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Ford Motor Co. (F)

Deutsche Bank Global Auto Industry Conference

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MANAGEMENT DISCUSSION SECTION

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Good morning, everybody. My name is Emmanuel Rosner. I'm the senior US Auto's Analyst at Deutsche Bank. On behalf of my global automotive analyst colleagues, including Tim Rokossa in Frankfurt, Maxime Mallet in Paris, and their respective teams around the world. They would like to thank you all for joining our Flagship Auto Industry Conference.

With this year's edition, we might not be physically in sunny Detroit nor have the pleasure to check out together all the newest vehicles at the auto show. At the very least, the virtual format is enabling many more of you to participate in the conference, with investor registration up about 75% from previous years. So, thank you for your interest in the autos industry and for your support of Deutsche Bank.

So, we have put together an exciting schedule of presentation and discussions over the next few days and I would like to bring to your attention some of today's highlights. We're very pleased to kick off the conference in a moment with the Ford Motor Company's leadership team. Next, we'll have a keynote session with Volkswagen followed by General Motors.

And after a full afternoon of discussion with global suppliers and auto tech companies over two conference tracks, don't miss the 3:30, our session with Nikola Corporation CEO and CFO. It is Nikola's very first public presentation following its listing on Nasdaq last week and after its market value more than doubled on Monday.

And then to conclude this first day on a high note, we'll chat with the CEO of the US Auto's Trade Group in Washington today at 4:15, and we'll find out what the industry is lobbying for in Washington D.C.

So now, let's begin the program. And who better to kick things off than Ford Motor Company, an American icon and a top and truly global automaker. It's a real pleasure to welcome again to our conference, President and CEO, Jim Hackett, along with COO, Jim Farley, and of course, Head of Investor Relations, Lynn Tyson.

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The format of this session will be an update by Jim Hackett and Jim Farley on where Ford stands in its effort to redesign the company, using slides that should be available in your webcast window. Then, we will move to a fireside chat around some of my prepared questions, as well as questions from all of you on the call. To submit a question, please type it in the box on the left-side of the webcast window. I highly encourage you to do so and get involved in the discussion. Only I will see your questions and I will ask them on this call without mentioning your name or affiliation.

And now, without further ado, let me turn it over to Ford President and CEO, Jim Hackett. Jim, thanks for being with us.

James P. Hackett

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

Emmanuel, thank you for hosting us and to do this virtually is a real treat. If you saw me on the back of my desk, is a wooden model, T Model that I'd get to look at every day. I love this company. And I want to walk through my assessment of Ford Motor Company, because it is one of the handful of revered, long-lived American and global companies. And in times of challenges like COVID-19, the Ford brand recognition rose in esteem by the public and all over the world.

The challenge with long-lived companies is that their formula for longevity is both a mix of the ability to leverage its important heritage, predictability, reliability – that's what time gives it – versus its resilience in being able to alter the design of the business, to compete effectively in the future.

Now, while the belief in the Ford brand is near its highest in recent history, we can point to segments of the business that needed fundamental reassessments of their future, given the loss rate of that business or value destruction. Further, we have the technical know-how to see segments and markets influx, where there is a new play and how an enterprise like Ford Motor Company adopts the use of data and artificial intelligence in the promise of that future.

The alchemy, well, it's to realize the promise of the ability to now link the vehicle's intelligence to the Edge or Internet of Things for customers. There's a system's impact because of this and by making this linkage, we think this is behind the newer brands emerging in the automotive industry, brands that you're tracking, the linkage between their intelligence of the vehicle and the Internet of Things. And the path for them might be simpler, given that they don't have the architectural scale to transform. But, you can look at us and say the nature of network value creation, like subscription businesses, will reward players like Ford because of its sheer scale and its ability to quickly optimize investments.

The fair question is how long should investors wait for realization of this promise. Well, my answer is to frame this in three parts. And in understanding what separates those three parts, realize in the background that the gestation period for a substantial modernization of a portfolio, product portfolio, really can't happen earlier than 36 months. And, in fact, it can't happen all at once given the various architectures we're dealing with.

If you go to slide 2 for me, this is the first part of Ford's value creation. Our leadership team began with an understanding that we needed to fundamentally address what we call the fitness of the business. In the last 36 months, we took on a number of difficult questions, frankly that had persisted for a number of years. First, we addressed the unacceptable returns of the sedan silhouette. And based on our 2017 results, 150% of our EBIT came from just 60% of our revenue. This is driven by high-value products such as, trucks, utilities and commercial vehicles. In aggregate, these products had margins well above our corporate average and the returns were a

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multiple of our cost to capital. We now allocate 80% of our vehicle spend to trucks, utilities and commercial vehicles versus just 63% previously.

Secondly, we initiated an extensive reset and redesign of our European business. And let's be clear. Ford desires to stay in Europe. And this plan is to enhance that viability after all. We are the number one commercial vehicle brand in this market. Addressing these issues there, though takes careful planning and sound execution. We are ahead of our goals set just 15 months ago, and we're able to execute the redesign at a lower cost and cash outlay than originally planned.

