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Ford Motor Co. (F)

April 2018 Sales and Revenue Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. At this time, I would like to welcome everyone to the Ford Monthly Sales Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over to Erich Merkle. Please go ahead.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thank you. Hello, everyone and good morning. Welcome to Ford's April 2018 U.S. sales call. Today, I'm joined by Mark LaNeve, Ford Vice President U.S. Marketing Sales and Service; and Bryan Bezold, Ford's Senior Americas Economist. So to get things started with the review of the industry and his commentary, Mark would like to start things off here. So, I'm going to hand it over to Mark. Mark?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Thank you, Erich. Good morning everyone. Before we get to April numbers, given the announcements last week, I'd like to acknowledge the headlines that were made and some of the discussion around our announcement concurrent with our Q1 earnings to shift investment away from traditional sedans in order that we could focus on our winning portfolio of SUVs, trucks, vans and a strong commercial business. Since the announcement, I've

spoken with the majority of our U.S. dealers, who are very supportive, and I'd like to tell you basically what I told them.

To give some perspective, today we are the clear market leader in full-size trucks any way you want to measure it. The same goes for vans, for – both our commercial applications with Transit Connect, Transit and our E-Van. That leading position for trucks and vans across the market translates into a leading position for that very profitable commercial business. In fact, 75% of our sales in commercial are truck and vans. We also have a leading position with Mustang, and all the great performance variants like our Shelby lineup. So, this decision on sedans if you think about those three leading positions, actually four, with commercial, will allow us to focus on and strengthen our already strong SUV lineup.

As we look at our portfolio over time, we're going to be adding authentic off-roaders to our SUV lineup with the Ford Bronco and other new nameplates that we currently don't sell today. We'll also have a much stronger refresh rate on our entire lineup of SUVs that are currently in market, and we will be working on all new silhouettes that customer is going to love and kind of think like they do and blur the line between sedans and crossovers.

It is our plan that these new vehicles will give our customers utility benefits without the penalty of fuel economy. [ph] We've had (00:02:50) to get great fuel economy. These new products are going to be both emotional and active to really draw our customer attention.

Our new lineup of vehicles will be much higher performing for our business much like our truck and van business, and will better meet the needs of what customers are prioritizing in their vehicles. What they won't be are traditional sedan silhouettes, which are largely commoditized in today's market. Some of these products were shown at our Ford Uncovered event back in March that you may have attended. We're incredibly excited about the potential of these products that the – the way that customers are going to feel about them and for the profitability of our business going forward.

So with that, I'd like to move on to April and the incoming data. We believe the overall industry continues to operate at very healthy levels. We estimate that total industry SAAR including medium and heavy trucks will be in the low-17 million vehicle range, with the year to-date industry SAAR running at about 17.5 million. We estimate the overall industry is likely down 7% to 8% for the month, but we're very encouraged by the year-to-date performance against a backdrop of disciplined incentive spend and continued robust average transaction price growth.

Based on what we're seeing so far this morning, we believe retail sales totaled about 1.07 million vehicles for the month. This will place retail sales down about 7% to 8% for the industry for the month, with April year-to-date having retail down about 1% compared to year ago levels.

As we talked about on the last call with a plateauing market you do get some bumpiness, so March was strong year-over-year, April lighter. But if you combine the two together, we estimate retail for the combined two month period at minus 2% right in line with our industry forecast for the year.

At Ford, we saw retail sales decline of 2.6%. This compares very favorably to the numbers I gave you for the overall industry. At the same time, we expanded average transaction pricing at a faster rate, up \$1,100 per vehicle. Our total sales were 204,651 vehicles, down 4.7% year-over-year. Much of this decline is a result of lower rental sales. Conversely, our usually profitable commercial business was very strong, up 3% with a gain in trucks and vans more than offsetting a pretty steep decline in cars in our commercial business.

Fleet sales overall were down 8.6%, with 67,602 vehicles sold in April. Based on planned lower rental sales, we do expect total fleet to continue to be down through May and June though not as much as April.

Ford's overall transaction price totaled \$36,300 per vehicle in April, a \$1,300 increase over last year, as we continue to perform very well in ATP. Our average transaction pricing is running almost \$4,000 higher than the overall industry. We continue to see solid gains at F-Series average transaction pricing with a \$900 lift over a year ago and are really seeing the benefits from our all new Expedition and Navigator.

