PARTICIPANTS

Corporate Participants

Theodore Cannis – Executive Director-Investor Relations, Ford Motor Co.
James P. Hackett – President, Chief Executive Officer & Director, Ford Motor Co.
Marcy Klevorn – Executive Vice President & President-Mobility, Ford Motor Co.
James D. Farley, Jr. – Executive Vice President & President of Global Markets, Ford Motor Co.
Joseph R. Hinrichs – Executive Vice President & President-Global Operations, Ford Motor Co.
Robert L. Shanks – Chief Financial Officer & Executive Vice President, Ford Motor Co.

Other Participants

John Murphy – Analyst, Bank of America Merrill Lynch
Ryan Brinkman – Analyst, JPMorgan Securities LLC
James J. Albertine – Analyst, Consumer Edge Research LLC
Justine Fisher – Analyst, Goldman Sachs & Co. LLC
Matthew T. Stover – Analyst, Susquehanna Financial Group LLLP
Rod Lache – Analyst, Deutsche Bank Securities, Inc.
Itay Michaeli – Analyst, Citigroup Global Markets, Inc. (Broker)
Adam Michael Jonas – Analyst, Morgan Stanley & Co. LLC
Brian A. Johnson – Analyst, Barclays Capital, Inc.
Joseph Spak – Analyst, RBC Capital Markets LLC
David Tamberrino – Analyst, Goldman Sachs & Co. LLC
James Irwin – Analyst, Moon Capital Management LP
Colin Langan – Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Ford Motor Company strategic update. All lines have been placed on mute to prevent any background noise. [Operator Instructions]

Thank you. Now I'll turn the call over to Ted Cannis, Executive Director of Investor Relations.

Theodore Cannis, Executive Director-Investor Relations, Ford Motor Co.

Good afternoon, everybody, and welcome, everybody in the room, everyone online to the Ford's CEO strategic update. You can find today's materials on the Ford IR website or alternatively the Ford media website. Today's discussion includes some forward-looking statements as usual about our expectations for future performance. Actual results may vary and the most significant factors that could cause some of these differences are found in the presentation. As I mentioned to many of you on a personal note, this is my last event in this role as I move to the exciting role of Team Edison on electrification, which I am thrilled about it, our global BEV business. I've really enjoyed working with all of you. A lot of familiar faces in the room. A lot of people online, and I have really benefited from some valuable experiences and insights from all of you.

With that, I would like to welcome Lynn Tyson to Ford. Where's Lynn? Lynn, can you just stand up for a second? She is going to be leading in the IR function from this point forward. So I want to thank Lynn for joining us, and I'd really like to thank my team, who has been giving me great

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support and everybody else across the company in this role. So, with that, I would like to give you a special warm welcome to our CEO, Jim Hackett. Jim?

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Thank you, Ted.

Theodore Cannis, Executive Director-Investor Relations, Ford Motor Co.

Thanks a lot.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

And, Ted, let me tell you that in 100 days, I learned what an extraordinary person you were in this role. I'm going to miss you. Lynn, I'm glad you're here. And we've got a big job for Ted, in fact. Make sure you direct lots of questions to Ted today. We'll see if he's on his game.

So, hey, let's get into it. I really found on May 22 that I was going to be the next CEO of Ford Motor Company. And at that time, both Bill Ford and I confirmed that this move was more about the future than the past. And I promised you that on this day, I would come to provide insight into that direction. If it hasn't been said in any of the lead up communication to you, I want to thank you for your investment in Ford Motor Company. I realize that the folks in this room have choices, and when you invest capital like this, it's binary. You'd either are in the money or you've lost value and we're conscientious about that. Our job is to create value. The fact that solid profits we have delivered year-after-year will have allowed us to distribute over $15 billion to our shareholders since 2012. But I have to tell you, at the same time, we've fallen short of key targets.

While we grew revenue in wholesale volumes since 2009 by about a third, we had planned to do substantially better. We've not delivered on our top line growth expectations on our target of an 8% operating margin. And over the past seven years, we've averaged a 6.1% margin, and that's simply not good enough. So, that performance gap of 2 points is worth billions in value, obviously.

Now, we have challenges ahead but let me be clear, 8% or more operating margin remains our long-term target. And as I said, we are all about creating value for shareholders. That's my goal today along with members of my team is to update you on what thoughts are emerging after that 100-day deep dive. And I'll complete my comments in a little over 20 minutes and then I'll be joined by my team for a panel discussion and then a Q&A with you. That's going to include Jim Farley who's our President of Global Markets; Joe Hinrichs who's President of Global Operations; Marcy Klevorn, our President of Mobility and of course, you all know our Chief Financial Officer, Bob Shanks.

Why I call this a 100-day deep dive because the strategy is about choices, and to be more informed in the pursuit of the right strategy is a big advantage. I'm a huge proponent of a healthy balance between thinking and doing. One without the other, in my experience, can make the business toxic. I mean, I hate ideas that gain credit for action only to find out that it was shallow thinking that led to a negative outcome. But conversely, to assure you, the 20 years in this role of the CEO has also taught me that one can enjoy just endless hours walking in the desert, thinking about things. So today, we begin to bend the arc towards doing.

And here are five principles that I've laid out today and it's going to be talked about in the town hall this week at Ford that we need to act on. One, Ford will be – will prepare for disruption by

becoming fit. There's no doubt that we've entered this period of disruption, you all know that. But we have to design the business to be more fit, because it's going to give us time, resources and flexibility to evolve to where we know we have to be.

We're going to be in the vehicle business moving both people and goods. Some myth about not being in the car business is gone. In the future, people around the globe will still want and need our cars, trucks and SUVs and commercial vehicles. And I'm answering that question of whether mobility would chip away that cookie in any kind of way that would make us retreat. Not at all.

Those vehicles, though, will be smart and connected. The reason? There's a wider berth now between dumb and smart products as we learn about robotics and their role in our vehicles. This will influence customer expectations of what they want in their vehicles in the future.

Smart vehicles will be a given at Ford Motor Company. These smart vehicles will pair or thrive with a new transportation operating system. The history of transportation systems requires that pairing between whatever asset it was that moved people or goods in the environment that it was in. That could have been trails for horses, roads and stoplights for the cars as we knew them growing up, or GPS for satellites.

Consequently, we see a dawning of a new transportation operating system for cities that are – that's dealing with the fact that they're becoming more congested as more people move to cities and yet, they need more capacity. So to make that vision real in your mind, we've invested in Autonomic. We're just announcing this today, a Palo Alto-based company founded by a team of some incredible people. Many were responsible for successful startups including Amazon Web Services. Together, we're working with Autonomic on an exciting open platform for transportation that Marcy Klevorn will talk more about during our panel discussion.

And then five, a commitment to this transportation operating systems mean more evolved to capitalize then on new business opportunities. We can leverage key partnerships in software and services that furthers the development of the system itself, but give us a role in monetizing new business models. For example, we've announced recent partnerships with Dominos and most recently with Lyft.

Well, these five principles will drive clarity for our organization on our winning aspiration, as well as answering some of those open questions of where we play and how we win. Now, as I go deeper I want to tell you I constantly find myself thinking about how Ford can be better than it has been. I had an old famous coach in football, Bo Schembechler, who used to say, you either get better or you get worse. You don't stay the same.

Well, certainly, the automotive industry did get better since the 2008 Great Recession and the whole industry, including Ford, enjoyed a huge renaissance in demand that allowed us to reach – achieve, I want to remind you in 2015 a record in profitability. And then last year was our second most profitable year ever.

Now, as I consider those years, I had in my – back of my mind, the building evidence though of industry disruption. Disruption is often referred to, but is not easily understood. It's like the thief in the night that you didn't expect, but it can steal your livelihood. And it doesn't wait for businesses to be in the best shape to deal with it either. I'm drawing on what I've learned from the Santa Fe Institute. These are really smart folks who study complex adaptive system and competitive forces.

They've examined why leading incumbents in various systems are vulnerable to new entrants. And there's lessons here that can be applied as I see our competitive position. When you're a long-lived company that has had success over multiple decades, hundreds of years, the decision to change isn't easy, and that's both culturally or operationally. But ultimately though, the rule that you have to understand is the virtues that brought us success in that – like in this past century, are really no

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guarantee of future success. Almost every long-lived company, including the one I recently ran, has felt that. They've had to evolve and we're no exception. The mandate here is that Ford must compete. Companies never choose to die, and yet many, by not evolving, are enabling that kind of fate.

Well, it's clear that as a company we must then raise our gaze just high enough to ensure we're not changed – we're not disrupted as the world changes. But I think you're going to worry that if I raise it too high, I'm taking my gaze off decisions that need to improve the business rightly – of right now, significantly now. So you can think of this as attention as being able to navigate the now and the far. And I call it the now, near and far horizon. Now these aren't in sequence. They're not now, near far, but instead, see them stacked on top of each other, working in concert. In fact, I'm calling it a new type of clock for CEOs. It's the now, near, far clock. So I'll draw an analogy to help you see how I came upon this.

I was sitting in a flight lounge one day in Shanghai, big long flight delay, and I noticed this often-used technique, of the wall had all the time zones for major world cities next to each other. It had occurred to me that as a modern global CEO, I had already learned, I thought about it probably daily, about the differences in time zones such there was no need for me to have that aid to do my job. But if I did need an aid to manage the overlap of time periods, it was the tension I was feeling working on today's issues versus tomorrow's. There's this paradox that if you obsess about what might happen just in this quarter, you could lose the competitive game long-term. Or if you're too much of a dreamer, if you fantasize too much, the company becomes undisciplined and it cedes own markets to upstarts who're just worried about getting in today.

So let me give you one example. In retrospect, had Ford mastered this way of thinking a few years ago, we would be much further along on connectivity than we are today. We're now taking significant steps to make sure that thinking is embedded in everything we do. Look for more on that in the future.

Okay, so this graphic on the slide now is the roadmap for the rest of the discussion today. Let me just assert the fact that Ford has a really bright future. I came out of that 100 days very excited, but it hit me that we can't compete in that future unless we get fit today. And some of that will take time, but we can do things now and some things we have to do in the future. So I want to dive into that concept of fitness that's been written about. And I want to label it as the way I judge Ford's ability to compete, thrive, and grow, of course now but also in the future.

So there's an early priority here that we started with in the left rectangle, and that was to reset revenue and attack costs. We haven't grown revenue and volume to the degree that we had planned coming out of that recession, as I said. Good news is revenue did grow but so did our costs. And the costs grew at a rate that we didn't get the scale advantage, so I am suggesting to you today that we have too much cost across our business. And over the same period, our capital spending also increased to support anticipated revenue that fully didn't materialize.

So a fair question, what are we doing about that? Well, the first thing I wanted to do was address the organizational construct, so I established a Global Markets organization, led by Jim Farley. This allows us to promote better accountability across the markets, and we can enable more effective cost reduction by certain platforms that we can share. We also established, under Joe Hinrichs, a new Global Operations organization to develop an industrial model for the next generation of vehicles. And both Joe and Jim have already launched into this profit improvement and spending reduction effort. You'll begin to see progress right away.

Also in that left rectangle, we're going after our material costs in the short term. We want to cut the automotive cost growth in that area in half. In doing that, we brought together global product development and global purchasing under one leader, a fantastic guy, Haul Thai-Tang. This will ensure better coordination and unlock significant value.

