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MANAGEMENT DISCUSSION SECTION

Rod Lache

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So, obviously, our next presentation is Ford. 2017 was a very eventful year for the auto industry and it was obviously a particularly eventful year for Ford. In May of last year, the company named a new CEO and they elevated several talented executives to run the business on a global basis. And I think that that's actually a key change that's likely underappreciated by the Street.

Running a company functionally versus regionally often results in very different strategic decisions and allocations of resources; clearly, there are changes underway at this company that go way beyond just the change at the top, and I think we've seen a few hints along those lines. But, just to frame the opportunity for everybody, I did some simple math.

If Ford Motor Company achieves 8% margins, which is the low end of the company's long-term margin target, up from the low-5s that we saw last year, this is a business that should be able to generate \$7 billion to \$8 billion a year of free cash flow, and that's at the low end of the company's margin target. We have several of the company's executives here with us tonight. Jim Farley, who became the Head of Global Markets, Bob Shanks, who's the company's CFO.

I've actually had the pleasure and have gotten to know them on a personal level over the years and I can honestly say that the depth of this team's experience, the insight that they've had and they've taught me a lot over the

years, it's really as impressive as anyone's in the industry. And I take great comfort personally that these are the people who are at the helm of this company.

So, to kick things off, I'm going to pass it along to Bob Shanks.

Robert L. Shanks

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

Good evening, everybody. How are you? Good, good. And Rod, thank you very much for having us here again; this is a great way to start the year. We always look forward to this event. And as Rod said, what a year it has been. We've seen tremendous change within our sector and, certainly, within Ford, a lot of change, and then, more broadly of course, in the world at large and it's continuing to change at a rate that's sometimes difficult to understand. [indiscernible] (2:51) to talk about change. In fact, in my 40-year career, I think it's always changing and we're always trying to deal with that. But it is clear that our sector is undergoing not just a change, but a dramatic transformation. Certainly rapid advances in technology are changing our landscape. They're altering our products and services that we provide our customers as well as the very environment in which they're used.

Now, against this backdrop, as the leaders of Ford, our opportunity and our challenge is to make clear choices about how and where we allocate capital, clear choices about the capabilities we must have, and clear choices about the management systems required for us to succeed. Now, our mandate is two-fold: first, to satisfy our customers; and most importantly, particularly for you, to create value. Now, we know that getting these choices right and with a sense of urgency is what will allow us to deliver sustainable value creation over time.

Now, we're mindful that the Ford of today and the success that we've achieved since 2009 are no guarantee that we will win in the future. Since we reinstated capital returns to shareholders in 2012, we've generated \$31 billion in cumulative automotive cash flow and we've returned \$15.4 billion of that or 50% of that cash flow to investors via dividends and share repurchases.

Now, despite this accomplishment, let's be clear, we are not satisfied with our performance. And the best way to capture why, and it's actually something that Rod just referred to is to look at our average automotive operating margin since 2010, which has been about 6%, and compare how that stacks up against our target of 8% or better. In fact, we have not achieved 8% in any year since we've come out of the Great Recession.

So, for the past seven months, we have undergone a rigorous assessment to ensure we are fit as a business and are making the choices that will create the Ford of tomorrow. Our intent is to share these decisions with you as they unfold, starting with this evening. So, tonight, we'll also share with you preliminary results for 2017, and we'll follow this with more details when we report earnings on the 24th and then file our 10-K in February.

In addition, tonight, we'll provide our guidance for 2018 including implications of the recently passed U.S. tax reform act. After me, Jim Farley, who's our President of Global Markets, will then give you additional insights into our work on fitness, how we're leveraging partnerships, our product portfolio reset that's underway, and then more on our plans for EVs and also autonomy. And then, after Jim presents, he and I will lead a Q&A session.

Now, before turning to last year's results, it is worth emphasizing that everything we do in the present is driven by our view of the future, a future of smart vehicles and a smart world. We're working with great partners to bring this future to life, improving the lives of individuals and communities and enabling people around the world to move safely, confidently and freely. This drives our commitment to become the world's most trusted mobility company, while also creating value for our shareholders.

Now, to achieve this, we're working to rapidly improve our fitness across all parts of our business, we're accelerating the introduction of connectivity into our vehicles and our services, we're reallocating capital to where we can win, we're creating the most human-centric mobility solutions, and we're empowering our team to win.

Let's turn now to the results for 2017. These results are preliminary because we're still in the process of closing the books. We'll provide, as I said, more detail in our earnings release and in our 10-K. Although in line with our guidance, the preliminary results underscore the imperative to improve our fundamentals. So, starting from the left, company revenue was up slightly with growth in every region except Middle East and Africa.

Adjusted pre-tax profit came in at \$8.4 billion, which is down nearly \$2 billion from 2016. This is fully explained by higher commodity prices and unfavorable exchange. Adjusted earnings per share was a \$1.78 that was up \$0.02 from a year ago and within our guided range of \$1.75 to \$1.85. And our effective operating tax rate came in at 15.3%. GAAP EPS was \$1.95. That was up \$0.80 compared to 2016. This reflects a lower pension and OPEB remeasurement and a lower effective tax rate, which was offset partially by our lower operating profit.

Now, for your information, the mark-to-market remeasurement this year was about a negative \$165 million, and this compares with nearly negative \$3 billion a year ago. Operating margin for the automotive business was 5%. That was down 170 basis points. And automotive operating cash flow came in at \$3.9 billion. That was down \$2.5 billion from 2016 and that was driven mainly by the lower profit. We ended last year with a strong balance sheet with automotive cash at \$26.5 billion and total liquidity of nearly \$37 billion. Finally, ROIC once again exceeded our cost of capital.

So, given these results, the board approved a supplemental dividend of \$0.13 a share or about \$0.5 billion. As a result, for 2017, we met our strategy to pay out between 40% to 50% of our adjusted net income in the form of shareholder distributions. This supplemental dividend along with an unchanged first quarter regular dividend of \$0.15 will be paid on March 1 to shareholders of record as of January 30. During 2018 calendar year, we expect shareholder distributions to total about \$3.1 billion, including this supplemental dividend, a regular dividend of \$0.15 each quarter, and a share buyback to offset the effect of compensation-related dilution. This would bring shareholder distribution since 2012 when we restored the dividend to over \$18 billion.

Let's turn now to 2018. First, let me share with you changes that we're planning to make in terms of how we report results. We're doing this to improve transparency and to better align with industry reporting. We'll report four different elements; automotive, Ford Credit, mobility and corporate other. Now, in automotive, that will exclude AV results. It will also exclude corporate governance cost and all mobility-related expenses. It will continue to include revenue and costs associated with all forms of electrification.

In terms of Ford Credit, it will be a reporting segment on its own with no change to reporting conventions. Ford Credit's results will be reported on an earnings before tax basis within the company's EBIT metrics, consistent with others in the industry. Mobility: mobility will include Ford Smart Mobility LLC along with AV results. And this includes engineering expense including those related to Argo AI. And then finally, we're going to have a corporate other category; this will include corporate governance cost, interest income on our cash, and portfolio gains and losses.

