

Ford Motor Company - United States

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Ryan Brinkman: Hi, Good afternoon. I am Ryan Brinkman, the Automotive Equity Research Analyst here at J.P. Morgan. Thanks for joining us for the 2020 J.P. Morgan Automotive Conference being held virtually this year.

We're going to get going with our next presentation, which is from Ford Motor Company.

Just before we start here, I would want to remind the investors that there's a way for you to ask a question of management. You can type it into the conference website. I'd be happy to ask on your behalf without identifying your name or affiliation.

With that, we've got a number of guests here. We have Stuart Rowley, the President of Ford of Europe. We have Hans Schep, the General Manager of Commercial Vehicles for Ford of Europe. Sarah-Jayne, or SJ Williams, the Director of Ford Smart Mobility for Ford of Europe. Lynn Antipas Tyson, Executive Director of Investor Relations.

Stuart, Hans, SJ, Lynn, thanks for being with us. Appreciate it.

Lynn Tyson: Pleasure, and we also have Henry Ford III here, who's a new part of the IR team.

Ryan: Also then maybe great grandson, or great-great, sorry, I've lost track, of the famous Henry Ford.

[laughter]

Henry Ford: Two greats. [laughs]

Ryan: Namesake. [laughs] I thought to check in maybe just first on the broad health of the European market. Be interested to know your outlook for the recovery in vehicle sales, but also

some of the other measures of industry health such as used car prices.

I don't know if they've really recovered like they have in the US. Inventories, other transaction prices, what is the latest that you're seeing on the ground over there, and your expectations going forward?

Stuart Rowley: Ryan, well thank you, and good morning, everybody. We did have some prepared remarks and a few slides we were going to go through, Ryan.

Ryan: Oh, please.

Stuart: Want us to go through those and then...

[crosstalk]

Ryan: Oh, I'm sorry, go ahead.

[crosstalk]

Ryan: Sure.

Stuart: Good afternoon, good morning everybody, and thank you for your interest in Ford Motor Company. I have my colleagues Hans and SJ with me. We thought we'd take about 15 minutes just to give you an overview of our strategy here in Europe. I'll start that off. I believe you have materials available that we'll refer to.

We announced a reset and redesign program in Ford of Europe in January of 2019 to fundamentally transform our business in Europe. That program is summarized in the graphic that we've got on slide two of our materials.

Our objective was to return to profitability in the near term. In 2019, we improved our results to about a \$50 million loss for Europe or \$123 million profit excluding the Russia business, which has now been restructured. We've taken a minority position which is now reported in our IMG segments.

We achieved that objective, but more importantly, to deliver a sustained six percent EBIT margin on an ongoing basis. We said we were going to and have organized our business around three

business lines, commercial vehicles, passenger vehicles, and imports.

All three of those business lines are now stood up, and each of them have a dedicated leadership in place with clear P&L accountability. We're going to spend a few minutes today talking about the commercial vehicle business, which will be the foundation of our business in Europe.

Hans Schep, who is the general manager of that business, is going to take you through our strategy. In terms of our reset program through 2020, that was designed to do two things.

To drive gross margin on a vehicle line basis and to reduce structural cost as a step function, including a net reduction of approximately 10,000 people or 20 percent of our workforce in Western Europe, plus a reduction of 2,000 people in Russia, which is now complete. That was intended to drive a structural cost reduction of approximately one billion dollars net.

Now as we grow our commercial vehicle share in Europe, and Hans will share that with you, and shift our passenger vehicle portfolio to utilities, we've now delivered \$800 million of mix and net pricing improvements in 2019. We have delivered a further \$700 million in the first half of 2020.

On the structural cost side as of June 30th, we have reduced net 7,500 people in Western Europe, and we will deliver the 10,000 person reduction by the end of this year. We've closed or sold five of the six plants that we announced we would exit. The sixth which is the Bridgend engine plant is on track to close in September, i.e., next month.

We delivered almost a half billion dollar structural cost reduction in 2019. In the first half of 2020, we delivered a further net \$400 million reduction.

Although some of that reduction in the first half of 2020 was one-time in nature as we went through the COVID crisis, we are on track to deliver the one billion net reduction by the end of the year, and you'll see the value of that in our 2021 results.

I'm sure many of you have in mind whether the coronavirus crisis has impacted us, and of course it has, and you saw that in our first quarter, really the March results.

We were well on track through the end of February and of course in the second quarter, but as a leadership team in our European business, Ford Europe business, we set ourselves the objective to protect our people, to manage the crisis, and then to get back on track quickly. We have a plan in place to do that, and we are actively now executing that plan.

Although we will be operating in lower industry environment, as we move forward, we intend to deliver the plan that we have committed to.

With that, I'll hand over to Hans, who will talk to you about our commercial vehicle business.