We refocused the business on our strengths, including commercial vehicles. We rationalized our cost structure, including the planned elimination of 12,000 positions, and we drove a reduction in structural cost of almost $0.5 billion in 2019. And, yes, there's more to come this year. We redesigned our salaried workforce. We reduced management positions by more than 10%, and we chopped out layers and bureaucracy, which our teams were persistently calling as the limiter of Ford's potential.

The second part of this question I posed of how to create this value, surrounds a substantial rethinking of the product portfolio. For example, flexible architectures. We built a new platform logic for our vehicle programs versus our plans 36 months ago. Now, this discipline drives material cost reductions, as well as engineering and marketing efficiencies across the board. We're also investing $8 billion through 2024 to connect all of our new vehicles. This investment spin of course precedes the positive ROI generated once we realized the benefits of connectivity and scale. The discipline is to improve network growth and DevOps the way that you do these OTAs responsiveness in our future.

Finally, we stood up from scratch and give Jim Farley a lot of credit for this, the Enterprise Product Line Management. This EPLM organization drives a much deeper understanding of customer needs. For example, our all new Bronco is the epitome of what we're calling human center design. We've not revealed the vehicle yet, so I can't show you an image, but I can describe it.

Imagine trying to watch a baseball game or concert with your view obstructed by a pole from where you sit. Well, that's what it's like when you're seated in a competitor's vehicle. In contrast, the root design of our new Bronco features uninterrupted panoramic views, they create feelings of fun and freedom for all passengers. We call it open-air.

Our third leg of this business action is the power of alliances that scale advantages to more costly investments in important platforms, as well as new technologies like autonomy, and Jim Farley will touch on the topic of autonomy in more detail.

Please turn to slide 3. Now, before it over to Jim, I want to share my reasons for optimism about Ford, especially as we look through this virus and towards 2021. The Ford Lincoln brand scores around the world are more than respectable, even before our efforts fully impact them. For example, the reveal of the Mustang Mach-E last November drove 2 billion impressions, a record for us. This is in the top three among global product launches among all OEMs in the last three years. And we believe we can generate similar interest in the re-launch of the Bronco family of vehicles, because Bronco continues to be one of the most Googled products by a legion of devoted admirers.

Our flagship vehicle, the F-Series, continues its preeminence in a 43-year run as the best-selling pickup in America. And we're preparing to produce a brand new F-150 that will set a new standard when it goes on sale later this year. And these three products, the Mach-E, the F-150, and the Bronco, are integral to driving down the

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average age of our showroom in the US from 5.3 years in 2017 to a more competitive level of 3.2 years. In fact, recent analysis reaffirms that the OEMs with the highest replacement rate and younger showroom age, have generally gained market share profitably.

I can't overstate to this audience the drag that an older product portfolio has on the vitality of a company like Ford. I would also note that we have some legacy products, candidly that have contributed to an increase in our warranty expense. This unexpected warranty hit that we've taken over the last few years, which have increased our cost by $1.5 billion, has hurried our resolve to leverage the connectivity of the platforms to enable us to do much better.

Now, we have big ambitions for connectivity from internal warranty costs that I just mentioned to new services for our customers. And we can only imagine what an enabled autonomous and connected vehicle could have done for the world during this extensive shelter-in-place edict period that we all went through. We can witness there will likely be, frankly, a softening of previous concerns because of COVID-19 that I think enabled where we're going with this portfolio. Like, first, those who were worried that our business would be upended by ride-sharing users, which would mean that they might avoid owning their own vehicles, they're going to have to pay attention to how shared business models could be impacted by the public's anxiety and viewing a personal vehicle now is their ultimate trusted PPE.

Two, more people are seeing how powerful data sharing can be as the virus exposure tracing is becoming a higher priority for the good of society. And this is going to be important as we connect millions more vehicles with a clear commitment to transparently communicating the benefits people will get from sharing data in a credible way from a long trusted brand like Ford. Our commitment is using an incredible trove of data to continuously improve our business performance. Well, that now sits at the intersection of connectivity and the arrival of these new products. And while we protect privacy, we estimate that in just a few short years, we'll have approximately 100 million years of data across all Ford and Lincoln connected vehicles.

Ford's quick response to produce ventilators for patients and PPE needs for frontline health care workers followed a historical script of being there when our country called. Third-party surveys showed that Ford is ranked in the top three companies, of all companies, that the general public believes responded in a meaningful way to the COVID-19 pandemic. As I've shared with you before, we aspire to be the world's most trusted brand and we will continue to behave that way.

My final reason for optimism is the current Ford Motor Company employee sentiment and our management team responsiveness during this virus. Our internal measures and employee satisfaction are quite extraordinary. 94% surveyed say that they feel they've been able to fulfill their roles and responsibilities working from home. Morale is high right now.

