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MANAGEMENT DISCUSSION SECTION

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Thank you for joining. My name is Dan Levy. I lead US autos coverage at Credit Suisse. I'm very pleased to have you join the Annual CS Global Industrials Conference.

I'm very pleased to kick it off in the autos track with Ford. And I think we have a very timely speaker today, Lisa Drake, who's the COO of North America, a newly created role back in May. And she's responsible for product launches, warranty reduction, material costs, permits, all the things that we've heard about that I think are very topical, very relevant to Ford's push to get back to 10% margin. Prior to this newly created role, she was Vice President-Global Powertrain; also responsible as well for global purchasing. We also have on the line with us Lynn Tyson, who leads Ford's investor relations efforts.

Lisa's going to go through some slides, and then we're going to go through some questions. To the extent you have any questions you like to e-mail me, please send me an e-mail, dan.levy@credit-suisse.com.

And with that, Lisa and Lynn, thank you so much for joining us.

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

Thanks, Dan. Good morning. So, we filed a set of slides. I think they've been posted and shared with the audience in advance. So, I'm not going to spend too much time. I'll hit on a few key points on each, and we can spend most of the time this morning on the Q&A.

This is the plan that Jim Farley unveiled with our leadership team on October 1, when he became the CEO. And it builds on where we've been in the past few years, but it really accelerates the implementation of various elements. And the plan is very clear for us and the leadership team of what we need to do.

If we look at the next slide, we're committed to create a Ford that really grows profitably and generates sustainable free cash flow, and that will largely be on the back of turning around our automotive operations. We will allocate capital to the best and highest use of business cases. And you'll see some of that in the upcoming slides.

A few key priorities of the plan, if we can go to the next slide, as I mentioned, turning around our automotive operations. And Jim likes to say, compete like a challenger. We need to move with urgency around our automotive operations. And again, that's why my role was created in North America earlier this year.

There's laser focus today on improving quality in our North America business unit. And we have incredible energy around benchmarking and complexity reductions to help us reduce cost. This turnaround is all about the fundamentals. I can tell you that we're benchmarking against the best. And we're making very quick decisions through vehicle and customer data.

And then we will treat our customers like family around the globe. We know that we can't let our customers down. And we have had some bumps in the road in quality in the past, but we're very committed to turning that around, and we have the resources and the plans in place to do so.

If we can look at the next slide, we will earn customers' respect with great products and services that only Ford can deliver. And in the work that we do, we really deeply care about our customers. We will make sure that we have a software and an infrastructure in place that has equal priority to the physical vehicles that we will be building. And that software capability will help us deliver exceptional customer services and features that our customers really truly enjoy.

If we can go to the next slide, we do need to capitalize on our strength, and we will start to grow again in North America. We will allocate more capital and resources and talent to our strongest businesses and vehicle franchises, like F-150 and our commercial vehicles. And we are expanding our commercial vehicle business with a suite of software services. And we'll drive loyalty and generate recurring revenue with services and features that our customers need in their commercial vehicle work.

If we can go to the next slide, we're really committed to modernize everywhere, and that's in all aspects of our business. And this is a picture of our new battery electric vehicle assembly plant for the new F-150 in Dearborn. And we're embracing technology. We think of data and software first. And we really want to unleash the power of AI in all parts of our business, everything from manufacturing to customer experiences.

In terms of electric vehicles, we plan to lead in the electric vehicle revolution. We have strength and scale that's unmatched by others in our commercial vehicle and our pickup segments. And our EV strategy leads with our most iconic vehicles, the Mustang Mach-E; and then it quickly follows with our franchise leaders, the F-150 and the Transit. And these are very large addressable markets for us.

In terms of our product lineup, very excited about what we're launching this year, everything from the new F-150, which is shipping and on its way now. We unveiled the E-Transit, which will be coming soon. Our Bronco Sport launch is ahead of schedule. We can't wait to get this to our customers. And as I mentioned the Mach-E, also on track this year. A very fresh product portfolio and, again, we can't be more excited about welcoming that Bronco back to our lineup.