Hans Schep: Thank you, Stuart. Our commercial vehicle business in Europe has been quite strong for a while, and the materials we sent you, in the third page you can see the market share trajectory. In 2012, we were the number seven brand in the marketplace in Europe.

We improved that position to market leader by 2015, and ever since, we've been the market leader with a strengthening market share. Actually, our leadership position has been extending, and also this year, we're on track to keep that number one position for the sixth consecutive year.

When, about 18 months ago, we thought about, how will we need to be organized, and how do we need to reset our strategy in order to not only be market leaders now, but also have a firm position in the marketplace after today in the future, what we did is we rewrote our strategy.

We determined our vision as to make our customers' business thrive, and we've designed a strategy on how to win in an ever more complex and complicated market going forward. I'll talk a little bit about that in a minute.

What we did as well is, when we had that plan finalized, we then organized ourselves around that plan, so...

[background sounds only]

Ryan: Sorry, I think we might have lost Hans there.

Stuart: Let me maybe pick that up until Hans returns. Hans was referring to...

Hans: I'm back. Can you hear me again?

[laughter]

Ryan: Go ahead, Hans.

Hans: [laughs] Sorry, my Internet connection probably is not so stable. Let me push on, though. We organized ourselves around delivering that strategy.

Within the reset phase that Stuart was referring to, where we actually reduced our personnel resources by 20 percent, we doubled the CV-dedicated leadership team. That, I think, is a clear indication of where we believe our future will be.

Let me talk briefly about our strategy, which is on page number four of the material we sent. First of all, this is about three things. The first thing is leveraging our strengths, and one of those strengths is our low-cost sourcing advantage that we have.

Our manufacturing in Turkey with our joint venture, Ford Otosan, is a very, very strong asset that we have. Actually, we amplify that now by getting more scale with our alliance with Volkswagen that you may have heard of.

Secondly, we strongly focus on delivering the basics of our business, specifically around uptime, which is really critical to our commercial customers. For instance, the transit center network that we have in Europe, we've evolved that with higher standards to our customers and to deliver uptime for their businesses.

The third element is all about building out five strategic pillars. I'll give you a few examples. The first one is about our making our partnerships that we have in our business available to our customers. The best example there to use is the network we have with converters.

As you may know, a lot of products that we bring to market get a second stage conversion to then be suitable for the end user. When we started this plan, we had about 50 partners. Right now, we're at about 200 of these partners. We're pushing on there.

Second element that we're building out is we call the deep co-development. We have dedicated teams who work with our larger strategic customers to really understand their business, and how we can make their business more productive and better. We work with them to be much more than just a supplier of vehicles, but really a partner to improve their businesses.

The third element here is owning the customer relationship. That means that we don't want to deal with our customers only when they purchase a vehicle or when they come for service, but really want to have an end-to-end relationship to help them better their businesses holistically.

Last month, we announced we found a new company called Ford Fleet Management. That's also a joint venture with ALD Automotive, a well-established mobility partner in Europe. We offer our end users, our customers, this fleet management.

The fourth element is all about smartly and easily integrating our customers and our partners' solutions into our vehicles, into our ecosystems. Underpinning all of that, lastly, is our strategic connected services. I'd like to hand over to Sarah-Jayne to talk a little bit about that.

Sarah-Jayne: Thanks, Hans. Good morning, everybody. Just to apologize, there's an electrical storm that's actually just started in London. There's a little bit of [laughs] banging outside. Hopefully, it won't disrupt the audio.

Last year, a number of you visited us in London to our mobility innovation offices. We showed you a video, looking at how we were wanting to move from selling products and services to really giving our customers connected solutions that would help our businesses thrive.

If you look on slide five, we are developing our solutions around three core experiences for our commercial customers. The first is smart ownership. That's really focusing on enabling vehicle uptime, and also driver uptime. With that, it's really about the health and well-being of the drivers, and combining that with fleet management.

The second experience there is around business services. That's really looking at the types of productivity solutions that integrate our customers' business into our vehicles and our vehicles into our customers' business operations. Then the final area is around mobility services, which is really providing solutions that enable our customers to operate in a sustainable way in an urban environment.

For all of those experiences, we are telling them to meet different customer personas, personas within both medium and large fleets, as well as for the independent operators and small businesses. For the medium and large fleets, Hans talked a bit about the importance of uptime.

There, our goal is to integrate the connected vehicle data with the wider Ford ecosystem, including our dealers and intelligently grouping the different types of data that we have. That could be predictive data, diagnostic data, prognostic signals together with our own internal information around, warranty information, as well as information that might come from drivers around, for example, broken taillights, those types of things.