Well, now, it's my pleasure to confirm that my recent decision to elevate Jim Farley to Chief Operating Officer couldn't have come at a better time. Jim's initial focus on Fix, Accelerate, and Grow, fits nicely with the comments I've just relayed to you. Yes, Ford, It has a very bright future. And after Jim speaks, we'll return for Q&A. So, thank you.

Jim, I'll turn it over to you.

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

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Thank you, Jim, and good day, everyone. Thank you having – thank you, Emmanuel, for having us here today. As you can see on slide 4, we have identified as a team, areas we need to fix, priorities that we need to accelerate, and important opportunities to grow for Ford. And we're moving with urgency on these initiatives with a focused and data-driven process. We're accelerating and growing where we are already very strong and definitely rolling up our sleeves to make sure we fix what has held us back. I'd love to give you some examples, three specifics.

On the next slide, I'd like to talk about launch and Jim mentioned this. We have an amazing opportunity as we head into the launch of high-impact products shown on the slide, and clearly, we are holding ourselves accountable for world-class execution. The Chicago launch last year was a stark reminder to stay laser-focused on key drivers that have led to successful launches we've had time and time again throughout the company's history and some recent examples of launches that worked really well; the Ranger, the Escape, and the very important Super Duty last year.

And the lessons as we reflected on where we could do better, we have to avoid concurrent Ford and Lincoln launches in the same plant and we need to use our shutdown periods to resolve engineering and as well improve our supply readiness. And as well, we have to leverage connectivity, as Jim said, on a pre-production prototype fleet to identify problems and validate solutions.

Now, we're in really good shape for the important upcoming launches, especially in North America, including, as Jim said, the all new F-150, the Bronco, the Mustang Mach-E. F-150 is going to launch in two plants, which gives us an opportunity to run out our current F-150, while we ramp-up the new one. Our new Bronco lineup and the Mach-E are on new lines, brand new incremental products, and our 100% incremental customers for our product portfolio.

Now, the Bronco lineup has big upside potential in the growing off-road category. Jeep dominates and accounts for a significant portion of FCA's revenue and global profit. This is our opportunity. Ford has proven credibility in off-road space with Raptor now on both F-150 and Ranger and people love it. And, in particular, we're already the number one cross-shop brand with Jeep. And Bronco is an iconic and beloved franchise, and we will soon introduce, what we believe, is a much superior product.

Let's talk about Accelerate on the next slide. Our strong commercial vehicle lineup provides a strong foundation to accelerate and expand our business. We're improving the business value to our commercial customers. We're providing new connected services and accessories that leverage the strength and scale of our great products. We're adding EV versions of our commercial vehicles to meet the growing demand of our customers and communities who are seeking zero-emission vehicles in commercials.

And in fact, I'm really excited to share with you, within the next 24 months, we will have fully electric versions of the world's bestselling truck, the F-150, and the bestselling cargo van, the Transit. With our knowledge and know-how of these customers and expertise, I like our chances against all-comers as we go electric. These vehicles will be Built Ford Tough. Connected services are lowering the cost of ownership, while improving asset management which are critically important to our fleet customers.

We now have Ford Telematics. Growing our Telematics capability, support for multi-make vehicles and supporting diesel and EV vehicles and launching our Companion Driver app. We also now have fleet management, fuel monitoring fraud detection. We now offer glove box services like motor vehicle record checks, titling, and registration, accident notification, and first notice of loss, downtime management, service scheduling, and mobile service arrangements across our brand.

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We have advanced products, data services, command and control for our fleets. We now have FordPass Pro to add fleet security and in-car coaching for efficiency driving for our customers. We mean, when I say that our commercial customers are really impressed by the power of these new tools that help their business on top of our great products.

And the F-150, the bestselling truck in America for 43 straight years, will maintain its leadership in innovation with contractors and businesses. Our new F-150 is the first vehicle with our new electrical architecture that allows us to read, write, and provide over-the-air updates to key modules controlling the vehicle. When you see the truck unveiled on June 25th and I hope you tune in, you will see that it's innovation in number of ways will continue to meet and exceed our customers' demands, especially commercial customers.

The last area I want to touch on is Grow. As Jim said, our budding alliances with Volkswagen and Mahindra are key drivers for growth. We recently finalized terms of our alliance with Volkswagen as you read this morning, which is going to result in greater scale and more efficient tech development. The alliance covers three areas: Important commercial vehicles for Europe, EVs, and autonomy. We expect strong global industry growth in customer demands for commercial vans, we're seeing it right now, as well as medium pickups over the next five years.

Regarding EVs, starting in 2023, we expect to deliver more than 600,000 Ford electric vehicles in Europe atop Volkswagen's MEB architecture. And Ford and VW will cooperate on autonomous vehicles through their investment in Argo AI. Both companies plan to use Argo AI self-driving system to support a distinct and separate self-driving service, both companies are developing.