Taking a closer look at F-Series for the month. Ford sold over 73,000 F-Series trucks in April. To those who have been on – who have been tracking our results and listening to these calls, April will sound very familiar. April marks our 12th consecutive month of year-over-year sales gains with F-Series. Our incentive spending has been very consistent. We do not gyrate or spike incentive spending month-to-month, which we believe is much better for the dealers, and most importantly, for our customers.

It is important to note that we have produced these sales increases even during months of strong incentive spikes by our competition, and we did experience that last month and still we're able to turn in an absolutely solid F-Series performance. Average transaction price for F-Series totaled \$46,900 last month, almost \$47,000.

Now let's turn to the all-new Expedition. Expedition continues to expand as we improve our dealer inventory. Expedition retail sales were up 26% with SUV spending – with average Expedition spending just 12 days on our dealer lots. We saw gains in every region of the country with the largest gains coming from our West up 59% and the Southeast up 30%. We continue to see a very good mix of our up level trends, which translates into average transaction pricing at \$12,000 higher at \$61,700 per SUV, so transacting well over \$60,000 across the Expedition lineup.

Taking a look at Lincoln. With 8,518 vehicles sold, Lincoln was down 12% in April, much of this as a result of continued softness in the premium vehicle segment as our retail share of the premium segment was consistent with the year ago at about 5%. We continue to see the same shift, in fact more significant from cars into SUVs in the premium segment. Last month, premium SUV share was almost 60% of the premium vehicle segment, nearly 6 points higher than a year ago, it's breathtaking really, the trend that we're seeing.

Navigator retail sales are still incredibly positive posting 135% increase last month year-over-year and more than doubling in every single region of the country. The Western region did exceptionally well with sales up 188% over a year ago. Average transaction pricing surged \$26,300, as customers continue to demand more of our top trim series. We just need to keep building, and we're working very hard with our manufacturing team to improve Navigator and Expedition production and subsequent availability.

With that, I'm going to turn it over to Bryan for an update on the economic front. Bryan?

Bryan Bezold

Senior Americas Economist, Ford Motor Co.

Thanks Mark, and good morning everyone. The U.S. economy continues to expand led by a growing labor market and confident households. First quarter GDP data released last week showed that the U.S. economy grew at a 2.3% seasonally adjusted annual rate, as consumption grew by 1.1% and investment grew by 7.3%. The 2.3% growth during the first quarter was slower than the fourth quarter's 2.9% rate, but it was the fastest first quarter growth since 2015.

In recent years, first quarter growth has been substantially lower than the rest of the year, so the slower pace of growth in the first quarter is more likely a statistical artifact than a sign of slower growth over the rest of 2018. Incoming monthly data suggests that the economy is expanding at a healthy clip. Specifically, the labor market remains a source of income growth for households.

In March, the U.S. economy added 103,000 jobs. Although that was a smaller increase than February's 326,000, the underlying rate of job growth is solid, particularly given the growth rate of the working age population. The unemployment rate was unchanged at 4.1% and the unemployment rate that includes adjustments for involuntary part time and discouraged workers fell 0.2 point to 8.0%.

Average hourly wages rose 2.7% from last March. Last week, the number of new claims for unemployment insurance fell to 209,000 leaving the full week moving average at 229,250, suggesting another solid reading when the April employment report is released on Friday.

After adjusting for inflation, March disposable personal income rose 0.2% from February and 1.7% from last March. Inflation adjusted spending rose 0.4% from February and 2.4% from last March. Given rising employment, disposable income and spending it is not surprising that consumers are generally upbeat. The University of Michigan's April Consumer Sentiment Index was 98.8. Although down from March's 14-year high of 101.4, that is still a relatively high level for the index. The April year-to-date average is 98.8, above the 97.2 average for the same period in 2017. The share of survey respondents reporting that it is a good time to buy a car rose 2 percentage points from March to 69%.

Inflation accelerated in March with the Consumer Price Index rising 2.4% from prior year, up from 2.2% in February. Core CPI inflation, which excludes food and energy, rose 2.1% from prior year, up from 1.8% in February. For the first quarter as a whole, the core PCE deflator, an index used to adjust GDP [ph] translation (00:11:35) rose at a 2.5% annualized rate, up from 1.9% in the fourth quarter.

