

SUSTAINABILITY FIRESIDE CHAT HOSTED BY WOLFE RESEARCH
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Speakers:

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Lynn Tyson, Executive Director, Investor Relations, Ford Motor Company

Jim Gawron, Manager, Investor Relations, Ford Motor Company

0:05 – Operator

Good morning, and welcome to the Ford ESG Investing Fireside Chat, hosted by Wolfe Managing director covering autos Rod Lache. All attendees remain on listen only mode throughout the call. If you'd like to ask a question, please find the questions icon in the menu on your screen and now I hand the call over to Rod.

0:21 – Rod Lache

Thanks, Tatyana, and thanks, everybody for joining us on this week's call to talk about ESG investing and Ford's Sustainability Report. The catalyst for this webinar was actually to discuss the Ford Sustainability Report. But, but ultimately, we thought we could make this a little bit broader. And Ford has agreed to give us a look into how they manage ESG issues, how they set targets, and talk a bit about why a growing population of investors are focused on this theme. For those of you who have participated in these webinars in the past, you know that these calls are always better when we get great participation through Q&A. And we'd love to have you ask questions, and those questions, particularly the ones that help us tease out incremental takeaways for investors, make these webinars much more valuable for everybody. And you can do that by entering your questions on the lower right-hand corner of your screen. Now, as you type those in and you hit Enter, just know that those questions only appear on my screen and no one else's. I ask those anonymously. So none of the other people that are listening and the Ford Team doesn't see that. So they wouldn't be able to respond right away. But I will ask those questions anonymously and hopefully we get some interesting dialog. So with that, I'd like to introduce our guests today, joining us from Ford. We're very pleased to welcome Bob Holycross. Bob is Vice President and Chief, Sustainability, Environmental, and Safety Officer. Cynthia Williams is Global Director of Sustainability, Homologation, and Compliance. Lynn Tyson and Jim Gawron from Investor Relations, who I think most of you already know. Jim, I think you wanted to open this up maybe with just a few introductory comments about the sustainability report. So why don't you take it away.

2:23 – Jim Gawron

Perfect, thanks, Rod. And hello everyone, really appreciate you joining us today. So I want to open the discussion today by highlighting the importance and interconnectedness of environmental, social, and governance factors, otherwise known as ESG. The non-financial metrics and intangible assets associated with ESG are increasingly driving investment decisions, not just because it is the socially responsible thing to do, but because ESG performance is often closely correlated with financial performance and shareholder value. This is evidenced in the fact that the UN Principles for Responsible Investment now have over 3,000 investor signatories representing nearly \$90 trillion in assets under management, growing over 13 times since 2006. Now, emerging and emerged mega trends such as climate change, socio economic inclusion, racial justice, and the COVID-19 pandemic have put a special emphasis on the need to integrate

ESG into corporate governance, strategy and risk management. That is why, we believe the release of our 21st annual sustainability report has come at a very important time. This report underscores our commitment to providing reliable, comparable, and decision useful disclosures for our key stakeholders. It also includes reporting consistent with the SASB and TCFD frameworks and contains the second iteration of our Climate Change Scenario Report. Now, importantly, the disclosure showcases our sustainability leadership and performance across environmental and social dimensions and includes the announcement of our new commitment to achieve carbon neutrality globally by 2050. We're so proud of the fact that Ford is the only full line US automaker committed to doing its part to reduce CO2 emissions in line with the Paris Climate Agreement and working with California for stronger vehicle greenhouse gas standards. ESG is not an add on at Ford, it permeates all that we do. So, with that, I'm delighted to have Bob, Cynthia, and Lynn with me today to further unpack all of these topics. So, Rod, back over to you.

4:52 – Rod Lache

Great, Thanks, Jim. Look, I was hoping to just kick off the discussion with a bit of a broader question. Maybe this should go to Bob, but any of you chime in. Just I was hoping it's such a broad topic that ESG I was hoping maybe you can just talk a little bit about how you prioritize, which issues are the most material to the company. How do you set those targets, and what are you prioritizing at this point?

5:18 – Bob Holycross

Sure. I can, I can start with that, first of all, thanks for having us and hosting this. It's a real honor to be here with you and with all the guests that are online today. So, you are right, ESG has become such a broad topic. And for us, you know, we've been on this journey, you know, really much throughout our 117 year history. But when you really look at the last 20 years, when we started digging in and reporting, it has really changed over the over those last 20 years. And so what we've been doing in terms of how do we assess, you know, how to scope this, you know, what are the key issues for us, you know, we do engage with a number of different third parties in this space, to see what's on people's mind, all our different stakeholders. We do what we call a materiality assessment usually every couple of years, where we look at all the different key factors that we know have a big impact on our business in this space. But then also kind of surveying, you know, stakeholders on, you know, what's on their minds, and what are the things that are key for them, you know, as we address these broader issues and, you know, when we do that materiality analysis, you can almost think of it as a, you know, as a matrix. You know, what's, what's of high importance to Ford, what's of high importance to stakeholders and almost kind of plots like that. And obviously for us, you know, when it comes to the E and ESG, it's going to center around, you know, our vehicle fleet and the emissions from vehicles and wonder and use and operations. Because that's the largest part, obviously, of our portfolio in this space. So when it comes to things like, you know, the vehicle efficiency, the fuel efficiency of our fleet, the conversion to, you know, lower carbon technologies like electrification and what have you, those, obviously will rise to the surface. But also, now, even more importantly, you know, stakeholders want to know, and it's important for us to understand, the longer view on, what is our resilience to climate change. So what's kind of the risk assessment in terms of, you know, where our operations are, and some of the different scenarios that may come out, depending on how things can change. And, as you mentioned, you know, COVID-19 is certainly put a new spotlight on, you know, how we do those assessments and, and the urgency we do them with. And then, it comes to things like, you know, our supply chain and the greater operational aspects