Now, with Mahindra, the combined strength, Mahindra's expertise in value-focused engineering, and its successful operating model, and Ford's technical expertise, our incredible global reach in dealers and access to future technology are a potent recipe for success. We get access to low-cost engineering and development in India and a tremendous partner to make rightsizing and smart investments in other emerging markets. We are also partnering to enhance software capability of our next generation fully networked vehicle architecture and we'll develop a commercial vehicle digital platform that enhances the productivity and capability of our commercial customers and there's a lot more to come.

Let me quickly highlight a few things from our operations around the world. Let me start by saying, we have restarted production in all regions following the shutdown of COVID. In North America, where COVID poses an incredible unprecedented challenge around the world, it also showcased our strength, as Jim said, in compelling us to develop and accelerate our new capabilities. For example, 72% of our dealers in North America now offer online sales, and about 25% of our sales are online now.

In the US, retail sales in May were up 44% over April. We gained an estimated 1 percentage point of the retail market. F-Series was up 5.3% at retail year-over-year last month and gained an estimate 2.4 points of full-sized pickup truck share in the retail market. Our new Built for America campaign has been very well received and our brand image is improving broadly. We took a series of actions to better serve our customers, streamline our decision making, and increase accountability, and we also appointed Lisa Drake as COO in North America to focus purely on cost and launch, as well as appointing a commercial vehicle leader for North America to accelerate our growth as we talked about.

And on South America, we launched the Ranger Storm virtually in Brazil with great results. Territory launch in the second half of the year in South America is very important strategy for us. It's our first connected vehicle in South America with embedded modem, bringing new standards of technology connectivity to South America. In our

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International Markets Group, we're using the new business model to focus on growth as I mentioned, with Mahindra JV team, gaining momentum in IMG with a lot of new launches from the Focus ST in Australia to the Aviator and Corsair Lincoln models in South Korea.

Now, in China, there was a rapid shift to digital during the crisis. As a result, we saw steady sales increases. At JMC, our partner, retail sales are exceeding our expectations. Our commercial vehicles in China were 48% of Ford China sales in May. Ford's market share grew to 2.2 points in the first quarter and we're on track with plans to localize important new models; the Explorer, the Corsair, and they all have great early reception, and there's a lot more to come for Lincoln soon.

Let's turn to Europe. Significant progress, as Jim mentioned, on redesigning our European business. Ford remains Europe's number one commercial vehicle brand in the first quarter of this year with share up 40 basis points to 15% of the market. We're also launching key utilities, an area we've under-indexed in the past with the new Puma, the Kuga, and the Explorer SUVs. We also have a broad range of electric options for all of our vehicles. In fact, we have 18 electrified vehicles available to customers by the end of the next year, including the all new Mach-E in Europe.

Now, mobility, as Jim said, we're dealing with COVID, and we can't take our eye off the ball of this developing new mobility solutions opportunity. VW has invested in Argo and had officially closed it on June 1st. Argo has resumed AV on-road testing in D.C., Austin, Miami, and Pittsburgh. We now have AV prototype builds going on and we also have SPIN in selected re-entered cities with the best market economics we've seen and user potential.

So, wrapping up before we take questions, I want to say, we're in the midst of a historic and transformational time at Ford and that was before COVID. And at the same time, we are out to lead, not just participate, in what defines mobility in the future; electrification, autonomous driving, and connectivity. But most of all, we're relentlessly looking at how we can become fitter and more focused with the right products, the right rapid response, and perhaps most importantly, investments we can make in the right people with the right skills, the right partners to make us stronger and smarter globally, and better able to respond quickly to whatever the world throws at Ford.
That fitness and nimbleness are going to drive profitability and shareholder value. Now, the Ford brand is trusted globally and people gravitate toward brands they know and trust in stormy uncertain environments and that's exactly what we've seen.

So now, Emmanuel, we're happy to take questions.

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QUESTION AND ANSWER SECTION

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you so much, Jim and Jim, for this overview and update of your strategy. So, we have left a little over half an hour for questions. The list that I'm getting on the panel seems to be already blowing up, so we're going to try to get through as many as possible. So, I guess maybe, if you just get started, can you update us on how your restart of production is going in the US? And then, per your slides that your launches are on track, can you may be frame that with a little bit of timing, when can we expect actual production launch of these various important products?

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

A

Yeah. Emmanuel, let me just key this up. When Jim took his new role in January, these were the two priorities, launches first, given last year's false start, and the inspection and the detail analysis that's been going on is incredible. In the middle of this, the virus arrives as you know and we shift our team, not away from the launches, but we shift the priority to COVID and our return to work. And so, we built a 65-plus page document that detailed at a very acute level, what we want to do for the safety of our employees. I want to emphasize this, because as Jim – as I hand it to Jim and he tells you about what our sustained production rate has been, I think I want to attribute it to this great planning.

So, Jim, I'll let you detail where we are with plants and the launches. Thank you.