Energy prices strengthened over the last month with Brent crude oil now at \$74 a barrel and West Texas Intermediate at \$67. According to AAA, the average price of regular retail gasoline is \$2.81, up from \$2.65 last month and \$2.38 a year ago. Rising gasoline prices, all else equal, will limit household consumption of other goods and services, but will also support activity in oil producing regions of the country. According to Baker Hughes there were 825 oil rigs in the U.S. last week, an 18% increase over a year ago.

Major indicators of housing activity were again mixed in March. Permits for new home construction rose 2.5% from February despite a 5.5% decline in single family permit. Similarly, total housing starts rose 1.9% from February despite a 3.7% decline in single-family starts. New home sales rose by 4% from February, while existing home sales rose by 0.6%. Industrial production rose 0.5% from February, manufacturing output rose by 0.1%, while mining rose by 1% and utility output rose by 3%.

The April manufacturing PMI was 57.3 down from 59.3 in March, but still above the neutral threshold of 50, and thus signaling an expanding manufacturing sector. Overall, for the first quarter, data were consistent with the growing U.S. economy, as well as our guidance for total vehicle sales in the low-17 million unit range this year.

With that I will turn it back over to Erich.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thank you, Bryan. And just taking a look at some additional industry segment trends that we saw play out here for the month of April. There doesn't seem to be any slowing down in the small SUVs, which represented about 23% of the industry last month. This was 2 full points over a year ago. And comparing this to the small car segment, which was just over 14% in mid-sized cars, which were just under 9%, we can see that small SUVs are now perhaps even just a slightly larger segment than both the small and mid-sized car segments combined.

Small cars were down a full point from a year ago, while mid-sized sedans were up 2 full points. Mid-sized SUVs represented almost 15% of the industry. Another segment that's growing, that's about 0.5 point up from a year ago. And if we look at full-size pickup trucks; full-size pickup trucks had a really solid month – last month. The segment represented about 13.2% of the industry and that was up about a full point over a year ago.

So, with all of that we're going to start taking some calls, and we're going to open things up first to the analyst community please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of John Murphy with Bank of America.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Good morning, guys.

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Good morning.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Mark, thanks for the commentary about sort of the product direction, but just one question there. When we think about the Fusion, it's the fourth best selling vehicle in your portfolio. Doesn't seem like it's a dead product by any stretch of the imagination when you look at pricing and sort of volume numbers here. Just curious, whether you think that going whole hog and just leaving the Focus and the Mustang as the only car platforms might be a little bit of a mistake, just given the strength there. And also, what are you going to do with the resids on all these vehicles if these nameplates are cancelled? I mean, those customers are going to lose a lot of equity in those vehicles. It's going to be more expensive to get them into new ones. Just curious how – if there's a program or a thought process as to how to work on that?

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Well, John, in terms of the overall strategy for all the reasons that I gave, I'm very supportive of the strategy obviously. What I try to frame for you guys in a very short period of time with the dealers is when you're going to play you need to win, and both on business results and with the consumer. And actually, you'll get the best results when you win over the consumer.

And you think about our lineup, no question we're the leader in trucks. Besides the minivan lineup, we're the unquestioned leader in vans – those equate into a great commercial business. Already with the Mustang, we've got the leading performance, mainstream market performance vehicle and lineup with all the performance variants in the market. We have great SUV lineup. We want to be – we want to win, just like we do in trucks and just like we do in vans with a great leading position. So, we need to expand the lineup. We've got capital allocation decisions that need to be made, it's not a limitless resource, as healthy as the company is and we need get to a great refresh rate, as well as add several new incremental nameplates to get us into that off road part of the market in both capability and rugged look and feel that we don't compete today. And we're – Jeep has had a lot of success. So, I'm fully supportive of the strategy.

On your second part of the question, I think your second question on residual value. We took a look at it. You'd be surprised if you go back over the last 20 years how many nameplates have disappeared from the industry. And we haven't seen any other than normal life cycle degradation, we haven't seen any real hit to residual value. And in fact, as you get towards the end, you tend to do less sales in the rental; less leasing, which drives up the secondary supply. And many times, we see residual value firm up on discontinued products. So, we're not concerned about that. As I told the dealers, we're going to be with them 100% and still going to be selling Fusion, which as you mentioned is a great product for well over a couple of years and now we're planning to fully support it and do well with it, right up to the end. Incidentally since we announced the change on Focus, we've gained retail market share every quarter since we announced it. So, we hopefully will manage Fusion in a very similar and successful manner.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Okay. I'm looking forward to that Bronco to be perfectly honest. That would be great.