This was a big year for us. We had several key launches. I'm very happy to report that these launches are on track, both from a design, a supplier and our manufacturing standpoint. And I have to say, even through the

COVID challenges, the team really persevered. We're shipping the F-150 from both plants, as I mentioned earlier. The Bronco Sport is ahead of its acceleration and its shipping to dealers now. And then the Mach-E is also on track to begin its shipments this year.

In terms of quality, we really took a systemic look in North America at what had happened to our quality over the last few years. And we are taking major steps to make improvements in many areas. I'd like to highlight just a few of the things that we're doing. From a design standpoint, we have enhanced our early feedback. We used to get feedback from our dealers, sometimes days after some of the initial warranty repairs. And with their help and some new technology, we now can get feedback on some of these early warranty indicators in a matter of hours.

From a supplier standpoint, they're our critical partner for us in our work on quality. We did, over time, reduce some of our quality support in our assembly plants, and we've now put that back in place. And we're engaging our suppliers earlier than we ever have before in this early diagnosis of warranty issues, in the hopes of cutting them off before they become much greater. And then, finally, from a manufacturing standpoint, more quality audits in place, incremental resources, and we enhanced our launch readiness based on all of the lessons learned from Explorer.

If we could go to material cost, over the last several years, our material cost has increased due to the product spending that delivered that fresher portfolio that I just reviewed with you. But it's important to note that beginning in 2021, this trend will be reversed as the material cost reduction start to be delivered, as the benefits of our modular architecture, the platform sharing and our Best Cost @Job 1 efforts are now manifesting themselves in these future product programs. And this reduction in material cost, along with that fresher product portfolio, is what is going to help contribute to that return to 10% in the North America business, which supports our corporate 8% EBIT.

If we can go to the last slide, very excited, as I mentioned, about the return of Bronco. It's a huge addressable market for us. And as the number one cross-shopped brand for Jeep, we think we're in a strong position to aggressively pick up some share. So, very excited about this. And the Bronco will be coming next year, the two-door and the four-door models.

So, with that, I'll turn it back over to you for some Q&A.

QUESTION AND ANSWER SECTION

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you so much, Lisa. That's a really helpful set of slides, and it's a good way to frame the discussion. So, just as a reminder to the audience, to the extent you have questions, you can e-mail me at dan.levy@credit-suisse.com and I'll just go through – I have some prepared questions as well, but I'll weave in any questions that I receive from the audience out there.

So, Lisa, maybe let's just start with the current business and maybe you could just give us a quick snapshot on where we stand with North America Auto, because we know that SAAR's really strong. We've got another high 15 million print yesterday. I think this is probably much higher than what anyone would have anticipated for recovery out of COVID. But we have heard rumblings of supply chain disruptions amid COVID resurgence. So, maybe you could just tell us, are there any inefficiencies out there in the business in terms of the supply chain, the production schedules? How is that impacting your build schedule and the launches?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Thanks, Dan. We're aware of the situation in Mexico, as you mentioned. And the good news is that our plants are running at about 98% of their production schedule. Even with the disruptions that we've seen. And that's through incredible advanced planning work from our material and logistics teams and also just accelerating some of our inventory buy from these suppliers.

