigator and we will have two more that we will talk a little bit later this year as we get closer to the launches.

Let's turn to the financials and if you look at the total Company adjusted pretax profit that is shown on the left side of this chart -- and I am looking down at the slides here -- we expect 2017 results to be strong, but, again, as we indicated at Investor Day, lower than 2016 and that is driven primarily by the effects of increasing investments in the emerging opportunities.

We expect 2018 -- we expect profitability to improve. It will be led by gains in our core business. Cash flow, which you can see on the right-hand side here, we expect strong results in 2017, although lower than 2016 and the reason it is lower, about half of that decline is going to be related to timing differences in the core business and the other half is going to be due to the increased investment that we are taking in the emerging opportunities and that is primarily in electrification.

For 2018, we do expect cash flow to be about flat with increased investments in the emerging opportunities that are nearly offset by gains in the core business. And as usual, we expect our automotive cash balance to remain or above our targeted level of \$20 billion for the business.



Now taking a look at some of the metrics, you can see here, compared to 2016, we do expect key financial metrics for 2017 for the Company to be either lower or about the same and again, this is consistent with the guidance that we talked about in September. And at a Company level, the change for 2016 is driven primarily by the investments that we are making in the areas of emerging opportunities.

Now let's take a look at some of the factors that are driving change from 2016 to 2017. As you know, we report the Company in three segments -- automotive, financial services and all other and in all other, we have Treasury operations as well as our Ford Smart Mobility LLC and as you can see, profit will be down in 2017 from last year in each segment. In the automotive segment, the decline is primarily driven by investments again in the emerging opportunities. If you exclude the emerging opportunities, we expect costs to be slightly higher and that's more than driven by increases in commodity costs. We expect the profit impact of volume and mix to be about flat year-over-year, net pricing to be higher and exchange to be unfavorable in all regions with the exception of the Middle East and Africa. And again, consistent with our guidance in the financial services group segment, it's expected to be lower and that's due to the effect of the lower residual -- lower auction values that we are seeing and then the subsequent increase in accumulated depreciation on our lease portfolio. All other will be down in that's due to increased investment not only in Ford Smart Mobility LLC, but higher interest expense and that's mainly related to the auto debt issue of \$2.8 billion that we did in early December of last year.

Now let's spend a little bit of time on costs and as you can see from this slide, the increase in cost in the automotive segment is mainly due to the investments in the emerging opportunities. And what you can see here is we expect to deliver about \$3 billion of cost efficiencies net of economics during the year. And this will nearly offset all other cost increases other than for the emerging opportunities.

And just a note, if you look at some of the cost increases for price-related feature, keep in mind that adds positive contribution margins from related pricing and also the increase in regulatory costs we do assume some partial recovery -- price recovery in that area.

Now let's look at the regional look and also some of the puts and takes in each one of the regions. You can see our profits in North America and Europe to be lower than last year while we expect to see improvements in South America, in Asia-Pacific and Middle East and Africa and of course, as we talked about, Ford Credit will be lower in 2016.

Now the decline in North America, which will remain by far our most profitable business unit, is due mainly to unfavorable volume and mix, but also increased investments in the emerging opportunities. We expect South America, their loss to improve as a result of favorable market factors and as the economy starts to recover. We expect Europe's profit to decline and that's mainly due to unfavorable exchange and as you can imagine, that's primarily the benefit, so to speak, of Brexit and the impact on our business.

Results in Middle East and Africa will improve due to lower cost, higher pricing and also some favorable exchange and then finally Asia-Pacific, our profit is expected to improve and that's due to favorable volume and mix. Now, net pricing will be lower. It will continue to be negative in China. We've seen that over the last eight, 10 years or so, but we do expect to see unfavorable exchange, mainly a weaker Chinese renminbi that we've already started to see.

So let's talk about shareholders, very important constituency for us. In 2017, they can expect distribution totaling about \$2.8 billion and this reflects a regular dividend, of course, always subject to Board approval. That's unchanged from 2016 at \$0.15 per share, or about \$2.4 billion annually. It also reflects a supplemental dividend, which we announced today of \$0.05 per share or \$200 million and that's based on 2016 adjusted net income. We also plan, again, subject to Board approval, to have a share repurchase program that we have done the last number of years to offset dilution of share issuances basically associated with management compensation.

Now, I would like to point out that these actions are completely consistent with a payout ratio in the lower half of our stated strategy of 40% to 50% of prior-year net income and excluding the after-tax effect of the pension mark-to-market. And so with this plan, we will have distributed \$15.4 billion to shareholders by the end of 2017 since we restored the dividend back in 2012.

So let me wrap this up before we bring everybody up for Q&A. In sum, we delivered on 2016, which was our seventh consecutive year of strong performance as a company and as a team. We expect 2017 to be another good year of results and again in line with the expectations that we set back in September at Investor Day. We are well along the way on the process of transformation of our business. This is not just talking about it. We



are well along the way on that from a strong healthy automotive company to one that will be bigger and stronger as we expand to be both an auto and a mobility company in the future.

We are focusing on our core strengths. We are transforming the underperforming parts of our business and we are investing aggressively, but also I think very prudently in emerging opportunities and so we think Ford is a solid investment with an attractive upside on the emerging opportunities and as usual, we look forward to continuing to show you our progress and reporting out on that during the year.

So at this point, what I would like to do -- that is my report to the committee. Is this an audience or a jury? Let's bring up my colleagues and we will start the Q&A session.

