

17-Apr-2019

Ford Motor Co. (F)

Bank of America Merrill Lynch Auto Summit

CORPORATE PARTICIPANTS

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Vice President, Enterprise Product Line Management, Ford Motor Co.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Next up, we have Ford Motor Company. We're very happy to have Jim Baumbick, Vice President, Ford Enterprise Product Line Management. It's a position he was appointed to in September of 2018, and I think it's probably no secret to folks in the audience, we're a bit of product junkies and maybe somewhat news to you that I'm a Bronco junkie. So, we might hear a little bit of news on the Bronco today. So, we're really happy to have him, Jim here.

He served as Executive Director of Global Product Planning and Strategy at Ford before this. So, I mean he is deep in the product at Ford, which, as we look at the next at least two years, is going to be a big or actually really be the story when we look at the Escape and Explorer, as well as the Ranger this year and Bronco, and at least by our estimates F-Series or F-150 next year.

So, it is a great story on product at Ford, and we're very happy to have Jim here, and I'll turn it over to you, Jim. Thank you so much for joining us.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

Yeah. Thanks for having us. So, appreciate everybody having me here. I'm going to walk through a couple different slides. And I think what I'm hoping to do today is give you a little bit more insight around how the company is evolving and specifically what the product line management role is in that transformation, and I think this slide is a good start for the journey.

This takes a look at the total business and a couple of key takeaways that are pretty obvious. We have some very strong core businesses in our portfolio. Products like F-Series, Transit, Explorer, Ranger, amongst others, make up over 150% of our total company EBIT. So, incredibly strong businesses and things that we will continue to invest on where we have very clear winning strategies. Our challenge has been the lower performing business. Now, when you think of the stuff that's in that green bubble, you're talking about products that have returns in the high – EBIT margin returns of, say, high-teens, return on invested capital in the range of 40%. So, those are incredibly strong.

But the lower performing businesses, and probably the one that's most widely talked about is the sedan business, have actually been serving as a bit of a drag on the overall total company performance. So, product line management is really all around focusing on how do we shift the capital and our resources to those areas of the business and the portfolio where we know we can win and get everything up in that high performing area.

We have incredible strengths. We know work at Ford Motor Company. We love serving our business and direct customers and making their lives more productive. We love bringing families together in terms of our go-anywhere, do-anything whole lineup of utilities. And nothing kind of strikes the passions of people more than our performance products led by Mustang. And the interesting and most important part of this is the human connection of each of these portfolios. If you go talk to customers, they love their products and they love their products because those products make their lives better. We love them, too, because they're strong performers.

And so, it's no surprise that when we're looking at how we want to actually accelerate our capability as a company, we went back and looked at those winning businesses. What about those businesses have allowed them to kind of persist and perform consistently over long periods of time, and how do we take that as kind of the critical ingredients to organize around all of our products and make sure that they all end up in a high performing bin? So, products like the F-Series, number one full-size pickup globally; number two on Ranger outside of the U.S. and that's before we actually launched in the U.S.; number one cargo van; best time – all-time selling SUV in America, the Explorer; and then the number one sports coupe globally in Mustang. Very, very strong businesses.

So, we looked at that and that's what ultimately has gone into the organization which has eight different product line categories. And when we studied these teams, we wanted to understand what really made them tick, how do we actually replicate this across the whole portfolio. And as we studied them over a long period of time, what we saw very, very quickly was some common themes that are emerging. The teams that operate in these different categories, they wake up every day worrying about the product and the customers that they serve. So, they have a deep affinity for the product line.

These teams are empowered. They move at a much higher clock speed. They respond to the market conditions or changing conditions in the marketplace to allow them to actually protect their business. They have very deep customer intimacy. They get very close with both the businesses we serve, but also the customers that we serve, the users of our products using human-centered design, understanding what are those deep-seated needs that we actually have to address as we design the next generation of the products.