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We also recognize with that move that we're not as fit as we need to be in product engineering. Our product development team then has put together a significant cost attack plan to deliver significant savings, about $4 billion, over the next five years. But we're going to still invest in emerging technologies and developing the cars, trucks, SUVs, and commercial vehicles that our customers are crazy about. But a highlight here is we're planning an additional $10 billion in material cost efficiencies over the five years.

These are numbers that you haven't heard. We'll do this by increasing the use of common parts, reducing order combinations. This is – gets at the complexity. And then, in the product development process, we don't have to build as many prototypes. These are real improvements to the business. But I have this nagging thing that in addition to these short-term things, we need to adjust the fundamentals of the company, what I'm calling the fundamental redesign of our operations.

Now, my experience in redesign is that it takes more than one year to impact our performance. But when they come, they stick for a long term. I call them not holding your breath cost improvements, but real structural. Now, the areas in this cost redesign have a systems relationship to them, which promises not only the one-time savings that we'll be reporting, but there's always a compounding improvement because of the relationship they have with each other.

So let's take the F-Series, for example. In 2014, this isn't news, but we transformed one of the world's most iconic products in this industry. We made it far more capable and dramatically more fuel efficient at the same time. Here's the news, the F-Series grew market share and it sold at a higher transaction price prior to the earlier generations. We mastered in that engineering process light-weighting at scale, which of course improved fuel economy and made the F-Series our most CAFE positive contributor in the U.S.

But the greatest benefit about this, as we apply this expertise in light-weighting and new propulsion, the marriage of those on future trucks and SUVs, Ford has an advantage in making them attractive to customers without worrying about fuel prices ruining the demand for these items. And this can be achieved – these kinds of engineering principles can be achieved across our business.

Let me give you another example. In the interest of being responsive to customers, you heard me talk about complexity. We built a lot of it into our vehicles. The problem was we really offered too many options. This isn't efficient for businesses. It's a killer for operations. And in fact, customers don't like it. There's a Harvard article called The Tyranny of Choice, which says they really don't like having too many choices.

As you can see on this slide, the Escape combinations will be reduced by tenfold in the next generation. Reducing complexity across our business then means that we're taking a hard look then at that product development process so we don't find ourselves in that alley. We challenged the team to bring new vehicles to market faster in addition to the simplicity.

In addition, by using virtual assembly lines, we can now reduce new model changeover time by 25%. These are true fitness improvements. Fitness redesign also requires us to allocate capital then. You're going to ask about that, from customers' demands today to what they want tomorrow, but they don't know that yet. That's why we are reducing our internal combustion engine spending by a third and redeploying that capital into our electrification efforts. We'll talk more about that in the panel discussion.

We're also taking a hard look at our legacy systems in manufacturing. I've asked Joe to imagine what the factory of the future will look like. He has the coincidence of forces like big data and deep learning and machine learning and 3D printing. You know there's a new emergent factory model in that. And it's going to promise smaller footprints, faster logistics, less inventory, and closer customer contact.

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So once we have the building blocks in those two rectangles in place and the work in motion that we can claim and you believe that we have operational fitness, we earn the right to author our future through strategic choices, understanding that future starts with this winning aspiration this team put together for Ford Motor Company. I want to read it to you.

Ford Motor Company was built on the belief that freedom of movement drives human progress. It's a belief that's always fueled our passion to create great cars and trucks, and today it drives our commitment to become the world's most trusted mobility company, designing smarter vehicles for a smart world that help people move more safely, confidently, and freely. I'm proud of that statement. Smart vehicles in a smart world, start thinking about that for Ford Motor Company. It's this pairing that anchors our strategy.

Let me unpack it a bit. As I took the time in 100 days to find facts, evidence, and hard stuff that we need to address, I was also moved by the emotional connections to this brand. It's unique in our industry. People fell in love with the story a short nine years ago when the company was resilient and it was the one that managed its own fate out of the financial crisis. That trust is hard to earn, and it's even more important for me to conscientiously protect it.

Another difference I sensed in that deep dive between my last role, which I loved, and this one is the passion that people have for their products, the passion for cars and trucks. To say it's personal is trite. Humor for me a moment with this analogy. There's a difference between an elevator and a car. What's same about them is they both enable mobility that use technology, which we know only gets better in the future. But a car or a truck has to interpret that technology in a way that's not only intuitive to operate but also embraces your passion for being in it.

So the rhetorical question, which do you look forward to each day more, riding in an elevator or driving a Mustang GT? You know the answer to that if you've driven a Mustang GT. This is the emotional advantage we have with these products. Thus, the strategic arc of these vehicles, they are getting smarter, almost magical to the way our parents would see it, to where we are today even, along with what will happen in that ambient system around them or environment that these vehicles work in. And that means there are many more strategic choices now for Ford where we play and how we win, built on that understanding and passion that people have for our products.

If I'm further describing this with you in mind, I know that any kind of future like that is only as believable as the facts I give you today, and here's the problem. There are no facts about the future. But there are forces that we can count on continuing from where we are now to the far that add horsepower and believability to the projections I'm making to you. I'm going to give you four of them that we think persist well into the future.

The first is Moore's Law. It continues to make the advance in vehicles from the auto industry or the tech industry indistinguishable. We talk about rolling computers. The march of ever-better technology, though, tends to lose track of human use.

So we believe investing now in that understanding of use is the gift that will keep on giving. I have evidence for you of that today because we started an early initiative in a concept called Greenfield Labs in Silicon Valley. This simple example: we took a Transit van and we reconstituted what its purpose would be in a world where people were now sharing rides as part of a transportation service, our own Chariot brand. The question we asked is how do we keep people from getting motion sickness when they're in the back of the van that's full of others, which is the profit motive in that ride-sharing objective. It's an important question because remember one day, these vehicles will be driven by a robot, and we have to make sure that people don't get sick in them.

A second force is the next rung on the ladder that AI builds on. So let me just establish for you that AI and machine learning similarly are some kind of progression we've all enjoyed. Now, there's a

layer above it called deep learning. And its recent advances are breathtaking – the recent. Now we can't build AV if we don't have that deep learning because the interactions that the vehicles will embrace are always shifting. This is why it's a hard problem. The vehicle has to accumulate intelligence and once it has that intelligent and understands your patterns as an occupant, it not only makes it safer, but it opens a wealth of new digital services, which I don't have to whisper will have a different P/E than the industrial companies have.

So deep learning in the future will speed those conversions from data to business. And we'll be talking about Argo AI in Pittsburgh, which we've invested in which is our deep learning effort. Another example, the design of autonomy right now – right now, relies on all the vehicles learning how the analog systems relate to it. I mean, here's a manual that you can see that was used by urban architects. It was really written 50 years ago. It's been updated but this cover depicts traffic lights and signs that really haven't changed in the design of that ambient system in 50 years. Thus, they're trying to change – train the autonomous vehicles to learn what yellow and white lines are, and they're trying to learn what a stop sign is or a stoplight. One of the limiters is those lines aren't always refreshed by cities in their painting, their maintenance. They have to keep the markings up for the vehicles to work. This is why you write about mapping being so critical so that the vehicle can have the advance information about how the streets work.

But what we can count on in the future is that the environment's boundaries actually will communicate to the vehicles versus the other way around. That creates a harmony of the design that the vehicle now and the environment works so much better and it's closer than you imagine based on the work we've done.

Here's another one, propulsion. I want to introduce that as a way for you to think about this battle between gasoline and electrification. We can count on propulsion always to have a persistent role in moving people. We've had a tremendous success in hybrids. We lead in many ways not written about, but you could ask a question of me, what did you find out in 100 days? Why didn't we move more quickly into battery-electric vehicles? Simply, it's uneconomic and we were too much focused on the now. We believed that it was an all-or-nothing question. And now, we know that there's a future around propulsion that we have to pay attention to.

Propulsion is a selection then by customers based on their use case and there's going to be a variety of choices that they want to have. Do we think there are going to be more BEVs in the future? We are doing that. We're going to confirm that, of course. But what is more important I think from a business perspective is the intelligence of the vehicle in the smart world. It's moving from being a fringe effort in support of environmental targets to an advanced propulsion system that needs to offer that passion and intimacy that I talked about with the F-150 and the Mustang.

And we have to know that with the early versions, people don't want to wait a long time to charge it. They don't want it to look like a science project on wheels, but probably more importantly, with our use insights, the jobs they're using these vehicles for required that the range and the horsepower covers the spectrum of the roles that they have to use those vehicles for.

Well, finally for today's purposes, as I said, we're going to go into a panel discussion for deeper insights into the strategic priorities that you hear me talking about.

I would now like to invite my team up here, Jim and Joe, Marcy, and Bob, to come to the stage. And as they come up to sit with me, I want to point out this video that's – that we showed at the Auto Show that is for you graphically the way Smart Vehicles in a Smart World integrate. In fact, we have a Chariot in this graphic to help make the point at how we're going to reduce congestion. The smart world in smart vehicle is starting to come to life and you'll see the fact that they're connected to each other, that the environment is communicating to them with versus these analog systems that we've talked about.

Lots of opportunity in the vehicles, lots of opportunity in the digital services in that world. In fact, I want to turn to Marcy first because she can talk about some of these digital services and how this connects with the software stack that corporations like us have to have embedded in their system to reach out to their vehicle. Marcy?

Marcy Klevorn, Executive Vice President & President-Mobility, Ford Motor Co.

Thanks, Jim. We're excited to be here. It's an exciting time to be in the industry and particularly at Ford. We think about our role in smart vehicles in a smart world as moving goods and people, but with a human design-centered approach. Jim talked about that and we have our Greenfield Labs organization in Palo Alto that helps us think about all the players in an ecosystem as complicated as the city.

These things will be enabled by software and data. And our approach is – if we move to the next slide, is to think about things almost like a box of Legos with configurable pieces in them that we can quickly rebuild to create different assets, products and services, much more quickly.
So as Jim mentioned, we have invested in a partner, Autonomic, and what they're doing is really this middle layer here and then you see in the black and green. They're providing really a transportation software platform of services that are more commodity like that are not differentiated and so they can do that heavy lifting in an open platform, while we focus our energy and precious resource on Ford Customer Solutions that people want and value and make revenue for Ford.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Marcy was way ahead of her time in seeing that that middle layer before it really happened was going to be commoditized so that Ford could put its energy on that top layer.

Marcy Klevorn, Executive Vice President & President-Mobility, Ford Motor Co.

We also invested in a company called Pivotal a while ago. That's been a great investment. And what that is doing for us is a number of things. Number one, we used their Pivotal Cloud Foundry product to front-end our cloud connectivity with Microsoft Azure. But we also are partnering with Pivotal to build software labs around the globe. And we are filling these labs with product teams, so organizing more like a software company. These product teams are very small, maybe 8 to 12 people, and they're focused on a single product in a single service, and using the paired programming methodology that we've worked with Pivotal on to quickly deliver product and value.

And let me just talk for a minute about some other products that we're working on. So Jim mentioned this, and I wanted to start by reinforcing, we're going to greatly accelerate our connectivity in all of our vehicles. By the end of the year, we'll have 700,000 vehicles connected, with plans to aggressively connect even more. Some of the products we're building on the software stack that we talked about include – and Jim already mentioned it, our Chariot product. What's really exciting about using Greenfield Labs, to think about the way humans interact, I'd like to use the example of Chariot.