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We all are.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Just one other question on leasing – leasing levels for Ford and the industry just curious where they are or where they're trending, and where you think they go for the remainder of the year.

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Yeah. We stayed right on point. We're about 21%. We've been running in the 20% to 22% range for well over a year. And that we believe the industry ran 28%-29%. So, we continue to – we didn't see anything extraordinary from the industry. And we were down slightly actually 1 point from our normal run rate, so nothing extraordinary there, John.

John Murphy
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you very much.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Thank you.

A

Operator: And your next question comes from the line of Colin Langan with UBS.

Colin Langan

Analyst, UBS Securities LLC

Oh, thanks for taking my questions. So, you indicated that the SAAR will be low-17 million, I think that's with heavies. We're looking on a light vehicle basis something like a high 16 million, is that the right way to think about it? And any thoughts, do you think the Easter timing might have been causing some of the month-to-month volatility on why the SAAR might have fallen?

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Colin, great question. I'll let Erich comment on the SAAR. I've always felt that selling day adjustments weren't nearly as important as how many weekends in a month. Last April was a five weekend month, April 2017, very unusual for an April actually. And this – this year was a four weekend month. So, I think the year-over-year – the swing we saw from March to April, March was a five weekend month this year. I believe it's that simple because if you really add the two months together, the industry [ph] was off (00:19:31) 2%, that's right on our forecast. So, I believe that the number of weekends has a much greater effect than – at least on Easter holiday, it's not a huge selling holiday anyway or days supply, but Erich you can go ahead and comment on the SAAR.

A

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Yeah, sure Colin. The SAAR we expected light to be similar in the high 16 million, it could hit 17 million. So there's still – that's based on early incoming data, so keep that in mind. Still have fleet numbers out there that – we have a little less visibility to, so right now we're estimating high 16 million, maybe 17 million at light.

A

Colin Langan

Analyst, UBS Securities LLC

Got it. And then in the commentary you mentioned there was some pricing issues. Any color overall on, pickup pricing I think was what you mentioned? And then, just how maybe cars in particular are doing given the segment's under pressure, as pricing also under pressure there?

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Car pricing's been under pressure long-term trend. We didn't see anything unusual in April. Point one, overall, across the entire industry incentive discipline continues to see a fairly disciplined market [ph] there (00:20:43). The year-over-year increases in a given month are about half of what they were what they ran in 2015, 2016 and 2017. We did see an incentive spike month-to-month from one of our primary competitors, that data is available to you. As I mentioned, we kept on rolling with F-Series, we seem to be very immune to incentive spikes by our – any of the key competition, thank goodness, because we tend to run ours on a very consistent basis.

A

Colin Langan

Analyst, UBS Securities LLC

Q

Lastly, any color on the Escape? It seemed to be down worse than other SUVs. Do you think there's some cannibalization from the EcoSport? And is that something you're considering as you roll out other SUVs if there's risk of cannibalization? I mean, how are the new models going to try to minimize that risk?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Yeah, we have to manage the pricing ladder and positioning in our showrooms. That will get – that will be more of a challenge as we add some of these SUVs that I talked about, even though we think the character will be very different between crossover part of the lineup and that off-road SUV part of the lineup.

A little bit of the Escape business might have went to EcoSport or up to Edge, it happens every month. But basically, we're toward the end of the life cycle and we're not going to – we're going to protect the equity of the vehicle and the brand as we get ready for our new one next year, which will be a sensational product. And we're not going to go crazy on incentives, [ph] just to try to buy a couple of points (00:22:05) of market share or you have year-over-year OpEx. So, actually the vehicle performed right on our internal forecast, and we're going to continue to run – optimize the brand value for the customer and overall profitability.

Colin Langan

Analyst, UBS Securities LLC

Q

Okay, great. Thanks for taking my question.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Thank you.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Thank you.

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

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Hey, thank you. I think we danced around a little bit, but how much were incentives for the industry up this month or what are you expecting it to be?