So, in terms of key financial metrics, we'll focus on a company EBIT and a company EBIT margin, a company operating cash flow. Similar metrics will continue to be reported for the automotive business, but we will discontinue reporting company-adjusted pre-tax results. GAAP interest expense and non-Ford Credit debt, special items and taxes will be reported after company adjusted EBIT, which will bring us to a net income. So, for ease of comparison, we will reconcile prior results in a filing after we report first quarter results.

When we report actual results later this month, we'll report as we have this past year, however, we will also include a loss in the prior year by quarter for both 2016 and 2017 to help you better understand the impact of the changes and our guidance for 2018.

Now, a word on the impact of the recent U.S. tax reform act on our 2017 results and our outlook for 2018. For 2017, we do not expect the impact to be material. Net, we do not expect a large write-down of our deferred tax assets, and we expect to be able to use all available tax credits dollar-for-dollar before they expire. Also, we do not expect a large profit or cash impact for the mandatory repatriation of previously untaxed non-U.S. earnings. Presently, our cash taxes are low. And because of the tax reform act, we expect that they will be low for an even longer period of time.

Cash repatriation for us isn't relevant as it may be for some other companies because 90% of our cash is already in the United States and the balance is deployed and used in-region. So, for 2018, we expect our adjusted effective tax rate to be about 15%, which is similar to 2017. This is lower than our previous guidance of about 30%, obviously, driven by the lower U.S. corporate tax rate plus an expected one-time benefit outside the U.S.

On a more normalized basis, we expect our tax rate going forward will probably be in the high-teen range. Finally, we expect a potentially higher distribution to Ford from Ford Credit in 2018 as a result of the tax reform. We'll provide more detail on that later this month at earnings.

So, moving on, in terms of the business environment for 2018, we've assumed the following external conditions. First, a U.S. industry in the low 17 million-unit range; and remember, we include medium/heavy trucks, so that will be slightly lower than in 2017. In Brazil, we expect industry volume to be up roughly 20% in the mid 2 million-unit range. Turning to Europe, we expect volume to be in the low 21 million-unit range, which would be up slightly; and industry volume in China in the mid 28 million-unit range, again, up slightly from 2017. So, overall, pretty robust environment in terms of industry volume with slight declines in the United States.

So, commodity prices and exchange, because that is part of the big story for us tonight; we expect commodity prices to continue to increase from a low single-digit percentage to upwards towards 20% in 2018 versus 2017 depending on the commodity. In fact, our outlook for most of the key metals, because the increases have been in the metals, are above the long-term mean trend. And unfortunately, we also expect continued headwinds from currency.

So, specifically for 2018, here's what we expect. We expect company revenue to be about flat to up modestly as favorable company specific drivers more than offset the effect of slightly lower volumes in the U.S. We expect an adjusted EPS in the range of \$1.45 to \$1.70.

Now, within this and within automotive, we expect favorable market factors enabled by new products and favorable segment shifts; automotive cost excluding commodities to rise only modestly, principally in spending-related and engineering expense as we continue to invest in our future; and we expect headwinds of about \$1.6 billion from rising commodity cost and adverse exchange.

We expect Ford Credit profit to remain strong, although somewhat lower than in 2017. And this is going to be driven by unfavorable financing margin as a consequence of higher interest rate along with revaluation of derivatives, and we expect a loss in our new mobility segment at a level worse than in 2017 driven by increased investments and AVs and mobility-related capabilities and services.

Now, let me explain the range. The top end of the guidance assumes that we're able to offset the effect of the commodities and exchange on our automotive segment. The lower end assumes that we'll be partially successful in doing so.

We expect to generate positive company operating cash flow though lower than in 2017, driven by the lower profit, adverse working capital and unfavorable timing and other differences. And finally, in terms of the balance sheet, it will remain strong which gives us the financial flexibility to be opportunistic with investments as we redefine our business. But most importantly, the strong balance sheet protects us no matter the economic cycle.

So, let's talk for a minute more about commodities and exchange. The changes in commodity prices and exchange rates that we've seen over the last several years have had a material effect on the business. And as I've mentioned, we see that continuing in 2018. So let me explain the colored lines. The green line are the actual results for 2015, 2016, 2017 with the range that we're providing for 2018. The blue line are the same data, but with commodities and exchange expressed at 2015 conditions.

So, as you can see, in 2016, we actually benefited from favorable commodities offset somewhat by unfavorable exchange. But then since then, it's been all downhill. Commodity cost and exchange adversely affected our results in 2017 versus 2016 by over \$2 billion. And as I just mentioned, we expect another \$1.6 billion impact in 2018 versus 2017.

Now before going further, let me be very clear. The bottom line results are the bottom line results. And we, as a management team, should be measured by the bottom line results. So, the purpose of this slide is not to distract from the bottom line results. We're only providing this because it has been a material impact in a relatively short period of time on factors over which we have little control in that period of time. It's also helpful I think in understanding the trend of the results and to the extent to which we've been able to deliver what our effectively flattish results while also absorbing increasing investments in all the areas of transformation that we've been working on.

But our takeaway from this is, it simply underscores the urgency of our efforts, to improve our fitness, to enable us to withstand the inevitable ups and downs of things over which we have little control by delivering the margins that we're targeting.

So, before asking Jim to come up and take over, I'd like to leave you with a few thoughts. So, first, to be clear again, we're not satisfied with our performance. Having said that, we are excited about our future and our plans to grow the business and our margins to targeted levels. We're attacking with urgency, our fitness through our global fitness initiatives and Jim will touch on that. And while our outlook for 2018 includes some effects from this, the major significant effects of fundamental redesigns of our business will start to show up in 2019, and then even more so in the years that follow.

Our business, in all respects, is undergoing transformation and not just change, but we have a clear point of view of our long-term destination. And we are making and have made strategic choices and are developing the capabilities to bring that future to life. We understand your desire to know with more clarity our choices and the path that we're following. We commit that we will share our progress, but in a way that doesn't compromise our competitiveness and respect the impact your actions will have on our stakeholders. And tonight in fact, Jim will share additional insights into our thinking and into our journey.

So, with that, thank you for your attention. And I'd like to invite Jim Farley up to the stage.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

Good evening, everyone. Before I start my presentation, I just want to emphasize that I'm part of a team with Joe and Marcy and the whole team. This is a presentation that really highlights the changes we want to make as a team. So, thank you, Bob and thanks for all of you for being here.

The vehicle business is the foundation of our health as a company. And although we're not satisfied with where we are, we are very optimistic that there is upside for us in our work as a team. So, we're actively evolving our position to be obviously a lot more competitive, and I'm going to spend a lot of time talking about that tonight. At the highest level, we need to narrow our full range nameplate in every market approach to a much more focused approach that delivers much stronger growth, better returns and less risk.

We're going to reposition the company to offer best-in-class human-centered vehicles and mobility services integrated together. And that's our vision, smart vehicle, smart world. We have so many strengths to leverage. We have an iconic line of fantastic vehicles. We have a universally known and respected brands. We have a deeply committed workforce, because of all the change we have to make that is such an important foundation for our company.

We have a very highly regarded dealer network. I was in Dallas, Texas last week. We have a great truck network. We have a strong balance sheet, and a rock solid credit company as a partner to the vehicle business and to our mobility business. And these are not small things. There are five key drivers that we're going to enhance our competitiveness now and in the future.