QUESTIONS AND ANSWERS

Mark Fields - Ford Motor Company - President & CEO

As usual, I think, Rod, you will ask the first question and then if you could, if you could just introduce yourself and tell us what company you are representing. Maybe before you start, maybe we can just have everybody introduce themselves. So maybe, Jim.

Jim Hackett - Ford Motor Company - Chairman, Ford Smart Mobility LLC

Good evening, everyone. Jim Hackett, Chairman of Ford Smart Mobility.

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

Joe Hinrichs, President of the Americas.

Bob Shanks - Ford Motor Company - EVP & CFO

Bob Shanks, CFO.

Joy Falotico - Ford Motor Company - Group VP & Chairman & CEO, Ford Motor Credit Company

Joy Falotico, Chairman and CEO of Ford Credit.

John Casesa - Ford Motor Company - Group VP, Global Strategy

John Casesa, Group Vice President, Strategy.

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

Raj Nair, Product Development.

Jim Farley - Ford Motor Company - EVP & President, Europe, Middle East and Africa

Jim Farley, Europe, Middle East and Africa.



Dave Schoch - Ford Motor Company - Group VP & President, Asia Pacific and Chairman & CEO, Ford China

Good evening. Dave Schoch, Asia-Pacific.

Rod Lache - Deutsche Bank - Analyst

Thanks, everybody; thanks again, Mark, for that presentation. There were two things that I was hoping you might be able to dive a little bit more into. One is you talked about the improvement in underperforming areas -- luxury cars, small cars, emerging markets. Could you just give us your latest view on the magnitude of what the opportunity is and timeframe that you are expecting and it sounds like that might be part of what you are expecting with that improvement out to 2018?

The second question is both you and Bob mentioned that you are encouraged by some of the tax proposals, so maybe just at a very high level, and I know there's a lot that is still being developed here, but if we looked at the Ryan plan, the Brady bill, at a very high level, to most of us and to most suppliers, it seems like this could cause significant inflation. There is maybe \$90 billion of parts imports that come from Mexico to North America and maybe close to that from Canada to the US. Just give us the big-picture mechanical on how you see that as actually encouraging or there are encouraging elements that would offset some of those negatives.

Mark Fields - Ford Motor Company - President & CEO

Well, let me start with the second question and then, Bob, I would like you to take the first question. First off, this is going to take a lot of twists and turns as tax reform happens. We strongly believe that we probably have the best conditions for tax reform that we've had in this country in quite some time and the President-elect has made it very clear that that's a priority and I think we will see what happens when the inauguration happens on the 20th, but our expectation is that will be one of the key things that they will prioritize.

As you look at the blueprint, it's interesting to us because with the border adjustability, you have to look at the net export profile of carmakers, of suppliers, etc. So you could see -- there is obviously a lot of math that has to go into that to see what the local content, if you will, of your vehicles here in the US, but given that we are the largest producer of vehicles here in the United States and a top exporter, that's kind of interesting to us.

I also think at the same time as we look at those tax proposals, again, you have to put it in the light of where does it fall off competitively, but we will see how it plays out. Our approach, as you can imagine, is we have had very good working relationships with administrations going all the way back to Teddy Roosevelt and as a company, we will be very straightforward with the facts and what we think is appropriate, but also good for business and jobs, but I would just say one last thing. Listen, with tax reform, most companies, most good companies try and basically minimize their tax bill because we are running a business. We are responsible to our shareholders. If the tax code changes, companies will change.

Bob Shanks - Ford Motor Company - EVP & CFO

Before getting to the other question, I would also add that we are making this statement around at least a positive attitude towards potential tax changes because our tax team has actually done some great modeling based on their understanding of what the blueprint proposal is, recognizing there is a lot of details to be sorted out, a lot of give and takes and pay fors and a lot of TBDs. To the best of our ability, we are going to try to keep up with that proposal as it progresses and based on what we have modeled so far, it looks quite attractive to us.

Rod Lache - Deutsche Bank - Analyst

Would you be willing to just give us some high level and what is the export number because Ford generally is not perceived to be -- certainly in completed vehicles, maybe there's parts and (multiple speakers)?



Bob Shanks - Ford Motor Company - EVP & CFO

No, I'm not going to get into any details now, but you do have to look at the net position, as Mark was saying and when we look at that, as well as other aspects of the proposal beyond the border adjustable tax, it looks attractive. So we are actually quite interested in being part of the dialogue, as Mark said and helping shape this as it progresses through Congress.

In terms of what you said, you are right. When you look at the improvement in 2018 and we, obviously, go out beyond that in our own internal planning, we do see improvements in the business coming from these areas of underperformance, particularly in the emerging markets, but a lot of good work that has been underway on small vehicles. But we are not satisfied with that level of improvement. So the opportunity for us is to take what I would call more incremental or business-as-usual type improvement that we see in the years ahead and make more choices around where to play, where not to play and potentially around different business models. And I think the discussion that or the comment that Mark made around India is a really good case because that is one area of the business that we are still scratching our heads on a bit in terms of trying to figure out what is the right answer in terms of coming up with a business model there that works.

So I think you will see more from us in all that space, but we do see improvements, even with the actions that we have in place in that part of the business going ahead. We just need to see more.

Rod Lache - Deutsche Bank - Analyst

Would you be able to assign any metrics to this is what the target is for these underperforming areas if you were to achieve these targets let's say in the next two or three years, what would be the magnitude of the opportunity for Ford?

Bob Shanks - Ford Motor Company - EVP & CFO

Not now, but we will come back to you on that. We do see opportunities in each of the areas that we talked about. In the case of the emerging markets, I think there, even just, at least the outlook that we have putting aside India, is actually some pretty good levels of improvement even where we are sitting today. I think the opportunity is for us to find further opportunity beyond that level, as I mentioned.