We are using our Transit commercial van product, and as Jim alluded to, we reconfigured the product to make it amenable to those doing ride sharing. We then used our software to create great tools for the driver, a great experience for the riders, digital display, app, and then finally, to create services to operate the Chariot suites, which end up saving about $9,000 a vehicle. So great experience, but also cost-effective in the way we're managing the products.

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Building on also on our micro-transit platform, we launched in four months' time a brand-new business called Non-Emergency Medical Transport. It's a business that's growing because of demographic changes. It's about a $7 billion business, and we provide rides partnering with the hospital, Beaumont Hospital in Detroit, for those that are sick or elderly, need to get to medical appointments, and they may have a stretcher. They may have a wheelchair. So Transit products can be configured to accommodate these needs along with software around it for the scheduling appointments, billing, et cetera. We've been in business now for about eight weeks, and the response has been amazing. And every week, we grow in revenue and rides.

Finally, we have a product, FordPass, that's been out for a while. The super exciting thing is that we have 1 million subscribers, almost a million subscribers already. Think of FordPass as another box of LEGOs and more pieces to add to our LEGO box. It's really a platform with subscriber services, third-party integration, and access to our Ford Pay product. So we can use that to build additional digital services, and we're working on a cycle plan to create even more digital services now, in addition to some of the revenue we're already making on FordPass.

So really in summary, we've created a box of assets that we can configure to meet the market needs as we work with Jim's team on in a more agile fashion, married with our great vehicle products, and through the announcement that Jim made when he took over this job, our new organization, I really feel excited about we're organized for success. We've added the vehicle connectivity team from product development to my team, the FordPass team, information technology, data and analytics, and the Ford Smart Mobility LLC, now we all joined forces together to create these assets and products and services even faster.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

In fact, I'm not exaggerating. We got the two people on my right and Marcy, they can manage all those integrated points now in this new organization, so excited about that. And Jim is going to talk to us about the evolution of the product portfolio and it kind of brings to mind that challenge I told you, the paradox of having our gaze go far enough out, so that we're anticipating where the market's going and not losing track of our markets where they are today. And I'm really proud to have him on my team, he has a rich history in the industry, he turned around Europe, made it profitable. And by putting really the markets under him, he owns the point of view about the future of which products get to market. So I'm going to let Jim share with you some of that early thinking.

James D. Farley, Jr., Executive Vice President & President of Global Markets, Ford Motor Co.

Thank you, Jim. And good afternoon to all of you.

So on our traditional products, there's a couple things that we're going to be shifting. One will be, of course, accelerate our investment in utilities. And the key part there is we want to leverage where we're really strong. So for example in North America, we're going to be developing new nameplates, more nameplates in the authentic off-road capable category. It's really credible for Ford and it's a real opportunity for us to grow even faster. In Europe, where we're known for very style, fun, on-road performance, we're going to be accelerating our urban utility products, so a little different, again, an area where our brand is really strong. In Asia and China specifically, we're going to be expanding our utility lineup by going to more value products, especially in the C-plus size, as well as going to more three-row seven-seat crossovers, which are really important. To give you an idea how big the utility segment is in China, just the small utility segment is bigger than the entire Indian car market. So it's enormously – has enormous opportunity for more derivatives.

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We also have new partnerships like Mahindra that we're exploring for utilities in emerging markets. We're also doubling down on our commercial vehicles. It's really the strength for Ford Motor Company, and as Marcy said, it's really a foundation for a lot of our mobility businesses and all those services, those exciting services that we're looking to develop, and that's broader variations, even value versions of Ranger, which has now one or two in almost every segment it competes around the globe, expanding our Transit presence in variations, including electrification in Europe, as well as of course doubling down on F-Series, which as Jim mentioned, is just an incredible franchise.

On cars, we're making some changes, some of which you've already heard about. We want in the developing markets to reposition our vehicles to go in lower volume but higher revenue sub-segments, and we feel this really positions our brand well. For example, we're also rationalizing our investments. So instead of dual tooling the next Focus, we'll make it in China, and we'll compete here in the U.S. with lower volume but move the vehicle upmarket and compete where we're really known such as the hatchback sub-segment. The same thing in Europe, for example, we're creating new variations like the Active line, the Vignale. For both Fiesta and Focus, we're going to be moving those vehicles upmarket with slightly lower volume.

In the developed world, we're launching new value cars, and we're turning to more partnerships, and I think Mahindra, our Chinese JVs are all huge opportunities for us in terms of expanding our volume, our value presence.

On electrification, as Jim mentioned, we're going to be rationalizing our ICE lineup, and we're also going to be investing more in HEVs, and PHEVs are the highest volume vehicles now, not separate top hats.

So let's talk about electric vehicles. There's a lot of claims in the industry about how many models everyone's launching. So if there's one thing I wanted you to take away about our shift and our point of view on battery electrics is, we are looking to build a sustainably profitable BEV business. And that has really fundamental impacts on our presence. We want to play and lean in to BEV segments where we have a strong revenue position already.

That's a very important priority for the company. We're also going to explore value lower-priced points for the BEV business. We recently launched – signed a MoU with Zotye. They're a leading volume BEV player in China. They make an $8,000 vehicle. They have one of the highest volumes, fully integrated. They make all of their electrical components internal. They have a battery swapping system, and they run almost all of their vehicles in a sharing model. And we're – I just spent time there. It's a very exciting, very capable company.

As well as Ted mentioned, we're creating Team Edison, and this team is intended to accelerate our work on battery electric in two ways, to define that lineup especially in those segments where we have great reputation and revenue power and audience already that loves the brand, but also to define that end-to-end business model. We'll be looking for the best and brightest within Ford, but also some outside talent. We're going to use the over-the-air updates and all of the incredible new opportunities from distribution, all the way to engineering and conceiving the vehicle and everything in between to look at providing more value in every part of the e-mobility system. So be a lot more to come in our BEV lineup, but we're very excited about what we have to share with you in the future.

Let's move on to automated vehicles. And the key message from Ford here is that, again, for us, the key is the business model and that service layer that sits on top of the tech. For us, we're looking to develop a very diverse revenue model, not just ride hailing but also moving goods and even serving content. That's really important because the profitability in AVs is all about high utilization, and the best model to do that is to have a diverse group of businesses and services to utilize the vehicle all day long.

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We believe in a human-centered design, that's very important, especially the interface of the vehicle for customers outside the vehicle. Argo AI is the tech company we invested in, they're right on track, and I would say their uniqueness, their unique point of view in the tech is they want to get to a scalable production ready-tech platform, no research iteration, and then a production platform. They want to go right to production, whether it's a development of the code or their sensing systems, that's exactly how Bryan and the team are wiring our capability.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

And that's why yesterday, in another setting, I said I wouldn't get in the car today, I'm talking about today, because we don't want the customers as part of the product development process. You wouldn't have wanted to use your PC or your phone that way. And so we're really confident that these guys get it. And when we go to market, we're going to be in great shape.

James D. Farley, Jr., Executive Vice President & President of Global Markets, Ford Motor Co.

And building on that is – on the tech layer is the actual vehicle format. So with such a wide variety of services and partnerships, we believe the vehicle format is really important. We don't think that a small compact car, even a Fusion is the right format for our AV platform, so we're going to a different vehicle format, and we'll give you more in the future about what that is. We also have huge experience in high mileage durable – durability from our fleet business like police all around the world. And we think that's a really key strength for us. We also believe that the HEV system is important, because if you are trying to maximize your utilization, having a BEV that has limited range because of the VES draw of a 100-mile range is really restrictive for your business. As well, repeated high-speed charges will drain on the BEV battery. So we believe that at starting point, HEV is the right tech to start with. And we're really expanding our technical partnerships outside of Argo, as well as those business partnerships. So you can expect more announcements from Ford in the weeks, months, and years ahead.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Thanks, Jim.

I did a tour over our research center in Joe's product development group, I can't overstate to you how profound the history of Ford has been when you saw that picture of Thomas Edison and Henry Ford of working on electrification. I mean, it's been in our blood and it's coming through in the way these hybrid structures have been designed. And so we want the message kind of to be that we have a spectrum of offering in propulsion that's going to put us in a great position the way these markets evolve in these alternative ways. And I've asked Joe to talk about how we tackle leading the design and engineering of products in the future, and he's also going to give you a hint about this opportunity that I mentioned in fitness in our industrial model.

I also will add just an embarrassment for him. Joe, we were very lucky because he's had experience in operations a long time for Ford setting up our business in China, coming back and running North America, and now having him over all global operations and product development, and working closely with Jim, I've got two great people that know the business in and out, know the market, and know the automotive industry. So I'm really happy to have Joe on this team.

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Joseph R. Hinrichs, Executive Vice President & President-Global Operations, Ford Motor Co.

Well, thank you, Jim, and good afternoon, everyone.

I think you've seen already the power of the organizational structure that Jim set up, I mean, the Global Operations team bringing product development, manufacturing, purchasing those large organizations together in a few short months, we found an incremental $10 billion of material costs, that's the power of the organizational structure, of course, working with the business units. But Jim referenced to smart vehicles in a smart world, and the manufacturing system and the product development system has to be an enabler to make that happen. We've been thinking a lot about what the manufacturing looks like in the future. At Ford, we've been talking about how to incorporate machine learning, a lot of the virtual factory work we've been doing to design the systems of the future, to be ahead of that, so that we can make sure that we're ready to make that happen.

For example, 3D printing, which we all know is coming, it's at different levels and stages of development. But we've already produced over 700,000 3D-printed parts over the last several years saving hundreds of millions of dollars in our system today. And we're evolving to integrate that thinking into our design and manufacturing capability. But Jim Farley talked about BEVs, and we need to be part of that business model development that was discussed to make it profitable and make it part of our successful future. So we've actually gone ahead and looked at what the development looks like of the manufacturing system for the next battery electric vehicle.

And when you look at that manufacturing footprint, if we can call up that slide please, we actually have been able to design the next system of our battery electric vehicle in the final assembly area for a 50% reduction in footprint, a 50% reduction in capital investment, and a 30% improvement in hours per unit or labor savings. This helps develop the business case and the business model for BEVs of the future. It also frees up floor space to do vertical integration of key componentry that we know is part of that business model as well. This is how we work together to make BEVs work, and we're already deep into it, and this is actually part of our plan.

You can also see, as Jim Hackett highlighted in his remarks, the opportunity for us to get a lot more fit in the operations side of the business. And one example of that he referenced was product development. If you look at the engineering efficiency that we've been talking about, it's not only cost which clearly is important, but time is a critical part of what happens in our business, especially in the product development side. We believe with the work we've done that we now have platform timing that you don't really see, but the new platform development timing is competitive with the best in the industry.

But we know over the last several years that our top hat capability has not been at the best-in-class levels. We've developed a new global product development system going forward, where we've taken 20% of the time out of the development process for a new top hat that will affect us over the next several years on our new model, very important as we get ready in part of our fitness. It's part of the initiative that leads to the $4 billion of savings in engineering that we've talked about today. It accelerates over time because of the things that Jim mentioned earlier about fewer prototypes, more CAD/CAE work, more digital and virtual testing, et cetera. But it also is part of that matching between cost and timing.

Importantly, that $4 billion does not come with any output change. That's at the same level of output we were expecting and planning to do. This is how we bring together the power of our organization to become more operationally fit to free up capital and resources to develop the business models and the other resources we need to develop the techniques and opportunities we have for the future. So we're looking forward to it. We have a lot of work to do. I feel like I'm working out every day for fitness, but we're getting more fit every day.