The first is fitness; you've heard this a lot from Ford. This is not just about cutting costs, it's about fundamentally redesigning our capability, partnerships. Where appropriate, we're pursuing partnerships, alliances, acquisitions to strengthen our competitive position. We are not going to go it alone.

Third, reshaping our product portfolio. This is something that Joe and I are really passionate about. We are making tough choices. We'll be allocating capital to better leverage our strengths all the way around the world. So, our strategy in electrification has shifted. You heard that a little bit at the show this week. We're not thinking about electric vehicles from a compliance play. We're focused on used cases to provide a value proposition to the customers. We're focused on building a portfolio of electric vehicles by leveraging our high revenue generating models, and we're targeting high margin segments.

Fifth, autonomous vehicles. Autonomy strategy goes well beyond the vehicle. We're developing a whole ecosystem of products and services that will drive very high utilization and recurring revenue; the key elements to the profitable AV business.

Today I'm going to share with you the work that we are doing that's incremental to our base plan. So, let's talk about fitness. It's essentially the health of our business. It's fundamental to our ability to compete in this very dynamic environment and this is ground zero for us. To the extent we're fit, we can contribute and generate cash flow necessary to invest and grow our business while rewarding, of course, to shareholders. Our business structure is out of sync with our outlook on revenue, and out of sync with our competitive set.

We're taking urgent action to increase our profitability. This will allow us to prosper in the near and the mid-term. You can see our key areas of focus on the slide. I'm going to touch on just a couple. So, the first is simplicity. We're targeting a step change reduction in our part level product complexity. We've made a lot of progress with

One Ford, but it isn't enough. We are making dramatic changes to our product in production today. For example, on Escape, Fusion, EcoSport in the U.S., we're going to reduce the number of orderable combinations from thousands to just 10 to 20, depending on the vehicle line. That's a 98% reduction. These actions will improve, of course, the cost of reducing manufacturing expense, lower our inventory, logistics expense, improve our quality, all while growing revenue by ensuring that our customers can get what they want even faster. Lower complexity also improve scale as you know. The scale in our plants and suppliers is so important for Ford's opportunity.

Going forward, we're going to change our product development process. And Joe and Hau and his team are working hard to ensure that these reductions in complexity are permanent. This will keep additional costs from creeping back in. We've been driving simplification far beyond the product creation and delivery system. For example, in IT and Marcy, we're enhancing our IT infrastructure to reduce the cost and eliminate the investments in legacy regional systems.

So, let's talk about efficiency. We've all been around this industry for a while, and know how important benchmarking is. When you look at our product development factory and how it compares to competition, we found that we're about 20% below our top competitors and throughput. We're spending too much to execute our product. This is significant opportunity for us at Ford, and we're moving quickly to close that gap. We're changing our product creation process to better integrate as human-centered design point of view and principles of putting the customer first and reducing those downstream product changes.

We're increasing the use of modular product architectures to reduce the development time and bring our vehicles to market much faster. And at the plant level, this will allow us to reuse 80% to 90% of our equipment without costing retooling. This will also help us bring our labor costs flat to lower in all of our new products. We're aggressively targeting not only product creation process, but also our marketing costs by transforming our marketing model itself, both internally and with our great agency partner.

We're moving to a digitally-focused model. And we're going to target our advertising on a more individual basis using advanced analytics and the new digital platforms. This will enable us to target the right customer with the right message, and that's going to drive efficiency. I'm personally targeting at least \$200 million a year of efficiency on our fixed marketing. These are just few examples of the initiatives we have now underway. And I can assure you that we are taking decisive actions, and we will provide updates on our progress throughout the year.

Now, let's move on to partnerships. Tied to our fitness exercises and the business strategy is our partnership approach. We're pursuing partnerships alliances and acquisitions or doing so provides access to technology, upgrades our capability and our scale which will enhance our competitive position.

We'll continue to, obviously, build on our very successful partnerships like what we have in China with CAF and JMC; in Turkey with Otosan and the Koç group; PSA in Europe and Gemini; Argo AI on our autonomous vehicles; our collaboration with GM on automatic transmissions; pivotal on software development. At the same time, we're accelerating new partnership opportunities.

For example, over the last six months, we've announced our collaboration with Domino's, Lyft and even Postmates for our AV products. And we have even more to come. We've announced Mahindra in India. We've announced Zotye in China. Our investment in Autonomic will accelerate our growth in digital services well beyond AV. And there's going to be a lot more to talk about in the future for Ford and our partnerships.

Now I'd like to talk about our portfolio. Portfolio in the broader sense, geographic, the brand, the product line up. So, improving our business involves strategic choices as Bob said, and we're committed to making those decisions required to further improve our automotive business and of course deliver that targeted EBIT margin.

Market participation is, of course, key in constructing our future product portfolio. For example, we exited Japan and Indonesia and focused our efforts on improving our competitiveness in core markets like China, Europe and of course North America.

And I said recently, we're committed to address our business issues in South America and India. We get it. I'm personally very focused on making the tough choices required to improve our performance in those markets. We continue to elevate our trusted four brands. We've achieved significant gains and favorability after we've launched brand breakthrough plans in Australia and India, even in Germany, which resulted in significant improvements in our pricing power. We did it back in 2008 and 2010. We know how to do it. And we're replicating the successful work around the world.

If you know me then you know how passionate I am about great product. Our plan is to play to our strengths at Ford. Not only in vehicles themselves, but utilizing the connected services and electrification and new business models to reshape our product portfolio and get that additive effect. We're pivoting away from being a full line all-market approach, which has forced us to confront questions such as whether we really need to compete in value segments in emerging markets. At the low end, we're evolving the One Ford plan to develop distinctive emerging market business model and product plan.

We're going to lean into our partnerships. We've already done that in Russia and China and Turkey. And to this end, we've also announced an MOU with Mahindra, which we are learning a lot from and Zotye in China, and I'll touch on that more in a minute.

We're considering additional partnerships. And we're going to build these into an integrated structure that is fit to serve those low-cost lower income customers. The move we're seeing from cars and crossovers is significant, it's global and it's been happening for decades, but this trend plays to our capability strength, but we have so much more opportunity. We're shifting towards a lower volume passenger car lineup in North America and Europe, and we're going to play to our strengths by investing in authentic off-roaders and high-performance city crossovers.

We want to get a bigger share of the utility market, especially the higher revenue utility market. We're significantly spanning our BEV lineup in all regions. We're doubling down our hybrids, where we're also already number two in the United States. And we're going to electrify our most iconic nameplates.

On the SUV lineup, we're not only expanding the number of new nameplates, growing the portfolio, we will play out over the – and that will play out over the next few years. We're making our lineup a lot more fuel efficient. Let's go into specifics.

In North America, we're going to leverage our strengths in trucks, vans and SUVs and shrink our passenger car lineup. Just look at this year. We have a brand new F-Series, we have a complete fresh Super Duty, we have a brand new Expedition and Navigator, we have a tremendous, tremendous foundation to build on in North America.

But over the next couple of years, our SUV mix is going to increase 10 percentage points and our car portfolio is going to shrink about the same amount. This is aligned with the shift we're seeing in our industry, but it's also

really important for our profitability of our business and we'll focus our car portfolio on higher revenue, higher margin sub-segments.