Mark Fields - Ford Motor Company - President & CEO

And to your point, you are seeing it a bit, as you saw from our chart, as you look at 2018, but beyond we want to target some improvements.

Rod Lache - Deutsche Bank - Analyst

Thank you.

John Murphy - Bank of America Merrill Lynch - Analyst

John Murphy, Bank of America. Maybe if we can get to a more mundane question. You mentioned parts and services as an opportunity. Just curious if you could scale that. There has been a thought that you might make as much as \$1 billion on parts and service in North America. Just curious if there is upside in North America or this is a global strategy and does this go beyond just dollars and cents and maybe on a blocking and tackling basis create a longer tether to the consumer?

Mark Fields - Ford Motor Company - President & CEO

Well, we won't get into absolute levels of profitability, but, as you can imagine, the parts and service business is less subject to the economic cycles than our base business of selling cars and trucks and so that's been a very steady contributor to us. To put it in perspective, there's not only



opportunities on how you add accessories to vehicles, but one of the things we showed in the chart was Quick Lane, which is our fast service operation. We have currently -- Joe, what do we have, about 1,500?

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

Yes.

Mark Fields - Ford Motor Company - President & CEO

We have about 1,500 of these Quick Lane operations around the world; we want to grow that substantially. That is good business for us and the dealers that have invested in those Quick Lane operations have the benefit of not only generating service business and obviously then profits for us, but also attracting competitive makes to actually sell some more cars.

The other opportunity going forward, particularly in the service business, is as our vehicles become connected and we have said by -- the next five years -- 20 million of our vehicles will have modems in them. You can generate a lot of opportunity by making people's lives better as the vehicle needs to be serviced and actually prompt them to actually come and get their vehicle serviced and we see that as another opportunity, John.

John Murphy - Bank of America Merrill Lynch - Analyst

Okay, and then just a second question, basically for John Casesa and Jim Hackett. When we think about the investment in all these new business models that you are looking at and partnerships, how do you evaluate making the investment? It's very intangible at this point. I'm just curious how you come up with metrics and frame this out. And then also once you get involved with something, how you evaluate it, what the KPIs are for it and when do you decide to cut bait.

John Casesa - Ford Motor Company - Group VP, Global Strategy

Sure. So maybe I will frame it. Jim, I am sure, will have some comments. It relates almost to the question somebody asked Mark and Bob about -- fortify, transform, grow businesses. We have a lot of capital in the fortify businesses and Mark talked about the things we are trying to do to widen the moat. We've got all the capital in the transform businesses and Bob discussed a little bit with you how we are reevaluating that. We don't have very much capital yet in the grow businesses. They are very new. Some are quite speculative, so I guess the main principle is we start with a small amount of capital and then stage the growth as we get visibility, as we get confidence, as we see opportunities. So it's a very different lens from which we look at the core business. It doesn't mean we say, well, they are new, they are growth businesses, so it's all right if we lose money on them. That's not what we are saying. We are just saying we have to be judicious and as we get visibility and as we refine the business models, then you can scale it up and Chariot is a good example.

Really a small company, but there's huge synergy with Ford in technology, in vehicle purchases, in relationships with cities, so we can take their growth plan and supercharge it and Jim can talk with you a little bit about the technology we are going to add to create value. So I would say that is the lens we are using and I just looked at the numbers before I came over here. Last year, we looked at 123 companies that we vetted, M&A. We did 13 deals. And 123 is not the stuff we said we are not even going to spend time on, but it's a very robust environment. We've got a very active pipeline and a good process and we are pretty selective. We are happy to be more active, but we've got to fit them into the strategy. Jim.

Jim Hackett - Ford Motor Company - Chairman, Ford Smart Mobility LLC

I think that's well said, John, and I think what he would be humble about is the deals we passed on. There's no summary of that and we saved a lot of money. If you look back at the euphoria at the beginning of the year about mobility valuations, I didn't believe some of them and they proved not to be true. So I think the approach that we as a team look at and let's just take Chariot because it's a real case. We got early enough that, yes, it's a big premium to where they were in one market, but absolute terms it's not that big.

John talked about the synergies. We found very quickly that because of what we know -- there were 12 people in the firm when we brought them -- that we can really help them become an efficient business, scale it. But I think the other thing that John inferred is that inside of these mobility businesses are more software-like entities. So the capital cost is not the issue; it's two things. It's the operating expense to have the kind of software engineering capability, which you can source all over the world and then the speed at which you have to transact because the customers change what they want in software. So this has a prospect, if we get this right, of much higher margins, much lower capital.

John Murphy - Bank of America Merrill Lynch - Analyst

Bob, the 32% on the tax rate, is that something if nothing changes with the new administration we should run forward in our models? It was just a little bit higher than we were expecting. What happened there and (multiple speakers)?

Bob Shanks - Ford Motor Company - EVP & CFO

Yes. So let me explain first what happened because I think as a group the First Call consensus is around 28.5% or so I think if I remember correctly and we weren't too far off that ourselves going back into the fall, but what has happened is two things. One is in terms of what we do during the course of the year -- so let's take 2016 -- where we were going to file taxes late in the year for the 2015 tax year, so the team, just like we do with our own paychecks, we have withholding so we were accruing against what we thought the tax return would be and as it turned out, when they completed the tax return, we had underaccrued by about \$150 million. So that is one piece. So we have to top that up as we get into the fourth quarter.