of all the pieces of our business, and how we prioritize those. The supply chain is a big, you know, a big impact for us, and something that we concentrate on as well. And then, even, you know, in focus, most recently, when you look at the social side of it, obviously, from a human capital, human rights perspective, you know, that, those become very material issues for us, and how we integrate everything together. So, it is something that's a moving target, is something we have to assess on a regular basis, but those are some of the major aspects of it for us.

8:02 – Rod Lache

Thanks, Bob. So, clearly, the resilience of the company over the long term, you know, this is a critical part of it. And I'm curious about, just, that there are many reasons to focus on this. But as far as your interactions with investors, you know, how big a role, do you think this is taking in, as far as their criteria for investing, and do you sense that this is becoming a bigger, a bigger topic for them, in their discussions with you.

8:32 – Jim Gawron

Yeah. Rod, I can, I can take that one. In our discussions with our investors, we have found that it's becoming increasingly important criteria for investment decisions. Since investors recognize ESG performance can both reduce downside risks. There's also opportunity to increase upside values. So just to give Ford specific examples on reducing downside risks. We are reducing policy risk by working with California on the voluntary program for greenhouse gas emission standards. And then in addition to just being the right thing to do and consistent with our culture and our truths, our people first responses to the COVID-19 pandemic and the movement for Racial Justice helps to reduce the reputation risk and market risk. And finally, as it relates to climate change and climate related physical risks. We've done some detailed scenario analyzes, trying to look at our operations and develop robust strategies there for the future. So, turning to the other side of the equation, regarding upside value from ESG, investors really see opportunities for growth in new markets and new products, as well as the potential for higher returns on capital from operational efficiency such as with energy efficiency. Also, there's workforce efficiency and reducing turnover and the need for recruitment. So our conversations with both our passive and active investors have increasingly focused on these areas. Especially just within the last 12 months. It's really been a hockey stick there. And investors have provided more clarity around their ESG expectations in particular and we've seen them exercise their proxy vote consistent with their ESG guidelines that they've provided to us and to the market. So, I believe these trends are being felt in the broader industry, as well, not just at Ford and in our interactions. So, just a quick stat now. If you follow the money, you can see that one of the fastest growing investment approaches is known as ESG integration now at \$17.5 trillion dollars in assets under management, where investors incorporate ESG factors into investment and strategic decision making. So, based on all of these trends, ESG is certainly a part of Ford's investment thesis, as you mentioned. And it really has been for 20 years now under the strong leadership in sustainability from Bill Ford. And it's definitely something we plan to continue in terms of momentum going forward.

11:23 – Rod Lache

Thanks, Jim. And I do want to return to some of the points I wrote down that you just brought up about the upside potential for upside value and cost in a minute, but I was hoping maybe first. This document that you publish yearly, the sustainability reports, it's a huge report. I'm hoping you can maybe just give us a framework for the process of pulling it together, but really specifically, how should investors be reading this? You know, what should we be looking for in

that document? Are we able to objectively compare your performance? Kind of, maybe at a high level, against other competitors? And where does Ford stand relative to your peers on that.

12:12 – Cynthia Williams

Right, I'll take that question. In terms of this, sustainability is one of the industry's top priorities and one of the issues, I think, the biggest issues that the industry faces as a whole. Over the years, sustainability has been a top priority for Ford, I would say, for more than 20 years. I know back in 1999 year, my daughter was born, we actually issued our first sustainability report... great year. But that one was titled "Connecting with Society". For Ford, I think what we try to put into the sustainability report, we look at highlighting what's our leadership role in sustainability, and so how do we lead the industry. So we try to highlight things like that. We also look at how do we share and show that we have actually made a positive impact on the planet. How do we reduce our carbon emissions, how do we improve CO2 from our facilities and things of that sort. So those are some of the things that we try to highlight within the report. And in terms of competitiveness and how investors could actually take a look at the report, what we do is we have the report details, sustainability performance of operations and also vehicle data. We also align with the performance metrics of reporting frameworks. And so, with that respect, we have several that we actually detail out in our report. We meet with these folks, we engage with them, to make sure that they're aware of what's in the report. We talk about some of the things, you know, that we feel that we were ahead of competitors on, but some of those frameworks that we look at, we look at GRI, SASB, TCFD, some of these that Jim mentioned earlier. But we also have the United Nations Compact Communication on Progress Index. We have the UN Guiding Principles. We also have the Bloomberg Gender Equity Index, and also the UN Sustainable Development Goals. So those are all some of the framework reporting frameworks that we utilize. And we, those are good key indicators that stakeholders can use to actually compare us to our competitors,

14:55 – Rod Lache

So, maybe just kind of following on to that, can you give us a few details on when you look at those somewhat objective frameworks where you stronger and weaker against competitors? Are there specific targets that we should be aware of, aspirational goals that you have to improve in certain areas that maybe you can talk about?

