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Ford Motor Co. (F)

Global Alliance Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. My name is Angela and I will be your conference operator. At this time, I would like to welcome everyone to the Volkswagen AG and Ford Motor Company Update on the Company's Ongoing Discussions Regarding a Global Alliance.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. We will take questions from the media list and then the investment community.
[Operator Instructions]

At this time, I would like to turn the call over to Mark Truby, Vice President of Communications at Ford Motor Company.

Mark Truby

Vice President-Communications, Ford Motor Co.

Okay. Thank you, Angela, and welcome everyone today who's joining our call to the Volkswagen AG and Ford Motor Company update on alliance discussions. Joining today are Jim Hackett, President and CEO, Ford Motor Company; Dr. Herbert Diess, CEO of Volkswagen AG; Jim Farley, President of Global Markets, Ford Motor Company; and Dr. Thomas Sedran, CEO of Volkswagen Commercial Vehicles.

Today's updates include some forward-looking statements about expectations for future performance. Actual results may vary.

And with that, I'd like to turn it over to Jim Hackett for some opening remarks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

Thank you, Mark, and good morning, everyone. Thank you for joining us on this call. You know it's been a good week here in North America at our International Auto Show at Detroit as the center of what we believe is the future of automotive, creates great optimism this time year in our city for all the things that are happening there. So, we're pleased that we've been able to use this moment to talk about what we're announcing today.

I had the opportunity to tour the show floor and it's inspiring that Detroit, as it thinks about its future auto show in the summer will remain a major hub for automotive excellence. So, listen, we're proud of the role that Ford has played in helping make that happen and we're enthusiastic about the evolution of the Auto Show. And we think the kinds of things that we're talking about today will be more of what you'll see in the future. One that's heralded a whole host of new technologies and redefining what truly is possible for mobility.

But as someone in the industry for less than two years, it's my opinion that you can't do this alone. In these changing times, must also come the evolution you see of the ecosystem that supports all these new technologies and capability that vehicles are going to be asked to deliver and companies that are now collaborating across many new areas in an effort to share cost and maximize their ability to capitalize on that technological advance and opportunity.

We believe the fundamental shift is healthy as it allows automakers to focus on their respective strengths and participate in developing these new mobility solutions, yet at the same time, for our customers, offer many competitive options that they didn't think they might get from automotive companies, which brings me to today's announcement.

I'm here with Dr. Diess, the CEO, Volkswagen, to tell you about the beginning of the next industry transforming event. Herbert and I have developed a healthy respect for each other as we both see competitors and challenges in each other that come not only as we were working respectively on ideas in our markets, respective markets, but guess what, we both started to see that there were competitors and entities that were outside our industry that as well are interested in their own markets.

So, with great enthusiasm that we're announcing the first formal agreement between Volkswagen and Ford to form what we're calling a global alliance.

Now, let me give you an overview of what we intend to accomplish. The alliance will begin with the development of commercial vans and medium-sized pickups for the global markets with both companies contributing to each other's product line-ups. Then, Ford will develop and build medium-sized pickups for both companies, which are expected to go to market as early as 2022. Again for both companies, Ford will engineer and build larger commercial vans for European customers and Volkswagen will develop and build a city van. Those commercial vehicles are intended to start arriving in 2023.

With the demand for medium pickup trucks and commercial vans expected to grow globally in the next five years, this alliance will provide us with more industry-leading products we can offer to address that growing demand. And it positions both companies at the forefront of the automotive field, boosting our competitiveness and allowing us to better serve our customers globally.

Together, we'll also save on cost. Our van and pickup agreements are targeted to deliver improved pre-tax operating results for each company starting in 2023. So, over the next several weeks, we're going to provide more detail regarding how the alliance will impact different regions of Ford operations. Our purpose today isn't to get real specific on that.

In addition to our collaboration in the light commercial vehicle and what we're calling the compact pickup vehicle segment, Ford and VW also will build strength and scale in new areas of opportunity. Specifically, our two companies have signed a Memorandum of Understanding to investigate collaboration on electric vehicles, autonomous vehicles, mobility service and in some ways combinations of all three of those and have started to explore opportunities. We're also considering additional vehicle programs in the future.

In addition, careful and deliberate strategic considerations made clear that the collaboration of both of our companies will enable us to share investments in vehicle architectures that deliver distinct capabilities and new technologies, ultimately improving our fitness in shaping the next era of mobility.

All these efforts will be bolstered and enhanced by sharing the engineering brain power of what we believe are the brightest minds in the industry, which is exactly why at Ford, we're committed to leveraging adaptive business models, which includes working with other collaborators to help us deliver on our strategy of designing smart vehicles for a smart world.