The second piece is around a tax optimization opportunity that we had high confidence in largely around a couple of tax entities in Europe. As they got into the details of that opportunity, and got deeper into what we thought would enable us to capture some tax attributes, it just wasn't there and so that was over \$100 million. And then there was about \$50 million of just smaller things in terms of geographic distribution of where the profits are. So that is the difference that's taking us from a 28.5% to about 32%.

Now looking ahead probably for 2017 modeling, about 30% looks like about where we are right now in terms of an adjusted operating effective tax rate. We will give you updates on that if and when it changes during the course of the year.

Ryan Brinkman - JPMorgan Chase - Analyst

Ryan Brinkman from JPMorgan. In the past, you have targeted \$20 billion of automotive cash. Mark, I heard you say that again tonight and yet you finished 3Q with \$24.3 billion of cash and since then have gone out and actually raised another \$2.8 billion of cash. This has caused investors to ask you why are you building this cash. I suspect those questions will only increase tomorrow because you elected today to pay a \$200 million special dividend instead of \$1 billion that you did last year. Now you said you don't see a downturn on the horizon. You've downplayed the possibility of a large one-time repurchase, so what is it? Are you maybe readying for a large acquisition or is there some other factor that explains this building of cash?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, I think you have touched on it. When we look at the forward years and we talked about this in fact when we announced the new auto debt issue back in December, we are trying to develop a strategic cash reserve that we can use as John and Jim mentioned. As we start to flesh out even further opportunities for us in the emerging opportunities, we would like to make sure that we've got the ability to have a substantial cash reserve that we can use to take advantage of that. So that was certainly one thought.

The other thing is that when we look ahead in terms of our spending plans over the next three, four, five years, we do see, even in the core business, increasing requirements and so we are trying to look ahead. It's not just this year, but looking ahead to the next three, four, five years. So that is part of it. And I think it probably doesn't hurt as we are getting towards the latter part of a cycle and hopefully it has got more legs than -- it certainly

seems to have more legs than what the market thought earlier last year, but I think just given where we are in the cycle, having a healthy cash reserve is not a bad thing also. We've got some experience with having done that the last time around and that served us pretty well.

Mark Fields - Ford Motor Company - President & CEO

Ryan, I just want to accentuate what Bob said in the first part of his answer. When we did the debt issuance of \$2.8 billion, that gives us strategic flexibility and to the question earlier of opportunities that come up, they can come up pretty fast and we have to bang that against what is our strategy and again those questions of where to play and how to win and then the third question we ask is what capabilities do we need. And in some cases, we may say we are going to build that capability or we have the capability inside, no problem. In other cases, we may say, you know what, we don't have the capability, we may have to go buy something or we may have to partner with somebody and it gives us that flexibility because we are in a different environment now (multiple speakers).

Bob Shanks - Ford Motor Company - EVP & CFO

Ryan, can I just mention one other thing? The other reason that we moved is because the rates were very attractive; the market looked very attractive and when we looked at the leverage metrics on the balance sheet, we felt we had the capacity to take advantage of the market, take advantage of the low rates because clearly rates are going to be rising in the future, so we just thought it was a very opportune time to do this.

Ryan Brinkman - JPMorgan Chase - Analyst

Certainly that makes sense. The last question then is just on the guidance because since you introduced it in September, you beat 3Q earnings pretty handily. US light vehicle SAAR rose in December to the strongest level in 11 years. Consumer confidence has risen to the strongest in 15 years. Small business confidence now is the strongest in 36 years. I don't know what you assumed for the Super Duty, but the pricing and the sales have been pretty fantastic. Are you willing to concede that at least -- oh, then in China, there is some tax incentive, some level, which you didn't know in September -- are you willing to concede at least that there is upside risk to your 2017 guidance?

Mark Fields - Ford Motor Company - President & CEO

Upside risk? Our guidance is our guidance.

John Casesa - Ford Motor Company - Group VP, Global Strategy

It's better than no comment.

Mark Fields - Ford Motor Company - President & CEO

See, that's why we hired John.

Emanuel Rosner - CLSA - Analyst

Emanuel Rosner from CLSA. Just a quick verification in terms of some of the factors you were highlighting for the pre-tax walk in 2017. It looked like you were assuming pricing up, which I assume has something to do with your product lineup, but I guess in the current environment with you highlighting yourself some of the pressures in China for example, as well as some pressure in the US on the used car side, I guess what gives you the confidence for having that factor up?

Mark Fields - Ford Motor Company - President & CEO

Bob, will you take that?

Bob Shanks - Ford Motor Company - EVP & CFO

Yes, we don't see that opportunity in North America, nor do we see it certainly in China or in Asia-Pacific; it's negative, our outlook. So it's largely in South America. It's also in Europe and as we also mentioned, it's in Middle East and Africa, so that's where we see the positive. North America is probably about flat, maybe down a little bit and so those three business units is what's flowing through to the total Company.

Emanuel Rosner - CLSA - Analyst

Got it. And I guess more strategically, so your plan for Mobility Services, maybe autonomous cars starting in 2021. A whole lot of announcements are pretty much every day in that space. Do you feel that coming out with the start of an offering in 2021 could place you at a timing disadvantage versus other offerings?

Mark Fields - Ford Motor Company - President & CEO

(inaudible), do you want to take that?

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

I think it's always difficult for us to assess other people's timing. We know that our program that we've been working on for 10 years and the rate of progress that we've been making and a pretty detailed program development plan that will be out in 2021, not just with a Level IV vehicle in a small number, and a sample in an engineering fleet, but a high-volume program facilitated in a high-volume plant to capture the value in a ride-hailing service or a ride-sharing service and possibly a commercial package delivery service. So we are talking about the business opportunity, capturing that in 2021.