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James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Yeah, we are. And I think before we go into Q&A, there's a couple things I want to do. I'd like to ground kind of where we are from a financial perspective by turning it over to one of the most important members of my team. It was the first call I made when I got the job and – because Bob's had 40 years with the company, he had a lot of options, and I said, can I get you to stay? And he's been a treasure for all those years at Ford, but he really understands our business. And I've asked him to just put some stakes in the ground for you right now about where we are.

Robert L. Shanks, Chief Financial Officer & Executive Vice President, Ford Motor Co.

Thank you, I appreciate it. So good afternoon. One of the things I want to pick up on first is the commentary that we shared around fitness of the business. So as you've heard, we've put some pretty big numbers out there, I think, in terms of what the team has identified over just the past 100 days. I don't want to leave with you though the impression that we're done. We know that we have a lot more work ahead of us in terms of improving the fitness of the business further, and it won't all happen overnight. But you can tell from what we've put on the table today, but also you can tell from the enthusiasm that Joe expressed in Jim Hackett, you know the commitment the team has to strengthen the business, improve the fitness of the business.

So as Jim says, we have the complete flexibility and freedom to make the strategic choices that will make this business really hum in the years ahead. So what I wanted to do now is just share with you, coming out of the 100 days, what are some of the stakes in the ground from our point of view. Many of them are unchanged, but I think it's important that we just restate them, so that you're clear about how we're thinking about the business.

The first thing I would say is that we have always expressed and we have delivered a very, very strong balance sheet for the business. It is the foundation of the company, particularly for a company in a sector that's cyclical, that is not going to change going forward. And we're going to continue to do anything and everything we can to make sure that that foundation of our business remains strong and even stronger where we have the opportunities to do so.

The second thing is that we're going to continue to reward shareholders. We have a distribution strategy for shareholders that we've expressed over the last several years. That is unchanged as well, the forms and means by which we'll make those distributions, the targets that we've set, for example, 40% to 50% of the prior-year net income excluding the mark-to-market pension adjustment, that is unchanged, too.

I want to go down into some metrics. We've talked about growth, so I want to be very clear. Growth is important to Ford Motor Company. So while we've talked about resetting the revenue of the business, I don't want you to misinterpret that as a shrinkage or we're pulling back or we feel that growth is not something that we should be pursuing, quite the opposite. But as Jim said, the tools that we use, the methodologies that we use to forecast that growth, that just didn't prove out to be nearly as accurate as possible, recognizing it's never going to be perfect.

But through the efforts of Paul Ballew and the Global Data Insight & Analytics team over the last couple of years, progressively the team has been able to put together the pieces of the puzzle in a way that we're now able to connect segmentation calls, our market share calls, our revenue calls, our mix calls to come up with a total revenue that we think is much more grounded and much more 50:50 than what we've experienced in the past. So we will grow, but I believe that that growth will be based on assumptions that are much more grounded than they've been in the past.

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As Jim mentioned, in terms of the cost efficiency of the business and operating efficiency of the business, that's unchanged at 8% or more. In terms of cost of capital, Jim, I will tell you, Jim is passionate about capital efficiency. He's on that constantly.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Yes.

Robert L. Shanks, Chief Financial Officer & Executive Vice President, Ford Motor Co.

We hear you, Jim. And certainly, it's something that you also picked up from Joe's comments and Jim's comments as well. It's a very top-of-mind objective of ours to reduce the amount of capital that we use, so that we can also deploy that in more productive ways going forward, particularly given the transitions that are ahead of us.

Now fortunately, since 2010, we actually have exceeded the cost of capital of the business. I think in 2014, when we launched the first F-150 in Dearborn, I think we were just 0.1 point below our cost of capital. But we wanted to be well above, and if we get the type of operating margin that we're striving to achieve, that will happen.

And then finally, top-quartile total shareholder return, that's the measure by which we're compensated. It's been painful lately to us as well as to you, but certainly we are focused on trying and working to get that to top-quartile total shareholder return.

In terms of guidance, we're reaffirming our guidance for 2017. I will provide more texture and color on 2017 when we get to October 26 and the third quarter earnings call, but we're on track for that. And in 2018, the work that we've shared with you today, that work is continuing. So I'd like to wait until we get to January to share our outlook for 2018.

And the last thing I want to comment on, you've not heard much from any of us on Ford Credit. So I don't want to pass the opportunity to just share with you that Ford Credit is a huge opportunity and a huge strategic asset for the company, has great purchase loyalty, world-class operating cost. It's there for customers and dealers throughout a cycle, even when conditions for lending are very, very difficult. We have a great risk management team and process and certainly a well-performing portfolio.

And Joy Falotico is here with us. Joy, raise your hand, so you can touch base with her afterwards and chat with her about any questions you might have. But the important thing is that they also have a huge role to play in the new opportunities going forward. You heard someone mention Ford Pay. I mean that's coming through Ford Credit. That's just one example. And they certainly are very integrated with the work in terms of the new business models for AVs, for EVs, along with digital services, so huge role for them to play.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

I got to sit on a bank board for 20 years, in fact, chaired it the last 5 years, and in the 100 days when I've gotten exposed beyond what I saw as a board member at Ford, what Ford Credit is about, the way it's organized, it's world-class as a financial services entity. And I now understand why in other businesses in our industry, they cancel them. This one kept going and it's really well-run. So I want to thank Joy as well.

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Okay, we're going to go to Q&A really quickly here. So I just want to summarize some following points on what you can expect from us moving forward. We're going to accelerate the introduction of connected smart vehicles and services that customers want and value. For example, we now can tell you that 100% of our new U.S. vehicles by 2019 will be connected. We're also working on similar aggressive plans for China, Europe, and other markets, so then we can say to you by 2020, 90% of Ford's new global vehicles will feature connectivity.

And through the work that Marcy has done in building this internal software stack, we're going to be able to move really quickly now to offer new capabilities for our customers and our enterprises. This is going to create lots of business opportunities in the services realm. I want you to understand how quickly that can come.

You've heard us talk about it a lot. We're going to rapidly improve our fitness to lower cost, to release capital, and finance growth, and this includes the partnering that Jim talked about in emerging markets where we're not performing to our expectations. The work with Mahindra in India and Zotye in China is going to give you a sense of the openness and where we're heading. We're going to continue to invest in Lincoln in both China and the U.S. We've made great strides in that brand with the sales performance. Quality is great. And I'm really excited about the launch of the new Navigator this quarter. I'm going to ask you to take a ride, you're going to love it.

You've heard us talk about capital, how important it is to me. We're talking about ruthlessly attacking the allocation of where Ford can win in the future and a way from where it can't. That's why we're shifting funds. It's no small move here from cars to SUVs and trucks, bringing the Ranger, Bronco, and EcoSport to North America, again, not worrying about fuel changing that bias because of the way we're thinking about propulsion and light-weighting.

We're going to continuously improve our innovation in human-centered mobility solutions. It's not good enough in the industry. We're going to make it better. We think it's about creating more value for our shareholders by making the products that people are delighted by. If we look at BEVs, for example, customers want range, style, room, and capability, in addition to all the things that the new propulsion system offers, and we've got to deliver all those capabilities.

We're going to empower this great team and there are some others in – there are 12 of us that work together to effectively compete to win, effectively compete to win. And we're doing that. We're changing some of the things that we talk about in our closed meetings. We're talking about things like design thinking, critical thinking, who owns points of view, how do we close doors behind us and make quicker decisions. We can unleash the power of speed of decision-making in Ford Motor Company, and we're on that.

So I want you to know that the entire team feels a real clarity of purpose. We see a tremendous possibility ahead. I think we'll look back in this 100-day discussion and say it was a beginning of a very productive period at Ford, and humbly leading the Ford Motor Company into the next generation is one of the great privileges of my life. And I look forward to getting to know you all better, and of course, delivering on the commitments that we've made to you.

So right now, Ted is going to help us facilitate Q&A, and we'll get right to it.

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QUESTION AND ANSWER SECTION

<A – Ted Cannis – Ford Motor Co.>: All right. Murph, can we get a mic to you? And if you could just say your name, for who it is, so we can get it on the transcript. Thanks. One second.

<Q – John Murphy – Bank of America Merrill Lynch>: John Murphy, Bank of America, just a couple of questions. First, Jim, as you were going through this 100-day review, I was just wondering how you assess the competitive landscape, because obviously, you're not working in a vacuum. There are traditional competitors who are moving quickly. There are new competitors that are moving quickly, and how you assessed who you might partner with in the future and really where the big competitive threats were?

<A – Jim Hackett – Ford Motor Co.>: Which Jim are you pointing to?

<Q – John Murphy – Bank of America Merrill Lynch>: Hackett.

<A – Jim Hackett – Ford Motor Co.>: Okay. Thank you.

<Q – John Murphy – Bank of America Merrill Lynch>: You're the man in charge today.

<A – Jim Hackett – Ford Motor Co.>: Sure. You bet. I feel it. The competitive landscape is something that I talked about in my first gathering with my team. This notion about thinking about how to compete to win is really our purpose at the top of the company. So the consciousness of it raised to a very high level, do we think about that every day? And as I assess it, I think that some of the reporting in the media about the strategic opportunities got disconnected from the realities of the way the strategy has been evolving. I still feel that.

So an example is in the deal flow a year ago about mobility that everyone was writing about, a lot of these things didn't happen. It didn't create the value. And I think that the Ford team was working in the right areas where it was going to matter, where there's longevity and scale and things like that. But we fully look in the mirror and say there's lots of news about BEVs. And our perspective on that, I said earlier, is really important is that our range of solutions in that propulsion area give us an advantage. Joe, what was the number in the industry we were in selling vehicles, you were saying?

<A – Joe Hinrichs – Ford Motor Co.>: In electrified vehicles, we're number two in North America.

<A – Jim Hackett – Ford Motor Co.>: Number two in North America, not often reported that way. So shame on us for not getting the consciousness of that up there, but it gives us a lot of capabilities, I tell you, as we go through the research labs and see what these vehicles are going to need from a performance perspective.

I think a third thing is that the industry is staring at the tech companies coming at it, and that's where I feel I bring some experience to Ford where I can help. These are companies flush with cash, flush with talent, flush with computer science. What I think we understand is the way people want to live and breathe and own vehicles, and so that's the leverage that we're going to use to compete there.

<A – Ted Cannis – Ford Motor Co.>: Ryan?

<Q – Ryan Brinkman – JPMorgan Securities LLC>: Thanks. Ryan Brinkman from JPMorgan. Just first question, you indicated that Argo AI is on track for production ready AV business. Just curious though, what is your current strategy in terms of who you will sell these vehicles to? Do you intend to make them available for sale to third-party ride share providers or instead to retain them

for your own use at some wholly-owned autonomous ride share company? Do you want to sell to Uber and Lyft as customers?

<A – Jim Hackett – Ford Motor Co.>: Yes, sure. I get it.

<Q – Ryan Brinkman – JPMorgan Securities LLC>: Or compete with them head on?

<A – Jim Hackett – Ford Motor Co.>: So draw a chart for me, I'm going to let Jim tell you where we are. As the vertical axis is all the different markets from very low to very sophisticated, and the horizontal is the prowess of the technology from just getting started with simple kinds of things to fully level five. And the choices that are in those connections, I'll let you talk about that.