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Yeah, David. Incentives for the industry, they're up about \$140 over a year ago, and they're down about [ph] \$260 (00:22:49) sequentially compared to March. So, we characterize that as being quite disciplined.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then, if I'm reading between lines here it sounds like your – the incentives on your competitors' pickups were up again. Last month, I think we saw one of them with above \$7,000 in the March time period. Is that what you were seeing again from a competitor, and again, you still gained share in that environment?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Exactly.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then, just lastly for us, what are you hearing from your dealership bases – your dealerships on, the consumer's intent post-tax reform what they're doing with that incremental dollars that are coming in and of themselves from a lower federal tax rate? Has that been helping the March-April retail sales environment, or is that not a major factor that you're hearing roll up from your dealership base?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

In terms of feedback from the dealers, it wouldn't be much different than what we're seeing in consumer sentiment and consumer confidence overall. I can tell you that we're seeing a strong – a very strong forward indicator on our order intake on the commercial business, especially in our full-size truck, particularly Super Duty and our Transit van business. So, we are seeing I think the overall impact to some of the tax reforms and other economic indicators, plus you've got specific sectors like the oil economy is doing so much better than it was doing a couple of years ago. And some of our dealers in the Permian Basin are having record months with unbelievable increases, if you walk it back a couple of years on our say Super Duty lineup compared to two, three years ago, so it's very encouraging to see.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks for taking the time.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Thank you. David.

Operator: And your next question comes from the line of Brian Johnson with Barclays.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Thank you. Just want to talk a bit more about the CV marketplace. Yes, the share of small SUVs is growing, but between your actions to move out of capacity out of cars into that between Fiat Chrysler's actions to increase Jeep capacity across the board, and no doubt similar moves at other OEMs, do you see the risk of that becoming overcrowded? How does even a fresher nameplate like the Escape next year or the Equinox this year kind of stand out in a crowded marketplace, where at least – do consumers come in, and it's all kind of a blur, a dozen SUV, CVs that more or less look like each other, and how do you kind of deal with that?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Yeah. Great question. We're definitely – I mean we have seen. There's been a dramatic expansion of SUV entries. If you walk back 10, 15 years you'd be shocked. I don't have the data at my fingertips, the number of new SUV entries in that period, which as you know, frankly, obviously OEMs anticipating growth and the fact that those new entries coming into the market help spark some of that growth. So, it will be competitive, but our plan clearly is to enter some of these white spaces for us, and hopefully white spaces in the market with – if you think about our lineup today, our Edge, our Escape and Edge product, our small and mid-sized utility are very crossover, very car-like [indiscernible] (00:26:09) on purpose and have done incredibly well.

We haven't really competed in the off road part of the market, where, frankly, Jeep's had a lot of that themselves, and we feel that we've got great historical DNA there. Explorer was certainly competed there back since its inception. We've done incredibly well with our Raptor and other off road variants, and we believe we can execute winning products. Bronco, we've already talked about. There's going to be other ones at different size and price points. And we feel, we have a very different character in the market than the multitude of small SUVs that you're referring to. And that's part of our strategy, which we're starting to communicate like we did at Ford Uncovered and will become very apparent over the next year or two.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

And, of course, it's early, we don't have the Bronco in showrooms yet. But as you kind of – when you and Erich kind of sit down and model and kind of think about that line, do you think it's going to be coming out of the hide of Jeep Wrangler? Or do you think, you're going to be expanding the off-road segment by providing a migration path for Ford loyalists into that product?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

All of the above. I don't want to be quoted as it's going to come out of Jeep. With a product like that, we're going to – we'll sell them to Ford loyalists, we'll sell a few to some of our existing customers that might be in an Edge, in Explorer, hopefully that will be a small percentage, but we will conquest across a wide array of the market. And surprisingly, some of the research would indicate we'll get people out of the luxury SUVs, that'll come into Bronco depending on their garage setup and what meets their need. So, we anticipate that vehicle and others like it in that off-road part of the business will have wide appeal and will bring in customers from a lot of different segments.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Keep in mind Brian...

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

And just final – go ahead Erich.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Bronco's going to be a very emotive vehicle, so it's going to be much like what Mustang is on the car side. Bronco will be that for our SUVs.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Which gets to another question, which I've gotten from some clients who love cars and trucks. Why isn't there a performance SUV in your lineup, or is there, and I'm just not – and it's just maybe not marketed? And is that kind of a white space that you'd be looking at, something to say take on...