Combine them together in an intelligent way for our customers so that they can reduce the amount of time that their vehicles are off the road. Customers can experience this either through a do-it-yourself solution through accessing our data or using one of our tools, for example, the Ford Telematics tool, which works not just with Ford vehicles but actually all makes of our vehicles.

We also know how this, Hans refer to Ford Fleet Management where we can provide different levels of all this do-it-for-you solution, provided fleet management to our customers.

For the independent operators in the small businesses, last year, we launched a tailored app for those customers called FordPass Pro that enables our customers to be able to proactively monitor their vehicle health, manage a small fleet of up to five vehicles, and also access some unique safety and security features. Our solutions, outside of focus on solutions, have already started to bear fruit.

For those of you that that were with us last year, we talked about the Urban Electric Van Project that we were doing in collaboration with Transport for London, which was really to provide a solution for our customers that enabled them to operate their businesses in a productive and a stepped, sustainable way in urban centers.

We tested prototype plug-in hybrid transit vehicles and services with real customers over a 12-month period, and we fed all the learnings about those products and experiences back into the program to create a really great solution for our customers.

Our focus on design thinking our first ever prototype vehicles will be our customers and on building solutions was really critical to enabling us to win the International Van of the Year Award for the Transit, which you can see on the right of the slide.

I'm looking forward to continuing to innovate on solutions that help our customers businesses thrive and also operate sustainably in cities.

Today, we're continuing on the theme around the plug-in hybrid running pilots, both in Valencia and Cologne, using blockchain to help authenticate that a vehicle is gone into the EV mode when it goes into, for example, a city center where there is open access regulations where the customer may have to pay.

That's looking at solutions that help our customers businesses thrive. If you go to the next slide,

slide six, we're also looking at how to increase our focus on connectivity to help our own businesses, our own business thrive and optimize our business.

What we're seeing is as our number of connected vehicle grows, our opportunity to divide both in sights and use data proactively increases exponentially.

By comparing data that we've traditionally got through our dealer network when customers have bought their vehicles into the dealership with data from our connected vehicles, we are now able to see that we can detect issues [inaudible] previously, and are able to proactively use that data to reduce the impact on our customers and also to reduce our costs.

We're also using that data to understand more about how our features are used and tailor how we set up those features to get a better first experience for our customers. A recent example is we were analyzing the usage of our heads up display within the vehicle.

We could see it's a highly used feature, but 80 percent of customers actually adjusted the position of the data on the screen. We can figure that so that it sits in that perfect position for the majority of customers when they first get our vehicles and better fit with their needs.

Collectivity also gives us the opportunity to delight our commercial customers with new features once they've already bought the vehicle, using updates over the air. We've recently launched two features, guard mode, and zonal locking. These are both specifically for our commercial customers.

Guard mode enables the customer to put their vehicle into a heightened sense of alertness so that they can have the peace of mind that if anyone interacts with their vehicle in any way, even with a key, they'll be notified by it. Zonal locking really addresses a key pain point that we heard from our customers.

Hans's team picked up in some of their deep co-development about the fact that the person actually wants to be able to unlock just the cargo, and give controlled access to the tools and parts without exposing the cabin unnecessarily. To close, just an example of how connectivity is changing our experience and our ways of working.

Our commercial vehicles have an intelligent oil life monitor, which is designed to notify you when you need an oil change. We were able to see from our vehicle data feedback from dealers and from customers, that many of them were having to change the oil more frequently than was

desirable and was causing downtime for their business.

We looked at what actions we could take to address that, and we're able to provide revised software to improve the oil life and also improve the notifications to the customer with messaging through the FordPass Pro app, and also access to service information within it.

We were able to use the connected vehicle data to actually continue to validate that the improvements were sustained by the software update. Now we're continuing to monitor the oil life through, that it goes to the expected levels in the second, third cycles, etc.

This is one example of many of the ways that connectivity is transforming how Ford are working, and how we're helping our customers and businesses to thrive. With that, I'll hand back to you, Stuart.

Stuart: Great, Hans, SJ, thank you. Maybe with that, Ryan, I'll hand it to you and have you take any questions.

Ryan: Thanks, Stuart, Hans, Sarah-Jayne for that overview. Sorry I jumped the gun earlier on Q&A, but did want to check in on the broad health of the European market what you're seeing with regard to recovery in sales, but also used car prices, inventory, heavy transaction prices.

That way, maybe some of the investors who are more intimately familiar with the North American market would be in a better position to contrast the recoveries, etc.

Stuart: Clearly, we ran strong January, February. April was the low point as effectively the network was closed across Europe. We reopened our business plants in May, and through May, June, July, we've seen a progressive recovery against a run rate of an industry of just under 18 million SAAR in 2019.