Colin Langan - UBS - Analyst

Colin Langan, UBS. I just had two questions. One, at the beginning of your questions about the border adjustment, I think you called it attractive. Is that relative to the peers because I would imagine given how much supply comes out of Mexico, you'd have some sort of inflation because of all the costs there. Could you just clarify what makes it attractive? Is it attractive versus peers or is there actually something I'm missing in terms of the inflation risk to the industry?

Bob Shanks - Ford Motor Company - EVP & CFO

Do you want me to take that? Yes, I think I was -- when I was talking about attractive, it's the whole proposal, including the border adjustable tax and when we have looked at our position, our position actually is not a bad position in terms of picking up the totality of the imports and exports, both the vehicles, the components. We pick up IP and other things as well.

So for us -- and also, again, I think someone made the comment or maybe I was talking to someone before the dinner -- what we will also do, all of us, whatever that proposal turns out to be in terms of what is enacted, we will behave differently. We will do things differently and so we see the opportunity to make even further adjustments in line with what appears to be the direction that it's heading. But I do think as we look on a relative basis -- so in an absolute sense, it looks attractive. When we look at it on a relative basis versus our peer set, we think we are well-positioned.

Colin Langan - UBS - Analyst

Got it. A second question would be, at the Investor Day, you talked a little bit about connectivity. You have a slide on it today and then I think you mentioned you are building out data centers. Where do you think you stand in terms of relative to your peers on taking advantage of the connected Big Data opportunity? And I think even you mentioned in your questions that there might be opportunities to notify drivers of issues with their cars and bring them back to dealers. When should we expect those kinds of things to come through? Thanks.

Mark Fields - Ford Motor Company - President & CEO

When we talked about Big Data, first off, I am really encouraged by the progress that we are making in building up our data and analytics team. As we talked about at Investor Day, we said we have over 500 people. We are going to grow that significantly. And important, Colin, we are seeing contributions to the business now and through the business plan period throughout the business, whether it's purchasing and figuring out sourcing patterns or in manufacturing, how do you become more efficient, predictive, maintenance, things of that nature. And I think as we approach autonomous vehicles and as we approach more one-on-one marketing where you get a single, actionable view of the customer, we are making a lot of progress on that.

I can't evaluate how we are versus other companies. We get anecdotal evidence from others, but I feel really good about how we are approaching this and how we are integrating this into our decision-making where we have a lot more science than art in terms of making decisions and getting insights and more importantly foresight.

Joe Spak - RBC Capital Markets - Analyst

Joe Spak, RBC. First question is you guys have taken a pretty global approach to engineering centers, meaning you develop crossovers, trucks here, cars over in Europe, or at least a lot of the development I think takes place there. As you look across the globe now and you see really an increase in globalization -- nationalism and protectionism -- does that make you change that view or that strategy as to where you need some of those centers?

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

No, not at all. I think the distribution of our engineering centers, our nine engineering centers around the world has been very beneficial to us, both in terms of obviously leveraging the global resource, but getting insight into those global markets and where appropriate doing global vehicles, but also where appropriate doing regional vehicles. So even the discussion that we had, or the announcement that we had this week about Ranger and Bronco, a lot of that is enabled because we've got a global Ranger that was developed by our Melbourne, Australia engineering center and a great platform, the T-6 platform, underneath it that we will now be able to adapt to the North American customer, North American requirements and offer it here, as well as incrementally develop a Bronco off of that same platform. That will be done by our engineering center here in Dearborn because we have a very integrated approach to each of the centers that we already have the capability of one center doing a platform and another center doing the top hat, both in terms of where do we have capacity available, but also which center is going to be closest to what the customer requirement is going to be.

So I certainly recognize some of the aspects of protectionism and we will see what happens with trade agreements and etc., but relative to the leverage of engineering centers, I think that's actually a competitive advantage that we want to continue to leverage going forward.

Joe Spak - RBC Capital Markets - Analyst

So that dovetails nicely into my second question, which is now that the Ranger is official versus three years ago or four years ago, maybe when you sat up there and said you didn't see the market opportunity or you could hit it with the F-150, what has changed that leads you to introduce the Ranger three years from now?

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

The market opportunity.

Mark Fields - Ford Motor Company - President & CEO

The market has changed and also we were listening to our customers. It wasn't that we got tired of answering questions -- when are you bringing the Ranger back. (multiple speakers). It was really the market has changed and also at the same time, that segment is up about 50% over the last five years or so. And the other thing is we have a huge owner base. Keep in mind, the last Ranger we sold was the end of 2011, so there are still a lot of folks out there that love Rangers and between that and the market changes and listening to customers, we just said now is the right time.

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

And specifically on the customer insight, it wasn't as much the aspect of fuel economy or didn't need the capability of the F-150, it was much more about physical size that was a little bit different than what we've been hearing from the customer prior to that. And so that's why we think it's a great opportunity. It's actually not a cannibalization of the F-150, but the incremental opportunity because of the size of the vehicle.

Brian Johnson - Barclays Capital - Analyst

Brian Johnson, Barclays. Three questions. Short, medium short and then long term, vis-a-vis Ford Credit, which we haven't talked a lot about. The short-term one is just similar to the question before. With greater consumer confidence, with the prospect of economic growth, do you see the possibility that the credit cycle and used car prices will stay better, stronger longer, if you will, than perhaps where you were in October?