<A – Jim Farley – Ford Motor Co.>: Sure, great, great question. So as I said, the most important thing to understand for our strategy is really that diverse group of revenue streams. So we think the most important part to build this business is to have not just one revenue stream like ride-hailing, but multiple revenue streams. And to do that, our priority right now is to build out those partnerships to go into multiple cities and build out that business model. That's the most important thing. Who owns and operates the fleet is a very important decision, but our first priority is that business model, the revenue sharing agreements with those businesses, that's priority number one. We're looking at a range of possibilities. We're not ready to tell everyone exactly what that is, but we think there's a couple of compelling models on who owns and operates the fleet.

<A – Jim Hackett – Ford Motor Co.>: I said this in one of the other meetings. Quickly, when computing first came out and you had that same axis, they went to the financial people and said here's the computer to do your analytics and it was bought for email. So the technology and the markets don't always match up. I think ride hailing is really attractive, that's why we're in Chariot with ride-sharing. But I want you to understand the matching of markets and technology is something there's a long history of people getting that wrong.

<Q – Ryan Brinkman – JPMorgan Securities LLC>: And then just lastly from me, are you able to quantify at all the amount of money that you're currently spending on autonomous and mobility efforts? And is there any thought to where that might go? And is there any thought to maybe providing more transparency on a regular basis going forward? So for example, perhaps moving these expenses from probably they reside currently mostly in North America to maybe other automotive or some other corporate line such that investors can get a better idea of how well the underlying operations are performing, and then also what you're spending on these future investments, which the investors might instead regard as like good costs?

<A – Jim Hackett – Ford Motor Co.>: Yeah. I'll let Bob answer that. But I think the thing I wanted to change was that electrification was finding its way in the mobility kind of rhetoric, and it's a form of propulsion. It isn't about a new generation of business strategies so to speak, like ride hailing is. But I'll let Bob explain the way we're treating it.

<A – Bob Shanks – Ford Motor Co.>: I think we've already shared, Ryan, that we're spending about $1 billion over a four-year period, I think, with Argo, four- or five-year period with Argo. So that's around the VDS. And then we're obviously spending engineering money on a vehicle that it goes into, so we just think about that as a normal vehicle program or programs. So I think that gives you a sense of – I mean, that's it, right?

<A – Jim Hackett – Ford Motor Co.>: It's de minimis, really.

<A – Bob Shanks – Ford Motor Co.>: Yeah. So to the other question that you're raising, and there's been a whole lot written lately and people are taking some actions to suppliers and others in terms of reconfiguring your business in terms of how they report, we're open to doing that. We have set up – FSM LLC, as you know, as a separate segment. So when we think that's appropriate and

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material enough to report, we have the ability to do that. We would be open to doing that to other parts of the business as well if and when that makes sense. The other option that we have is just as I did with your question around AVs, we can just be more transparent about certain parts of the business that you might be interested in. So I think we've got a number of options. I think the solution will depend upon what we think is most appropriate at that point in time, particularly from a shareholder point of view.

<A – Jim Hackett – Ford Motor Co.>: Thanks, Bob

<A – Ted Cannis – Ford Motor Co.>: Thanks. Jamie? I'm watching the middle here too.

<Q – Jamie Albertine – Consumer Edge Research LLC>: Thanks, Ted. Jamie Albertine, Consumer Edge Research. This seems, looking back the last seven years, to be a decade full of milestones across the auto industry, but it's hard to differentiate, for us at least, across all the different manufacturers and the technology companies and so forth. Who's really in lead or who's – however, to sort of scale it. It seems like the next milestone is connectivity. You talked about 100% connectivity in 2019 in U.S. vehicles. What does that mean? Can you break that down for me as a consumer? Will I know that Ford Connectivity is different than your peers' connectivity? Will I be willing to pay for it? And then separately, as a shareholder, how will I see that or will I see that start to monetize sort of your strategy, the first stage, if you will...

<A – Jim Hackett – Ford Motor Co.>: Sure.

<Q – Jamie Albertine – Consumer Edge Research LLC>: ...in monetization strategy.

<A – Jim Hackett – Ford Motor Co.>: Well – and I'll hand it. When I met with Satya Nadella at Microsoft, one of the things that Microsoft have that Ford has is I don't have to share the connectivity opening with my competitors because they don't have access to my customers in that vehicle. Now they can through a phone, but when you're thinking about the connected customer, let's say close to 100 million of them today, those are Fords. And so the reason I wanted to have you seen that with Marcy's really brilliant work in getting the software stack behind the scenes starting to be built up, and building now the business organizations to conceive these digital services, we can move quickly. But I think maybe, Jim, if you want to talk first how you see this helping the product strategy, and Marcy maybe some of the things that you're working on.

<A – Jim Farley – Ford Motor Co.>: So it's a really important question because I do think for the different markets at Ford, the services that sit on top of that connectivity will be very different. And they may be – they're probably going to be different than our competitors' bets. Marcy had laid out kind of the top end of our services business. But when I look at, for example, our leading commercial vehicles and our vans, there's a lot of opportunity for connected services when the vehicles are connected for – and you can imagine all the possibilities.

We don't have anything to announce today, but the opportunity for small or medium-sized companies that can operate that fleet without a fleet management company for preventive maintenance or better dispatching. Its huge benefits to them in running their business because that's not their main business. So if you take that idea of the commercial and you blow it out in the different regions, the opportunity is enormous and our team is really excited about using that connectivity in that way. And maybe I'll send it over to Marcy.

<A – Marcy Klevorn – Ford Motor Co.>: Sure. So you could say in one regard that connectivities could almost be like a commodity, you're connected or you're not. It is a little more complicated than that about what parts of the vehicle you're connected to. And the really important thing, though, is – and we feel like this is where we have a differentiator, and Bob referenced to this as well. We built out a data and analytics organization about three years ago and we hired a Chief Data Officer, Paul Ballew.

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And so you can be connected in a broad sense, but to go deep you have to have the ability to pull the data off, curate it, ingest it, and then do something with that data. And we think that's the power of the organization we've set up, and also turning that into services that people will pay for. The connectivity itself is going to end up being more of a commodity, it's really going to be those services on top of it, the data you can pull off of it, and the capabilities you have to do something with it that will differentiate you.

<Q – Jamie Albertine – Consumer Edge Research LLC>: Great, thank you.

<A – Ted Cannis – Ford Motor Co.>: Go ahead.

<A – Jim Hackett – Ford Motor Co.>: Good question.

<A – Ted Cannis – Ford Motor Co.>: Yes.

<Q – Justine Fisher – Goldman Sachs & Co. LLC>: Hi. It's just Justine Fisher from Goldman Sachs. I have a question for Bob around the capital spending. You noted in the presentation that spending on the internal combustion engine is going to go down by $500 million. I think it was $1.7 billion to $1.2 billion by 2020, but then there's a very big arrow going up for EV. So can you quantify to us what the comments today imply about the CapEx budget going forward and how much bigger it might be given the spending on EVs?

And on a related note, we know that Ford has built up a huge cash balance given that there are probably numerous types of partnerships out there to invest in, right? You can invest across the automotive supply chain. Should we expect these investments in partnerships to whittle down that cash balance closer to what Ford used to keep on the balance sheet prior to the last few quarters closer to the low $20 billion? Thanks.

<A – Bob Shanks – Ford Motor Co.>: Multiple choice, so I hope I can remember it. So yes, in terms of capital, so I don't think you should necessarily assume that capital spending will go up. In fact, I believe I can't remember what forum we were in, but Jim indicated we have been at $8 billion to $9 billion, I think was the outlook that we had through 2020, that's been out there for quite a while. I think it was in the earnings call, last earnings call.

<A – Jim Hackett – Ford Motor Co.>: Yeah, it was.

<A – Bob Shanks – Ford Motor Co.>: And Jim indicated that you should think more just maybe $8 billion, so it implies a reduction, and we're certainly not doing less and this gets around the efficiency and the focus on the efficiency of capital that he was talking about. And I think to the second question, although frankly I think that opportunity is more ahead of us in terms of doing less ourselves and partnering more. That's clearly an opportunity that I think once we kind of fully deploy that and get into it more deeply will have a favorable impact on capital spending as well. And – go ahead.

<A – Jim Hackett – Ford Motor Co.>: You were very – I was going to just tag team on the cash position. I really love this balance sheet that they built. And so I'm not -the biggest fear is that it's burning a hole in our pocket and we don't do something smart with it. So I don't – I want to let you know that I'm comfortable with that high position right now. I'm not feeling the pressure to change anything that Bob has done in crafting this great balance sheet.

<A – Ted Cannis – Ford Motor Co.>: Matt?

<Q – Matt Stover – Susquehanna Financial Group LLLP>: To follow on to that question, I know it's early days in the development of the long-term electrification strategy but if we're looking at the

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materials that you've presented and you look at the one-third of the ICE spending being shifted to EV and the pie chart that has a more broadly distributed view of AGVs, ICEs and EVs, can you tell us where you want to play in electrification, i.e. do you have interest in developing batteries or battery capacity internally? Because that would have a pretty profound effect in how we think about the future of the CapEx. And I have one follow-on.

<A – Jim Hackett – Ford Motor Co.>: Yeah. I'm going to let Joe start first with the way he's thinking about the capabilities we need coming from those areas, and Jim might be able to add what else we need for BEVs.

<A – Joe Hinrichs – Ford Motor Co.>: Sure. So the topic of the battery cells and the capacity is one that's been very active lately. We don't have plans at this point in time to be in the battery cell business. We're looking for a lot of partnerships with our supply base to do that. We feel comfortable with the plans we have in place to supply what we need, at least in the now and near timeframe. But a number of other elements with vertical integration that I talked about briefly on that slide, we think they're very important to the business model that Jim and the team are working on, whether that's battery pack assembly, motor assembly, those kinds of things. So you will see us have an interest in doing more of that as the scale goes up and want to be a part of that value chain. And also, we think we have the opportunity to free up floor space in our physical facilities to do that, so the combination of those worked pretty nicely together.

<A – Jim Farley – Ford Motor Co.>: I think one of the opportunities I want to emphasize around where we want to play in EVs are our segments where we have a great reputation and we have wonderful customers already, and one good example would be commercial. That would be a real natural fit for us as we look to expand the BEV lineup. So more to come, but I think that gives you a flavor.

<Q – Rod Lache – Deutsche Bank Securities, Inc.>: Rod Lache with Deutsche Bank. I had two questions. One is you alluded to applying new tools for how you're going to be spending money more analytical. But I think as we all know, this is a very long lead time business and a lot of the products that are going to be launching in 2018 and 2019 have already been set in motion. They're already largely baked, I would imagine. So how should we be thinking about the application of these new tools and a new decision-making process? When should we think we'll start to see some benefits from that? And how does that affect your 8% margin target?

And then, secondly, maybe putting a little bit more meat on the bone on the targets for services revenue, you talked about the number of connected cars that you're going to have. But is there, in your mind, a high-level target or revenue per vehicle or categories that you think we can quantify in terms of size that could actually contribute some meaningful revenue – recurring revenue opportunities?

<A – Jim Hackett – Ford Motor Co.>: Bob, I think the – I'll take the last question and tell you that what I know exactly where you're going with that and want to be able to answer that. I think we're just not doing it today. But the confidence I want to give you from May 22 to now is we have the structure in the organization to move very quickly in that zone in the digital service construct. It was split up in the company, FordPass was in one place. We brought this together under the person that knows how that structure works and built accountability for the development and engineering of those digital services right there.