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Definitely, that's another one of the white spaces. In fact, in Ford Uncovered, we talked about expanding our ST-Line to many of our SUVs. So, we look at performance and we think that that's a great place for us to compete.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We're going to have an Edge ST and an Explorer ST, Brian. We talked about it at the Ford Uncovered event. And they're going to be incredibly exciting performance variant. So, if you think about our lineup of vehicles that are – the existing vehicles, a lot of [ph] them were (00:29:03) set up for ST variant, performance variant, some of the other new SUVs that we're talking about maybe set up for variants that are more off road in character. I'm not going to talk about expansion in the Raptor lineup, but certainly something that we talk about. So, we think we can get at it both ways with these variants that tend to be very high profit and incredibly brand enhancing.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Okay. And then what does it mean just for the more vanilla products? And how do you kind of maintain margin and balance market share and margin in those [indiscernible] (00:29:33)?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We plan on having no vanilla product.

Brian A. Johnson

Analyst, Barclays Capital, Inc.

Q

Okay. The ones that aren't sold on performance or off-road?

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Well, if you take a look at many of our SUVs today, we have great in terms of high trim mix, whether it be with Escape, whether it be with Edge, or whether it be with now the Expedition. So, we see that customers. Yes, customers are looking for performance, but they're also looking for a higher trim series in SUVs than they ever would in cars.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We featured a customer yesterday at a town hall meeting there for employees, an Expedition customer, a mom with three kids I believe she had and a very active life. To her the new Expedition, it's such an emotional product. You don't think of it as a performance product, obviously, because it just fits her needs, for her kids and her friends and the transportation, and the jobs that she's got to get done as a mom, that is busy family. And everybody expresses emotion a little bit differently. And we plan – so, it's so thrilling to hear that because then we know we've really delivered product into the sweet spot of what our customers are looking for, in spite of what segment it might be and the character of the vehicle and we plan on doing that across the board with all of our vehicles.

Brian A. Johnson
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

Erich Merkle
Head of U.S. Sales Analysis, Ford Motor Co.

A

Shaketa, we're going to take one last call from the analyst community, then we're going to turn things over to the folks in the media please.

Operator: And your next question comes from the line of Joseph Spak with RBC Capital Market.

Joseph Spak
Analyst, RBC Capital Markets LLC

Q

Thank you. Mark, you mentioned Ford lease penetration sort of in low-20s and going back to John's question on residual values on Ford brand cars, can you give us what the average lease penetration is on the Ford branded cars? And really the go forward marketing strategy there, like, is that a number we should expect to move down over time to sort of help manage some of the balance sheet risk?

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Yeah. Joe, we don't share specifics on the vehicle line detail. I can tell you that we lease almost no Fiesta and Focus' just hasn't been a big lease vehicle for us. I'm not saying it's very – it's in the low single digits. And with Fusion, we've typically been right at segment average. That segment leases mid-30s I believe, mid – [ph] C-D cars (00:32:07) and we've been more or less at segment average I believe. Today, we're little below it. So, we've been managing our lease portfolio pretty judiciously, as we've talked about on these calls for better part of couple years. And we're very comfortable at that level, and we'll see how residual and – cost of money plays out over the balance out of that vehicle, and we'll be – keep our dealers competitive in the market.

Joseph Spak
Analyst, RBC Capital Markets LLC

Q

Okay. And then, I thought I heard you say maybe some of – maybe Escape pulled a little bit from EcoSport. But I guess just bigger picture like now that you have a couple of months of EcoSport, where is that customer coming from? Is it from some of the smaller Ford branded cars or are they conquest? Or – any color you can provide there?

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We're seeing a pretty strong source of sales of the loyal customers coming out of Focus and Fusion, so coming out of sedans as you would expect. And in the [ph] conquest (00:33:05) part of the business for EcoSport, it's pretty healthy across a wide array of products. Given that we're new into the segment. It's pulling from other competitors, whether it's their small cars or mini or small SUV. So, we're seeing a pretty typical array, but it's still very early in terms of we're really into the second month of, kind of having adequate dealer inventory and still pulling that data together, don't like to overreact. We've got a good six months of data under our belt.

Joseph Spak
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Great. Thank you.

Erich Merkle
Head of U.S. Sales Analysis, Ford Motor Co.

A

Thank you. Shaketa, we're going to take the media now if we could.