The Mexico situation is tenuous. We need to stay very focused on it. And we have all of our supplier resources focused down there to help them through that. But we're ahead of schedule on our launches. And many of those parts do come from Mexico. And right now, that pipeline is stable. And we're going to be very transparent about where the COVID situation is impacting us from a production standpoint, as we move forward. But right now, with a lot of due diligence, again, we're about 98% of our planned production schedule. And the team is very committed to continuing that good parts support from Mexico.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

And I think on one of the prior calls, team mentioned that there's still a lot of – in 3Q, a lot of premium freight as you were really working the supply base, just working through inefficiencies. Any sense on how long you have to battle through these types of inefficiencies in the system? Is it just a matter as long as we have COVID, you're just going to have to battle through these supply chain inefficiencies you anticipate?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. It's hard to tell. There's no doubt, we have to stay vigilant for the foreseeable future. But I think, it would be just speculation to determine when we might be out of this. In the meantime, we're managing it quite well. I'm very proud of the Ford team for how they've been continuing the parts supply under a pretty strenuous situation.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Okay. Let's get to the first topical item in terms of your focus points, and that's on the launches. And let's maybe just zoom out for a second. We know that execution is really crucial for Bronco and F-150. But we know also last year with Explorer there were some execution issues.

So, just broadly, let's just start off, what makes you better prepared for these launches versus Explorer? Is it simply that Explorer was unique in its level of difficulty due to the overhaul of the Chicago plant, or is the level of focus on execution just magnified right now? Help us understand what's different today versus what happened with Explorer last year.

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. Dan, I would say, it's both. Explorer was very different for us in Chicago. We essentially built an all-new plant in Chicago. We had to gut it and install all new equipment, body paint and final. We had two models, right? We had our Ford brand Explorer and then also the new Lincoln Aviator. We changed from a front-wheel drive to a rear-wheel drive platform, which is no small feat to do. And we took on a lot. And the F-150 launch is in a very different place than that.

First of all, Kansas City and Dearborn Truck Plant are stalwarts of truck production. We didn't have to change over as many of the industrial parts of the system in those launches. So, the new aluminum body shop that we did for F-150 was done five years ago, so there wasn't that heavy lifting to do. We also learned not to swing for the fence and launch every variant at the same time. So, on the F-150, we've staggered some of our powertrain launches and then also some of our higher mix to allow us really good focus on every variant, every trim level as we accelerate.

I would also say that we put enhanced quality measures in place, even above and beyond what we traditionally would have done. We have more people supporting the launch. We have more supplier engagement at the highest levels and, frankly, more audits that we put in place. There is no room for error here for us when we launch the F-150. And I'm pleased to tell you that we hit those metrics that we set for ourselves, and now we are shipping. So, so far, very pleased with the team on the F-150 launch.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And you note here that all the launches are on track. Maybe you could also just note – I think, you noted for F-150, Mach-E, Bronco Sport. Where does Bronco stand? And Bronco starts next year, but where are you in terms of launch readiness for Bronco?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. So, I'll touch on the other two as well. So, Bronco Sport is actually shipping now. And both Bronco Sport and Mach-E, we had the added benefit that they are both each in assembly plants that did not have to balance out an old model. They were singular brands, lower-complexity brands than things like F-150 and Explorer. And those assembly plants had full focus on just that single variant in that single plant, which is why, largely, the Bronco Sport is ahead of its schedule, and again shipping now.

Mach-E is on track as well. We'll be shipping later this year to the US dealers. And then the Bronco is on track to all of its engineering gateways. And it's intended to launch next year and will be available in the spring, as we've mentioned.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then as we're thinking about the shape of the ramp, so you've launched, you've started shipments already for Bronco Sport, and I believe you said new F-150 you've started shipments as well.

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yes, from both plants.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So, help us understand what the shape of the ramp looks like in terms of mix, in terms of variants, in terms of volume. And how [indiscernible] (16:07-16:12) hitting run rate volume, there's some excess launch cost that needs to be run off?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

So, Dan, I don't know if it was just my audio.

Lynn Antipas Tyson

Executive Director-Investor Relations, Ford Motor Co.

A

No, I heard it, too, Lisa. Dan, you're audio was breaking up.