In fact, it's more than subtle. Marcy built these joint development teams in software that we have with Pivotal Labs she talked about. And this is a world-class system for quickly doing the co-development. As I travel in Palo Alto, I get a lot of confirmation of that.

So that capability is the message I want to give you today, but, Bob, I'll let you talk about how you're forecasting the values in this.

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<A – Bob Shanks – Ford Motor Co.>: I'm glad you asked that question, Rod, because it gives me a chance to maybe give you guys a sense of timing around some of these things. So when we look at 2018, over 90% of our capital spending is already approved. When we look at 2019, it's I think about two-thirds. So it aligns with what you would expect with the long lead times. When you go back and look at number of the presentations later, and Joe has some examples where you saw like the curve is going up. That's a reflection that a lot of the things that we're doing, we have much more flexibility obviously on things that are yet ahead of us.

The programs that will be coming to market next year, the ones that are in train sort of middle of their cycle coming 2019, and so those are well on the road. We can still have some impact on those, but a lot of the things that we talked about – at least some of the things that we talked about in terms of making redesigns of the business or redesigns of maybe how we develop those programs, the cost and expense associated with that, the processes that we're using, those are the things that will be coming a little bit later.

So when you think about getting to the 8% target, I think it kind of aligns with that type of timeframe. But it's also why I said that we still have a lot of work ahead of us because some of it is that, but some of it is we've got almost harder work to do in the nearer term because there are more constraints in terms of what's already sort of baked, if you will. That doesn't mean that we're just waiting. We're certainly not, I mean, the team has already made a lot of improvement in the nearer term, but I think that's the way I would ask that you think about it.

<A – Jim Hackett – Ford Motor Co.>: Joe and I spent a lot of time looking at the inventory of what was in there, but, Joe, go ahead.

<A – Joe Hinrichs – Ford Motor Co.>: So to build on what's been said, the way I would describe it on the product programs which is obviously influential to all of this. As Bob said, 2018-2019 is relatively fixed. We have a heavy launch year coming in 2019. Actually, you should be looking forward to a lot of new product, historic level of a new product for Ford in that timeframe.

The way we've approached this, if you can call up the material cost slide that I had in the backups, the majority of the savings of an incremental $10 billion are in actually programs that we'll be launching in the 2019-2020 time period. So we'll see those savings during the business plan period and we'll see them largely coming from the 2019-2020 calendar year launches and those new vehicles. So they're not that far away.

Importantly, the new thinking that you referenced, the design thinking, critical thinking process that Jim has brought and challenged us with, we've started on the 2020 calendar year and beyond programs. Because of where they are in the cycle of 2018-2019, you can't really change what's been done, and you need to really get into launch phase. I think we can all appreciate how important it is to launch vehicles well and how hard it is to do that.

So think about the hard work that's been done to figure out to reduce cost more in the 2019-2020 calendar year launch programs and the benefits of the design thinking and the human-centered approach, 2020 calendar year and beyond programs is the way I would describe it.

<A – Jim Hackett – Ford Motor Co.>: And I want to make...

<A – Jim Hackett – Ford Motor Co.>: Ted, I just want to make a pitch, Rod, that – and then you get something like the Police Interceptor question that we had to deal with, what I call unintended events. This system that we've adopted that you start to see flow in 2020 is paying dividends earlier on things that you didn't expect to happen. So I don't know how to report that to you, but I can just say that it's had a big impact.

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<A – Ted Cannis – Ford Motor Co.>: Itay?

<Q – Itay Michaeli – Citigroup Global Markets, Inc. (Broker)>: Thank you. Itay Michaeli from Citi. Jim, on AVs, if you think about the progression, how important is it for Ford to be first or early to scale AV in a particular market given the comments you made about the smarter vehicle getting smarter over time with deep learning? Is that a priority to be kind of first or an early mover?

<A – Jim Hackett – Ford Motor Co.>: And for me, I've knitted together people that have influenced me greatly in my business career. Steve Jobs and David Kelley I've worked a lot with. If you read Isaacson's book about what Jobs did, I think it's more important to be ahead than fast. So this is the depth of thinking and the speed of action kind of in harmony. And so with AV, we're going to have one of the best vehicles from a performance perspective. Safe, trusted, people are going to love it and that – and Bryan Salesky who is the Argo AI, one of the two partners that helped put it together, Bill and I were just out to visit with him and he was very clear about, I want you to understand the challenge in the design of this thing. Just make sure you understand how difficult this problem is.

And we stacked hands on really do the right thing here in the beginning. Write the code the right way. Write everything so that this is a long-term platform for our company. We don't want to come back and say we hit a mark on the stage and we now have to go back and do a lot of reengineering because he knows better, and this is the way we think about the long arc. By being ahead, of course, the riddle in that is you're always faster than everyone else, they chase you. So that's the strategy.

<A – Ted Cannis – Ford Motor Co.>: Adam?

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Thanks. Adam Jonas, Morgan Stanley. I have one question and one follow-up, if I may. I recognize a lot of people around you, Jim Hackett, have seen a previous CEO change, I guess, over 10 years ago. And I think shortly after Alan Mulally's first 100 days or so there were some pretty bold moves to kind of create even more of a fortress balance sheet through some fixed income actions and recognizing you have $145 billion or so of debt between the FinCo and AutoCo.

So I guess, is now one of those opportunities where you're really pretty radically recasting the strategy? You have a great balance sheet. You're still quite profitable, if not to where you want to be to sock in maybe not $23.6 billion or whatever that gargantuan number was, but a bit of padding to help make sure you can de-risk the strategy during what could be an uncertain and potentially adverse second economic time, not just for Ford, but for the industry.

<A – Jim Hackett – Ford Motor Co.>: I think you said it perfectly, that – if we can call up – Paul, can we call up the slide of the rectangles? When you stare at that form that is the framework, we purposely put the fitness at the top. We said that we really have to get that right in order to have the strategic platform. It doesn't mean we're not working on the strategy; of course, we are. It's happened very early frankly in these 100 days. But we had – we want to prioritize first with the small team and then with you and with our employees that fitness is the way you protect your broadsides from disruption. You can't predict when all these things might happen, but you can be fit, you can predict that.

So I have high confidence in that. I can't really think, compared to Alan's evolution. I know Jim told me that I was hitting the stage a little sooner because they worked for eight months on the – after the way forward on the big strategy. And so – but I – you know what? I want to declare to you that I get up every day feeling like time could be wasted here if we don't get moving. So I feel a real sense of urgency for what we're telling you today.

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<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Okay, great. And just as a follow-up, many of us in this room are listening in or at an event hosted by Delphi, one of your big partners, last week where they talked about how their OEM customers need to really radically reinvent the electrical architecture. And these weren't subtle things, but like very significant changes of architecture and simplification, and – as part of their drive to get to 15% margins or so over time to kind of get you to fund that and you to continue outsourcing the way you have with auto 1.0.

Is this not an opportunity for Ford or other OEMs to say, hold on, there's some fundamental changes here, we have some skills that could be applied, maybe not totally vertically integrate, but to rethink some of the stuff? You might have, perhaps, over-outsourced and over-depended on to some of your suppliers who are laughing at you with the margins they're making...

<A – Jim Hackett – Ford Motor Co.>: Yeah.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: And for you to get some of that back this time around.

<A – Jim Hackett – Ford Motor Co.>: I remember thinking that in the board room actually that isn't it interesting over history with Henry Ford making the supreme vertically integrated model. And then, as we get into the tech world, Marcy's building an integrated model. But, Joe, I'll let you talk about the vehicle architecture and what sits in front of us.

<A – Joe Hinrichs – Ford Motor Co.>: It is accurate to say that electrical architecture needs to evolve to support the connectivity that we were talking about earlier. I mean – and Marcy mentioned, you need to determine how – what parts of the vehicle you want to be connected to and what can you control externally and not, that's a very important part of the security system. So there is a lot of architectural work going on in electrical architecture. There's nothing to announce today. We are always open to and reevaluating where we are with vertical integration with our supply base. We've had a number of components in and outside. We do the engineering.

Importantly, that relationship with the supply base is very important to us for new technology. We can't evolve everything and develop everything. Now, with that balance of success when it comes to margins is always a debate, as you know. But there's nothing to announce. But I would say that, as I hinted to you at the BEV slide, we see opportunity to vertically integrate where it helps the business model become more viable, and we'll continue to explore those. But we also recognize that the vertical integration of 1980s and past then, that didn't work either. So we have to be very selective without being specific in that regard. And we want to be able to access that technology that the supply base brings to us. That's a very important part of our relationship.

<A – Jim Hackett – Ford Motor Co.>: And software capability is an area where we build up – you might reemphasize what we've done to do that.

<A – Marcy Klevorn – Ford Motor Co.>: So I mentioned that Pivotal investment in the labs and really looking at developing software a different way. And we're taking those practices and we're working with the embedded software teams, too. So it's not just for the non-embedded side to build services and applications in the traditional information technology environment, but on partnering with the engineering teams that work with Joe to say, how do we work together because those lines are going to blur between embedded and non-embedded software as we work to integrate all this together.

<A – Ted Cannis – Ford Motor Co.>: Brian?

<Q – Brian Johnson – Barclays Capital, Inc.>: Brian Johnson, Barclays. I have two questions. One in your 100-day fitness.

<A – Jim Hackett – Ford Motor Co.>: I'm sorry because of the jackhammer, I didn't hear that.

<Q – Brian Johnson – Barclays Capital, Inc.>: Brian Johnson, Barclays.

<A – Jim Hackett – Ford Motor Co.>: Yeah.

<Q – Brian Johnson – Barclays Capital, Inc.>: In your 100 – two questions, in your 100-day fitness review, what are the areas that you've felt, with all due respect to the people who were there before you, kind of Ford was physically unfit in? And what are beyond what we've talked about – you've talked about CapEx kind of the more immediate or consult these low hanging fruit opportunities? And then, is it just solved by this new organization or are there other cultural or attitudes you need to change to get there?

<A – Jim Hackett – Ford Motor Co.>: I think, again, if we put the chart back up that we just had, we have culture built in that has to deal with the decision making. These small teams that are empowered to act. So that's probably more to share. I think that the thing that I'm highest about is the fact that whatever Ford did in the past, I walk into rooms and meet more talent than I ever could imagine around me, Ph.D., scientists, physicists. We have it all there for us to choreograph and pull together a great strategy. I'm really excited about that.

But if I'm candid, and I have been, these guys will tell you, I don't think Deming's view of factories was meant to last just 70 years and we stop. Continuous improvement is part of the mantra, but I think factories have to continue to evolve. Just think of those – and I've told the UAW and the people this, that it's as automation and people come together, those kinds of processes can just get ever better. And so we've got great facilities at Ford. They just have to be better in the future. That's an example.

The second thing is Jim is working on – I don't want to get too detailed today – but the nature of the way marketing evolved in our lifetime. The whole reason that marketing was in place was to understand customers. Now you've just heard Marcy say we've built a data analytics team that's outstanding, that finds out before anybody what customers want and need. So marketing has to be mutated and morphed in a way that's leveraging where information and knowledge is coming from. Product development, one of the great advantages we've got, Joe, how many centers should I say we have?

<A – Joe Hinrichs – Ford Motor Co.>: We have eight.