We ran at about 13 million SAAR in quarter one, down to 9 million in quarter two, but as of July we're now north of 16 million. We've actually seen a strong recovery, we're seeing August run strong. We have stimulus programs, government programs, in place in four of the big five European markets, so Germany, Italy, France, and Spain, but we're also seeing the UK run strong.

In the near-term, a good recovery. We're expecting the industry to run at about this level supported by those programs through the second half. We think there will be some moderation

and some payback for that stimulus as we head into 2021, and we're planning on that. In terms of used vehicles, similar to the US, we've seen a strong industry.

Transaction prices, residual values, Germany's largest used vehicle market we're seeing inventory down and we're seeing strong used vehicle pricing. In terms of our dealer inventory, that obviously spiked as the network shut down, it is now rapidly normalizing. I think through the end of this month into September we'll see dealer stocks at a normalized level.

Interesting for our business, we see the commercial vehicle industry stronger relatively than the passenger vehicle industry. We've seen very strong order intake on commercial vehicles, particularly in the last 60 days, our order bank actually stands ahead of where it was last year.

We're encouraged by that, we're not, though, going to plan on that level of sustained strength as we look forward. We're going to be cautious and if we see the industry hold up, we'll be in a position though also to take advantage of it.

Ryan: Great, thank you. Next thought to check in on the progress of the reset of the European business, I believe a reset's that terminology that you introduced or discussed in 2019, described the restructuring actions taken in the back half of '18 and then planned for '19 and '20 with regard to facility closures, employee separations, etc.

You made, I think, faster than expected progress in 2019, but now with coronavirus, is there maybe more that needs to be done along those lines? Where would you say you are with regard to the reset?

Stuart: Thanks Ryan, as I said in my remarks we're right on track. 7,500 of the 10,000 net reduction in Western Europe complete. That was by June 30th, by the end of this year, the 10,000 net reduction will be achieved. The six facilities we've exited will also be complete, so the restructuring program's right on track.

We've not lost any momentum through the crisis, and of course we've used opportunities to allow ourselves to act more quickly. As we look through to 2021, of course the industry outlook is softer than we had planned prior to the crisis, and we will make adjustments as required so that we get back on track and deliver our plan that we have committed to.

That program is running very well, and it's delivering what I would say is the reset was not just about structural cost reduction, that was a big part of it, a billion-dollar net reduction, but the other

part of it is around driving gross margins and shifting our portfolio so the growth of our CV business growing share, but also very importantly the shift of our passenger vehicle business to utilities.

We launched at the end of last year the all new Puma, we import the Explorer from North America, and then we launched in February the all-new Kuga. We will go from a utility mix below the industry average in 2019 to over the industry average in second half of this year and into 2021, and exiting lower-margin business and driving yield management.

There's a whole series of actions and tools behind that mix and net pricing improvement that is a key part of our reset plan.

Ryan: Given the discussion of costs now seems like an opportune time to work in a question here from an investor. He writes, "Greatly appreciate the color on first-half 2020 structural cost savings of \$400 million. Can you give detail on the negative contribution cost of \$400 million year to date? How much of that is related to higher CO2 compliance costs, warranty, and commodities?"

Stuart: Good question. The net increase in contribution costs is more than explained by regulatory actions which is primarily electrification of our portfolio. Everything involved, hybrids, through to eventually battery-electric as we introduce the Mach-E, so that more than explains the contribution cost increase.

I would ask investors to think about that, though in combination with that net pricing. You see those two in combination as we drive an overall improvement in our margin. In the first half of this year, of course that is masked by this huge industry impact as the virus hit.

As the industry comes back -- not to the level it was -- and as we complete the regulatory shift which is really happening this year, then going forward we expect to see our material cost reduction programs start to flow through into be an addition to our structural cost reductions.

Ryan: Now that we've discussed the reset, I thought to maybe pivot to the redesigns, some questions around that. I think a lot of that revolves around the light commercial vehicle strategy Hans was updating us on. How would you rate your progress there relative to when you first begun communicating the plan in early 2019?

I know you don't break out LCV profitability separately, of course, but what can investors look to

in order to gauge the progress? Is it market share? New vehicle introductions? Number of transit centers? New service offerings for commercial customers, etc.?

Stuart: Let me have Hans take that.

[crosstalk]

Hans: Thank you, Ryan. While I think I touched on a few of those things already, if you look at our plan, first of all obviously when you talk about leveraging our strengths, I talked about adding scale through our Volkswagen alliance. That agreement has been signed, so that was a big step for us.

Then if you look at the second layer of our plan, about delivering the basics, specifically about up time, we started upgrading our transit center network that we have in Europe with roughly a thousand transit centers to, as we call it, Transit Center 2.0, which is really delivering this increase of time capability for our commercial customers. We're right on track to deliver that. That's a big step ahead.