We're forging this alliance as true collaborators. Dr. Diess and I will lead a joint committee with an equal number of representatives from each company that will govern our operations and oversee strategy. I want to emphasize

simplicity and speed here. With balanced rights and responsibilities, our focus will be on significantly improving the competitiveness of both companies.

For those of you that are just hearing of this today, this isn't the first time that Ford and Volkswagen have collaborated. In our discussions in planning for this alliance, we spent a considerable amount of time fine-tuning how we'll work together most effectively and efficiently. So, today's alliance reflects our focus on building upon our prior areas of cooperation, while optimizing our team's collaboration on a broader global scale.

Now, that said, Herbert and I want to be clear that this alliance does not involve any cross ownership. Ford and Volkswagen will continue operating as two separate and competitive entities. We have historic brands with deep ties to our respective countries and we couldn't imagine our future any other way.

Similarly, we intend to maximize the current capacity and leverage the capabilities of our existing factories. Right now, Ford does not anticipate any workforce reductions in any of the Ford plants as a result of this collaboration. Dr. Diess and I, along with the leadership teams of Ford and VW, are strongly committed to building on the alliance. We see it as a foundational framework and we'll continue interweaving our production capabilities, these technology programs and projects together, including R&D efforts and product offerings.

I'd like to take a moment and thank the employees of both companies, Ford and VW. It's due to the hard work and dedication of everyone in our companies that we've been able to announce this alliance today. You'd be pleasantly surprised how well these folks have worked together. And we know that with your continued enthusiasm, it will not only succeed, but it's going to reach greater heights than perhaps people imagined as the word started to leak.

And to our customers, I want to thank you for your loyalty and trust in our brands. This alliance is about you and continuing to serve you with the very best vehicles and services you love powered by these new and smarter technologies.

Now, I want to thank you, and I'd like to turn it over to Dr. Diess, to make a few comments. Herbert?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

So, thank you, Jim, and good morning also from my side. It feels good to be in Detroit, the heartland of the U.S. auto industry. Yesterday, we launched the new Volkswagen Passat and I can reassure you we will work hard to continuously improve our business in the United States, and not least is to further strengthen footprint here on the ground.

To deliver against our growth strategy in North America and to roll out our electric cars at full speed, we announced yesterday to invest an additional \$800 million into our Chattanooga facility. We will make Chattanooga our North American base for manufacturing electric vehicles and we will create 1,000 new jobs there plus additional jobs at the suppliers. This underlies our strong commitment to the United States.

Ladies and gentlemen, today, it is about some other good news equally good for Volkswagen and for Ford. The alliance we are now building, starting from the first formal agreements we announced this morning, will contribute to boost both partners' competitiveness to better serve customers and to lead our industry in an era of rapid change. It is therefore an important signal to our customers to our employees and to our investors.

As Jim already explained, we have now formally agreed to a joint approach on medium sized pickups and commercial vans. That's where our negotiations started a while ago. And today, we are very pleased that we can officially confirm we have come to terms. Volkswagen with 10.8 million sales worldwide and the most competitive MQB platform has generally sufficient economies of scale, not so in the light commercial vehicles and mid-sized pickup truck business.

Sharing platforms and plants with Ford provides very competitive scale effects in this segment. With the effect that, jointly, we will become number one in this market segment. Contributing the technologies and competencies in this segment, and the reputation of the iconic and world-wide renowned cars like the Volkswagen Minibus or the Caddy, the Ford pickup trucks or the Transit are an excellent starting point for a worldwide for both parties' very beneficial alliance.

Over the course of our negotiations, we constantly broaden the scope of discussions as our joint working groups have explored great opportunities in various fields of potential collaboration. And even more important, as we increasingly saw a like-minded partner with similar views and aspirations.

Jim and I have met several times in person and we regularly speak on the phone. And so did our teams involved in the negotiations. I'm glad to say that we have developed trust for each other and a much better understanding for our respective businesses and strategic priorities.

Our approach is smart and pragmatic. We will efficiently leverage collective resources, we do this based on a clear and effective governance structure while at the same time maintaining independence and identity for both partners.

Our alliance is visionary. We believe we can explore further collaboration opportunities in exactly those fields that will be pivotal for future success in the auto industry. Electric driving, autonomous driving, and mobility services. We have already signed a memorandum of understanding on this.

Today, Jim and I, we are confident that our ongoing dialog in various fields might lead to further formal agreements in the future. Ladies and gentlemen, it's no secret that our industry is undergoing fundamental change resulting from widespread electrification, ever stricter emission regulation, digitalization, the shift towards autonomous driving and not the least, changing customer preferences.