<A – Jim Hackett – Ford Motor Co.>: We have eight centers around the world. And the reason I had to qualify that because we have more people doing product development, but let's call them eight centers. The industry likes to keep those centered in one center at a time because of the risk of these products can't fail – you don't want to muddle that. But I believe from my other experience in working with the tech companies and how they do development, we can leverage across platforms, across asynchronous time zones. Those would be three examples where I tell you that, very quickly, because I've got the talent, that would be scarier if we didn't have the talent. We have the talent inside Ford Motor Company. These would be things that I hope to introduce.

<Q – Brian Johnson – Barclays Capital, Inc.>: Second question, more around the mid to long term, especially business redefining opportunities. How should we think about the cadence of product development? You talked about Steve Jobs. We're all trained to have an iPhone every two years. The pickup truck product cycle, six to seven years, that's predictable. But I think what we're having a hard time figuring out is whether it's – some of the earlier questions – mobility services, new offerings, connected services. Just what's the release schedule for that? And how do we tell externally whether you're on track or not towards those?

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<A – Jim Hackett – Ford Motor Co.>: I've declared there's three new clock speeds, two you know about. One is the car's clock speed that Joe and Jim grew up in and how fast that takes Rod just to acknowledge that. But the new one is Moore's Law. That's 18 months because that's where the affect of the technology is spinning things. And I want to introduce a third one, which is the quantum speed, which you haven't heard about yet, which is the nature of the way the AVs will learn in a simulated way, and that's very fast. So the company's got to compete on all three of these clock speeds in a way that it gets advantage. We're going to speed up car development, but the revenue isn't waiting just on that one workstream. The other two could be producing lots of value, and that's the plan.

<A – Ted Cannis – Ford Motor Co.>: Joe?

<Q – Joe Spak – RBC Capital Markets LLC>: Thanks, Joe Spak from RBC Capital Markets, two questions. The first one is, the future you described almost showed a blending, if not a complete dissipation of borders between different industries where transportation mobility can evolve. And that means there's a bigger ecosystem and I guess opportunity. But it seems like the value is going to accrue to those that control that customer touch point and that data. And I'm curious about how you think about that as you – it seems like you open yourself up to more partnerships or even if you move into a sharing world, whether you lose some of that control.

And then the second question is just on the $10 billion of material cost. In broad buckets, can you describe like how much of that is from reducing some of the complexity you talked about in terms of models? How much of it is maybe just from EV – as you transition to EV, it's just those vehicles being simpler and you need less materials?

<A – Jim Hackett – Ford Motor Co.>: So, Joe, I'll let you handle that one, but the first one is, to set Marcy is in place is to think about this operating system that we're talking about is one that is open by design because you want everyone to buy into it. It's not a new idea. It's the way that these things actually scale. Ford's role in being an early investor in this is we're learning really fast about the nature of that. I was just in a meeting – a review last week, and very, very happy with what I saw at Autonomic.

And so I was following your logic in terms of – I've heard estimates of $11 trillion if you put your arms around this transportation operating system. It is the reason, by the way, the tech companies pointed towards this. It's because the edge computing and the Internet of Things spreading the way it is didn't work in smart city strategies. It didn't work. But it looks like it will work first in smart transportation systems because the incentive is so much higher to get these congestion problems, pollution problems, all kinds of things, quality of life, if we can just get that working in cities. Every time I see a mayor, they say you're the only OEM that's talking to me like this. So I'm confident that we're right about this. But I'll let you give the early indications, Marcy, where you see value creation.

<A – Marcy Klevorn – Ford Motor Co.>: Sure, so we created the open platform. We're still working on it with Autonomic. And we've got quite a bit complete in operation in the products that I talked about. It is an open platform. It is functionality that is based through commodities. So one comment about that is the software where it evolves very quickly. Services that we think we can get revenue from – or will get revenue from today will over time commoditize. This gives us a platform to manage that lifecycle, to push down code that we shouldn't spend – or services that we shouldn't spend any more differentiated energy on, but come up with new ways to create revenue. So imagine, you went to a hotel a couple years ago and you paid for Wi-Fi. Now we get that for free. That's an example.

Also, as we go talk to cities, as Jim said, when I took this role, one thing that was really a delightful surprise is that Ford means – our logo means trust. And we're finding out that they view us as a trusted partner, eighth year in a row the world's most ethical company. And we can use that to help

them create value within the cities and build out this platform that's open in a way that everybody trusting can operate together. It is an ecosystem, and you have to partner and collaborate.

Some examples of where we're creating value in the cities, number one, we talked about the Chariot product. We're in four cities now. We'll be in five to six cities by the end of the year, and scaling it next year beyond that. We also created the city challenges platform. It's a technical and a social platform that we work with cities on to crowdsource ideas to help them solve the challenges that Jim described.

Also, we've just agreed an MOU with two cities in India, Mumbai and Indore, to do route optimization, mobile pay app, work with the transportation there, OTA,ETA for buses, trains, et cetera, really help them manage their transportation in the cities. And then finally, we're working on a curb management pilot in London, actually the Borough of Islington, with a company called TES, really thinking about how to manage curb space in a way that cities can make money but also help the flow within the city. So those are some ways we're using this to actually create value for the cities and collaborate.

<A – Joe Hinrichs – Ford Motor Co.>: On the $7 billion, could you pull up the slide that we had for the material cost, the backup slide maybe? It really isn't coming from BEVs. Actually, the majority, as I mentioned earlier, is coming from the new model product programs – here it is. And some of it is coming from the current model cost reductions. Think of this as incremental to what we always do with our supply base to get more efficient every year.

Complexity, as what we've identified – this is what we've identified as the $10 billion. Complexity is a smaller number than those two. However, we see lots of opportunity. The issue with complexity during this timeframe is if the vehicles have already been developed or already out there, removing complexity is important. It helps Jim and the whole marketing and sales team with the dealers and the orderable configurations. Doesn't save a lot of money because you've already tooled it up, suppliers have tooled it up, you've already put dunnage together. You've already tested it. You've already designed it, engineered it.

The real money comes from not having designed that in the future, and that will come later in the cycle. That's why you don't see as much from complexity because as we make those orderable configurations and design configurations much smaller for the next-generation models, we don't design some of the parts that have already been designed. And that's the opportunity beyond this time period.

<A – Jim Farley – Ford Motor Co.>: If I lived in a world where we did this, and it really does give a lot of value over time.

<A – Joe Hinrichs – Ford Motor Co.>: It's not just cost too. It's inventory because we have all those parts stored in our system somewhere, which we are looking forward to freeing up some capital that way as well.

<A – Ted Cannis – Ford Motor Co.>: Okay. So Dave first. Dave?

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Great. Thank you. It's Dave Tamberrino from Goldman Sachs. So as I think about where we are in the industry today, there are the three things that are pressuring you, autonomous vehicles, mobility, and electric vehicles. Now, two of those are really existential questions, and one of them is a regulatory push. So I can understand why the company would want to have proprietary networks and partnerships for autonomous vehicles and mobility.

But from an electric vehicle propulsion perspective, I have a hard time understanding why the company needs to have the proprietary technology in-house in order to compete. What is it about

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the EV propulsion system that really needs to be in-house from Ford that you couldn't push down to your suppliers or partner with other OEMs in order to develop because it doesn't really seem like there's going to be that much room for differentiation on the actual system, perhaps on the battery pack management side, but not necessarily on the electric motor?

<A – Jim Hackett – Ford Motor Co.>: Do you mean that in the battery pack, do you think – the management, not the design and build...

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Not the design, but the battery pack management, charge time, the software behind that. I can see that. But the rest of the system, you're talking about vertically integrating using that incremental 50% space on the manufacturing floor. So what is it about that full entire system that you really want to have and hold and keep proprietary to Ford relative to your competitors if you think you can charge a customer for? Because today I'm not paying an extra $8,000 for an electric vehicle, unless I have a government subsidy, and we've seen that?

<A – Jim Hackett – Ford Motor Co.>: Yeah.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: So I'm trying to understand the thinking of putting capital behind that as well as socializing it.

<A – Jim Hackett – Ford Motor Co.>: That was my comment about the uneconomic. If you wonder why we haven't flipped into it, and also that when we think of propulsion, we've got a lot more options in there other than just BEVs, but we're doing that. But who wants to take a swing at that?

<A – Joe Hinrichs – Ford Motor Co.>: I'll start it with the energy management piece. And I'll let Jim talk about business. But from our hybrid technology development and all the work we've done, I would say that what is valuable is energy management and system integration within the vehicle. So yes, the battery cells can come – and battery pack assembly can be done and other things can be done by others. But what you can't turn over to others is the system integration to your vehicle and how you manage that power and the battery. Energy management is the key. So it's not so simple as to say, hey, we'll develop the vehicle and you ought to give us a big battery pack and we're okay.

So that's the nuance I would like you to think about, just like we don't turn over a powertrain calibration today of internal combustion engines to a supplier. We can buy an engine or we have a relationship with others to get transmissions, but we do the system integration of the powertrain calibration and how it manages energy, and how it integrates with the rest of the vehicle. That's the piece that we feel is very important, and we've learned a lot from. We think we have a lot of knowledge and capability from all of that – and that is transferable from hybrids to battery electric. That's the way I would think about it. But the business model, I'll let Jim talk about.

<A – Jim Farley – Ford Motor Co.>: So I really appreciate your question, and it came to life for me when I visited Zotye. They're probably not a company everyone has heard of, but they're one of the highest-volume players in the biggest EV market in the world, in China. And I think one of the reasons why we're pursuing the MOU is exactly the reason you mention. We really see an opportunity, as Joe said, for the commodity components that don't add value for customers, that that would be a great opportunity with other partners. And I would hope you get the impression from our team that we would be very open to those kind of partnerships and are pursuing them.

<A – Ted Cannis – Ford Motor Co.>: Just Jim or – go ahead.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Just one more, Jim, in your operational fitness review, did you think about the specific regions that you're in today and if there's a path to

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profitability going forward with some of the underperforming regions? And similarly, for the Lincoln brand as you think about it?

<A – Jim Hackett – Ford Motor Co.>: Yeah, we did. And we've made progression like the quarterback reading the open receivers. We've taken some already and we have some more to do there. But I confirm that the investment in Lincoln today – and Jim is in his market sweep, so to speak, he's taking that into account. The early partnerships that you saw in India, that was one of the first actions that we were working to address with our Indian strategy. And this is really a good plan. Jim just came back from there and we're very excited. We've had a history with the Mahindra family that's really good. So we're not wasting a lot of time spooling up getting things to cook here, so...

<Q – Jim Irwin – Moon Capital Management LP>: Jim Irwin at Moon Capital. My question was just touched on, but I want to follow up, and you already provided some of the answer. But if you went to the Frankfurt auto show, it was all about electrification. And I thought it was pretty interesting because Daimler actually totally embraced BEVs at some point in the future, 2025 was kind of their sweet spot. But they were pretty adamant that to meet that the regulatory burdens, they're going to have to start spending a lot of money sooner. And once they started making the BEVs to meet the requirements, that was going to be a negative drag on profitability, and they said a couple of hundred basis points against their structural profitability.

So you've already kind of given your indication, if you're going to do it in a very prudent manner. But when you think about that 8% percent margin target, and as a global automaker, committed to Europe and China both pushing EVs extremely hard – or shall we say penalizing diesels extremely fast, how are you thinking about managing that dynamic? And is there potentially a couple of years where there's a real headwind for Ford in terms of profitability before the consumer is actually starting or willing to pay for that?