Of equal importance, when you look at it, a number of key critical team members and each of these teams have been in the role for multiple product cycles. This provides an incredible amount of continuity over time and also creates that ability to understand how customers' needs and wants are shifting over time, a much better pulse on those segments and those customers. And then lastly, in every case, you talk to anybody on those teams, they know what the vehicle is and is not. It has a very well-defined DNA. And so, all of that is really what's kind of gone into how we've been organized around product line management.

Now, the other thing we've been spending time on over the last two years is really around trying to bed down our strategy and making sure we're playing to win and only investing in those businesses where we have a clear way to win. I'm very proud of the progress we've made here over the last couple of years. You can see a dramatic shift in our capital allocation to those segments that, A, we have incredible strengths; and B, the segmentation is actually headed in that direction, a big opportunity for us to continue to grow and improve the overall performance of the company.

Now, Jim and others have talked a lot about a lot of things that we're doing at the company to change the way we work. I'm going to spend a little bit of time on this slide to kind of give you a little bit of an insight. We're shifting from traditional market research to spending more time really understanding customers more deeply, leveraging design-thinking tools.

What does this mean? We're spending time with customers before we even start a product program, co-creating, iterating, working at the speed of what, I would say, startups. How do we learn, imagine and build a range of possibilities, test those with customers before we build expensive prototypes using non-processed prototypes to kind of get feedback from customers and better inform our strategy and our approach on those product programs. A really big change here is moving from a more hierarchical decision-making to stuff that is more agile and streamlined, getting decisions done at a lower level and, most importantly, starting to make choices, not subsidizing underperforming businesses, but actually shifting capital where we know we can win.

And I'll tell you a little bit of a story because I think Jim Hackett has really been the inspiration around this. When Jim first joined the company, in the first couple of weeks he was attending a whole range of meetings and one of them was the product approval forum that I happened to run. And in that, we were actually trying to decide if we were going to invest in an action which was an incremental action on an existing business, and we didn't actually close the meeting with a decision.

And so, I walked to my office and within five minutes, I hadn't even met Jim Hackett directly in person yet, he called my phone and asked me, he said, hey why – when we were in that session, why was the team struggling to make a decision that in his mind was otherwise an obvious decision. And I explained to him that at the time it would be obvious if we had committed to the strategy. But actually, the base underlying question that we were actually all toiling with in that discussion was whether or not we were actually committed to that business and we were going to allocate the capital in the base plan relative to this incremental decision.

Now, he shared with me his philosophy around decision-making and asked us, and his view was that we should have a shot clock on what is a fit period of time to make decisions and how do we actually study the issues, the challenges, the opportunity and the strategy under a fit time horizon, and then accelerate with clear decision-making. I'm going to show you an example at the end of the pitch that kind of gives you a little bit of insight because we ran a series of prototypes, if you will, trying to accelerate our decision-making, and do so in a way that actually has material impact on the business.

The decision-making that we do on individual vehicle lines versus having it happen at the highest levels, we want to push this down and that's where these product line leaders and these enterprise product line teams will be able to move at a much higher clock speed, understanding customers, owning the product end-to-end and being responsible for the [ph] P&L (00:08:55) at the vehicle line level, and then trying to drive that faster decision-making and keeping the product fresh. That, in essence, is what product line management is trying to do.

Now, I've talked a little bit about deeper customer insight. And I'd just give you one example and this is before we actually make any major investment in some of the redesign of one of our products, but in this case a commercial example. Understanding the business that we're serving and the users of our product is incredibly important, and if done right can inform how we make choices on the product line.

So, this happens to be a case where a typical delivery driver, every time they make a drop goes through 50 individual steps. Now, our view and our approach on this is just one simple example is how could we actually save time. So, if we were able to actually reduce the number of steps or the time required to execute those steps by 15 seconds, that will manifest itself into 850 incremental drops a year for that driver per year and \$2,000 of savings back to the business because of that type of an efficiency. And that doesn't even account for things like making it easier for the user of the product – the delivery driver – to actually execute those steps. There's a high amount of cognitive load to do it safely, and there's a lot of physical load particularly for people that may be increasing in age.