Car makers around the globe therefore are investing heavily to align their portfolios to future needs and accelerate their innovation cycles. In such an environment, it just makes sense to share investment, pool innovation capabilities and create scale effects in clearly defined areas. That's exactly what we at Volkswagen have been doing for a while. For example is our strategic partnership with Microsoft for building our digital platform. And that's what we are going to do together with Ford.

Let me briefly lay out why I firmly believe that this is a really compelling one. Firstly, we are two strong players with a proven track record and a proud history in developing, designing and manufacturing cars for millions of customers. Moreover, Volkswagen and Ford have shown their ability to drive and willingness to successfully advance and reinvent ourselves time after time again.

Secondly, we have highly complementary strengths, both regionally and in terms of relevant future technologies. Talking about regional strengths, I'm stating the obvious. While both partners have a global footprint, Volkswagen is a market leader in Europe and in China and Ford is one of the major players in the United States.

When it comes to future technology, we can build on comparable strong foundations. For example, no other OEM has a more robust approach to the e-mobility than Volkswagen. As outlined in our Roadmap E, we aim to become the global number one in electromobility by 2025 and we are prepared to share that advantage. Our electric vehicles will be affordable for millions not just for millionaires because we have the scale, the engineering resources, and the production expertise to make this happen.

In order to achieve our goal, we already started to build the largest European production network for electric vehicles in Germany. Simultaneously, we are investing heavily in e-production capabilities in China. And as mentioned at the beginning, we announced yesterday we will also introduce our MEB platform to our production site in Chattanooga starting in 2022.

As I said earlier, we are committed to explore how to potentially leverage the strengths in our alliance. How, where, and when this might happen, this is what we are currently negotiating with our colleagues from Ford. We're also exploring collaboration opportunities with benefits for both partners in autonomous driving. The other major innovation field in our industry.

From a Volkswagen perspective, it would make a lot of sense to cooperate with an American player given that the regulatory conditions for preparing the breakthrough of autonomous driving are more advanced in the U.S. than they are in Europe. With the announced cooperation in commercial vans and medium-sized pickups and the potential collaboration in electric and autonomous driving, our alliance would be perfectly positioned to become the driving force in this respect.

Ladies and gentlemen, let me summarize from a Volkswagen perspective why I believe today's announcement is so important. Our envisaged light commercial vehicle alliance creates the strongest player in this segment and it fits into our overall strategy to join forces with strong partners for specific topics.

It will improve our competitiveness globally. I believe that the same is true for Ford. We both will be able to shape the future of mobility when joining forces in an intelligent way in light commercial vehicles and maybe beyond. This is why Jim and I and our teams are fully committed to make this alliance a success.

Thank you for your attention.

Mark Truby

Vice President-Communications, Ford Motor Co.

Okay. Angela, do you want to go to questions please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Mike Martinez with Automotive News.

Michael Martinez

Reporter, Automotive News

Q

Good morning, gentlemen. Thank you for taking the questions. I was curious if you had any details on what plants or manufacturing facilities you plan to share? And then also if you plan to relocate any workers either in Europe or in the U.S.?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thank you, Michael. No. That's not detail that's in the news today. Part of the – I would just hint with you, part of the leverage here is to try and use the existing facilities right. So that's the attitude, but there's nothing to announce there.

Mark Truby

Vice President-Communications, Ford Motor Co.

A

Okay. Next question please.

Operator: And your next question is from Christopher Rauwald (sic) [Christoph Rauwald] (19:35) with Bloomberg.

Christoph Rauwald

Reporter, Bloomberg LP

Q

Yeah. Hello from Frankfurt, Germany. Just wondering, are the talks between Ford and Volkswagen also including a possible cooperation in China? And secondly, would you potentially be considering entering equity ties between the two companies at some point in the future or do you rule that out? Thank you.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Equity ties – Herbert Diess speaking. Equity ties, we are ruling out. Potential collaboration in China on the field of electric drive cranes are one of the topics.

Christoph Rauwald

Reporter, Bloomberg LP

Q

Thank you.

Operator: And your next question is from William Boston with Wall Street Journal.

William Boston

Senior Reporter, The Wall Street Journal

Q

Good morning from Berlin. And thank you for taking my question. Could you – well, there are a couple of things that are out there in the press. If you could maybe comment on those that you will be -that VW will be building mini vans at Ford's – Ford Otosan Plant in Turkey. That Audi is going to become part of the Argo autonomous driving unit or at least will be using that technology. Is that part of what you're talking about?

And then just more broadly, could you give us some sense of the strategy – VW strategy with medium sized pickups in the United States. When these products become available, I think you said 2023 for the pickup trucks. Is this the next generation Amarok that we're going to see? What kind of truck is VW thinking about for the U.S.? And will it become a global product or is the truck really focusing on the U.S.? Thanks very much.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Let me answer, Herbert Diess speaking. The turkey plant of Ford is an option for our mid-sized vans. We are in discussions also in preparing agreements with our labor representatives in Hanover. So this is the way forward we are thinking.