Operator: And that concludes the analyst portion of the call. We will now be moving into the media portion. [Operator Instructions] And your next question comes from the line of Christina Rogers with Wall Street Journal.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

Hi guys. Thanks for taking our questions today. Can you provide a little color about why you saw the drop in SUV sales last month? I mean, nearly every model was down. Are you seeing deeper discounting from your competitors? Is that just becoming a tougher market? As you mentioned before, it's definitely becoming a crowded space. So, I was just hoping you could help us understand that.

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Overall, number, our fleet was off, as I mentioned, the rental business was off significantly. That helped really pull our number down. Retail; we were relatively flat – down just a couple of points. And as I said we're at the high point of the age of our vehicles and the refresh rate that we're going to have, as well as incremental vehicles over the next couple of years will take us from one of the oldest lineup – SUV lineups in the industry to one of the freshest. And we expect that we'll perform incredibly well with that. And as I said, Christina, on in answer to several questions, we're not spiking incentives to unreasonable levels to try to maintain volume, we're trying to protect residual value and have a nice orderly transition from the outgoing model into some of these exciting new products.

Christina Rogers
Automotive Reporter, The Wall Street Journal, Inc.

Q

What are you seeing from your competitors in this market?

Mark R. LaNeve
Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

In terms of incentive spending?

Christina Rogers

Automotive Reporter, The Wall Street Journal, Inc.

Yeah, on SUVs and crossovers.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Well, pricing has gotten a little tougher and especially in small SUVs as you get more entries and more volume at stake month in month out. So, it's a very competitive part of the market, much like mid cars were five years ago. But there are so many entries in a given month. You have somebody doing something aggressive whether its lease or a rebate, doing there like 20 models competing in the small utility part of the business is one example. So, it's a very competitive market. And if we were to look at our retail results, we'd say we're right on our internal forecast, and pricing discipline was maintained and we feel pretty good about it.

A

Christina Rogers

Automotive Reporter, The Wall Street Journal, Inc.

Okay. Thank you very much.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Thank you.

A

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thank you.

A

Operator: And your next question comes from the line of Keith Naughton with Bloomberg.

Keith Naughton

Reporter, Bloomberg LP

Hi, good morning, gentlemen.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Hi, Keith.

A

Keith Naughton

Reporter, Bloomberg LP

Hey, Mark, couple of things. One, I'm just wondering if you're concerned that your declines in sedans could accelerate now that you've announced that you're going to be discontinuing them. Obviously, history has shown with brands like Plymouth, Oldsmobile that once those – the word is out that the brand is going away, sales can have a more precipitous slide.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

I think some of the more alarming examples you've seen over the years, Keith, is when the brand is going away. The two examples you just cited, Plymouth, Oldsmobile, the brand was disappearing, and I think customers really worry about ability to maintain their vehicle warranty. We're not anywhere with that. We're – there's been lots of nameplates that have disappeared over the last 20 years from across the entire industry.

As I said, since we announced, really the changes on Focus of getting out of the Focus, as we know it today to just a five door hatchback and sun setting Fiesta market share – sales have been relatively flat and market share has gone up.

Will that happen on Fusion? I don't know, but we know that Fusion is a really strong product. Still got well over a couple of years to run, this news will pass in terms of the new cycle, and we'll get back to normal business. And as I've said to the dealers, we're going to support your selling efforts, stand firmly behind the vehicle and work on a very orderly transition. And we think it'll be just fine.

Keith Naughton

Reporter, Bloomberg LP

Q

Great. And then, my other question – thank you, Mark. My other question is, have you given any greater or additional thought to moving to quarterly sales reporting, or have you decided that monthly is best for Ford?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We've decided we're going to continue monthly with these calls. And if we decide – we think it's best for us right now, for our business, and if we decide to change that, then we'll announce at a future date. But at this time, we're going to continue publishing monthly and having the benefit of holding these calls and hearing your questions and you hearing our perspective on the business, we think it's worthwhile.

Keith Naughton

Reporter, Bloomberg LP

Q

We do too. Thanks very much, Mark.

Operator: And there are no further audio questions at this time.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Okay. Thank you very much, Shaketa. It was a pleasure working with you today. Thank you, everyone for dialing in and joining us on the call, and we look forward to talking to everybody next month when we report May sales results. Thank you very much everyone.

Operator: And this does conclude today's conference. You may now disconnect.

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