<A – Jim Hackett – Ford Motor Co.>: Well, I'm trying to get you to raise the kind of the hierarchy of the problem to propulsion because you have lots of choices in that, right? You've said BEV in every sentence and we know it, and we've embraced it. But as Joe's described to me, the HEV capability in the company is extraordinary. If I match that – let's hold the economic problem off the side – with what customers are telling us they have to have in the performance of those vehicles and range, duty, et cetera, we won't – none of this will work for governments if you lose the customers or if you lose companies because it's uneconomic.

I mean, so – but I don't want you to think that I'm dull headed about the notion of this is arriving and we've got to be ready for it; in fact, we now have a plan. Team Edison owns this, and the company, we've got extreme clarity of purpose on what they've got to do. But predicting in a way what the income statement is going to be when that all plays out, I just don't think we should walk off of the ledge where we've destroyed the earning power of the company, right? We have choices in that. And so we're leaning into it, but we have a mandate to create value. I don't know, Bob, if you'd add anything to that. Okay.

<A – Ted Cannis – Ford Motor Co.>: Colin?

<Q – Jim Irwin – Moon Capital Management LP>: Just as a quick follow-up then, if we think about your global reach, I'll ask this in a positive way, you've had some of your competitors move away from markets that they think are structurally not profitable. And even if it's not pure BEV, 48-volt, having to actually put things into the vehicle, it costs a lot more money to meet the regulatory burden, that is a significant headwind, let alone BEV mandates. Can you give us kind of your two or three bullet points on how the mass market for global reach gives you real strategic advantage versus some of your peers who are backing away from that?

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<A – Jim Farley – Ford Motor Co.>: Yeah. Another great question. So my only comment would be, if you look at our different geographic businesses around the world, North America very profitable. The team's taking fitness actions now immediately and in the future to continue to offset the costs as we talked about. And we're changing our product strategy. So it's a fit business, a lot of opportunity.

In Asia, the same, we talk a lot about China. If you look at our Asia business, the progress we made in Australia and ASEAN by narrowing down and focusing on just a couple of products, doing those really well, those are very profitable operations for us now. And we made a ton of profitable – improvement in our profitability year-over-year in India. So the opportunity for us in Asia is really China. And in China, that's a huge market. We made a lot of progress, thanks to Joe and the team. Our passenger cars are kind of in a down cycle in terms of freshness, but that all changes pretty quickly. And we see a way forward in China for a variety of reasons: new product, Lincoln success. There's a lot of opportunity there. The regions that we're looking at really carefully are South America and Europe. And those operations have long histories for the company and for a variety of reasons; Brexit in Europe with the weak sterling, and South America with more of the structure of the market. We're looking very carefully at the actions we have to take, including partnerships in both those regions.

<A – Jim Hackett – Ford Motor Co.>: I also wanted to – I mean, they won't make the headlines, but there are markets we've gotten out of as well in the last two years.

<Q – Colin Langan – UBS Securities LLC>: Colin Langan, UBS. You talked about – I actually have two questions. One, you talked about $4 billion in engineering savings, $10 billion in material savings, cumulative by 2022. Can you kind of give us color on the offsets to that because you got just over $10 billion in pre-tax profit last year? There'll be quite a significant increase if all that came to the bottom line. So what are the major offsets?

Second question will be I think, Jim, in your comments you indicated something to the extent that you were kind of wish you moved faster on connectivity. So where do you think you stand today because it also sounds like you seem pretty bullish on where Ford is? So do you think you caught up and could be ahead of the curve? Or – all right, so where do you stand relative to your competitors on connectivity?

<A – Jim Hackett – Ford Motor Co.>: Yeah. Bob, I'll let you take the first one.

<A – Bob Shanks – Ford Motor Co.>: Yeah. I'll come in, and either Joe or Jim may want to supplement. So major offsets would be, first of all, product cost adds, a lot of them related to regulations, some of the things that a number of folks touched on their questions. The other one is around commodity costs. You guys are aware of what we're calling for this year. We see another big increase next year, probably starting to taper off over the planned period, but that fairly is a bit of a headwind for us as we look into next year and beyond. We have since coming out of the great recession, just consistently been increasing our capital spending. So what we have is the D&A that's trailing behind that.

So you would expect that to become – continue to be an increase until things sort of balance out. And Jim's actually giving us some challenges to try to narrow the gap between those two and that doesn't mean – make the D&A higher. So I think those are probably the major ones that are ahead. But beyond the $10 billion and the $4 billion, I also want to leave with you the understanding that the fitness challenges across all parts of the business, all cost elements. So while we didn't really highlight anything today in some of the other parts of business, Jim and Joe have really intensive efforts around fitness improvements across every part of the business.

<A – Jim Farley – Ford Motor Co.>: We even have – we have a monthly cost meeting that Joe and I both chair for the company, and it's a real focus even in the short term.

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<A – Joe Hinrichs – Ford Motor Co.>: The last thing I would add is, just remember the earlier chart where we bend the curve of the cost growth by 50%, a lot of these are part of the enablers to do that. So when we deliver the revenue growth from the new products, and we do this simultaneously, while there'll still be cost growth, the cost will not be growing at that the rate it's been growing historically.

<A – Jim Hackett – Ford Motor Co.>: So connectivity, I think you can help me, Jim, with the new car. I mean – because we have to distinguish that, right? The connectivity in the new car world in 2019, in 2020, when every new car has it, does it mean that we're taking the pressure off the existing users and how we get them connected if they weren't? So I want to declare that, that we don't want to give up those customers. So that's when I was saying to an earlier question that the good news in that kind of rubric is if we connect an existing customer, we have them in a captive way, right?

So think of that, as a competitive question is, I don't want to give up to another supplier the opportunity to connect my existing users and have the data, et cetera, et cetera. I want to make sure we have that. And then, you have to ask the question, what does it mean, if you're selling the vehicle today and you didn't have connectivity? I'll let you talk about it, Jim, how that's affected us. But it's not my policy to kind of look at the strategy of the other companies. But I don't feel that where we are competitively is where we should be. That's why I brought it up. But I think it's something we can fix fairly quickly.

<A – Jim Farley – Ford Motor Co.>: And it's a missed opportunity in the market.

<A – Jim Hackett – Ford Motor Co.>: Yeah.

<A – Jim Farley – Ford Motor Co.>: I mean, that's how I portray it. When we were first to develop SYNC and the connection of the brought-in device in the vehicle, this $300 option suddenly became a reason to buy Ford. We literally saw it over time increasing our consideration. Over time, I think the services that sit on top of the connectivity that Marcy talked about are going to be a huge opportunity for our company as a brand differentiator. And it's a missed opportunity today, but the connectivity is – as Marcy said, is the commodity in a way, and it's going to be the services we put on top of that's going to be the opportunity.

<A – Ted Cannis – Ford Motor Co.>: All right. That's about any last burning question that somebody really thought we need to get covered. Tamberrino again? Anybody want to hear Tamberrino? No? Nothing else? Dave? Go ahead, Dave. I guess you win.

<A – Jim Hackett – Ford Motor Co.>: Direct it to Ted, Dave.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Actually project – I have a booming voice.

<A – Jim Hackett – Ford Motor Co.>: Make Ted work harder.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Thank you. Thank you, Ted. Appreciate this. No. It's – most other OEMs have been doing exactly what you've outlined today, is moving capital away from the passenger car portfolio into the light truck and kind of crossover portfolio. I'm wondering how you see...

<A – Jim Hackett – Ford Motor Co.>: And light-weighting them.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: Excuse me?

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<A – Jim Hackett – Ford Motor Co.>: And light-weighting them.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: That's a shot at one of your cross-town rivals. The question is the sedan market became very oversaturated where most competitors were launching vehicles time after time and you saw foreign competitors come in. Now, we're seeing launches of crossover vehicles from almost every single individual OEM and brand company.

<A – Jim Hackett – Ford Motor Co.>: You sound like Farley talking to me.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: How do you view your product lineup away from the connectivity, and I guess the light-weighting, as you just mentioned, in a market that is going to be more competitive and you're going to see probably less share as more vehicle launches are coming out as you're developing, and perhaps, mind if I say, maybe a little bit behind in terms of changing the capital strategy away from passenger cars into that crossover segment?

<A – Jim Hackett – Ford Motor Co.>: This is Jim's sweet spot.

<A – Jim Farley – Ford Motor Co.>: So I feel really passionate about this topic because around the world, we've seen utility and crossover segment you know blossom consistently market after market. And I want to just emphasize what I mentioned already, Joe and the team in North America, and it's our thinking too, we really believe there's a different opportunity within that huge utility market in North America where we have new nameplates and explore new markets in the more authentic off-road, and it's not just Bronco. There's other territory for Ford to go after in that very large utility market that is unique to us where we know those customers and we know how to design a vehicle that is world class for them.

In Europe, the opportunity is a little bit different. So you see the explosion of kind of the urban crossovers that you do not see elsewhere in the world. And we have a plan at Ford to come out with an incremental product to go after that business. We know those customers really well. We sold them Fiesta STs and RSs in the past. We know exactly what they're looking for. And we're changing our – it's going to take time, but those products you'll see come out over time. In Asia, especially in China it's different yet again. The utility market is enormous, as I said. Small utility market is now dominant, just like the U.S. U.S., it's 18% of the industry. In China, it's bigger than the entire Indian automotive market.

And so there are a lot of sub-segments within that huge utility market. We see some of our JV products could work for Ford, and that's a new product for us that could be really exciting. We also see, especially in China, three row utilities growing as a sub-segment, and it's perfect for us. We have those products. So we still have strong brand names like Explorer, and Edge, and EcoSport. And of course Kuga and Escape, which are global really strong products, we're going to build on that foundation with this new incremental set of products. I hope that helps give you a flavor for where we're going.

<Q – Dave Tamberrino – Goldman Sachs & Co. LLC>: It does. Thank you.

James P. Hackett, President, Chief Executive Officer & Director, Ford Motor Co.

Well – and I would close, Dave, because I – thanks for being able to tease you about that. The other thing is I did get to see a bunch of dealers that – and the industry I came from was really schooled in the role of the distribution. I see a role for distribution. But imagine I got to meet dealers that have lots of different lines, and we sat down and had really deep conversations. It was in my comments when I was talking about when you're doing the facts and evidence-based research, you're also trying to probe how people feel. Feelings matter. They're built intuitively around

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experiences they've had with the brand. These dealers told me that they love the Ford brand. I was trying to dig deep – more deeply, what do you mean by that? Why do you love that?

And I'm not ready today to kind of explain the psychology of that. But it is – I left with a confidence that we can build on that. When we hear that, hey, this just feels like what we're hearing from other people. And we have to prove that to this audience that the customers, that translates into growth and advantage. And so I'd like ending with that's our challenge, is to prove to you that we've got a really precious opportunity with the Ford brand unlike anybody else. And with the things that we're talking about from this 100-day scan, I'm really confident.

So thanks for coming today to listen to us, and we'll be back.

Marcy Klevorn, Executive Vice President & President-Mobility, Ford Motor Co.

Thank you.

James D. Farley, Jr., Executive Vice President & President of Global Markets, Ford Motor Co.

Thanks, everybody.

Theodore Cannis, Executive Director-Investor Relations, Ford Motor Co.

We do have a cocktail afterwards should you – would like to do something before you head home?

Operator: Thank you for joining us. This concludes the Ford CEO strategic update. You may disconnect.

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