Argo combining our resources in autonomous driving would mean that we combine all the resources Volkswagen currently has, which is resource – a research group in Wolfsburg and also would include our Munich operations for autonomous driving. So we would bring that to the party, let me say so, but that's still under discussion.

When we talk about pickups, yes, that would be the successor of the Amarok. We would share a platform or join the Ford platform in this case. This would be a medium-sized pickup truck which would be marketed worldwide, specifically in Latin America, Europe, South Africa and potentially in the United States.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And for the Ford side, it's Jim, probably for the Ford side, to be very specific, we're not getting into details about manufacturing locations but obviously the van, city van and one-ton Transit, iconic vehicles especially Transit would be for Europe only. And for medium-sized truck at this point, as Herbert said, it's specific to South America, Africa and Europe at this point.

Operator: And your next question is from David McHugh with AP.

David McHugh

Reporter, AP News

Q

Hello. I would like to ask how will the jointly developed vehicles be badged? Would we see Ford – would they be Ford trucks in Europe and Volkswagens in America or how would the badging work?

James D. Farley

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

A

So, great question. Thank you very much. Obviously, the go-to market strategy and the brand at any – both products would be unique to each brand. So, you can expect whether it's a city van or the Transit, similar vehicles from both companies, as well as the medium pickups they will have their own unique brand identity and we'll have our own unique go-to market strategy through our own networks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

There's even an effort to ensure that the vehicles have driving dynamic differences what I would call human interface and interactive experiences that will be different. So, they will be discernibly different products.

David McHugh

Reporter, AP News

Q

And geographically? Geographically?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

You're asking how they will be badged geographically?

David McHugh

Reporter, AP News

Q

Yeah.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Both brands will go to market in their respective markets with their own product which will be differentiated according to the brand's necessities. We had made sure in our analysis and preparing that the platforms chosen are working for both brands and are the best platforms which are available in the market.

James D. Farley

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

A

And the product cadence – complementary product cadence is quite important in these specific projects.

Operator: And your next question is from Gary Gestalu with Fox News.

Gary Gestalu

Automotive Editor, Fox News

Q

Hi, gentlemen. You've got nearly \$100 billion combined earmarked for electric car development that's probably the most of any of these projects. To realize savings on that it seems the sooner the better. Is there an urgency to get that part of this deal done and do you have a horizon on that?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Well, I would just confirm that it's an attractive area. Both the EV and the AV are big bills for our cost for investment, for innovation. And both are really important to both companies future. So that is part of the incentive to find ways to cooperate. So I just would confirm you're right about that.

Operator: Your next question is from Keith Naughton with Bloomberg.

Keith Naughton

Reporter, Bloomberg LP

Q

Hi. Good morning. Following on that last question I think the market have been expecting perhaps you might have a collaboration to announce on AVs and EVs. If you could take each one and say, what it will take to reach agreement on those and why you haven't yet?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Well, Keith, I would not make the assumption we haven't reached any kinds of agreements. I just think what we want to represent today that we're in the middle of discussions. Just to give you a hint and insight, if you think of the parts that are solid today, these are categories the gentlemen on my right and left have a ton of experience in knowing – just as Jim said, cycle of development, how things come to market, et cetera.

The two that you and the previous gentlemen are asking about are brand new to the world categories, nothing really happened at scale in those two areas. So I think what you want to understand about that is there's a lot of work ahead of us that both Herbert and I are optimistic about doing together. In fact, I want the world to know, I have a lot of respect for him in a unique way in that he's had a lot of experience bringing new technologies to market. This is part of the reason I'm at Ford so the partnership there I think has a lot of potential to do good. I don't know Herbert if you want to add to that?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

No. Just once again to stress that what we today decide is really, really relevant I think for both companies, for Volkswagen it's really a must. We didn't have a clear plan forward on the light commercial vehicles. We are strong worldwide in many segments but this was a problem to solve. And I think we found a solution which is very relevant for both companies with high savings and make really both companies future proof in that segment and discussing those, this was basically the starting point of our discussion. Discussing those we found that there might be more synergies and trust as we are very – we are in very tight dialog and discussions and we see a chance to make more together.

Mark Truby

Vice President-Communications, Ford Motor Co.

A

Okay. Angela, could we take one more question from the media and then we'll switch over to the investment community.

Operator: Your final question from the media comes from [ph] Heming Grove with Crane Communication (29:00).