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yes.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Oh. Yeah. Just trying to understand, as you've launched the vehicles, what the shape of the ramp looks like in terms of volume and hitting run rate profitability? Is it just a matter of mix, or is it some run-off of excess launch costs?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Thanks. Thanks, Dan. So, it's a bit different for F-150 than it is for Bronco Sport and Mach-E. For Bronco Sport and Mach-E, we didn't have to balance out any prior models. So, that's just a matter of starting acceleration and as we start to ramp up curve, recouping some of those manufacturing launch costs early on.

F-150, very different for us, for many reasons, as you can imagine. We worked very diligently on a balanced out plan of the current model. Especially in the light of COVID, we had to be very diligent and specific about how to manage that sell down on both plants, but we did stagger that launch. So while we changed over Dearborn Truck Plant, we were still able to build the old model F-150 at Kansas City. But then at some point, Kansas City had a changeover as well.

The impact to the F-150 launch is the most notable. So, in this quarter, obviously, as we had changed over those two plants, we anticipate approximately a 100,000-unit degradation to our wholesale numbers because of the changeover and now the ramp up. And just to put that in context, that 100,000 units in the fourth quarter, it will far outweigh the effect last year in the fourth quarter of the UAW ratification bonus that we paid, which was about \$600 million. So, again, for us, this quarter, it's really the impact of the F-150 changeover, not so much the launch ramp-up of the other two products.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then, just lastly on the product side before we pivot to cost. I believe on the second quarter call, Jim Farley noted the potential to add additional capacity or ships for Bronco. Any update there? Is that under consideration?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

So, in Michigan Assembly Plant, where we build both the Ranger and the Bronco, we have the capability of building over 200,000 units a year. And we don't really disclose projections by nameplate, but we do have some flexibility to increase the Bronco capacity and even mix in between the two nameplates. So, we're very happy to see the Bronco interest. We're doing everything we can to get all the units to the customers.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Perfect. Let's pivot to cost. And you gave us this very helpful slide, breaking down some of your initiatives and some of the issues underlying your warranty issues. So, if we just look between design, suppliers, manufacturing, what has been addressed versus not addressed? And is it now just a matter of seeing benefits of initiatives or – help us understand what work needs to be still be done versus what has been done, and now you just have to reap the benefits?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. We are very committed to turning around our quality in North America. It's been a primary focus for us this entire year. And we do need to make a step function change. As Jim has mentioned and many of you have cited, our warranty costs right now are not competitive. They're up \$1 billion to \$2 billion over where we were in 2017. And we need to become better.

In the past product programs and the programs that are launching, we invested a lot of resources in some of the upfront design work and the design quality work for these new products, like F-150, Mach-E and the Bronco Sport. And I think you'll see the benefit of that once those products launched and are in our customer hands. But we can't wait for that, and so we're focusing on all areas of the current model quality, as I mentioned, design, the manufacturing process, and then obviously, the supplier work that we have to do.

As I mentioned before, from a design perspective, putting a lot more resources in place, more quality engineers than we've had in the past. We added those this year. We've also added governance around our quality work in North America, where the highest level of our product development organization is routinely with the North America team discussing quality and the work that we're doing to accelerate the closure on the warranty issues.

We have a shot clock, so we're measuring our clock speed, which we didn't do before. So, that's helping us cut the issues off faster. And then our supplier engagement is at a very different level than in the past. We used to get warranty parts back from the field. Ford would do a lot of the diagnosis. We would engage the supplier only if we thought that was the next step.

And now, our work with the supply base is starting much earlier. The minute the parts come back from the dealership, or the minute they're done being repaired on a product, Ford and the supplier, together, are now engaged in the process, trying to diagnose what's happening and cutting these issues off much faster through the suppliers' support. So, we're operating in a very different way this year. We won't see the benefit of that. As you know, it's a bit of a lagging indicator until sometime next year when the products that we're manufacturing are built, sold and then in the hands of our customers.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then let's just follow up on the point on supplier engagement. And you've noted that you're going to charge the suppliers – or you've expedited supplier engagement 50% debit of repair costs that's up front. How much is that a standard industry practice? What's been the feedback so far from the supply base on that new policy? And what was it before?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. So, it's not a new policy, I'll start there. We did quite a bit of benchmarking of warranty terms across the automotive industry. And it's more frequent than you would think on a warranty chargeback, and we were uncompetitive in that space. The good news is it was in our terms and conditions. So, we do have the ability to do it. We just weren't exercising it. We had the wrong process focus inside of Ford. And frankly, I have to say, I've led the purchasing organization for many years, and I can't tell you how important it is to keep our suppliers as our partners. They are absolutely critical for us to be successful.