15:19 – Bob Holycross

Sure. I can talk a little bit about that Rod. It's somewhat of a cottage industry in terms of all these different ratings that are out there and there's even, you know, rating the raters and trying to, you know, see where people are coalescing around. What are the ratings that are, you know, kind of most applicable from a broader industry perspective or even across industries, right, when so investors can compare companies to one another. So it's a real challenge for us. You know, again, is having now been doing detailed reporting for 20 years. We've had some experience at it when we look at some of the key metrics that we report on. And obviously, tying it back to that materiality assessment idea when you look at, you know, from a vehicle perspective for us in the auto industry, in the performance of our vehicles in this space. We see ourselves positioning for leadership based on how we're going after electrification relative to our biggest franchises within our fleet. So rather than, you know, a couple of niche products or what have you, that might be directed more at compliance or what have you, our strategy is really building out around our what we call our franchises. So when you think about the Mustang Mach-E electric vehicle, that's coming out later this year, the announcements we've made regarding the F 150. Not only

having a hybrid coming out at the end of this year, but also a full battery electric vehicle. And then also our commercial vehicle franchises, we've talked about our Transit vehicles that are going to have electric capability as well. So, really, you know, emphasizing the key products for us and where they can make a difference most for society as a whole, that's where we see ourselves relative to our competition, in our carbon strategy around the E, if you will. Being in a leadership role. The second aspect that I would point too, and this is really key, is are you also as a company, advocating for policies that are supportive of where we need to go overall as a society, as an industry, and as a company. A lot of these commitments and goals, and things can be nice headlines or taglines, but to really put your, you know, your advocacy where your strategy is. We think is a key differentiator for us as well and something that investors are going to be paying more and more attention to, as well as consumers. So, as Jim and Cynthia mentioned earlier on, you know, in the US, for example, the work that we've been doing with California, advocating for stronger greenhouse gas emissions, trying to take the longer play, right, for more sustainable pathways, that aren't as dependent upon the current election cycles, or what have you. So that's how we kind of look at how we differentiate ourselves, obviously. Year over year improvements and a lot of the array of metrics are key for us, which we, which we report on, and measure ourselves relative to competition. But, beyond that, to your other question on, you know, what are some of the broader goals. We have set aspirational goes beyond the Carbon Neutrality Pledge of 2050, that we did in more detail last year. So it's things around air, water, waste, energy, materials. So, things like, you know, trying to have true zero waste to landfill, which we've been doing in a number of our facilities around the world. Where we're not putting any waste in landfills. Trying to get there by 2030, across all of our facilities. From an energy standpoint, we've committed to using 100% locally sourced renewable energy in all of our facilities by 2035 for materials. You know, again, trying to use only recycled and renewable plastics in our vehicles globally. And then water, which is really becoming a critical aspect is. We all know, committing to using freshwater only for human consumption. So that we, you know, preserve water there, but also just from an overall efficiency standpoint, how we can use less and less water overall on our operations. You know, from a diversity and inclusion standpoint, we do aspire to be the most diverse and inclusive company. You know, from a broader social perspective, it's a real key aspect of our business there. So, you know, we do detail those goals in our report. We do measure ourselves relative to the competition using a number of these third party metrics, but that's how we see ourselves differentiating from the competition is really putting our advocacy behind what we say we're going to do.

19:50 – Rod Lache

So just from an external perspective just to help us, maybe just position different companies that we follow, you know, maybe you could talk about some of the key ESG rating providers that you watch. And, how do they view you from the perspective of the external metrics that you provide. You know, how can we use that to sort of rate different companies, as far as all the, different, the list of things that you discussed?

20:23 – Lynn Tyson

Hey Rod before Bob or Cynthia answer that, I think, it might be helpful for people to hear how we made that determination. Both Bob and Cynthia report out to the Board several times a year, on how we're doing with Sustainability. And one question they had was that the proliferation of all of these new indices, which ones are we going to be looking at? Which ones should we align with? So maybe Bob or Cynthia, if you can talk about how you winnowed that down, so that we can take a more focused approach.

20:55 – Cynthia Williams

Absolutely. As I mentioned, there's like there's a number of ESG providers and they've increase over five-fold over the last couple of years. I believe there's over 600 ESG raters globally. But the ones that we primarily focus on are the ones that focus on providing, we look at, that wants to, that rating agencies, such as, I think Bob mentioned, sustainability rate the raters report. And so we look at that report, and investors typically use Sustainalytics and MSCI as more of the broader ESG ratings for more of the broader ESG ratings, and then ISS is associated with governance. So, we think those are the key rating sources that we use. We took, and we actively engage with these agencies to ensure that the data that they are reviewing is accurate and correct. So those are some of the things that we look at, and we make sure, that, you know, folks are actually looking at the different ratings properly. For example. So, because they are so many different agencies, they are rate things differently. So MSCI, they place a larger emphasis on the social aspect, whereas Sustainalytics places a large emphasis on the environmental piece. So, we make sure that they're actually looking at what that agency is actually rating and then how we fare against competitors.

22:40 – Rod Lache

So can you comment at all about how, you know, some of those relatively well-known ratings, groups are viewing you, and just how do you stand against some of the competition?