We are adding brand new nameplates, some which we can share with you, like Ranger and Bronco. Now, these are not niche products. Both are high volume products with established customer base. We're also adding more authentic off-roaders and higher revenue derivatives on those products, such as expanding our very successful Raptor.

The Lincoln brand in North America will start to orient itself to utilities and we're going to increase our investment in electrification. Touching on our fitness initiatives, our current target in North America includes reducing material costs on our current vehicles in 2018 by \$1.5 billion. We have a lot of new product coming in the next couple years, 25 launches and 35% of our products get refreshed between now and the end of 2019.

And we're accelerating our investment in electrification with seven battery electrics by 2022 in North America, and I'm going to cover that in more detail. In Europe, we're focusing on dealing proactively of course with Brexit and we are completely committed to strengthening our UK business.

We're going to shift to lower volume, higher margin passenger car lineup; we're going to expand our utility offer and we're going to build on our commercial leadership there. We're going to leverage our JV in Russia as that market recovers. And as we rationalize the car lineup, we're shifting from cars to utilities including small-size urban, but performance utilities. Over the next few years, we're going to almost double our utility mix to 31%, while our mix of cars drops below a third. We're going to expand our authentic off-roaders, and this is quite important in Europe, the portfolio of three-row versions of our utilities and we see significant opportunity in Russia as that market shifts towards SUVs and trucks and grows in volume.

We're going to build on our commercial leadership by electrifying Transit. This year, we're launching a plug-in version of Transit and we're expanding our collaboration, very important, on the 2-ton Transit with StreetScooter and DHL, a fully electrified platform.

We're going to generate more choice for customers at higher revenue points by expanding our derivatives strategy across all of our main nameplates. I think you know some of them. Focus will offer an ST, an ST-Line, an Active, a Vignale. In fact, the new EcoSport that we're launching right now in Romania is launching with an ST-Line from scratch.

The product refresh in Europe is just starting. Late last year, we launched the Fiesta, which is our highest volume product. In 2018 and 2019, we're going to build on the new Fiesta and we're going to have 27 additional launches and we'll refresh an additional 35% of our line-up starting with the all-new Focus this year. Focus and Fiesta are about half of our volume.

In Asia Pacific, we're highly focused on maximizing the strengths of our key profit pillars, including our full family sport utilities and our Built Ford Tough Ranger pickup truck which is now anchoring our success in our business results in Australia, New Zealand and Southeast Asia.

I'm really excited about the work that we've already done in China to improve our fitness, better leverage our partnerships and refresh our product line. In Shanghai, last month, Bill Ford and Jim Hackett announced a complete refresh and expansion of our China product lineup which starts at the end of this year. We will have 50 new Ford and Lincoln models in China by 2025, including eight all-new SUVs. We have very ambitious electrification plans, the first of this, the Mondeo PHE (sic) [PHEV] (00:39:15) that's just launching now. By 2025,

100% of our vehicles assembled by Changan Ford and our JV will include electrification options. We're going to have more local assembly as well. And also Ford and Lincoln vehicles sold in China will be Internet-connected by the end of 2019.

When we made our announcement in December, we talked about our plans through 2025 and as you can see on this chart, we're getting started later this year in a very meaningful way in that growth plan for China. By the end of 2019, we'll have launched 28 new or refreshed products and about a quarter of our products will have been refreshed. And as we prepare to bring this new generation of products to China, we're making great progress on rightsizing our costs.

For example CAF, we've reduced our material cost and our local content now stands at 92%, as we work to ensure we can offer customers in China the right content at the right price. We think we're getting closer. Also since 2015, we've reduced overhead head count by almost 25%. We're also increasing our mix of local national talent.

So let's move to electrification. We're focused on building a portfolio of electric vehicles by leveraging our high revenue models, not small, cheap compacts, where profitability is really challenged. That means you're going to see from us electrifying our most iconic nameplates starting with the hybrid version of F-150 and Mustang where the hybrid system delivers the same amount of performance that Mustang customers expect with an iconic vehicle.

And we're not going to stop there. We're electrifying work by making our leading commercial trucks and vans even better and more useful on the job site. We're making great progress with our Transit Plug-In Hybrid and our pilot in transport for London. We're also planning to continue expand our police business with our hybrids. We're also applying the most emotional design, the credible performance attributes of our segment leading cars, trucks and SUVs to our expanded 2016 vehicle portfolio of all-electric vehicles.

I wish you could see how excited we are about these products. And we're on track for an exciting performance SUV battery electric vehicle that offers at least 300-mile range to launch in 2020 and we're thinking about calling it the Mach 1. In addition, we'll be partnering in markets where we can leverage the market expertise of others to build out our regional product line-up such as where we're doing that in China with Zotye. Zotye will be our first all-BEV value brand and it will not have the Ford badge on those products. And we will develop a seamless ownership experience such as developing charging solutions like what we're doing in Europe with IONITY.

To get there, we're reducing our investment in internal combustion powertrains and we're going to reallocate those to electrification.

So today we're pleased to update you on our increased investment in electrification. We now expect to spend over \$11 billion by 2022, allowing us to substantially increase the number of pure battery electrics we're going offer around the world. That will allow us to increase our scale and provide HEV options across all of our mainstream models in the U.S.

From a product standpoint, this additional investment will result in a very significant jump in our all-electric portfolio. And as I said by 2022 globally we'll have 16 dedicated battery electric vehicles, including at least 2 dedicated battery electric platforms, one for Zotye and one for Ford. In addition by 2022, we will have a total of 40 electrified vehicles, whether it be hybrid, a plug-in hybrid or a battery electric around the globe. This includes battery electric vehicles and electrified products for our pickup trucks or vans to support our powerhouse commercial business.

It also includes battery electric vehicles and electric products for our growing Lincoln franchise especially in China. Our electrified vehicle strategy is going to help to create a competitive leverage for our automated vehicles as well.

But before I get into that, I want to provide you with insight on how we're building our self-driving business in a different way. We have all three core elements of building a great automated vehicle business. We have a purpose-built vehicle. We have a great self-driving technology and we have operational infrastructure aligned in a parallel development cadence that will allow us to scale very quickly when we enter the business in 2021. All three elements are being defined to optimize revenue per mile through very high utilization. So let's get into the details.

First, our vehicle. It will be exclusive, purpose-built and a flexible vehicle leveraging high volume commercial-grade platform. The software and the computing systems are being designed and built as well for commercial grade. We're not going to have development code and production code. We're writing production code now. Commercial grade quality and durability is going to be critical for running a profitable business because the vehicle needs to withstand the rigors of high volume, heavy-duty use cycle in very difficult urban environments.

Sure, we might be able to get to the market faster by bolting on components into an existing vehicle, but that's not scalable, it's not purposeful solution. We're working with our partners, Domino's, Lyft, Postmates to learn about their businesses so we can incorporate those insights into the vehicle design itself to make sure it serves both people and goods delivery.