If you look at the strategic pillars, I already mentioned that we've increased our partnerships with converters from around 50 about 18 months ago to almost 200 now. There's a big step forward there. The launch of Ford Fleet Management that I mentioned is a very material and important step.

We're launching the company in the UK later this year, but we're then expanding across Europe to deliver this capability to all our customers in Europe. I would say, also a very important element, when we talked about this plan 18 months ago or so, we hadn't created the organization around it.

About half a year later -- so exactly a year ago from now -- we actually stood up our organization completely synchronized to our plan. That's a big step as well, obviously. We're now a year underway, and it's starting to function really, really well.

I think a testimony of that is our market share in the first half of 2020. Although the market obviously was down, we had an all-time high market share of 14.5 percent. What's really important that, within that, each and every European market actually grew their share year-over-year.

As Stewart has mentioned, our auto bank and also our auto [inaudible] is now ahead of a year ago. All in all, I think tremendous progress on the plan. There is still a lot to be done, but good progress, and early results proved that we're on the right track.

Ryan: Great, thanks. Next, I wanted to ask around the global alliance with Volkswagen.

I know it's a global alliance, but just because VW is so strong and so large in Europe, and because one of the first areas to be announced was in the area of commercial vans, and transit is such a big seller in Europe, I have to imagine that Europe has got to be a key area of the alliance.

I think there's an impression that VW brings certain strengths to the table, like an MAB. I'll ask on that in a minute, but in their European scale, you guys bring Argo, pickups, etc. I think your transit franchise was really already very strong, headed into the alliance.

Can VW make your transit or broader LCV business even stronger in terms of the capabilities and offerings, or is it more about improving the profitability with additional scale? What would you say is the plan with VW on the LCV side?

Stuart: Maybe let me take that first, Ryan, and then I'll ask Hans to add any color. You're right, LCV's are cornerstone, or commercial vehicles cornerstone, of the alliance with Volkswagen. Europe is really ground zero for that part of the alliance.

What we have announced to date, and we signed agreements in June, is that we will share, first of all, a compact pickup globally. Just to recall, investors may not see this so much, particularly those based in North America.

With our Ford Ranger, we have over 30 percent, one-third, of the compact pickup market in Europe. We have been consistently growing that share, including this year. The addition of the Volkswagen business, that product will continue to be led by Ford engineering and production.

The addition of Volkswagen to that will give us additional scale and allow us to grow that business and make it even stronger globally, but Europe's a very important part of that. The second piece was on the one-ton commercial vans.

That's our Transit custom and Tourneo custom. Volkswagen and Ford in Europe are the number one and two brands in that segment. Clearly, the combination of those for the next-generation product...

Again, the engineering and production will be led by Ford out of our engineering center in Dunton and produced in Ford Otosan in Turkey. That gives us a very strong position. Of course, winning in light commercial vehicles going forward is going to be about providing more and improved solutions to our customers.

That business is going to electrify. That has started. We already have plugin hybrids and mild hybrids. We will also have in the future full-battery electric products. Of course, connecting those vehicles and taking those into the next generation of capabilities.

This alliance with Volkswagen allows us to share the investment to cross over those hurdles and really create a clearly leading position. That is very important. The third piece is a city van. This is a small, we call them, integrated style vans.

In that segment, Volkswagen will take the lead in engineering and production. We will take a product off their platform. Again, it allows us to grow scale. It's hugely important. Those are in the development stage, but those products will come to market now over the planning period and are really going to be a part of us going to the next level.

Both in terms of scale and our cost competitiveness, but also, it allows us to broaden the offer to customers as we share the investment. It's very important.

Ryan: Thanks. Another area where there's a lot of overlap with VW is in electric vehicles, including because of the stringent emissions requirements in Europe. What can you tell us about the cooperation with VW in the battery electric vehicle space?

There was some interesting disclosure on a conference call last year with Jim Hackett and the CEO of Volkswagen where it was discussed, maybe an agreement to supply 600,000 MEB platform systems to you, including battery packs and other parts.

Discussions were underway for a second vehicle, it was suggested, could even double that volume or almost double it. Some pretty big numbers there. Are you able to fill in any details for us, including progress toward a second vehicle agreement?

Maybe just tell us a little bit about the technology that is on offer. I don't know if you're limited in what you can say about future products, but anything that you can relay about the types of, what kinds of vehicles this will be, what their general performance or capabilities might look like, would

be really helpful.

Stuart: Thanks, Ryan. The second part of our alliance with Volkswagen is on battery electric vehicles, and that is in Europe, the focus of that part of the cooperation, again, in Europe. We have agreed and signed final agreements in June, again, for that part of the alliance.

We will build a full-battery electric Ford vehicle in a Ford plant, utilizing the Volkswagen MEB platform. The first product of that platform is the ID3 that people will be familiar with. We will launch that product in 2023.