22:47 – Cynthia Williams

Absolutely for MSCI we're rated as a B rating. That is the bottom 37% of the auto industry. Sustainalytics, we're about 28th out of 61 automakers. And then there's another one, true value labs momentum score. We've scored 73 out of 100, and we are receiving positive momentum there. So we look at different things, and then we take the scores that we actually do receive from these agencies, and look at how can we improve moving forward. And so those are key things that we look at in terms of our sustainability report.

23:27 – Rod Lache

And are these, it sounds like, you know, with 600 firms that are looking at this, it sounds like there's, it may be difficult to standardize the approach. Are you aware of any initiatives that are being taken to standardize the ratings. And just make it clearer to investors just provide a framework for them so they can make judgements between companies.

23:53 – Cynthia Williams

Right. I'm not aware of any efforts to standardize, but that's definitely something we would appreciate and work with folks to help standardize. But there's currently no standardized view.

24:10 – Rod Lache

OK, can you talk maybe just one other thing before I dive into environmental and social, and I see a number of questions that have come in, so thanks everybody for sending those. Just maybe the interplay between ESG initiatives and the profitability, and cash flow of the business, and Jim, you alluded to this a little bit, and what your answer earlier. Investors always think that are met very often think that these initiatives many of them, especially on the environmental side could be costly, they're kind of a headwind to profitability, because its regulatory focus, is that really the case? Can you give us any examples of initiatives on the environmental side that are both positive for ESG and positive for the bottom line, because there is sort of a mixed perception. You've obviously got people that are focusing on this is a positive, that will support

sustainability and risk mitigation, but there's others that are concerned about it. Jim, you might be muted.

25:24 – Jim Gawron

Sorry about that. And so thanks, Rod. Yeah, we definitely see that there is an opportunity to positively impact the company profitability and cash flow. And the way we think about it is, there's short-term opportunities, and there's long term opportunities as well with these ESG initiatives. So in the short term, we have had much success on energy and water efficiency programs, which have reduced resource use, while providing, actually, a shorter term payback period on the required capital expenditures. So, as an example, achieving our corporate goal of improving global facility energy use per vehicle also helped us reduce the cost for that energy. So as part of this initiative, and giving a specific example. Many of the Ford manufacturing, lighting systems were replaced by LED fixtures, providing significant energy cost savings, that we calculated out to be around \$320,000 per year per site. So, in the mid to long term, then, our ESG investments in the areas of vehicle electrification will position us for sustainable growth, as well. So, for example, our investment of more than \$11.5 billion on electrification by 2022 will help to position us for the success within that growing market segment, while simultaneously reducing greenhouse gas emissions consistent with the carbon neutrality goal that we've mentioned. So in particular, as Bob mentioned as well, we're excited to launch the all-electric versions of our iconic nameplates within just the next 24 months and that includes the Mustang Mach-E SUV, the all-electric F-150 pickup, and then the all-electric Transit Van as well.

27:21 – Rod Lache

So, I want to just follow up on electrification, and this target that you've mentioned it earlier. The company's target of achieving carbon neutrality, it's almost hard to fathom what an automaker today would look like as a carbon neutral company, maybe you can just describe what you actually mean by carbon neutral. How do you achieve that goal? Are there risks that you see associated with moving in that direction? Or, you know, how do you kind of balance the risks of that? Which it sounds like it would be fairly costly? And a pretty meaningful change for the business versus the opportunities.

28:03 – Bob Holycross

Yeah, it's a good question, and, you know, we don't take a bold commitment like that lightly and recognize we're not going to be able to do it completely on our own. It is going to take a very integrated approach, as we say, but for us, you know, we, primarily, as I've said earlier, been focused primarily on our vehicle emissions, and emissions of the vehicles in use. But when you really take a step back, and collectively look at the broader ecosystem, the life cycle, if you will, it is much more that has to come together, so you know, for us, beyond the vehicle use, it obviously does come into our operations, come into play, so that you know, the emissions intensity and absolutes from our manufacturing facilities, and different pieces of you know, where we operate and how that all comes together. But as I mentioned also before, the supply base, when you look at, you know, how the whole integrated system works with how our parts come together, and our suppliers' operations, you know, are a big part of that as well. So it's really those three things that have to kind of come together. But when you think about it, obviously, it starts even further upstream beyond the vehicles and the facilities, right? It is about, you know, what is the source of the energy that's coming in? We know there continues to be a lot of discussion around battery electric vehicles, and how truly zero emissions they are, if they're

running off of power that's coming from, you know, coal fired power plants, or what have you. So, you know, that's going to be how we're going to get there, is by all working together. Carbon neutrality by itself as you know, as a definition is, obviously, you know, the net effect of any of the emissions you put into the ecosystem combined with any emissions that you can take out right from carbon sequestration or other things. So that's where we get into this neutrality versus just saying, you know, we aspire to be just zero emissions or what have you, there's a broader opportunity at play with how we can capture carbon and work with partners to do that. But obviously, in the lead up to all that, the focus for us is on our scoped emissions around what I talked about. So, it is going to take more than just putting our fuel-efficient vehicles or electrified products, which we know is the primary path we're on. And then it also is going to get back to this advocacy piece in terms of what are the policies, right, that are necessary to enable all those things to come together. What are the market considerations that we have to monitor along the way? Because as much as policies may come into play that can mandate certain things, or, you know, we put out the different technologies, the marketplace also ultimately has to accept them. And, you know, that becomes part of the, you know, some would say the risk, but for us, we really see it as the opportunity. And, you know, that's where it ties back to our strategy on how do we really do the end solution. How to do both, right? You can get zero emissions, but you can provide products and services that customers truly value and will pay for, you know, even if they're not all the way on the journey out of prioritizing zero emissions as part of their purchase consideration. And that's how we see, again, back to the competitive aspect, that is how we're going to differentiate ourselves. So, there are a number of different opportunities in this space, but it is going to be a broader ecosystem that has to come together around vehicles, facilities, energy providers, and ultimately, marketplace acceptance.