Our vehicle powertrain will be a hybrid. Hybrid is another critical factor in building a profitable business as it helps in achieving maximum uptime for racking up those revenue-generating miles and hitting that sweet spot in utilization. Next is self-driving technology and the Argo AI team has now more than 280-people strong. We're in four locations, Silicon Valley, Pittsburgh, Detroit, even Canterbury (sic) [Cranbury] (00:46:49), New Jersey. And I'm so impressed with the speed of their work. We have experienced leaders as well as a team that has commercialized robotic products in the past and that robotics expertise is going to pay off for us immensely. While I won't get into specifics of our technology development today I will say that we're planning to demonstrate the state of our capability at Ford later this year by putting you in the cars for rides.

And the third piece, the business model; to me, so critical in differentiating Ford. We're building a software platform to facilitate those partnership strategies. Our focus is on offering a set of APIs that are open that will make it easy for those partner companies, large ones, medium, even small local businesses, to plug in and access our fleet of self-driving vehicles. Partnerships are key, especially to be able to scale quickly because they're the source of customer demand. They already have customers willing to use this service, and soon with the self-driving vehicle, it helps make their business stronger.

So, with the Argo AI managing the technology development in coordination with our product development team designing an all-new purpose-built AV vehicle, we're going to test drive our business model in parallel beginning this quarter.

So, in a new city which we haven't revealed yet, we're going to be validating our business models through a series of pilot programs with those partner companies and more. We're going to prove out the model that we're building to optimize that utilization and revenue per mile. We believe by focusing on ride sharing but also local delivery, drug stores, home improvement, groceries, dry cleaning, restaurants, sport equipment, we can have a huge impact and broaden our revenue and utilization.

In partnership with companies, these kinds of businesses, they can benefit based on our platform and they can grow their business. We can share the revenue. Since we own the fleet of vehicles, we'll be able to optimize for that maximum utilization of revenue per mile. Our vision is to have a broad range of partners who keep our vehicles busy 24 hours a day.

We feel that this is a major differentiator with our business and to prove that out, we are going to be working with these partners in this first city and learn about the revenue per mile utilization realities this year.

How does this play out in the next two or three years? Well, we're going to launch a succession of more and more cities, further diversify our partnership companies and refine the technology by solving for cases that are unusual for safety and reliability. And while we're moving quickly, we're not doing it at the expense of safety and reliability, because it's going to matter the most in ensuring that we continue to earn the trust of customers.

We're also working carefully with cities, the business partners, while we operate those business models, and of course for customers, who are going to be using the services. We're going to bring it all together to launch not only a vehicle, but a whole business in 2021.

I want to close by thanking all of the investors for supporting us, as we evolve beyond the traditional business model of selling and service vehicles. Our approach is grounded on our strengths. If there is one theme today, it's we're building on our strengths; commercial vehicles, trucks, high-revenue SUVs, and our global manufacturing expertise. During our 114-year history, we have demonstrated our ability to thrive in uncertain environments during the toughest of times. That's why I joined Ford.

But beyond our industry, our greatest strength is our team, our ability to do things that others doubt. Well, we went to the Le Mans after 50 years and won the first year out. It's a metaphor for what Ford can do when our team puts their mind to it. We revamped – Joe and the team did it, we revamped the F-150, all aluminum in an unprecedented period of time. When the Ford team focuses in on goal, we deliver.

Thanks so much. And now, I'd like to invite Bob up to stage. We have a whole leadership team here to answer all your questions. Thanks.

QUESTION AND ANSWER SECTION

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Why don't I...

Robert L. Shanks

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

A

You want to go first?

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, I'll take the first question. Thanks for that. And it's really great to hear more about the strategy that you guys are planning on implementing towards the company that you want to be which presumably is 8%-plus margin business, all these targets that we've heard about. I was hoping you might be able to put a little bit more sort of timeline for us out there and a little bit more detail on how this is getting implemented. It sounds like a lot of the plan is to get out of challenged businesses, presumably passenger cars and maybe small crossovers, things that are tougher and into the some of the stronger areas, but that takes a long time. There is a lot of product development that's involved, presumably a lot of spending.

So can you give us a sense of when we'll see some of that? When do you envision hitting some of those targets? What kind of costs are involved in transforming the business? Will we be looking at a company with a similar cost structure or higher cost structure or lower when that happens?

Robert L. Shanks

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

A

Can I go first, Jim?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Yeah, go ahead.

Robert L. Shanks

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

A

Yeah. I would say that – so first of all, on the fitness redesign initiatives that Jim touched on, the teams are working with about 20 different initiatives in the six areas and they have begun to monetize the benefits from that; just begun, and the numbers are huge. They're billions of dollars both in terms of capital that we can free up, but also in terms of operating expense. So even without that, with the plans that we've put in place and in terms of some of the decisions that we've already made, even within our normal five-year business planning period, towards the latter part we can see ourselves getting to the margins that we've set out to achieve.

The fitness redesign initiatives are incremental to that. And as I said in my comments, I think we could probably see some of the effect of that in 2019 because these are redesigns. It's not shave this, shave that, cut this, cut

that; these are just redesigning what we do. So, there is a different timeline associated with that, so in 2019 I think we'll see benefits from that, but particularly in 2020 and later the impacts will be significant.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Just to clarify, the business planning timeframe for you is...

Robert L. Shanks

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

A

Five years.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

It's five years. So towards the latter end of that, into 2020, that's when you should be approaching those kinds of margins. And are you saying that the savings that you are going to achieve are so substantial that they offset fully all of these investments in transforming the product portfolio, growing...

Robert L. Shanks

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

A

Well, I would say that the redesign initiatives aren't baked into that outlook at this point, because it's in train. So I think that there are opportunities that would help us further ensure the delivery of those margins in terms of giving us some of the abilities to flex and offset against some of the unknowns or the unexpected, like I talked about with the commodities and exchange. So I think there are incremental opportunities on top of that that give us I think more confidence in terms of achieving those targets by that timeframe.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

And Rod, just a incremental comment to Bob's, which is notwithstanding the timeframe and the extent of the impact of those initiatives, the team like in North America, Raj and the team are really going after this year opportunity. Every part of the business is being looked at as you can imagine. So market alignment, our material – the content on the vehicles, negotiated material costs, because we have a lot of new product, there is a lot of opportunity for negotiated advantage, we have every discretionary expense the team is looking at. So it doesn't matter what even – we want to try to make that foundation as strong as we can, but we recognize the biggest impact is going to be with the fitness exercises.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

If I could just ask a second question, there is a lot of commonality that we're hearing strategically from other companies in this industry as well in terms of where they want to allocate resources, what types of products they want to get into. One or two of them are getting out of passenger cars or have gotten out of passenger cars and are allocating more resources to trucks and SUVs. Have you sort of baked into the plan that those markets won't

be as profitable in the future as they are today or do you believe that structurally the demand growth there is enough to compensate for the additional capacities coming online?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Can you rephrase?

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Well, look, if Fiat Chrysler is getting out of

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Oh, I see, yeah, yeah. I see what you mean.

[indiscernible] (00:57:12)

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

...trucks, if Toyota is saying that we're below average in passenger cars, we're going to add to trucks and every company is – and GM is presumably saying we're not investing in new cars. People are doing this.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

It's such a great question I have to say. I tried to make the point very clear in the presentation, which is, you take the utility business, everyone is allocating money to utilities, good example. And we really believe the bet at Ford is not just to allocate and come up with new nameplates, it's actually to play in a part of the market where it could be very profitable.