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Thanks, Jim. We've largely met our production plants in North America. We're really pleased with our start. In fact, in the first three weeks, we built approximately 96% of our planned volume. Right now, we restarted on 18th, many of our plants have started on two shifts. Since then, we've been adding over time. In some cases, we've added third shifts. Beginning the week of the 8th, we will begin adding back a third shift on many of our plants. And then, by July 6th, we will expect to have all of our US plants operating at pre-COVID patterns. So, really good start-up.

On the launches, just want to highlight, we're really on track. We're very excited about the Bronco and the F-150 and the Mach-E launches. There's a lot of opportunity. I did want to touch on the F-150 launch because of the significance for the company. The setup for the F-150 is really different than Explorer. In Chicago we rebuilt the entire factory, it's not the case in Dearborn Truck, with Kansas City, the two best plants actually in our manufacturing system.

We don't have to change a body shop or stamping plants like we did with the F-150 back in 2014. We do not have a Lincoln variant. We've staggered the launches in Dearborn and Kansas City and that has helped de-risk our changeover and gives us the opportunity to run out the current F-150 which has never been more popular, as I said, so we can ramp-up production of the new model.

We're also staggering the launch for hybrid to reduce the risk, and as Jim said, the teams worked really well on planning all – making all these changes to put our launch of F-150 in great shape. The great news for Bronco and

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the other launches, our new rugged, off-road vehicle, use existing platforms on Ranger and the C2 platform, and they're also launching in fantastic plants. So, we feel good about the launches. We have made a lot of progress, especially on software during the shutdown. We do have some impact on the launch timing because we just can't get – couldn't get in the facilities during the shutdown. But, we see no other delays beyond the manufacturing shutdown period.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Great. That's a very helpful update. So, maybe drilling down a little bit on your North American business. So, obviously, two of the large headwinds we've seen in the recent year was in launch execution with the Explorer last year, and then the warranty, this $1.5 billion that Jim spoke about before. It looks like you are very, very focused on the launch execution. How are you managing the warranty going forward? Can you put maybe some – either timing or number on when this global warranty expense could be more normalized for Ford since it relates to some legacy products?

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

A

Yeah. Thank you, Emmanuel. Jim and I both have referenced that this cost was not in our original budget three years ago, and in diagnosing kind of a root cause, why this would expand, we found that a decision years ago, it was well-intended, the idea of trying to distribute product development around the world to even workloads, leverage the scale, made the distance between the Powertrain Group and other parts that are dependent on that proximity too far.

So, some of this warranty expense had to deal with powertrain problems that in the product redesign that you heard me reference to, new architecture work, Hau Thai-Tang, our really able Head of Product Development, very early addressed the question of where we do powertrain development and how we make it integrated into the process, such that the newer products we're launching are getting higher ratings in J.D. Power.

So we're getting really great scores, but we've got this stream of product that this management team has to address. So we're really optimistic about, now surrounding this, we've got the root cause fixed, and with connectivity and things that I referenced, we believe that we're going to identify the issues much more quickly before they've decayed into a recall mode that I would say, the old auto industry has to embrace. So, optimistic about fixing this. Don't want to change any of the existing kind of forecast about that until I'm certain that we are getting the practice that I'm promoting in this call today. Thanks.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

A

Okay. That's a good framework. So, specifically, on the pickup trucks, the demand has been remarkably resilient through, I guess, this COVID in downturn. It also feels Ford has been giving up a bit of market share this year, also in the past couple of years. Is that something that worries you? What is the plan to address this? Is the refresh of the F-150 the answer in your mind?

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

A

Yeah. Jim Farley, his understanding of this segment has been really helpful to us. And, he observed, for me, more than a year-and-a-half ago that this category would be under

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assault. And so, that informed kind of a new development. So, Jim, I'll let you kind of explain what we talked about here and why you're optimistic.

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.
A

Thanks, Jim. And thanks, Emmanuel for this important question. With our new launches; the F-150, the Bronco, F-150 being Mach-E and Lisa and Kumar's work on material and warranty costs that Jim referenced is really important. We feel great about where we are in F-Series for a couple of reasons. First of all, we're in the final months here of the sell-down of the existing product and the new one is fantastic. It gives us connectivity, real leverage on warranty costs through connectivity that we've never had with F-Series on scale that's unprecedented frankly in our industry with more than 0.5 million units a year.

Our stock position is in really good shape with F-Series with 73 days' supply, we're normally like 90 to 100. And frankly, with the slowdown of fleet, we're able to flip lots of units from fleet into retail. That gives us a really good stock position. We're very fortunate in the first quarter to have such an aggressive manufacturing plan for F-Series in anticipation of our sell-down, so we went into COVID with very strong stock position and that has really benefited us.

As I said, we gained share over the last couple of months on F-Series. Now, in retail, we gain 5.6 percentage points of sales year-over-year, which is really incredible and that's 2.5 points of full-size market share improvements in retail last month and that's a very profitable business for us. Fleet is down 80%, that's a bit dynamic we're seeing for all brands, but we held our share constant in that lower market. And as I said, we're able to flip units from fleet over to retail as we start manufacturing. And on the incentive, market for a full-size truck is very dynamic, very competitive. We saw initially with COVID, incentives go up across the industry. Ford is a little bit less than the industry average.