31:21 – Rod Lache

So, just to clarify, Bob, the carbon neutrality goal, does that also include the carbon emissions of the vehicles that you're producing as they are put out into the market, over time? It does. So, presumably, a lot of this is, you know, you're looking at, eventually, we're going to have electric vehicles as a very dominant source. As a dominant powertrain. But this is kind of a 30 year target. Your target was 2050, right? So, yeah. I guess my question is, and I hope you're not insulted by this, but should investors care? You know, a thirty-year target, I have no idea what I'm going to be doing in 30 years, and most investors really have no idea, and most don't invest over that long a timeframe. Is there something that we should care about as far as hearing this target from an investment perspective? That's kind of near term, over the next couple of years?

32:26 – Bob Holycross

Yeah, you know, again, I think in terms of, you know, for investors or even for consumers overall, I think this is a space that more and more are caring about and we have to. Because, again, I think people are going to be wanting to do business with companies that are ahead of the curve in this space. 2050, while it's out there a ways, it is, you know, consistent with where, as a society, as a whole, we think we need to get to the tipping point before the ability to mitigate some of the impacts of climate change, maybe too far. So that's how we coalesced around the 2050 timeframe. But the interest for investors and consumers, overall and the shorter timeframe is going to be, you know, who are these companies that are showing they can get ahead of this and be more durable around, you know, some of the different scenarios that may play out if we have an acceleration in terms of where energy prices may be, or supply, or what have you. So, it is about mitigating that business risk to be being able to respond, you know, depending on what shifts may occur even unexpectedly. But, it's going to be a year over year, obligation in terms of,

you know, having targets that lead up to that. That's the next phase of what we're going to be doing, is it's setting more specific year over year targets, working with the science-based targets initiative so that we can be accountable and transparent, and all of that. But the value is going to be and how we can show that we're sustained in this for the long haul as a company.

33:59 – Cynthia Williams

Similar to the Paris Accord as well. We will revisit those targets every five years, just to make sure that we're on track, and adjust accordingly.

34:08 – Rod Lache

I have a question that I wanted to weave in, that I got from one of the participants, it's just on the goal of carbon neutrality by 2050. How far does that go down into your supply chain or into your dealership networks, and all the other extended enterprises that support Ford. Are you looking to roll up the carbon footprint from everybody, and how do you generally interface with them?

34:36 – Cynthia Williams

Absolutely. We're going to look at, well to wheels approach from not only the vehicle and facility side of the shop at Ford, while still taking a look at the top suppliers, the ones that had the greatest impact, we're working with them to set targets as well. We'll roll those out probably early next year, so we're looking at not just us, we're looking at suppliers, we're looking at partners, dealers, and the like, so we're taking a look at the entire cradle to grave of a vehicle.

35:06 – Rod Lache

I'm curious if this is something that you just can tangibly measure in terms of the benefit to the brand, do you actually plan to market ESG aspects of your business? Is it something that you see as brand enhancing from that perspective?

35:24 – Cynthia Williams

Absolutely, I think that's part of our goal. We are going to talk more about our sustainability strategy. We think the vehicles are great for the planet. We think Millennials will catch on to that and will want to purchase these types of vehicles. So we're going to play to our strengths again, as Bob mentioned. So the key products, you know, we got them. We have the Mach-E, we have the F-150 Bev coming, and also in the commercial space we have the Transit, so definitely we're going to play to our strengths and see how that works for us.

35:59 – Rod Lache

I also wanted to just double back to the question about, you know, a lot of this stuff is longer term, are there near term things that are happening? Are there some specific near-term targets that you might be able to provide to us relative to carbon neutrality? What should we be tracking towards, that we can measure? Kind of, you know, now, aside from, you're launching the Mach-E and a few of these other products. Anything, any metrics that we should be thinking about, and how does that kind of compare against the competition,

36:34 – Cynthia Williams

I will say, when we took a look at the current plan versus the carbon neutrality plan, we did calculations internally, and I can't give you the specific percentage, but it is a significant increase in carbon emissions reductions that we will have for the carbon neutrality plan. We will start to share more of those in our sustainability report. And once we get aligned with suppliers in the near future. So stay tuned, and we'll share more.

37:07 – Rod Lache

Do you think, you know, I didn't know if this would be for Cynthia or Bob, do you think that this would be something that has kind of an outsized impact on the external ESG ratings, that this shift towards electric vehicles and the environmental aspect of it or are these things more balanced?

37:29 – Cynthia Williams

For the ESG raters that value the environmental piece, we do think we'll have a great impact there. And some of those, the rating agencies included, it's the CDP Climate and Sustainalytics. And it's the MSCI's of the world, those are the ones that value the environmental piece more, and that's where you'll see the benefit there.