Q

From Hamburg, hello. Dr. Diess, will the powertrain of the city van be 100% electrified? And may we imagine this specific car like the VW concept I.D.BUZZ? Well, if so, are there plans yet to open VW's Chattanooga, Tennessee-based U.S. production plant to build Ford models? Question two come to Dr. Sedran, the CEO talked about complementary strength between VW and Ford also regionally. Well, within Europe, Ford site in Kocaeli, Turkey is considered to be very strong. For example in The Harbour Report, will you bring the successor of the T6, let's call it the T7, so the next bully, to where Ford builds its Transit. Are there any plans to move the Caddy

from Poznań in Poland to Turkey? And what about, final question, the Amarok that is also built in Pacheco, Argentina. What plans do you have for this site? Thank you, gentlemen.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Yeah. To your first question [ph] Heming (30:11), it's just too early to explore those areas but maybe in a few years' time they might raise that question. For the moment we are really focusing on Europe and Latin America and South Africa when it comes to the production sites, but there might be other options. Then the second question was for you, Thomas.

Thomas Sedran

Chief Executive Officer-Volkswagen Commercial Vehicles, Volkswagen AG

A

I think on the city van, I would like to add, we believe also in the next generation there will be combustion engines needed to serve our customers. So this may be not only a 100% electric platform but it would of course be shared between Ford and Volkswagen.

With regards to the production sites for our commercial vehicles, it is the joint intent of Ford and Volkswagen to be utmost competitive, which means the more we have in low cost countries, the better. And of course Poland and Turkey are very competitive locations. We haven't yet get to the point to make clear decisions or ultimate decisions on which vehicle to produce where.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

And then there was Pacheco [indiscernible] (31:27).

Operator: Your next question is from the line of Rod Lache with Wolfe Research.

Rod Lache

Analyst, Wolfe Research LLC

Q

Thank you. Actually, I had two questions. First, I understand that product development collaboration is a very long lead time endeavor. And I'd like to just better understand the timeline, and what's the financial framework that Ford and Volkswagen have worked out between one another in the interim? So, for example, is there any financial accretion from any of these efforts in commercial vehicles or potentially EV and the AV that could emerge prior to 2023 through maybe lower product development spend or some Volkswagen investment in Argo?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thank you. And to the listeners, this is Rod Lache. Rod, it's good to hear from you. We are forecasting the benefits at end of our five-year period, so it is the 2023-2024 timeframe mostly that the synergies start to accrue.

Rod Lache

Analyst, Wolfe Research LLC

Q

Okay. And just more broadly, I would imagine that – certainly, you've talked about the very large bills that the industry is facing, that Ford is facing for a variety of new technologies. From an investor's perspective looking at Ford, should we view these kinds of efforts as mitigation of cost increases versus your five-year plan, or are you thinking that this actually results in net cost reduction?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Listen, the frame that I've been giving inside the company about this is that when you think of the cost of restructuring that we've undertaken, you know that we've spent a year putting together the strategy, we've announced restructuring in Europe and we have other markets that are following, and then you know about the bill for the future. When you add those together, I believe the company's liquidity is very high, the balance sheet's really strong, and I'm committed to keeping it that way, committed to the dividend.

So this strategy is one that helps hedge or de-risk the prospect that – imagine, we're in the middle of the restructuring, we're in the middle of the investment in the new and if there's any kind of downturn in the future, we're not forecasting that. It's my attitude that this really keeps Ford very healthy in that regard.

I think in addition, both VW and Ford expect uptake in EVs and AVs in these future plans and that's not determined yet. We still have to prove to the world that they'll shift to these vehicles. So I've just added that all together in my head and said I think it's wiser to think about an alliance as we're describing today. And there's definitely improvement in the plan after VW being coupled than it was before.

Rod Lache

Analyst, Wolfe Research LLC

Q

Okay. Great. Thank you.

Operator: And your next question is from the line of Arndt Ellinghorst with Evercore.

Arndt Ellinghorst

Analyst, Evercore ISI

Q

Yes. Thank you and good morning, everyone. Two questions from my side please. Firstly, on electric vehicle cooperation, Volkswagen is launching the biggest and the most global electric vehicle platform with MEB. And so will this cooperation effectively be Volkswagen licensing out the MEB platform to Ford or should we think about it in a different way?

And then secondly, you're not really talking about powertrain or internal combustion engine collaboration. I think we all agree that the ICE is increasingly becoming a commodity in the car. So wouldn't that be – and it's a substantial cost really. So, wouldn't that be an obvious area for Ford and Volkswagen to collaborate also? Thank you.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Arndt, Herbert Diess speaking. MEB, yes we are in, I would say, in constructive open dialogue and it would mean that we just would leverage the scale and development costs between the two companies, probably not worldwide because the platform is especially viable for Europe and maybe for China. But that is exactly what we're talking about but it's still not decided what we're going to do, but we are very open to share and generate even more scale to reduce the risk in electrification strategy.