The agreement [inaudible] is a lifecycle volume of approximately 600,000 vehicles. We haven't announced yet what that product will be or where it will be manufactured. Of course, though, we are well-progressed with that plan, and details will follow.

We have the opportunity to do a second vehicle. After that, we have an opportunity to take that further. We have not yet concluded those agreements. Clearly, behind this strategy is, again, accessing scale for our European business.

Volkswagen clearly is a very large player in the European market. They are making very large investments in the electrification of their portfolio based on this MEB platform across their volume brands.

This partnership allows us to tap into that scale effectively, too, as we bring, domestically produce battery electric vehicles to our Ford European business.

Ryan: I'd like to ask, too, about the profitability of battery electric vehicles in Europe, because I think, historically, BEVs tended to be a drain on margin. Not unique to Ford, just across the industry, they've tended to be less profitable, or even loss leaders from a regulatory perspective.

How do you think about your ability to turn a profit on BEVs, and does the relationship with Volkswagen, the MEB platform, mean that these programs are likely to be profitable?

Stuart: First of all, I would say we do not plan to lose money as we transform the business. Our intent is to be profitable. I think it's fascinating, if you watch the European industry right now, and some of your investors will be in Europe, others, I'm sure, are based in North America.

It is very clear that the European industry is going to electrify. Whether you listen to the EU or to

the UK, even post-Brexit, there are multiple countries who have stated a clear intent over time to exit from traditional combustion engine vehicles.

Some countries as early as 2030, others 2035 or 2040. What we see in reality today is governments really driving that transition. The incentive programs that we've seen across Europe are very directed at battery electric or plugin hybrid vehicles.

If you look at the first half of this year, we're running at five percent BEV mix, as well as a significant growth in plugin hybrids. It is very clear that this transition's going to happen. As we look at our business, again, it's been fascinating.

Programs we put together, the plugin hybrid transit van that SJ referred to in her presentation, when we put that plan together about three years ago, we were asking ourselves if we could make money.

That vehicle is now in the market, and its margins are equal to or better than a diesel van, because we see clear demand from consumers, from fleet operators for these products. The mix of our all-new Ford Kuga today is running over 50 percent plugin hybrid.

The mix of our all-new Puma is running at 80 percent, plus a mild hybrid of 48 volts technology. We see clear customer demand, and we see clear intent by regulators to drive the market in that direction.

We're all-in on electrifying our portfolio. Actually, we think it will be a prerequisite to profitability moving forward.

Ryan: Great, thanks for that. Then maybe just nearer term regulatory compliance costs, can you talk about the grams of CO2 per kilometer requirements in Europe, when and how those phase in, what your strategy is for complying with them, whether you think you'll be in compliance, what the fines might be for automakers that are not in compliance?

It would be great if you could touch upon in your response what, if anything, the LCV push means from a compliance perspective. Whether those generally heavier vehicles, etc., are graded in any differently in the regulations than, say, like a Fiesta.

Stuart: Each OEM's compliance requirements are different based upon their portfolio footprint. For Ford, the requirement is about a 20 percent reduction in CO2 grams per kilometer reduction

year-to-year 2019 to 2020.

We've been very clear from the outset this is not new news. We've been planning on this for some time. We've been very clear that we intend to comply, and we're on track to do just that. Our overall fleet objective is sub-100 grams.

Our compliance will be driven by the electrification program that I talked about. Mild hybrids now in market on Fiesta, Focus, Puma, Kuga, we have a plugin hybrid on the Kuga, a very important part of our compliance plan. Then, as we go into 2021, our Mustang Mach-E.

In 2021, it's a slight change. There's a five percent allowance in 2020. You can take the, call it the highest CO2 part of your portfolio and put it in that five percent category, and it's not counted.

Next year, that allowance goes away, so there is a shift year-to-year. The introduction of Mach-E is the change that comes in our business. We're on track to comply. On the LCV business, though, there is a different category.

In Europe, we have what we call the M1 fleet, which is the passenger-carrying products, and then the N1 fleet, which is the commercial vehicle products, so separate categories. We will comply on both.

As some of the transit products -- what we call our Tourneo products, the passenger-carrying versions of those -- sit in the M1 fleet, as you're correct. They're typically heavier vehicles. They're also typically good margin vehicles. They sit within passenger vehicle fleets from a compliance perspective, but they'll be part of that overall delivery that we'll achieve.

Ryan: That's helpful, thank you. I think one of the great parts of Ford's strategy has been your willingness to play to your strong suits. Examples being the emphasis on LCVs in Europe, drawing on the strength in trucks and SUVs in North America, with the pivot into the Bronco category, etc.