We believe that a whole range of authentic off-roaders or very performance-oriented SUVs is the place where Ford can win, even with more competitors and more investment from them. So I guess the intent is not just that we're going to have more nameplates, but we're being very precise about we think where we can win even with more competition and that means we have to be more selective of where we participate and how we execute those products.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Thanks. Ryan Brinkman from JPMorgan. Can you elaborate on your strategy for returning to profit in South America? I think several of the end markets there are in various stages of recovery, yet you continue to report fairly sizeable losses. I'm sure the market will continue to recover; that will help. But can you maybe discuss those things that you can control that need fixing and maybe what are your options for fixing them?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Yeah. So you can imagine Lyle and the team are doing everything they can that's controllable right now and improve our cost base. We're launching some new products, which is really important in a growing market, and we saw definitely very good reception to the new car as well as the Ecosport.

But as we allude in our presentation and said in the past, we believe that the solution ultimately over a longer timeframe in South America is going to be something different than us just trying harder. We're not going to share with you what that looks like. But we are exploring every option that you would imagine and we'll get back to you when we're done that.

So, in the meantime, the team is doing everything they need to, on discretionary topics and doing a great job launching new product. But we believe that a more fundamental relook at our strategy is essential going forward.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Okay. And then, just lastly I think Ford has been the leader in pickups for like longer than I've probably been alive, right. So, I'm not suggesting that's going to change. At the same time though, 2018 will see some substantially improved light-duty products from both GM and FCA. I think GM is also re-entering the medium-duty market, right. So how should investors think about these challenges and what are you doing, what steps are you taking to preserve your sales and profits in this critical area?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

It's a great question. First of all, I mean we have such a strong foundation; not in general, I mean like right now we have such a fresh product. Super Duty is doing so well in the market. And as well, we have a brand new F-Series, we're adding a diesel. We have much better fuel economy and we gained share last year, meaningful share. And we continue to grow. So that's why, I went to Texas and our dealers have never been more optimistic about our future based on our current product range. We gained share in Texas dramatically last year, as well as our pricing went up.

Now, look, we have great competitors and our vehicles are going to get more expensive, but we have great capability with the freshness of our lineup. And we shouldn't forget the growth opportunity we have at Ford. We have a brand new Expedition, brand new Navigator; those are not small things. I mean, I watched Joe make those decisions to make those investments in North America; these are huge upside opportunities for Ford. The Ranger coming right around the corner, we don't participate in that, that's a completely different segment and was when we left it.

Ranger; it's a medium-size truck, the average price paid for full-size trucks now is in the mid-40s. We have a huge opportunity there. So I would say, everyone's going to talk to you about opportunities. But we know how to grow that business and we have a great foundation.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Back here. Hi.

Robert L. Shanks

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

Hello.

A

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Sorry. Brian Johnson, Barclays. Over here, Jim and Bob. Over here. Hello?

Q

Robert L. Shanks

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

Oh there.

A

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Couple follow-up questions on pickups, but also related to commodities. We appreciate your commodity cost impact, but frankly neither of the two competitors have kind of guided – who are big in the pickup truck market in North America – have guided to that. To what extent is the aluminum focus of the F-Series line-up contributing to that commodity cost headwind versus say the mixed materials strategy we heard about from GM and Chrysler?

Q

Robert L. Shanks

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

Well, in terms of commodities, the biggest effect both in 2017 versus 2016, our projection for this year versus last year is steel. That's the biggest impact, is steel. Secondly is aluminum, but it's a step down from that, and then other metals. It's basically all metals.

A

Brian A. Johnson

Analyst, Barclays Capital, Inc.

And is there anything different, recognizing these are state secrets, about the way you purchase steel versus the North American competitors?

Q

Robert L. Shanks

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

No, I think we – I can just tell you what we do. In terms of steel, we have multiple contracts that are phased in over time. So it provides a little bit of a smoothing effect, there is not a market big enough to do any hedging. And we continue to look at that, but there's no opportunity there. But again that just reduces volatility; it doesn't protect you ultimately from the trends. We do hedge some of the other metals, we don't hedge as many as we used to, that's basically out to about 30 months I think [indiscernible] (01:03:38) that we go. We don't hedge as many because our analysis had indicated that there are some currencies that provide a natural hedge to a metal like copper in Australian dollar I think, tend to move in opposite directions.

A

So we actually don't hedge as much on currencies or commodities as a result. What we have seen in more recent [ph] short time (01:04:00) is those natural hedges are going in the opposite direction, which are not working. We're actually getting the bad news on the exchange, we're getting the bad news on commodities. So, I'm not aware of any thing fundamentally different. We all buy raw materials. Clearly, it'll be different by region, by market, by currency because the exposure is there, it will give you different impacts. The biggest effects for us are in North America and in Europe.

For example, last year we had very little impact in South America; this year, we're seeing a bigger effect. In fact, we talked with the South American team this morning, and that has to do with very regional local price pressures that are taking place on steel in South America that's driving that up this year much more so than last year.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Second question is around the Ranger. And have you thought about the potential cannibalization either in the low end or the low personal end from the Ranger being introduced while you're kind of running out on older F-150?

Robert L. Shanks

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

A

Well, again, we have a brand new F-150. So, from our standpoint that's not a risk. Again, if you look at the transaction price spread of full-size pickup trucks in the kind of pricing arena for the Ranger as well as the capability of the truck there, I don't think there's a lot of risk for us. Joe, anything to add or it's okay?

Joseph R. Hinrichs

Executive VP & President-Global Operation, Ford Motor Co.

A

Yeah.

Robert L. Shanks

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

A

I think we have very carefully, as you can imagine, very carefully looked at all the cross-selling, but that's not going to be a risk for us. In fact, I would say it's an opportunity for Ford.

Colin Langan

Analyst, UBS Securities LLC

Q

Colin Langan, UBS. If I look at the low end of your guidance, it assumes about a \$1.6 billion hit in pre-tax income, which should be all of the FX and commodity. And I would assume that the rest of the business is sort of flat. But when I look at this year, there was about \$700 million. [ph] Now recall (01:05:57), South America is supposed to recover; Asia-Pac ex-China was actually pretty good in Q3. So, what are the other negatives that I'm not thinking about that would make that bottom end sound likely, because it seems like there's a couple things that are moving in the right direction into next year?

Robert L. Shanks

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

A

Yeah. Colin, if you back into the EBIT, equivalent of those EPS, it's about \$9.2 billion at the top end, it goes down to \$7.9 billion at the low end. So, it's about \$1.2 billion difference, and the exchange commodity is \$1.6 billion. So, we're assuming, even in the worst case, that we're able to mitigate some of that, but if you step back further and you think about let's talk about at the top end. So, there you've got automotive that is more or less flattish. You've got Ford Credit that's going to be down a bit because of the reasons I mentioned, which is around margin, higher interest rates and a derivative's revaluation.

And then, in the case of mobility, the new mobility which is Ford's Smart Mobility along with AVs, it's increased investment in the AVs, it's also increased cost in Ford's Smart Mobility as we expand the organization. So there's

people costs, there's also capability costs that we're adding then. So, really, those are the two segments if you will that are going to be down year-over-year, with automotive at the top end being pretty flat.

So, the range is basically no change on credit and mobility. The risk is on the automotive side because of the degree of actions that we've had to put in place to offset the effect of the commodities and exchange rate.