Powertrain sharing, yes, basically the powertrains come along – this is a chosen platform, so we have chosen for the different segments either Ford and Volkswagen platforms. And the powertrains will follow that platform

strategy because integrating a powertrain into existing platform is always big effort. So, it will reduce also powertrain complexity on both sides.

Arndt Ellinghorst

Analyst, Evercore ISI

Q

Thank you, Herbert. And would you also consider sharing powertrains for passenger cars?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

It's currently not under discussion, but I wouldn't exclude anything which is meaningful for both companies.

Arndt Ellinghorst

Analyst, Evercore ISI

Q

Okay. Thank you.

Operator: And your next question is from John Murphy with Bank of America Merrill Lynch.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Good morning, guys. I just want to ask a sort of a follow-up question and maybe a clarification. When we're talking about the medium duty pickup, it sounds like that you might be rolling out for Volkswagen not just globally, but also in the North American market or for entry into the North American market. I'm just trying to understand if that is the case.

And if we think about Ford, I mean obviously the core strength of the company is trucks. It's really the heart of the company. So, it seems like it's almost kind of inviting a new competitor in with your great technology into your sort of the heart of your business. So, just really trying to understand this, because I think a lot of investors are looking at this deal in that specific metric here as more of a risk for Ford than an opportunity.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And, John, I'll turn it over to Jim. That's on both sides as well. VW has dominance in a number of categories as well. And so, I think we've thought about that, but, Jim, you might explain the way...

James D. Farley

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

A

Sure. Thanks, John. We want to be very specific about today's announcement. This is a medium pickup for – that will be the Ranger and Amarok for South America, Africa and Europe only. Now, North America would be a TBD as Herbert and Jim said that would be work to be done. But the announcement today is South America, Africa and EU specific, the medium truck at this point.

As you know, F-150, we sold 910,000 units in North America and 1 million globally. That means we have only 90,000 units outside the U.S. So, F-150 is a U.S. phenomenon. As far as the operating advantages, to be very specific, on the Ford side, we're estimating about a \$500 million of ongoing annual pre-tax operating benefits.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

So, Jim, that \$500 million was pre-tax benefit from the medium duty pickup alone?

James D. Farley

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

A

No. From the Ford side, it would include the benefit of our alliance and cooperation of our van business in Europe, both.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Got it. Okay. And then, the second question, I mean a lot of what you're talking about seems like very theoretically it makes a tremendous amount of sense leveraging your economies of scale. Sort of the scope is fairly wide open in your early discussions here. Just curious why you felt the need to come out and kind of following up on Rod's question, I know you don't have exact financials, savings and benefits here to really share with us, but I mean what was sort of the rush to come to market now? It doesn't seem like we're getting any huge surprises from the financial standpoint and specifics here. I'm just curious why you felt like you have to come out now and talk about this?

James D. Farley

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

A

Thanks again, John. I might as well just follow-up on that. Obviously, these are very specific projects and they're very ambitious. But the timing of our platform change for both the medium trucks and the vans in Europe are really important to have that synchronized between both companies. So, that's the answer to why now.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Yeah. In a straightforward way, John, and what I said to Rod is think about in the five-year planning that we're doing, I know Volkswagen is doing its planning, you start the work on these platforms now, right, for the future to be able to cooperate and the teams working together, this news needed to be public for our shareholders on both sides.

So, it's not a rush at all. It's actually very thoughtful and synchronized in a way that gives us control of what I want you to see is the arrival in our case of the restructuring, on top of the build for the future, I think this is a really important step we needed to take.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

To add, the Volkswagen perspective, the alliance means for the European and worldwide manufacturer and footprint quite significant changes, mostly in Europe, not only, but it triggers some product allocations in our German and European manufacturing network. And that had to be decided on the Supervisory Board level in Germany, which happened only last week. So, it made sense to combine those two decision-making points.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

And maybe just one follow-up. I mean if we think about that Ranger or the medium duty pickup in North America, could that be the kind of thing where you sort of negotiate between that and sort of use of the MQB strategy for Europe for Ford's cars and CVs globally. I mean would that be sort of a trade-off we can think of in the future or is that getting too specific right now?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

It's too specific, but we should invite you to the meeting where we think about it.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

But I'd love to be there. Thank you so much for the invitation.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Very creative.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Thank you.

Operator: Your next question is from Tim Rokossa with Deutsche Bank.