I liked that catchphrase from a few years back, "Where to play and how to win?" The flipside of that, of course, is not just about selecting where to play, but where not to play. With good examples being exiting most of the passenger cars in North America, manufacturing in Australia, restructuring India with Mahindra, etc.

In Europe, I guess you could point to the restructuring of the Russian operations. Just curious if

there is maybe more to do in Europe from a where not to play perspective. Are there certain geographies, segments, or sales channels that you may look to exit or de-emphasize within Europe, what could be the potential profit implications of any such moves?

Stuart: Ryan, thanks. You're correct. Clearly, the exit of Russia was an important and significant step. Beyond that, you should not anticipate further geographic moves. We intend to continue to serve the European markets in which we operate.

We are also taking significant moves on the product portfolio. Clearly, as you say, growing commercial vehicles is the way to play. On the passenger vehicle side, we've said we will have a more focused portfolio moving forward.

We exited all of the MAV segments, with the exception of the Ford S-Max that we continue to sell. Last year, we discontinued the C-Max, and we took our Saarlouis plant from three to two shifts, and exited over 1,500 people in that operation. We discontinued the Ka-Plus.

As we move forward, we are de-emphasizing the traditional, what I would call, passenger car segments in Europe. Segments that are shrinking, the B and the C segments. We are investing in the stronger, better margin, and growth segments.

Our Puma in the B SUV segment, and Kuga in the C SUV segment. Within that, we now have in our Craiova, Romania facility two B SUVs in that low-cost operation, the Ford EcoSport and the Ford Puma.

Our shift of our passenger vehicle business to utilities, and away from traditional passenger cars, is another of those critical choices.

Ryan: Helpful, thanks. Sarah-Jayne, I thought to ask you a few questions as follow-ups to some of your earlier comments about connectivity. You had talked about wanting to accelerate connectivity.

Is that because you see it as a potential competitive advantage? Do you think that connectivity actually drives value, or is it more just the cost of remaining competitive in the market? Are you able to attract the talent that is needed to win in this space?

Sarah-Jayne: If I take the [inaudible] . If I start around your first question around acceleration and competitive advantage, I think primarily the connectivity drives competitive advantage for our

commercial customers.

I think, if we can use our vehicle connectivity to help our customers drive uptime and to give them productivity, it will actually help our customers win. If we achieve this, we know that that will translate into loyalty and also value for us as a company.

In terms of our acceleration, we have recently restructured our team. We've moved to create one enterprise connectivity team across the organization, focusing on creating connected experiences and solutions, both inside the vehicle and outside the vehicle.

We have brought all the teams from different parts of the organization together, including the connectivity hardware and software, to be able to provide an end-to-end capability to deliver holistic experiences for our customers.

In Europe, we already had consolidated our development teams for the kind of experiences that are off the vehicle in our site on the Olympic park. We now combine that with teams based in Germany who are focusing more on the in-vehicle experience.

Together, we're going to be working as one team going forward to develop both experiences for the global team, but also regional-specific experiences for our customers as well. I think your second question was around the, is it costs are remaining competitive, or is it about driving value?

Interestingly, I think in Europe, primarily, it's actually a compliance cost. We have to have connectivity for the European eCall legislation. It also does provide a platform for value for us and for our customers.

Increasingly, we are working as a whole company to look at the value of connectivity, really, across four different areas. The first is around the customer loyalty and retention that that brings.

The second, around the opportunity in terms of value after the vehicles purchased, both can cross-sell and upsell. Thirdly, around everything cost reduction and avoidance, particularly in how we use the vehicle data to help us optimize, how we operate internally.

Finally, there's a direct revenue aspect, particularly, where we can drive value for our commercial customers. We know that customers are more willing to pay for those types of services. We are focused on value. We are putting a greater focus now in terms of the ongoing monitoring and

measurement of the value that we bring.

I think a final one was around talent. Interestingly, as part of the reorganization, we actually have brought in the founder of John Deere Labs.

Alex Purdy has recently joined us to lead the business operations part of our enterprise connectivity organization. With that, we're also benchmarking a lot of what is happening in other industries, to learn from the best practices that are there. We from a European perspective, we set up our bases in London to ensure that we can attract good software-based talent.

We continue to develop our culture in ways of working to be in a much more agile and based on design thinking of our customer-centricity in what we do. Hopefully, that's a little stop tour of your questions.

Ryan: It was. I appreciate it. It's a good, good rundown. I wanted to ask also on the impact of coronavirus if any, on the European business profitability longer term, whether it's anything to think about there. Jim Farley last week, he reiterated the call for 10 percent margin in North America saying he wanted to accelerate it actually.

I just wanted to check in with you in regard to your longer-term margin targets in Europe, which I think are for six percent. Does coronavirus impact that in any way other than timing?