Joy Falotico - Ford Motor Company - Group VP & Chairman & CEO, Ford Motor Credit Company

I think that is certainly possible. When we gave the guidance for the full year, obviously, we had seen our auction values declining and we still see that for 2017 based on the volume of off-lease vehicle. But certainly if the economy improves, we will look forward to some upside to that, but right now with what we are seeing with the off-lease volume, we are sticking with our guidance.

Brian Johnson - Barclays Capital - Analyst

Okay. And the short to mid-term one is a lot of the rideshare blogs for current non-robot rideshare says a three-year-old quality used car is your best option for a rideshare driver. Are you seeking to enter into that market to help your dealers with the off-lease vehicles to provide financing solutions, or do you think that's too small or too uninteresting to go after?

Joy Falotico - Ford Motor Company - Group VP & Chairman & CEO, Ford Motor Credit Company

Right now, we have no plans to do that. Jim, I don't know if you want to add anything (multiple speakers)?

Jim Hackett - Ford Motor Company - Chairman, Ford Smart Mobility LLC

No, that's not an attractive option because, if you think about it, it's kind of a segment right now that is going to be moving and I wouldn't want to see Ford make a commitment with something that the demand and supply of that is all over the place over time, so no.



Joy Falotico - Ford Motor Company - Group VP & Chairman & CEO, Ford Motor Credit Company

We are looking for a profitable opportunity.

Brian Johnson - Barclays Capital - Analyst

And I guess a third question for Jim and Joy and Mark is just when we think of the distant future with mobility as a service, move away from personal ownership of vehicles, what happens to Ford Credit in that environment? And it is a pretty big profit stream currently and historically and how does that evolve in the world that Jim and team are trying to make happen?

Jim Hackett - Ford Motor Company - Chairman, Ford Smart Mobility LLC

Well, when I call Joy, I say don't plan on a lot of loss of ownership. The forecast, as you all read about that -- in a way, I can be a little cute about it. I was in college, I couldn't afford to buy a car, so if they interviewed me and said are you buying a car, I would say no because I am in college. So that group is the one segment -- we actually have data that says the stick rate of ownership is still very high, but the thing that moves me the most is this Dan Ariely, behavioral economist like Dan Kahneman, talks about ownership in the world of automobiles as a form of signaling. There's an emotional attachment to it. I would ask every one of you about that question.

So what we think is though the future of sharing is really robust. In fact, we are making a huge commitment to it, but it's a plus kind of thing and in dense cities, it's an option such that you don't have to opt into ownership or you don't have to take your car out more accurately. So I say to Joy, I don't think that is going to be the issue that we are going to face.

Joy Falotico - Ford Motor Company - Group VP & Chairman & CEO, Ford Motor Credit Company

Yes. I would just add to that. We are really excited about the opportunity for Ford Credit and the mobility opportunities. We see ourselves as a key enabler and a strategic asset in mobility just like we are in the core and we can think of things that we can do with our transactional relationship with customers, providing good services, financial solutions. An example of that would be like Ford Pay, the mobile payment solution that we developed for FordPass, so we are really excited about those opportunities.

Mark Fields - Ford Motor Company - President & CEO

Just want to remind everybody we've got the Head of the Americas, we've got the Head of Europe and we have the Head of Asia-Pacific. Now is your chance to ask some questions around the world if you want.

Greg Tarr - Analyst

[Greg Tarr]. A question for you. I want to understand Ford Mobility Services on a global basis. Are you thinking of rolling out some of the services like Chariot into Europe and into Asia rather than just looking at the Americas and also want to understand how many investment opportunities you've looked at and how you expect that to scale up going forward.

Jim Hackett - Ford Motor Company - Chairman, Ford Smart Mobility LLC

I would like to leverage your question. The answer is yes. Yes, into those markets, but have Jim Farley who -- both Jim and Dave have pushed with great clarity the role that we can play and there's big opportunity and maybe Jim could talk about what's going on in Europe with our plans?

Jim Farley - Ford Motor Company - EVP & President, Europe, Middle East and Africa

Sure. So we are the market leader in the UK, for example. We have a great opportunity. We have a very close relationship with Transport London. There is nothing new to announce at this point, but we do certainly see tremendous opportunity as we work with the city of London and Transport London, for example. And there are a lot of other markets throughout Europe where we have very high presence and the cities are really interested in our portfolio, especially Chariot now that we have that announcement, but we got to get the experience right. Nothing to announce, nothing specific, but it's clearly a big opportunity for us in Europe.

Dave Schoch - Ford Motor Company - Group VP & President, Asia Pacific and Chairman & CEO, Ford China

Clearly, Ford Smart Mobility or Smart Mobility is moving very quickly in China. We've been working very closely with Jim's team. He was out with us for a week in December where we crystallized our strategic initiatives that we are going to have going forward with a concentration on China and now we are turning our sites to India and one of the big opportunities there, we call it city as a customer, what can we do to help cities relieve congestion, reduce emissions and we are very focused on that.

Jamie Albertine - Consumer Edge Research - Analyst

Jamie Albertine from Consumer Edge Research. On electrification, there was a time when it was sacrilegious to think about a 6-cylinder F-150, now we are talking about an electrified F-150. So clearly you have big volume in mind and I guess my core question is how do you think about sourcing and cost evolution of the battery packs over time? And maybe a related question just for the benefit of the European and the Asian segments, is it more or less difficult as you see it to, in terms of modeling electric vehicle penetration in markets like Europe and is that one of the reasons why, as part of your announcement with the infrastructure side, you are partnering it seems in Europe first as opposed to announcing maybe a partnership here or infrastructure investment here? Thanks.