37:53 – Rod Lache

Just another question that I think it has come up a couple of times is, we've spoken to investors about the competitive advantages or disadvantages that Ford may have vis-a-vis other players in the world. You know this is a great country, but one of the clear things that you can see from an environmental perspective is we do have relative to Europe or China at the moment vis-a-vis transportation, some of the weaker CO2 targets relative to some of those others. Do you think that because of that environment there, there may be certain disadvantages, competitive disadvantages that you have on the part of ESG? You know, we're talking about Europe, for example, targeting 95 grams, and 78 grams. We're talking about, you know, huge fuel economy targets. And presumably, large market in China is talking about 25% new energy vehicles. How do you think about that, just from the environment you're operating in and how that plays into your advantages or disadvantages.

39:01 – Bob Holycross

Yeah, I can take that one. I mean, it's a fair question again, because it all gets back to this crystal ball of, you know, how is this all going to come together and ultimately, how does the marketplace embrace this transition and how quickly. You know, for us the unique position we're in competitively is you know, being a full line manufacturer, with global leadership and commercial vehicles, but also in, you know, performance vehicles, or what have you, this is where our opportunity really lies. And to be able to get, you know, global scale and leverage, we do have to look beyond just what's happening in a given election cycle in a given region. Right, so in terms of what's happening in the US, and the approach that we've taken there, you know, uniquely, quite frankly, compared to some of our competition, is to take that longer view. Looking at where, you know, things are headed in Europe and in China, and, you know, the ability to scale up, you know, consistently with that. You know, with some of these products that, we've talked about, our franchises like, our Transit franchise and F-Series franchise, right, or the performance vehicles like Mach-E and in others. So, that's how we see, you, know, again, being able to differentiate ourselves and by focusing on these core products for us that are going to have the highest volume impact and beyond just being, you know, near zero or zero emission vehicles, you know, providing the functionality and the ability to provide the services that consumers, you know, globally, are going to be looking for. We think that's more of the opportunity than the risk of, you know, is what's going to be the rate of acceptance. It is going to be a journey, as you mentioned, but I think, with how we will deliver all the broader wants and needs of not just retail consumers, but our partners, and fleets and governments and, you know, supporting some of the broader policies that have to be, you know, initiated in terms of congestion and access. We have to play in all these spaces, and you know the opportunities there

to really leverage it in volume so it ultimately makes a difference for the planet because that's what's going to be key for us.

41:16 – Rod Lache

If you achieve these targets, have you done any, I don't know if it's even possible for you to sort of independently do some math around this, but any sense of what kind of impact that has on your ESG ratings aside from just overall you're looking to improve, have you been able to quantify the magnitude of improvements that your target should be able to achieve?

41:37 – Cynthia Williams

We haven't quantified it, but definitely, again, as I said before, I think we will definitely have a positive impact on our ratings, especially in the environmental space. Again, with the carbon neutrality goal, we're going to significantly reduce the CO2 from our vehicles and facilities. And it will definitely, I think, bear weight there, and provide investors with a look at what we're doing, to improve the planet, and the ratings will improve.

42:14 – Rod Lache

OK, no, I'm going to weave in just another question from investors. Maybe you can just highlight this, maybe it gets to a little bit of the governance side, but are management incentives aligned with helping climate the climate change issue and other ESG issues? Is that actually incorporated into compensation in some way?

42:42 – Bob Holycross

Yeah, you know, it's an important question, you know, from an overall governance perspective, how we then, you know, not just the goals and the targets that we set, but just the mindset and the culture within the company around sustainability. You know, Jim mentioned early on in the conversation here, it is something that has to be embedded within the company overall. I like to describe it as it's much in the way we approach quality, right? Quality is not something that you bolt onto the vehicle at the end of the assembly line and all of a sudden, the vehicle becomes defect free, right? It has to be embedded in everything we do, both from a functional perspective and from a cultural perspective. We've approached sustainability the same way within the company. We have what we call our Integrated Sustainability Framework where all functions within the company in all regions have scorecards and targets and goals that they report against. And the nice thing is, while we're a very small sustainability team ourselves, we find that we actually garner the most energy from the people on the ground, the people that we profiled this year in our 21st annual sustainability report. They're the ones that actually drive this, from the ground up, from your creativity, but from a broader governance perspective, to your point, it is something that is, you know, tracked across our senior leadership and across regions as I said, but even up to the Board level, we have what's called the Sustainability and Innovation Committee of the Board and they govern and approve the overall kind of policies for the company. And we meet at least four times a year on that. So it is something that's ingrained in a key part of our overall management framework and governance.

44:29 – Rod Lache

So maybe, you've alluded to this a few times. Obviously ESG goes well beyond just the environmental aspects of this. I wanted to just ask you just beyond carbon neutrality. What are the other top ESG priorities and commitments that you're focusing on right now.

44:50 – Bob Holycross

Yeah, it comes down to when we think about diversity and inclusion and human rights, and we talked about, from an aspirational perspective, to become the most diverse and inclusive company from a broader human rights, and social perspective, in terms of the impacts that we can have on the communities that we operate. And around the world, you know, you think about things like responsible sourcing of raw materials, right? And a lot of the discussion that's gone on, around materials for batteries and other things, right? Making sure we're sourcing in a responsible way, making sure we have the mechanisms in place to track all that throughout the supply chain, that step becomes a real key aspect of it. But also, you know, as we talk about our broader goal in terms of making a better world and providing the freedom of movement for people, we have a real opportunity with the products and services we provide to connect people to things like clean water, access to healthy food, access to education, and we have a number of social initiatives that we've started around the world to empower, for instance, you know, women's businesses and underserved communities to help provide products and services. As I mentioned around clean water and food and education. So, you know, we have our philanthropic arm, the Ford Fund that has a big portfolio in this space, but, you know, we find the biggest impact we can have in those areas is really getting into the communities. It's great to have the financial framework in terms of providing the resources, the ways we've done, but really providing those services and the ability to connect people. That's how we think we're going to drive human progress the most.