Tim Rokossa

Analyst, Deutsche Bank AG

Q

Yes. Thank you very much for hosting this call. I think it's great that you're cooperating – cooperation among OEMs and surely what we should see more in this space. Also the idea on SUVs and pickup is great. But it sounds like you have so many good ideas on EVs and AVs for quite a while now and yet you couldn't present as many more details today. How should we think about what is holding you back on that side? Is it details really? Is it pricing questions, the different ideas on technology and what is the risk that we may end up with the cooperation really being limited to LCVs and pickups like we learned this morning?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

I don't want you to – I don't want the audience to believe we're held back. I mean just stare out in the market today at our Auto Show today and tell me about the AV products you see on the floor or the extensive EV products. This is an emerging market and both are significant investments for both companies. The design and development, the engineering is very complicated. The quality inside Ford and inside VW to deal with problems like this is kind of unquestioned. So, I'm very optimistic about it.

Now, with that said, Herbert and I and I want to invite him to add to this, the partners, alliances, suppliers, all those kinds of things that will be in that new world are all still shaping. And you can just look at our industry right now and see the kind of investment that it's invited and where it's come from. And it shouldn't be surprising to you that that's all going on right now. So, there is more order to it than it's coming through today, but I actually I think that will be clear as these products come to market.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

I might add that I'm really proud of what the teams have been achieving so far, because it's hugely complex [ph] to share (00:44:52) platforms to make sure that you meet customer requirements, that you get enough design differentiation and property in the characteristics of the vehicle. This is really a tough job. You have to do design studies and also from the manufacturing footprint, this is quite crucial which parts to be shared, which plants to use.

Then, you have to discuss it at least in the Volkswagen case with the union's representatives and it has a major influence on our manufacturing footprint in Europe. Now, this is complex. I think it was worthwhile or it is worthwhile, because it's really meaningful for both companies. It will improve our market position significantly.

But understand that this was really hard work for both teams. At the same time, we started on the probably more future-oriented things. Right from the beginning, we thought about a strategic worldwide alliance. So, the teams are great, but it's a question of priorities. And we are proud to announce that the first step is really now signed and working.

Tim Rokossa

Analyst, Deutsche Bank AG

Q

Okay. And then, maybe just a quick follow-up. How should we think about the timeline of announcements from you? Will this be like weeks, months or years before we hear more about this? And, Herbert, are you happy to put also a number to the VW profit expectations similar to Ford?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Yeah, probably starting with your second point, I think the phrase we heard is it mitigation against cost increases or is it against our planning? It's a mix. So, we have, on both sides, I would say similar savings in this three-digit numbers year-over-year that seems to be. That was really the big motivation for us. It's significant, but in the Volkswagen case, it's both. It's mitigation against potential cost increase because of the new drivetrains we need of the electrification in this segment and also CO2 penalties, which we are facing. And a part of it would probably also [ph] occur (47:06) against our planning. I hope, Thomas. No?

Thomas Sedran

Chief Executive Officer-Volkswagen Commercial Vehicles, Volkswagen AG

A

Yeah. Yeah.

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

That's my job [indiscernible] (47:12).

Thomas Sedran

Chief Executive Officer-Volkswagen Commercial Vehicles, Volkswagen AG

A

You're doing it well. And I would add that regarding the announcements, I want to set a tone that the innovation that's going to be coming here is pretty high. So, in a way, I'm hopeful that there's not as much talked about regarding the invention here as we can together surprise the market and win competitively. So, I'm not suggesting

that's years or anything like that, but look for us to be making announcements as we invent and as we have breakthrough ideas, because that's what the world cares about.

Tim Rokossa

Analyst, Deutsche Bank AG

Q

Thank you very much.

Operator: Your next question is from the line of David Tamberrino with Goldman Sachs.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you and good morning, gentlemen. Jim Hackett, I have a question for you. As you think about your ongoing European restructuring and some of the announcements you've made there, how could our potential incremental announcements for the alliance with VW help some of the issues?

And if I can take it a step further, as I think about the UK market specifically, both the manufacturers don't really have a significant amount of capacity within that region. So, I'm wondering how or if it's in discussions, your alliance could progress and help solve some of the issues you've been facing there?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Well, at the highest level, David, the synchronicity of our strategy when I started in the role and addressing the designing problems, I call it market design problems, we went down a path of thinking about Ford's evolution before this alliance. And so, everything that you're reading in the press and seen is kind of conceived that way. But it would be shallow of me to say that this isn't teaching us things. And you've heard – for example, there's a prospective opportunity on the MEB platform and I'll let Jim add to that, but what we've told you the last few weeks about Ford is very clear and consistent with what we plan right now.

James D. Farley

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

A

Yeah. We're committed to EU, but consistent with what we've already said, we have healthy parts of our business in Europe, like commercial vehicles, and we're investing even more. And we're really excited about the opportunity we announced today. But there are parts that are underperforming and we are going to deal with that. The building blocks immediately to address our profitability get us back on the track to 6% in Europe is to maximize our opportunity in the light commercial vehicles.