Colin Langan

Analyst, UBS Securities LLC

Thank you.

Q

Q

Great. Just a question on the \$11 billion investment in EVs through 2022. As we think about that, is that going to be fully offset by a reduction in investment, internal combustion engines and just thinking that this is the way the future is going, and it's just a net number not a gross number?

Robert L. Shanks

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

Well, the overall investments are not going up materially, if I take engineering and CapEx over the next number of years. So there clearly is a shift that's taking place. It isn't just on the powertrain side, I think it's around some of the other choices that Jim referred to, for example, around cars utility some of that going into electrified, but also utility at the same time. So, overall, the total investment is not moving a whole lot, it's really shifting. And some of that is the powertrain piece.

A

Q

Okay. And then just the second question. As we look at the supplemental dividend going up from \$200 million last year to \$500 million this year that would indicate that there is a fair level of confidence in the future here, right, because I mean that sort of your sentiment, your view on the future in addition to the 40%, 50% payout target is kind of how you're coming up with the supplemental dividends.

So, I mean, I think there's a little bit of concern in the investment community that some of the business plan is forming as a kind of is, and that's creating a little bit of uncertainty among investors, yet you seem like you actually have an increased level of certainty in the future by raising that dividend. Just kind of, what are the key drivers of raising that dividend beyond just the net income going up and that being a 40%, 50% payout, because you didn't hit a 40% to 50% payout last year. So, something is telling you that you're a lot more confident in the business right now than you were at the beginning of last year, yet I think some investors are a little bit more uncertain.

Robert L. Shanks

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

I think we actually did hit it at the low end last year. I'll circle back with you on that. But yeah, I think we actually have – I'll speak for myself. I have a lot more confidence about our future today, because I know the decisions that we've made and are making, I know the choices that we have planned ahead for the year, and I have the clarity around the direction that we're heading as a business that is crystal clear at least to me, and I think the rest of the senior team. I feel great to see the progress we're making in terms of some of the pivots that we've made, in terms of electrification for example.

A

I hope you got a sense from Jim's conversation, the breadth of the thinking around autonomy, it's not the product and it's the product is actually I think quite different than maybe what some others are working on, but it's the breadth of the whole business model around that. And we are now, this year, we're going to be going into cities and we're going to be piloting, and we're piloting different business model aspects. So, I just feel the clarity and the progress around the new things, EVs and AVs, the choices we're making in the traditional parts of the business and the clarity of that, and particularly focusing on the things that we're strong at and beginning to get more comfortable with moving away in terms of capital allocation, the parts of the business that don't make as much sense, particularly relevance going forward, it gives me a lot of confidence.

Q

Great. Thank you.

Q

Hi. Thank you for the presentation. Just a question on the \$200 million, you talked about, in marketing savings, could you probably add some color on where that's coming from? Is it renegotiating your agency fees? Is it in-housing any of it? Just curious where that's coming from. Thank you.

Robert L. Shanks

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

A

Yeah, I wish to give you more explicit, but at this point that's kind of a Ford business. I will say that we feel that now that the digital platforms that are available for advertising are significant enough, it's just more intelligence, frankly more software doing the media decision and placement would have a huge impact on our advertising model. But, no, I'm not going to go in the specifics.

Q

Hi. Just on the \$11 billion. Are you able to provide a little bit more color or so what's the split between OpEx and CapEx or even some of the cadence, maybe I think that's good numbers, it goes all the way back to 2015. So, maybe even how much of that has already been spent and how much is still to come?

Robert L. Shanks

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

A

I'm not going to provide any more in terms of the breakdown between or I guess we can provide any between CapEx and engineering, but the thing that's kind of interesting to me, if we look at what we have previously guided, which was \$15 billion to \$20 billion to \$4.5 billion, if I remember correctly that was for 13 incremental electrified nameplates and one BEV coming in 2020.

So, if you go back to the slide that Jim had that \$4.5 billion is now \$6.7 billion over the same period of time. No change in over that period of time the number of nameplates that come out. So, what it shows is the pivot. So, we have very sharply moved towards electrification because over that period we've got is like a 50% increase effectively in terms of how much we're going to be spending CapEx and engineering. And then when you look at the \$11 billion, so you go from the \$6.7 billion to \$11 billion, it's nearly, what is that, 80% increase in two years.

So, 50% increase over five years, six years and then 80% into. So, to me the message is, the degree to which we have very, very sharply pivoted.

The second thing I just want to underscore in terms of what Jim said is, again, that gets into maybe we're talking a bit in code, but it gets into where we're going to play, how we're going to win, it's going to be on where we're strong, it's going to be on iconic products, it's going to be on high-margin high revenue products, because particularly at the beginning of this transition and just given the economics that's going to be by far the best business case. But to me it also is a form of protection for those iconic products as this transition occurs.

Now, we want those to be – we want to protect them for the future. We want to lead with them in this transition as well. So, there is an aspect of being very aggressive and sort of a proactive way in terms of protecting those franchises.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Hi. It's Adam Jonas at Morgan Stanley. So, Jim, you've been in Ford Motor Company since 2007. Bob, I think you've been in Ford since 1977. You've seen a lot of changes, both of you saw some of the dark days in leading up to Mulally's entry to the company. Mark Fields, I think many people in the room might describe kind of continued at least for a while a bit with that momentum that Mulally had in terms of the strategy, no major changes that I perceived anyway.

What are the biggest changes you've seen since the kind of Mulally, Fields to the Hackett era, you could share to us? It's kind of a cultural question, the biggest changes that you've seen that you'd like to share with the audience.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Go ahead .

Robert L. Shanks

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

A

Well, a couple things. First of all, we have a great team. Joe, Marcy we're close. But the point of view ownership is really a big shift in the company. So, having ultimately one person that says, here's where we need to go, who is informed collegiate with your team whether it's operational issues with Joe or Marcy in Mobility or product portfolio, what's happening in the business units, that point of view ownership is a big shift. And it's required to make these pivots and to move fast. I think that's obviously one thing.

The way the systems approach of looking at the new opportunities as well as the concept of playing to win because I think in our industry, my experience over 30 years, I've been in a lot of play to play decisions. And it's much harder to make decisions about playing to win, because it means you're going to make choices of what you're not going to do. And I would say, over the last six months especially, I'm so excited that our team is empowered to make decisions to go to win.

I think the last thing I'll say is that we all have learned a lot about One Ford. It provided so much benefit to all of us, but at the end of the day we learned a lot. We've reflected on that. And we have the opportunity to now take those learnings and make our business much stronger. And there're some great things that we won't change and there're some things that we will change.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Yeah. And I think I would say something very similar. I would have said first, the organization change has been very impactful and the sort of thinking around meeting structure behind that, it's allowed us to be much more focused, much faster in terms of speed of making decisions. But, coming with that, probably equally important is marrying to that what Jim was talking about this critical thinking process has just provided enormous clarity in terms of where we are in working a problem and, ultimately, who owns the decision, who makes the decision, who implements the decision, there has been clarity that has been really, really helpful.