46:34 – Rod Lache

Has the COVID pandemic impacted your view on your progress towards ESG goals or the approach that you're taking in any way? You did mention that earlier in one of your answers.

46:51 – Bob Holycross

It really has. I mean, it has shed a light on a number of different aspects. As I mentioned, when you, when you relate it even to climate change, and the urgency that we know, we see around that, but from a broader perspective, from a social perspective, you know, it's been amazing to see how the team at Ford has responded. Nobody asked the company to provide a lot of the products and services that we have around COVID-19 when you think about the production of ventilators, and respirators, and other personal protective equipment like say shields and face masks. That was really developed from the teams internally coming up with the innovations to move quickly using human-centered design as we've been embedding into our company. And using those tools to show how quickly we can move, when the need arises, even before people ask for it. So, it has definitely been something that has put a new focus on how, you know, we need to continue to see our role in society. And it's really where, you know, our company's legacy has been when you look over history and how we, how we responded in the past to other crises. But, I think, the key pivot for us with what's happened through COVID-19 is how we can leverage again, our Ford people in terms of their ingenuity in their innovation, set them free using human-centered design to really get at some of this. And that's how we actually in parallel, you know, coalesced and finalized our carbon neutrality strategy. Because, as you mentioned, there's not a simple solution to it. But when we kind of turned it over to the team and asked them to kind of, you know, go off and look at this from a broader perspective, they're the ones that came back to us and said, look, we really have to look at this more broadly around the supply base, around our facilities, around these different aspects of our materials, right? And integrate it with our social aspects as well. And that's really what drove it for us. So, we don't want to always have to have a crisis be, you know, what drives us, for Ford it's not, but what it does is, it puts a

spotlight. As you mentioned, in terms of how creative and innovative we can truly be, and leveraging that going forward.

48:58 – Rod Lache

Yeah, this was another question I've gotten, and actually several, several questions along the same line that I was hoping you can address, because it's a really big deal, that the movement to end racial injustice, it seems like that would really fall within the social part of ESG. And I've gotten a few questions about how you actually interact with the movements that are out there, or do you donate or support them? What do you actually see as, as for its role in all of this?

49:32 – Cynthia Williams

I'll start with that question. Well, corporations can no longer stay silent, I believe, on issues that are extremely important such as this, such as social injustice. For Ford, there's no easy way, and we realize there's no easy fixes to end this, but I know, I was personally happy to see both Jim Hackett and Bill Ford come out with the letter to the company. You know, explaining their view, acknowledging the issue is wrong. That was very important from my perspective, and the willingness of Ford, to not only just step in and listen to the employees, but we're trying to learn from the employees, and we're also trying to understand how can we co-develop solutions for this significant issue. And, to me, that will only make the company better. That will only make our communities better and not only make the world better. So, you know, I'm very proud of things that we're doing to try to step in and just understand, you know, how can we hope to improve the injustice that we're seeing.

50:48 – Rod Lache

Do you have any, you know, any examples, or can you talk a little bit about. I've gotten questions about whether this is externally focused or more internally focused within Ford, what's your perspective on the role of the company, just in society?

51:05 – Cynthia Williams

I would say it's both. We're both looking at the internal structure of the company, as well as what we can do to assist the community. I know from the Ford African Ancestry Network, we've donated funds to the community to help, in this respect and so has the Ford Fund. We are providing assistance to communities externally, as well as doing things internally to help our employees as well.

51:34 – Rod Lache

OK, thank Cynthia. So another aspect of the social part of ESG that I don't think people are actually aware, actually falls within this category, is Product safety and quality. You know, it's something that the automakers clearly are measured against one another. Look, the reality is that Ford's warranty costs have been rising by a lot, right, over the past couple years. What are the metrics that you're looking at as far as quality? How important is it to bring warranty costs down? And do you actually have any visibility on where do you expect that to go? When does it actually start to flatten out or moderate?

52:19 – Cynthia Williams

So definitely, at Ford, we definitely have a strong governance process around product quality and safety. That's one of the key issues that we track. We look at R per thousand, which is repairs per thousand. We look at cost of the repair. We look at the things gone wrong. We use external folks like JD Power to take a look at our quality, but we're constantly looking at how do we improve our processes internally, as well as some of the metrics at our suppliers and dealers as

well. Some of the things that we're looking at in the near term, is using data analytics, using machine learning to try to catch things earlier. We're looking at other aspects, you know, implementation, timing, and things of that sort, looking at all aspects on how we can improve product to market. If there is an issue catching it early and traceability things like that. We're looking at how do we trace an issue down to a VIN level. We're looking at all those types of things to improve our processes, to make sure that if there is an issue, that we have that, we can catch it sooner and mitigate the issue to the consumer.

53:39 – Rod Lache

Do you have a view on when, those, when those initiatives, actually start to bear fruit? You know, when should we be expecting that warranty issue to kind of flatten out and then moderate?