So, this wasn't intended to shift burden to them. It was intended to incentivize them to engage with us earlier and cut the warranty issues off earlier that they are responsible for through their process and, ultimately, help them reduce their warranty expense also, because we were coming to them after the fact with very large warranty bills and negotiating those. And even they mentioned to us that they wanted to be involved earlier, so that they can help us cut it off, the warranty expense for both of us; and the customer satisfaction is much better. So, I'm very hopeful that this is a very – it's a good step in the right direction. And it's a win-win for our suppliers.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Let's wrap up. I know we're getting close to time. I want to ask a quick question on EV, and then we'll get to, I guess, Jim Farley's growth initiatives. EV, as far as Mach-E, how are you going to define success for the program? Is this based purely on volume or demand, or are you also defining this based on profitability? And I believe the prior comment in the past was that we should expect all the first gen of Mach-E to be profitable on a contribution margin basis, but not on an all-in EBIT basis. Is that still the view? So, how are you defining success of Mach-E?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. We set out, when we launched Mach-E and developed the product program, for it to be a contribution margin positive. We know that we need to be in the profitable space as we accelerate our EV growth, and that's how we structured that product program. So, from our perspective, success for us is contribution margin positive Mach-E at launch.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then let's wrap up one on growth. And I think we know that – we've heard about the initiatives in data connectivity, commercial vehicles. I want to ask about actually affordable vehicles because that's something Jim Farley has mentioned in passing, but I think we're interested in learning more about that.

Help us understand what the emphasis on affordable vehicles in North America might look like, because you've actually pivoted away from there. You've gotten out of the pass car space for the most part. Is this focus purely on CUV/SUV or is it to re-enter sedans? And as we look at the affordable product segments, which are generally more saturated, deeper pricing pressure, why would you want to return to this segment if it's margin dilutive? What's different today versus maybe past versions of the affordable product that you've had in North America?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. That's a good question, Dan. And I know, Lynn and the team plan to spend more time in the spring, taking you through the strategy. But I can tell you what's different: One it's our ability to leverage our flexible vehicle architectures, which we didn't have in the past; and also some of our partnerships that we've developed.

Based on our ability to execute off of those vehicle architectures, we've been able to deliver vehicles much faster than in the past. We have now the white space vehicle coming out next year. And I think that, again, the difference is we're now using those flexible vehicle architectures as an enabler for speed and for scale and then also the partnerships that we've been engaging in over the last year.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then actually, yeah, we're going to wrap up one more, someone that e-mailed a question here. What are you hearing from – and seeing from US municipalities about truck or vehicle orders from 2020, 2021? I assume this is really just about the fleet side. What are you hearing on that front?

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

A

Yeah. We were pleased to see that most of the municipalities had held to their orders. I think a lot of them were first-responder vehicles and vehicles needed for the delivery of services to their communities in the COVID environment. So, for us, we didn't see a significant decline in the orders that had been placed at least for this year.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Perfect. And with that, I think, we'll wrap it up. Lisa, Lynn, thank you so much. Very insightful, and we look forward to learning more about the story.

Lynn Antipas Tyson

Executive Director-Investor Relations, Ford Motor Co.

Thanks, Dan.

Lisa Drake

Chief Operating Officer-North America, Ford Motor Co.

Thank you.

Dan Levy

Analyst, Credit Suisse Securities (USA) LLC

Okay.

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