Customers are paying the exact same amount of money for an F-Series as a year ago, despite the incentive change. And, I don't think the deals are going to get – I think the deals are going to get more difficult for the full-size truck industry as the inventory start to come down. But, we feel great about our selldown. And, as Jim said, we're really excited about the new truck. I would encourage everyone to tune in on June 25th, it's in 15 days, and that's a chance – that's the time when we're going to share with everyone all the details about the new F-Series, and it's really about technology and productivity.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Yeah, very much looking forward. So, maybe honing in on your North American business first about the recent performance. So, when I look at first quarter performance from Ford, and then compare to, say, with General Motors, the difference is really striking for such close competitors. Did you get a chance, maybe, to benchmark the recent results? And if so, where do you see the largest opportunities for Ford going forward? Obviously, we spoke about two of them, but anything else that maybe on the cost side that you feel is needed to get you there?

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

Yeah. I want to confirm we do benchmark. In fact, I just want to sneak this in. When I talk about fitness, we're not only talking about the cost differential, we're talking about process, design, in terms of how many steps somebody have to go through something at Ford versus a competitor. We're talking about clock speed, how quickly. This is

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why I remark that the virus has taught us a new way of working frankly, virtually that we want to keep. So, I'm very optimistic that at that time of navel-gazing level, we're very objective about where we got to be better.

But Jim, when he came in, he said, look, there's a number of things that we got to fix right now, there's a number of things that I want to accelerate, and then, we both have agreed the growth in Ford Motor Company is a big opportunity. So, we created this Fix, Accelerate, Grow mandate. And, I'm going to let Jim tell you kind of the approach he's taken, he's doing this market-by-market, but North America by far has gotten earliest attention, I would say, in parallel with China's restart. So, Jim, you might talk about this cost initiative that we're on and how we're addressing the warranty and some of the other issues that are there.

And before I hand it, Emmanuel, this won't be obvious to our listeners, but there are footprint differences between us and some of our competitors, specifically what – how much products are made here in the United States. We've been doing brand analysis and we started a campaign around America production that is getting rave reviews. And so, it's our belief that the brand attraction of Ford is an advantage that we want to make sure shows up in value creation, so I just sneak that in. So, Jim, I'll let you take the earlier part of that.

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Great. Thanks, Jim, and just to double-click on what Jim said, in the first quarter, obviously, our plants are in Ohio and Missouri and Michigan, all COVID closure, shelter-in-place in the first and second quarters. So, we shut our plants as soon as we thought that our employees were at risk. Other brands, as Jim said, had Mexico production and southern part of US, where they can continue to produce. So, on the double-click on the cost and Lisa Drake, and Kumar, as I said, have done a fantastic work here.

To give you flavor on warranty, obviously, we have lots of opportunities in supplier recovery. On coverages, it's really cost per repairs as Jim mentioned given the older models. We really see – just want to emphasize, we really see the connectivity of F-150 as a huge lever for a warranty cost. This is our highest volume, most important profit lever in the company, and the scale at 0.5 million units – to catch warranty issues quickly and see how customers are actually using feature content, is really a huge leverage for our industry frankly, and our teams are set-up to take advantage of all that connectivity for a much faster quality loop.

On material cost which is the other area the team is spending a lot of time on and making great progress, we're obviously focused on design cost. We see lots of opportunities where we can take our design cost down and customers will be really happy with our product. As Jim said, we've made a lot of progress in engineering efficiency. We've looked very carefully speck-by-speck on customer feature content, pricing, and packaging.

These are all examples of the kind of detailed work our teams are doing on material cost on a vehicle-by-vehicle basis in North America, and we continue to make progress. It's very encouraging, but it's extremely detailed work. And, I'm so thankful for Lisa taking on her role. She's got deep background in engineering and purchasing, in an industrial system, and that's one of the reasons why we continue to make progress. This has always been our plan.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. So maybe shifting gears a little bit from the US business to the global one. So you had this $7 billion restructuring plan for a couple of years now. But, based on announced actions, you're only planning to spend $700 million to $1.3 billion this year, which would only take you to around $2 billion or so on the program

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to-date, which has been in a couple of years back. What part of the restructuring plan still needs to happen beyond what was announced? And are there any impediments to it happening sooner?

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

A

Well, I'm only – Jim help me with the map. I do get it, because the last time I looked at it, we were spinning – before the virus, we actually sped up our investment. And we had more savings than we anticipated. And COVID have really not disrupted this at all. In fact, if anything, as you know, we don't want to waste the crisis, it's helped us further see through the fog of the COVID to make sure that we're on track. So, Jim, I don't know what math Emmanuel is suggesting. I'll let you try and straighten that out for me. Thank you.