53:52 – Lynn Tyson

Yeah, Rod, you know, you've written on this. There's about \$1.5 billion opportunity if you look at the increase in our warranty expense over the last several years. So there's a dedicated work stream that, Jim Farley stood up when he took over as Chief Operating Officer to address that. And I think as you know, we haven't committed to when that's going to bend and we haven't really given you guidance on where we think warranty will be this year. But that's a huge addressable market, if you will, for us that billion and a half dollars. And, you know, in addition to what Cynthia said, you know, we think the increased penetration of connectivity, one of the biggest benefits that will be able to harvest from that is a value to the enterprise for customer satisfaction and being able to do diagnostics early. We think that will also be a catalyst for harvesting it. The other thing on the warranty side is to the degree that there are costs that we can recover from suppliers. We've become more diligent about doing that, and we think that'll help over time.

54:59 – Rod Lache

Thanks, Lynn. I want to see if I can fit in 2 or 3 questions that I've received externally during the last 4 or 5 minutes that we have here. One that we didn't talk about was, question I received is, ESG investing typically is focused on the equity side of the business. How is Ford Credit playing into sustainability initiatives and the fixed income and basically, the fixed income community? Is that, you know, is there an aspect of this that Ford credit is involved in as well?

55:35 – Bob Holycross

Yeah, I mean, as I mentioned Rod, our Integrated Sustainability Framework, you know, it encompasses, you know, holistically Ford Credit, and you know really when you think about all the way through our value chain, and looking at dealerships even, and some of the aspects around that. So it is something that has to be part of the overall equation in terms of, you know how we set this up. How we measure ourselves and you start to bring all this together, but obviously when you think about where the biggest opportunities are in terms of how we improve year over year on things like vehicle emissions and for our facility operations and materials into our vehicles, the bulk of that is going to come from the operational side of the broader enterprise. But Ford Credit definitely plays a role, you know, from a sustainability aspect. Much like they do on quality and safety and really, you know, being a key part of it. And when it comes to the interface with our customers and how we know how we ultimately get these products and services into the market.

56:48 – Rod Lache

All right. Another question, I think also is addressed to you, Bob, but any of you please chime in. You mentioned the importance of supply chain in meeting Ford sustainability initiatives. How do you see that being incorporated into supplier scorecards, sourcing decisions, new supplier selection, and things like that. Any thoughts on whether there's some kind of formal integration of this, into that process?

57:06 – Bob Holycross

Yeah, there absolutely is. And that's not something that's just started as part of this Carbon Neutrality Pledge, in terms of recognizing we've got this broader ecosystem that needs to include our suppliers, you know, early on. We've made a practice of sharing what are elements in terms of how we look at integrating sustainability into the company. And we share those best practices with suppliers. We do audits with suppliers in terms of how they're responding to some of the things on the social side in terms of responsible sourcing. You know, the use of low carbon materials and their sourcing, and in their products and their designs. So there's already an element where we've been sharing directly with suppliers and creating a framework of best practices for them to follow. And then for some of the specific aspects around human rights and employment and what not, that we actually have third party audits that we conduct in partnership with them. We've also worked across the industry to share best practices. In Europe, we started an initiative with the rest of the industry that we were part of to bring the supply base and the industry together on these. But going forward, we will be having more direct targets and integration as Cynthia mentioned before, to partner with suppliers in that space as well.

58:37 – Rod Lache

Great, thanks, Bob. And maybe just we've got one minute left, so, and I don't think it's possible to answer either of these in just a minute. But just to throw two things out there, just additional thoughts on the level of buy in and engagement to your targets like carbon neutrality. You mentioned that it's something that has huge buy in, across the enterprise. What about senior management and the board? What kind of governance structures do you have in place?

59:07 – Bob Holycross

Yeah, you know, I think that is the key. That's really the key thing for us, right? We can set the targets, we can report on our progress, we can have the transparency around the data, but do we really have the leadership behind it all the way up through the top. And we absolutely do, I mentioned, from the Board's perspective, it's governed all the way up through the Board, but, when you think about the role that our CEO plays or Bill Ford plays. You know things around signing the CEO climate initiative, or, what have you, the CEO Women's empowerment principles. We do more than just getting in at the ground level. We have these different interfaces that tie back to our strategy all the way up, you know, through the CEO's office, and the senior leadership team across the board. Because, again, that helps set the tone. It really sets the team free to really drive all the solutions, and know that they're going to have the support to set them loose. And, as we mentioned, COVID-19 response is a classic example of, when you have those two things come together, the support of the leadership and the freedom to innovate, that makes a big difference. So the governance, I would say, is one of our competitive differentiators in terms of, you know, the support all the way up throughout, but also, you know, more mechanically in terms of how it crosses between our Board and our senior leadership team.

1:00:33 – Rod Lache

Great. Thank you. So I think we're out of time. We're about a minute over. But the commitment that you have to this is very clear to all of us. And we do really appreciate you taking the time to explain to us how you approach this. How you set targets, the metrics that you're focusing on, where you stand today, and I think it was pretty clear what you're aspiring to achieve. So, thanks again to Bob, Cynthia, Lynn and Jim for joining us and spending an hour with us on this very broad topic, but obviously, very important and increasingly important to the investment community. So, thanks again, and thanks everybody, for joining us. Hope everybody has a safe and enjoyable long weekend, and I hope to touch base with you guys again soon. Take care.