So, this type of like very detailed, granular level of understanding our customers, that actually gives us a very strong ability to actually compete in the marketplace. And you can see from a commercial vehicle perspective, number one across the board, right? It's why we outsell in the U.S., 2:1 versus our next closest competitor, while we're the number one brand in Europe and growing market share every year for the last six years going to be stronger with the relationship we're working on with VW.

Now, the utility segment is a very crowded segment. And so, this is just one way of looking at this and I want to share a little bit of insight as to our thinking. On the vertical axis is the size of the vehicle. And across the top, you can think of this as imagery, kind of how you as a owner would project your image externally, what the vehicle looks like and overall theme. But embedded in that is the capability, the functional capability of the vehicle.

So, on the left-hand side, these are going to be more of these self-expressive type of vehicles. So, we're very excited about the new Escape that we're launching. But this example of our battery electric vehicle that we've talked about, the Mustang-inspired battery electric vehicle is a good example of how we want to launch our next-generation battery electric vehicle in a way that actually will play to our strengths and do so in a way that only Ford Motor Company can.

Now, in that center portion, again, think of this as family social adventure with a really strong utility lineup. We couldn't be more excited about the new Explorer. Again, it's already the all-time best seller, and it's going to get even better with its new Explorer, bringing back rear-wheel drive and a whole host of technologies, things like a hybrid power plant that's going to deliver over 500 miles of range with no compromise to towing. So, it's that type of approach that is going to win with customers.

Now, we don't talk about it as much, but Expedition, here's a great example. This is one where, over a period of time before we actually launched it in 2018, we probably haven't invested. It's an area where we were winning. We're winning again, but we actually should have kept the pedal down and continue to invest in that segment.

Since 2018, if I just look at 2017 versus 2018 sales, sales of Expedition are up 35%. We have 8 points of conquered share, nearly 5.5 points of market share gains, and all of that with nearly \$12,000 of incremental higher average transaction price. So, everything about that sounds like a winning product, and that's exactly what we're talking about, how do we continue to cultivate products that will win and resonate with customers.

Now, there's a big range of opportunity there that we'll continue to explore to leverage those strengths. The one I'm personally most excited about is the rugged adventure, off-road segment. So, this is a segment that we were part of creating many years ago, and we haven't been truly competing. Certainly, Jeep has been serving these customers as a primary brand offering.

But who would you think is the number one brand that is cross-shopped for somebody who decides to actually purchase a Jeep? It's Ford Motor Company. This is a huge opportunity for us. I couldn't be more excited about the Bronco. I am looking forward to sharing details of the Bronco in the future. Things are going to change for customers in this segment. And back to our playing to win strategy, make no mistake, we are actually in it to win it, and we think this is a huge opportunity for us going forward in terms of the product portfolio growth and further expansion of the utility portfolio.

Now, I want to come back to the story I told you about decision-making and timing. I think the hallmark of a winning portfolio is a fresh portfolio. And I know that there's something that certainly Bank of America and others have actually [ph] pruned it (00:14:21) for some time. We spent a lot of time over the last two years to make sure we've put in place guardrails to ensure that we have a continuously fresh product portfolio.

If we look back and were honest over time, we've had a bit of an episodic cycle plan. We've had a very fresh portfolio. The portfolios aged, gets very fresh again. Now, we're in a great position heading into 2020 because we're going to refresh our entire fleet by – 75% of our fleet. So, it will be incredibly fresh. The objective and all the work we've been doing over the last two years is around ensuring that we actually are able to keep that very methodically in the competitive levels of freshness.

Now, to give you a little bit more insight, that 5.6 number in 2019 is a direct result of decisions and choices that were made three to five years prior to that. And when you look back over time, we've had a history of making a whole series of small short-term decisions that resulted in program deferrals that ultimately ends up with a significantly aged portfolio and then we go through a big washout of effectively updating the fleet. That is an example of an unfit decision and what we've been studying based on that shot clock decision-making work stream. It's around making sure that we put guardrails in place to make sure we're not driving short-term deferrals to keep the overall health of that portfolio.