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Okay. Well, Emmanuel, nothing has really changed in Europe. Europe and South America are big spends in restructuring and we still have a lot of work to do. As Jim mentioned, we've made a lot of progress on people and structural cost in both regions, 12,000 people including Russia. But we still have a lot of work to do. In Europe, for example, we have Bridgend to work through, a key powertrain plant for us in Wales. And in South America, we still have work to do. So, those resources be put to really good use.

I would say, just in general, for both regions, the reality is the pandemic means everything's on the table. We have nothing to announce today, Emmanuel, but we recognize the significance of getting Europe and South America back to profitable, sustainable businesses. And the pandemic just means we're going to continue to look at all options for us. But we have more work to do on restructuring and nothing more to comment on that other than the resources are there, to continue that work and we still have more to do in South America and Europe. And we've made a lot of progress as you mentioned.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. It seems like there's more to come. Maybe, asking it a different way. So, I found your slide 8 extremely helpful with the business snapshot and the opportunity and strengths in various regions. Maybe, question for Jim Farley, you've taken this COO job and has been busy taking a hard look at all the global operations. You're sort of showing us the strengths of every region here. Can you maybe talk also about some of the weaknesses in each of these regions and what needs to be done about it?

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Sure. So, in North America, we've seen – as Jim mentioned, we've redone the portfolio. We got this incredible, really strong opportunity in 2021 as we get the new lineup out there. So, North America is just a strength for us and the cost progress is significantly important to our margin competitiveness as will be the new launches.

In China, we're really making a large bet on localization of our utilities that had been in play, as Jim mentioned, for several years now. We haven't had the benefit of high volume localized utilities, which are the key profit pool in China. And that's happening now. The Escape just launched, we have the Explorer and Aviator. Lincoln was up 30% year-over-year with the new Corsair. Those four products are really critical for us and our road to profitability in China. And the China team's cost progress is also been really significant. As you see in the first quarter, they

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were able to offset almost all the COVID deterioration or production with their progress on cost. So, we're feeling like we're very well positioned in China.

The opportunity areas, how I would describe it is, certainly passenger cars in Europe, we launched the Fiesta Focus the last couple of years. And the new utilities, which is an area we've been under represented in Europe for long time, a key profit pool for others, we're now catching up with Puma, Cougar and Explorer. But I would say passenger cars in Europe, because our commercial vehicles, as Jim said, are so strong, start a key profit pool for us globally in Europe, made a lot stronger with our cooperation now in scale and purchasing power with VW on commercials. It's really the passenger car opportunity, is where the profit leverage is as well as in Europe.

I would say the two other ones I would comment on, so in South America, structurally very challenging market. Lyle and the team have made tremendous progress on cost, but that's certainly, I would put as the second big opportunity for us outside of passenger cars in Europe. And I'd say the third one is just our emerging markets opportunity and we have a great plan there with Mahindra. We're already deep into planning several new models that we'll work with Mahindra on. It'll be incremental to our portfolio and emerging markets. We had tremendous success in quality exporting from India around the globe with the EcoSport, and now we have a chance to extend that lineup with a much lower cost base with Mahindra. So, in the end of the day, South America, Lyle and team are working on, Stuart is working really hard on Europe passenger cars. Those are the big opportunity in challenged areas.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Great. I appreciate the clarity. I want to shift over to some of the questions from all the participants on the call, I've run in a few in the discussion already. But it seems like a very large amount of them relate to free cash flow, so let's go through it right now.

I guess it's – if I'd summarize the multiple questions, it would be something like, sounds like Ford has accomplished quite a bit so far on its reset and redesign, yet even in a 17 million SAAR industry in 2019, free cash flow was quite limited. So, first question, I think, is where's the disconnect? What needs to be done about that? But then, I think investors are also asking, can you discuss the free cash flow dynamics if the US SAAR were to stabilize at 14 million or 15 million units now post-COVID? What would that look like?

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

A

Well, Emmanuel, I don't know if the inference is that people expect to understand cash flow with a virus. So, this was unusual. I made kind of a tongue-in-cheek comment that there was no business plan called virus or pandemic in any CEOs bookshelf. But when we stopped all the production, remember that the product that was sitting in inventory in our dealers' lots, we had the payables for that. And so, a large payment was made at the beginning of the virus that caused a reduction in cash balance, it's different than the cash flow question. Tim Stone, our CFO, did an outstanding job of getting ahead of this with the actions to suspend the dividend, to pull the revolver down, which I'm really proud of the team having that already from 2008 into 2010 kind of challenges. We were ready for this.

And then, we did an exceptional raise of capital. We don't get into the detail of that, but the book on that was oversubscribed substantially. There was a lot of confidence in Ford Motor Company. So now that production has restarted, there's inherent cash flow leverage and our cash flow dynamics are improving. They're driven by the restoration of supplier payables and immediately seek a payment for vehicles upon wholesale.