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

Yes, I think, as you said, the paradigm that you can break relative to the powertrain, I think we've proven in F-150 relative to EcoBoost and even to announce that we are doing a hybrid Mustang and not have any Mustang fans assassinate me yet is a positive. I think as we go into the increased volumes and electrification certainly looking through the value stream and seeing what the opportunities are to capture more of that value stream, I think you would have to break it up from the battery pack level to actual cell level to pack an assembly.

And certainly at the cell level, the scales and volumes that you need to get that to the right level is probably more appropriate for some of our supplier partners and then leveraging that particularly as battery chemistry changes happen and the risk of insourcing that part of the value stream when we know we are doing a lot of work and changes in the battery chemistry both in terms of optimizing lithium-ion, but possibly a total breakthrough in chemistry post that.

But relative to the pack and then relative to the assembly of the pack and relative to the cooling elements of that pack and similar to how we look at the internal combustion engines, we are already insourcing a portion of that right now and I think we will be increasingly taking a look at that as the volumes increase in electrification.

Jim Farley - Ford Motor Company - EVP & President, Europe, Middle East and Africa

On Europe, it is important I think to even look beyond Dieselgate on how much has changed in Europe in the last year on electrification. Yes, all of the competitors have made big announcements, but all you have to do is read any paper from any major European city now and air pollution is a huge topic for customers. And so from the regulatory side, or even the politicians side, this is really a big priority. When you are looking from the customer standpoint, they have a couple pain points. Electrification, charging is a really big deal. When you do make -- travel between big cities and also the complexity of all the energy companies, like your roaming charges on your bill, making those experiences easy for customers. It is clear we are going to have to work together as an industry across companies to make it better for customers.

So I think it's more than just designing the vehicle. The electrification business model really requires us as an industry to do projects like the one we entered the MOU on in Europe and I think that will be the beginning. There will be I think other areas like simplifying your charging bill as well.

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

I think the incremental aspect in the charging infrastructure for Europe that we are looking at is it's probably even more important because, as a percentage, the ability for residential charging is lower in Europe than in North America so therefore a good charging infrastructure is even more important.

Jamie Albertine - Consumer Edge Research - Analyst

A quick follow-up. Would we expect announcements related to the battery side of the electrification independent of product announcements? Will you be updating us as that evolution occurs or will it be more embedded and subtle in your newer product announcements over time? Thanks.

Raj Nair - Ford Motor Company - EVP, Product Development & Chief Technical Officer

I'm not sure we've talked about what our communication strategy would be, but we are treating that strategy similar to our powertrain architectures, so the battery strategies and the overall electrification powertrain architectures are -- it's a cross-vehicle unit strategy than tied to individual vehicles.

Mark Fields - Ford Motor Company - President & CEO

And I would just pointedly add, one of the things we talked about in depth at Investor Day was around -- we used electrification as an example -- is looking at ecosystems and that is very simply looking for service and revenue streams beyond just the sale of the thing, the vehicle and that's why you are seeing us do things like fast charging, some of the things Jim was talking about because we want to look at that and say are there opportunities for us to generate revenues but also at the same time make customers' lives easier.

Rod Lache - Deutsche Bank - Analyst

Just on the -- all these changes that are occurring in Europe and Asia as well, these are the electrification, the Chinese government promoting a lot of this. When we as analysts look at the business today, we can see how North America, the franchise is going to be very strong. The truck business is a position we don't see going away anytime soon, but our impression is that the magnitude of the investment that's going to be required to accomplish what you need to accomplish in China or in Europe for that matter given the CO2 requirements and changing over the powertrain towards increasingly electrified is going to make it more difficult to achieve an attractive return on invested capital. Is that a misperception? Are we missing something and how is that affecting your strategy?

Bob Shanks - Ford Motor Company - EVP & CFO

Well, I certainly think it's -- and we have talked about this -- in the shorter term, maybe short to medium term, as that transition occurs, as we and the supply base continue to grow scale, I think we certainly are seeing pressure on margins from electrification and we talked about that at Investor Day. But even in our own plans as we look out over a five-year timeframe, we see a substantial improvement in the -- I wouldn't necessarily say (inaudible), but the losses dramatically reduce as we move towards the end of the decade.

As you go into the next decade, which I think is where you'll see a big change in terms of take-ups because of not only just the regulatory requirements that you are talking about, but as the crossover point occurs on selected powertrains between ICEs and certain types of electrification and we all become more agnostic about those costs, I think you'll start to see the dynamics start to change.



So I do think that there is a period of time in which there is a challenge around margins. In fact, across all these aspects of transformation, there is this area of investment and growth, piloting, exploration, moving towards scale and so forth that will have some impact on the business, which is what we have talked about, but we are very confident when we look into certainly the next decade, middle of the next decade, for example, in electrification, we see the economics really starting to make sense and give us the opportunities not just to get good returns, but in some parts of the business, particularly the services, fantastic returns. So I think it's a timing issue.

Dave Whiston - *Morningstar - Analyst*

Dave Whiston, Morningstar. Two questions on mobility and I want to fast forward in time to a fully autonomous world. You had mentioned earlier tonight that you are not looking to get into the off-lease market with ridesharing, but in a fully autonomous world, at some point, the Uber and Lyfts of the world are going to need to buy a lot of or lease a lot of vehicles and is that something Ford would be willing to participate in, or at that point would you be competing against them? And tangentially to that, my second question would be -- I personally think that for the consumer it's easiest to have just an Uber app or just a Lyft app on your phone, so how do you convince that consumer to add a second app, in your case a Ford app?