And then I think, thirdly, similarly, the strategic thinking process that we have in place is giving us the ability – I would say two things; giving us the ability to quickly focus on the where to play as opposed to play to play opportunities. But, also, the clarity of that process is making it very difficult to be us and making it very difficult to pretend like if I put all these things together, it makes sense to do something that really doesn't make sense to do.

You can't hide from the truth of what you really should be doing in the business, and I think that's helping us to make decisions and move on faster as well. I think the electrification is probably the best example. That was a very, very significant sharp shift not just in terms of the investment, but just the embrace of that and the approach is very, very specific.

Adam Michael Jonas

Analyst, Morgan Stanley & Co. LLC

Q

Thanks. And maybe as a follow up to the point of ownership – the point of view ownership that you highlight in the strategic thinking, I understand that you're compensating Argo AI employees with equity for the performance of that entity. I understand there's a potential, there's an opportunity to do the same thing with Ford Smart Mobility. You're providing greater financial transparency to the mobility efforts.

Is this the progression to a natural next step to kind of address the cost of capital and talent acquisition and retention, potential disadvantage to maybe even provide greater separation and transparency to those units? Because normally – I mean even Waymo have – Alphabet has a problem attracting and retaining talent. They compensate Waymo employees with Waymo equity. You seem to be following, for different reasons perhaps, a similar approach. I'm just wondering if it stops there or whether there's scope or opportunity to do something further? Thanks.

Robert L. Shanks

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

A

Let me answer first and then Jim can add in because he has spent a lot of time, as Joe has, with the team in Argo. Not specifically, so we're not doing that to specifically do that, like we're going to do that tomorrow or there's an announcement tomorrow. But, clearly, A, I think it does provide greater transparency and it's very important, I think, for ourselves, but for investors to be able to understand what's happening in those parts of the business because they're going to be big and we will be making more and more investments there. So I think that's important. But, clearly, having them set up as separate, because we actually have separate legal entities behind them as well, I think, gives us options down the road if we should ever want to do anything differently. But are we planning to do something immediately? No.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

And I'd just emphasize in the AV work like Joe's team, Ken Washington's team, the integration of the vehicle, like, we're not taking the vehicle and putting the AI, the VDS and the sensing system on top of it, like it's an iterative process between the VDS development in this brand new vehicle. And although the Argo team is separate, as you said, and they may even have separate compensation models, the integration is really important.

And I have to complement like the new structure, whatever, the water at Ford, the teams are really close. Chris Brewer is the Chief Engineer for that new vehicle. I mean they can finish each other's sentences. They're going back and forth. What is the right comfortable G to stop a car so people – what is it for goods. This kind of interaction is really important, but actually, the separateness is also really important. I think we have that balance pretty right now, [indiscernible] (1:21:30). It's going to be a moving feast over the next couple of years, but I don't see that separate system turning into a conflict, I guess, is what I'm saying. Actually, it's working great.

Gregory Tarr

Director, Glympse, Inc.

Q

Hi. Jim, I've got a question for you. It's Greg Tarr from the board of directors of Glympse. And we worked together at Toyota a long, long time ago and they did a great job introducing the luxury brand. And I'm wondering what you learnt from that playbook that you could apply to Lincoln in particular, especially around conquest marketing where it's a battle ground out there with so many SUV choices in small, medium and large? And then I've got a question maybe to Marcy on the mobility side.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

So, on Lincoln, I've made quite a few mistakes in the luxury business. I guess what I've learned is that how incredible it was to see Toyota place the future of Lexus, the most expensive Toyota you could buy, in a foreign country. We sold 54,000 Lincolns last year in China just a few years after launching. The brand's favorability and pricing power is above BMW.

What I've learned from Lexus is that if you find an opportunity where you can create a brand from scratch with a brand that people kind of already predisposed and you do it right from scratch, you can be incredibly successful, but you also have to be patient. And so, I think the progress we're making in China in Lincoln is really fundamental because it's outside of our home market.

The second thing I think I've learned is that you don't – as a challenger brand, you don't win by playing the field. You win by going where others don't go. The RX300 was the perfect example. And we have plenty of those opportunities at Lincoln. I foresee a day when Lincoln could be in the luxury TaaS business, that a town car isn't a car, it's a service.

So the service orientation that's quiet right now that Lincoln is betting on, fueling people's cars for them, drop off and delivery for a whole brand not just for a dealership, those are big bets for our company. And I think those are places where we can win as a smaller brand where others with huge scale and these enormous dealerships, enormous capital. We can do business remotely outside of the dealership. So I think Lincoln has a huge opportunity to lean into the service space and that could be in a way our RX300.

Gregory Tarr

Director, Glympse, Inc.

Q

That's great. Thank you. And more of a question for Marcy's area. Obviously, congratulations on the promotion and mobility services taking off. What is the sort of plan going forward to be a little more aggressive in the venture

space to get almost advanced intelligence? Because right now it's a battleground out there with every auto OEM with 100 people on the ground and a venture fund. And love to see you guys more active in the community and leaning forward, understanding sometimes there's mistakes and learnings. So that's a question, and then also what your opinion is on the subscription services model that we're seeing a lot of OEMs start to rollout?

Marcy Klevorn

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

A

So, thanks for your question and your interest in mobility. On the first part of question, the venture side, number one, I will say that we have some announcements coming up at the end of the month that I'm super excited about, that I want to elaborate on now, but I think it will help answer your question. So stay tuned.

And we are really just getting – pulling together as a team. When Jim Hackett created mobility and, as Jim said, working with Jim and Joe and Bob, he pulled together not only Ford Smart Mobility, the LLC, but I was formerly the CIO, so IT came, our Chief Data Officer and the analytics team came, our FordPass technical and marketing team came, and also a team from product development from Joe's team that handles in-vehicle connectivity. So if you put all these assets together, it's actually pretty powerful.

And so, we're working right now on a model really organizing more like a software company and product team; 10 to 12 people each, focused on a single product and customer. And so, we had already started rolling that out in IT in my previous role as CIO. Now, we're rolling that across the entire mobility organization. And we've had a lot of great luck with it. One example is our non-emergency medical transport business or NEMT that we launched in August. And that's how we set that up and we're having a lot of great success. So, more to come, some things I can't talk about quite yet, but we've got some exciting things coming at the end of the month, so I think we'll get to your first question. And the second question, I'm sorry?

Gregory Tarr

Director, Glympse, Inc.

Q

Subscription model.

Marcy Klevorn

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

A

Oh, subscription model, yeah. So, at CES, we were fortunate enough to be the keynote. Jim Hackett did an amazing job, I think, telling our story. And one of the things we announced was the Transportation Mobility Cloud or TMC that I talked about. And it's in partnership with an investment we made called Autonomic, which we announced in October. And we are looking at maybe a hybrid of subscription model versus revenue share model when we announce either the kind of the commodity cloud piece versus the value-add apps and services wired on top of that.

So, we haven't finalized that yet, so definitely more to come. But I think you're right, a subscription model and revenue – I see subscription and revenue share both playing a piece in this puzzle, and so we're excited; definitely a way to smooth out this cyclical nature of our industry as well. So, thanks for your question.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Q

One more question.

Robert L. Shanks

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

A

One more question. I think that's it. Okay. Thank you.

Rod Lache

Analyst, Deutsche Bank Securities, Inc.

Guys, thank you very much. We really appreciate your time. That's great. Thank you.

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