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So, we're encouraged now by the news that we're ramping up production and we're going to improve cash flow. But we're not updating cash status or providing guidance at this time, because the fog of the virus and the demand and all that is what our team are talking about on a daily basis. But I want to establish for the listeners the discipline we went through to kind of protect our liquidity. And we're in great shape there.

Jim, I don't know if you want to add anything to that.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

And just to clarify, I appreciate the color.

[indiscernible] (00:54:31)

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

I appreciate the color. Just to clarify, I think the question is more looking ahead and on a normalized basis. So essentially, not so much what's happening this year, all the points you made are very valid. I think, it's more, look, if on the other side, the US starts – stabilizes below where it was pre-COVID, either because of high unemployment or lower consumer confidence, or any other reason, what will your free cash flow look like? And I guess, what is the plan in general to boost that over the next or with the actions that you're taking?

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Yeah. No, so we have plans, but that's not today's mission to share all of that. I mean, I want you to have confidence that we're working on it. The reason is Jim's kind of confirmed that there's things on the table that take cash to make happen, but also have paybacks. So, I just think it would be premature to share all that information, I'm sorry, at this time.

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's fair. We'll all stay tuned. I guess, as far as today, announcement was Volkswagen, there was sort of the confirmation of the investments in the mobility and in Argo. What is the focus of the venture now on mobility, is it still moving people, is it delivery of goods? And are you looking for additional partners, in particular, maybe one to have in Asia?

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

A

Well, I just – let me just confirm that the agreement with VW, I just want to make sure, because we hear things. This does not involve cross-ownership between the companies. It's a narrow agreement between commercial vehicles and electric vehicles, and then an additional $2.6 billion investment by VW with us in Argo AI and I'm very excited about this.

The bones of this were introduced a year ago. And what we've been working on together, mostly, the question of what took the time is to get through the regulatory process, both Argo and VW and Ford have to get reviewed in terms of how we share information in those kinds of arrangements. So that's why we're excited about this, because it was something we started a year ago, was something we were counting on in our fitness improvement.

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So, it does a couple things. It enhance ownership experience for current and future customers by – we can rapidly innovate vehicle offerings and bring these new technologies. And we anticipate continued growth in global demand for commercial vehicles and for high-performing electric vehicles to add valuable scale to our respective product portfolio. So, at full production, the medium pickup and commercial vans generate an estimated 8 million vehicles produced over the next several years. That's the alliance would do that.

And so, I just wanted you to see that we're just getting started on that and today's announcement really reinforces them. So, I want to make sure – there was a second part of your question though, was are we looking at other investors in mobility, is that where you were going to, Emmanuel?

Emmanuel Rosner
Analyst, Deutsche Bank Securities, Inc.

Q

Yes.

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

A

Yeah. Jim, I'll let you address, because I'm really proud of this. Before Jim took the COO role, I asked him for seven months to spend a lot of time in the future areas around technology, in vehicle entertainment, connectivity. So, he's quite up to speed on opportunities here. Jim?

James D. Farley, Jr.
Chief Operating Officer, Ford Motor Co.

A

Well, thank you, Emmanuel. When Jim and I started to talk about the autonomy and that cost over time, we really did see a possibility here with Volkswagen to develop the SDS itself with another partner, and they did a bake-off with all the other technology opportunities and chose Argo which was really validated in terms of Argo and Bryan's technical approach to an SDS itself. The agreement is really focused on the SDS, we'll go to market separately between us and Volkswagen.

And as far as your question, as Jim mentioned, about our change in focus on autonomy, the COVID has had a pretty material impact on how we're looking at mobility. We're seeing an important shift to moving goods with which as you know was always part of our portfolio and ambition for autonomy, because of our commercial vehicle strengths. We have these great electric vehicles that are coming next 24 months and we think moving goods has always been and now it will become even more important post-COVID in our opinion.

So our go-to-market strategy will focus on moving people and moving goods. Moving goods continuously look more and more interesting for us. And with the Argo investment with Volkswagen, we'll have the strong SDS that both companies can use independently and the go-to market. And we'll always be open for new possible investors in Argo.

But it has to work for us as Jim says strategically. We felt that both companies had a common view of how an SDS should be developed. The importance of an OEM relationship, which is something that Bryan is very committed to. Other company, autonomy companies, have really discounted their relationship with OEMs. We think it's a really key part of the SDS success, that integration with the product. And both Volkswagen and us had kind of a common view of that. But I would say, in the go-to-market side is totally independent. And Ford with our commercial experience and so many customers, moving goods on Ford products, we're really interested in this moving goods change with COVID.

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Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

That's great insight. Listen, it looks like we're out of time, so Jim, Jim, Lynn, I really want to thank you again for being with us today, participating for all the insights. And I want wish you best of luck in the ongoing redesign of the company.

James P. Hackett

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

Thank you Emmanuel, we appreciate the coverage.

Lynn Antipas Tyson

Executive Director-Investor Relations, Ford Motor Co.

Thank you, Emmanuel.

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