For example, do, I don't know, supply chains need to compress or be made more redundant contributing to inefficiencies? On the other hand, does additional belt-tightening instead cause you to improve long-term margin? What are your thoughts?

Stuart: Ryan, clearly we are going to be operating in a lower industry environment, particularly in the near mid-term. Not clear yet on the long term, but we're going to adjust our plan accordingly.

We're committed to the transformation of the business and delivering profitability in our six percent margin. That plan is not changed. We will just need to execute that in a lower industry environment, at least in the near and the mid-term. In terms of consumers, I think it comes back to the shift in electrification, the EU Commission driving the Green New Deal.

I think that is probably going to accelerate. That's a trend that we will have to lean into and take advantage of. We're seeing not only governments but consumers demand those technologies, and we're seeing a demand for them. We feel very good about our commitment to electrification

that we've made back in the second quarter of 2019 in the products we're bringing to market.

On the other side, clearly, we're seeing the same shift to online business in Europe that we've seen in North America, with the shift of retail. Our commercial vehicle business is very well-placed to take advantage of that. We're working with our commercial vehicle customers, providing them improved products and solutions.

We think that will definitely play into our strategy and we intend to capitalize on that.

Ryan: Very helpful. Thanks. Maybe just another coronavirus impact question here. How do you think about the virus potentially impacting the type or pace of technological change within the European industry? Does it speed up, or slow down, or have no effect on pre-existing trends such as electrification or autonomous driving?

I don't know if automakers maybe slow innovation and rate of change in an effort to conserve capital, or alternatively, they're like, "Well, we can conserve capital. We can spend it only on the most needed, most forward-looking technologies," so skip reinvesting in some of the more legacy propulsion systems. I don't know. What net effect do you think it might have?

Stuart: Absolutely. As I just mentioned, on electrification, I think we see that accelerating both in the reality of the first half of this year and looking forward. I think it's going to transform our business in other ways. The connectivity of our products and Sarah-Jayne has spoken to that, will become even more critical, including for our professional commercial vehicle customers.

The other trend we're seeing is going to be the move to online purchase and transaction. We were investing heavily in the online purchase experience, the online service experience. We think consumers increasingly are going to take advantage of that. Many people have, through these lockdown periods, changed their buying behavior. Automotive is going to be no different from that.

The great thing is we're seeing our dealers react to that extremely positively. It's been a real realization time for them. They are leaning into that with us as we invest. The other thing I would say, finally, is this where our alliances are critical because we must invest to make this technology transition, particularly in our commercial vehicle business, but also in passenger vehicles.

Our ability to share those investments, particularly in the non-consumer transparent parts of the

business and the backend of the business are critical, because they are very large investments that it's not an alternative not to make.

Ryan: Great. Thanks. Try to squeeze one last one in here before we go, just on the business of importing vehicles from the United States into Europe. Import vehicles, now it's one of the internally reporting segments in the redesign. There was that headline a few years ago about how the Mustang was outselling the Porsche 911 after it was introduced in Germany.

I don't know if that's still the case. Obviously, there's going to be a lot of interest in the Mustang Mach-E in Europe like in other regions, too. Do you intend to continue to focus to be on those more iconic American models going forward?

I don't know. You've also exported some more mainstream vehicles like the Edge. I'm looking at the euro's \$1.18 now. I don't know if that makes this business more attractive including for mass market entries. What do you think?

Stuart: Ryan, you're right. It's one of our pillars. We do intend to build upon it. It's a fascinating business. It's going to be a niche business for us. It's relatively low volume. It can be very brand-enhancing and, importantly, profitable business. It really started with Mustang. That's been a great product for us in Europe. It's exceeded our expectations. It's a very good business for us.

We launched at the end of last year the Ford Explorer in Europe. That's a large product for Europe relatively. There is a group of consumers who love that product. It's a full seven-seat SUV. We only sell it as a plug-in hybrid, so 450 horsepower over 700 Newton-meters of torque, but only 70 grams of CO2.

It's a great product for people who are really attracted to those iconic Ford brands. We're really going to go the next step when we launch at the end of this year the Mustang Mach-E, building on that imagery. It will be our first full-battery electric vehicle in Europe. It's a Mustang. Only Ford can do that.

Either way, I talk about this with colleagues and maybe for investors to think about it, is if you are a distributor in Europe and offered the opportunity to distribute iconic Ford vehicles in Europe, is that a business you would take? It's certainly one I'd be very happy to own. It's not going to be huge volume. It can be a great business. It will really contribute to the Ford brand in Europe.

Ryan: Great. We're about out of time here. Stuart, Hans, Sarah-Jayne, Henry, Lynn, I thank you

all so much for your time and insights here today. It was very helpful.

Lynn: Thank you very much, Ryan.

Ryan: Thank you.



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