We have improvements with Transit coming in the near term and we're setting a dedicated LCV group up with a dedicated General Manager in Europe. We're also going to immediately address our mix issues on utilities. And so, that's really critical, because utility opportunity in Europe is what customers want and there's profitability to be had. We're refreshing and adding new nameplates.

We're also going to be dealing very directly with restructuring our business, strategic review of Russia. We'll look at unprofitable vehicles. We're talking to our union partners on our MAV lineup right now and we're going to take whatever it takes to get our business back to profitability and growing that business again in Europe and that includes cost. We're looking at every possible area of cost. And the benefits of this in Europe really accrue to the first full year in 2024 and beyond. So, our turnaround in Europe, our [ph] property (51:06) improvement really depends on the actions I just highlighted.

Mark Truby

Vice President-Communications, Ford Motor Co.

A

Angela, let's take one more question from the financial community and then any closing remarks from Mr. Hackett and Dr. Diess.

Operator: And your final question comes from Joe Spak with RBC Capital Markets.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

Thanks for taking the questions. Just to go back to the question on the LCVs and whether the next generation needs to be electrified, I mean is what you're developing flexible enough such that if you do decide to further collaborate on electric vehicles, that can be incorporated into this construct?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

A

Potentially, yes. Currently, we are focusing on commercial drivetrains and also hybrid drivetrains in the partnership, but potentially, we will include also electric drivetrains.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

In Ford's case, we're actually launching in the current generation [ph] Transit a PF (52:11). So, we recognize the importance, in light commercial, transition to e-mobility in the next platform requirements.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

And then, Jim, just to go back to your comments on future announcements. Understand you want to sort of come out when there's something sort of revolutionary to say. Should we expect those to be fully baked ideas or is it sort of just further areas of collaboration that you formally agreed to work forward?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Well, Joe, I think that is the nuance, right. And now, that we've announced the alliance, and I won't mention another brand name and a tech company, but just think of them, they're not telling us every day how they're evolving their technology in these products. In fact, that's the game, right. It's game on to try and win by having the best.

And so, what I'm just saying get ready for a world, because these technology areas are so competitive where we have to actually be a little more quiet about what we're working on, so that we get some advantage. And the purpose in announcing the MoU is to give us the cover to be able to do this work behind the scenes. But I want to emphasize that we're not talking about waiting years or things like that. We know that we have shareholders and we have employees, we have union, we have partners. We want to make sure everyone knows what's going on, but I'm just talking about thinking about the competitive advantage of inventing here. Think about tech companies, they're not necessarily sharing things before their time.

Joseph Spak

Analyst, RBC Capital Markets LLC

Thank you.

Q

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

Okay. Thanks.

A

Operator: That concludes the question-and-answer session. I would like to turn the call back over to Jim Hackett for closing remarks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

Yes. Well, thank you, everyone for joining us. You can see that from the call and the discussion today, this has been quite an extensive effort to build an alliance. And as Herbert said in his comments, he and I've spent a lot of time together. I was able to give him a basketball signed by Mo Wagner, who was the University in Michigan star a year ago, now with the Los Angeles Lakers who grew up in Germany. And that was the basis for proving that there's much more in this new age and new world where things are moving very, very much at the speed of light and the conversations happen on both of these continents very quickly.

And then, in a way I want you to see the optimism that I have in that, if you look in the past where some of these things are difficult, this is a new world in terms of how things work together and how people can have healthy respect and make stuff happen.

The second thing is I want to just point out that to ensure that we make progress, these are a series of projects and they're being managed that way. And my German alliance colleagues here are very good at doing that, managing projects. And the Ford people are really good as I came in from the outside. So, we fully expect, both Herbert and I, these things to be very successful. So, I just want to confirm that.

Herbert, would you like to add anything?

Herbert Diess

Chairman of Management Board, Chief Executive Officer & Chairman of Volkswagen Brand Board of Management, Volkswagen AG, Volkswagen AG

Yeah. I think for Volkswagen, we are a big company. We have economies of scale. We have big resources, but let's say in the view of what this industry is going to face in transition, partnerships are highly relevant. And I'm very happy and proud that we could make a major step together with Ford now in this specific area. And I'm looking forward for further exploring potential to collaborate and to solve problems together, because I think that will be necessary in the future.

Mark Truby

Vice President-Communications, Ford Motor Co.

Okay, Angela, that concludes our call. Thanks everyone for joining us and please follow up with our respective Communications teams with any questions you may have or Investor Relations. Thank you very much.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

Thank you.

Operator: Thank you for participating in today's Ford conference call. You may now disconnect.

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