Jim Hackett - *Ford Motor Company - Chairman, Ford Smart Mobility LLC*

Well, I would like to take the last one. I heard something at the auto show. I learned things here as well. I don't know if you have heard there's drivers that have determined that the app is actually an easy thing to replicate and they don't need Uber and so that there is communities now that are gathering livery drivers that say all I need to create is a way for a customer to know that I am in the area. So let's just bookmark that and say as the pressure on the design of their model, a simple app and the fact they really don't have any control over the driver and then when you go to the AV world, the prospect for Ford is really a good opportunity both ways.

For a business model that is doing well, we could be a supplier or we could do it ourselves. We haven't decided yet. The other thing I just want to throw in there, and we are down towards the end of our hour, but the rate limiter in this AV/EV world for me is the pace that the cities will be ready to convert operating systems to receive this kind of technology. So we had four mayors here this week talking about their priorities. Next week, Bill is speaking at the Council of Mayors, John Kwant from my organization, and the number one question we get every day is what have we got to do to get ready for these things.

So I think the opportunity here is really great for the OEMs because we are leading these cities in ways that we want them to be ready for adoption. That bodes well for the services that are going to come along, as Bob just said, with these products that we haven't told you about yet.

John Casesa - *Ford Motor Company - Group VP, Global Strategy*

Can I just add a couple of things? Fast forwarding to that time, the world that that question implies, that could be a long way out because, as Jim said, first of all, nobody has made a robot that really works as we are dreaming about. We are all trying to invent it now. It's pretty hard to do. Societal, regulatory, legal acceptance is a big question and it's very likely that it's going to be a pretty messy process to get to that world. So I think it's going to take a long time and right now, we are -- internally, there is this tension between having a point of view on that future and having the humility to know that it is not so easy to forecast what the world is going to be like a decade out. The time Bell invented the telephone, it was pretty -- hard to see what the 1920s would look like with telephone-enabled business models.

So I think that is quite a ways out and one of the critical things is to have great technology and we do have a view that great technology is not going to be -- it's going to be pretty rare. It's got to be reliable. It's got to be safe and so our focus is hugely on the engineering and product development effort while we are thinking through the business model. So it is hard to make the leap to we are out there and the business has become commoditized because all those ridesharing businesses, which are losing a lot of money now, have got to survive from now until that world that's a decade or 15 years out.



Mark Fields - Ford Motor Company - President & CEO

But even in that world 10 or 15 years from now, listen, there is going to be a spectrum. When people are sitting in this room 20 years from now, there is going to be people that will want to shop, buy, own, drive vehicles the way they have for many, many years. So it will be a spectrum, plus if you think of some of our moats in our truck business, our van business, etc., the farmer in Kansas is not going to call up his Uber F-150 to say help me with my harvest this week or the tradesman that's going to the worksite to be able to put the drywall up. So I think just put it into perspective. There is going to be a spectrum and we want to be there for both the owned and the shared customer.

Jim Irwin - Moon Capital - Analyst

It's Jim Irwin at Moon Capital. I just want to ask a basic question about cyclical. It's kind of mundane against all this exciting stuff, but China, you are over there on the far left and nobody has asked you about the obvious question of China profitability and I want to get your sense of how volatile you are thinking 2017 could be in terms of payback with what's effectively going to be a 2.5% price increase on the 1.6 liter and below segment. And, two, if you can share your perspective on the industry profitability, which is very high in crossovers, but potentially very, very compressed in passenger cars.

Now that Volkswagen, one of the largest players now has SUVs coming into the market, two years late, but they are finally starting to come, so I just don't want to be surprised by two quarters of much lower expectations on China profitability to be recovered in the second half when things normalize. I just want to get your seasonality aspect of Q1 through Q4, if there is something we should be thinking about in terms of your China profitability?

Dave Schoch - Ford Motor Company - Group VP & President, Asia Pacific and Chairman & CEO, Ford China

Well, given the tax incentive, we had a fairly strong fourth-quarter industry and some of that was pull-ahead from 2017 and for the first few days of 2017, we have seen some payback. We had programmed that. We had anticipated it in our plans. Over the next couple weeks, I think you are going to probably see some volatility and it's going to be difficult before the Chinese New Year to get a good read on what the running rate is, but we are coming out of 2016 at an industry of about 25 million, 26.5 million and we believe 2017 is going to be in the 27 million range, so fairly flat. And as I look forward, 2018 will probably be somewhere in that range as well. Okay?

Now on the SUVs, when I think about the strength of the Ford family of SUVs, so we have the EcoSport, the Kuga, the Edge, the Everest and the Explorer, our full family of SUVs in China, it is a very strong lineup and I think we are well-positioned for the movement, the shift of customer preference from sedans into SUVs.

Jim Irwin - Moon Capital - Analyst

Can you just share quickly SUV penetration for the industry in 2016 and what you think it's going to be in 2017?

Dave Schoch - Ford Motor Company - Group VP & President, Asia Pacific and Chairman & CEO, Ford China

Well, I don't have the industry data because the government doesn't share it anymore, but I can tell you that our penetration right now in the SUVs and the larger vehicles is about 40% of what we sell.

Jim Irwin - Moon Capital - Analyst

And last, is there a substantially wide gap between your passenger car profitability and your SUV profitability in China?



Dave Schoch - Ford Motor Company - Group VP & President, Asia Pacific and Chairman & CEO, Ford China

I can't comment on profits by segment.

Mark Fields - Ford Motor Company - President & CEO

Okay, I think we are down to zero. Not in our financials, on the clock here. I want to be really clear about that. So we really appreciate you spending -- giving us the opportunity to share your dinner with you and appreciate your support. Thanks a lot.

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