Just to give you another example, and we've talked about this previously, if you go back over the prior five-year period to 2019 and you look at the value of trapped engineering or wasted engineering because of changes in product timing, it's nearly \$1 billion. So, all of this is really around squashing that out to make sure we keep the portfolio fresh and where actually every bit of engineering that we're applying into the portfolio is going to result in value coming out the backside.

Now, here's an example of what this means, right, of making great choices. So, if I just drew a boundary diagram around Michigan Assembly Plant, in 2017 we were producing the Focus and C-MAX at about 200,000 units. And if I jump forward to 2021 when the Bronco is online and up to speed, the absolute change in profitability is over \$1 billion EBIT, and we expect over the long normal cycle that to continue to improve. And it's just an example of other choices that we're making in the portfolio that are going to unlock additional value.

Behind this, there's a second part of the story, and it's about consumption of resources. So, the time we would have spent trying to actually improve the business, which was not healthy in that lower performing category on Focus, we actually were able to divert those resources to try to find a way to compete in new and different ways. And I'm really excited about the outcome of this.

To kind of manifest and demonstrate this new way of working, we commissioned a team. We issued them the objective trying to find how will we compete in the affordable segments in a new and different way. And I'm pleased to share that the team has identified a vehicle that was developed, funded in just 12 weeks, and turned into an active product program that we will have in production before the end of 2022 calendar year. That's the type of speed that we're trying to create inside the company. And it's a great example of making good choices, enabling us to do other things, and compete in new and different ways.

So, I'll wrap it up. The benefits of product line management is really around trying to optimize our capital, making great choices in terms of our strategy, playing to win, leveraging our strengths, and then looking very thoughtfully of how we're going to expand our portfolio in ways that actually are anchored in areas we know we can win, continue to kind of grow moats around those businesses to protect them, and better endear us to our customers over the long haul. And then, it's all about speed and keeping it fresh.

So, thanks for your time.

QUESTION AND ANSWER SECTION

Q

Thank you very much, Jim. This is exciting and the Michigan Assembly is actually really exciting news. But maybe just a first question around PD or sort of the inefficiency of product development over the last few years and the efficiency that's now in course, right, in what you're working on right now. I mean, what happened with product development over the last sort of five or so years where it kind of – it slowed down and it seemed like something was – I mean, there was sort of a lack of new product and freshness coming out.

I mean, is it a question of sort of the market shifting towards crossovers which you guys were kind of on early, so it's not like you didn't get the trend that was coming? Or was it just sort of decision – sort of was a mismatch with the market, decisions that just weren't being made? I mean, what really drove that? I mean and it's kind of obvious that that's changing based on what's about to come out. But what went wrong?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. So, you're talking to a lifer product development person. So, I look back and I think about that process over time. I think it gets back to that first chart that I showed, right? When you're developing a individual product program, you want to make it the best you possibly can. But in some cases, you got to recognize whether or not that's something we can actually win at and we have a differentiated way to actually compete in the marketplace.

So, the choice on sedans is an example, right? Have we not, in the early phases of that, pursued that program and canceled it late? We would have actually invested those time, energy and resources into competing in new and different segments. And so, it's not so much a function of, I would say, product development because there's lot of great ideas. It's a function of choices.

And I think what's changing for sure as we go forward is we're making sure that we're working through a set of very specific strategy and choices. And then, when we make those choices, we know we have clarity on how we're going to win. And then, we have a world-class PD team. We let them execute at the highest levels and good things happen. You can see that in the strength of our core products.

Q

Okay. Maybe as a sort of a follow-on with that, I mean, in some of the sort of the broader company communication, there's sometimes some confusion about the direction that Ford is taking and it seems like Hackett in some ways and management in some ways gets a little bit caught up in some of the new trends that are coming around AV, EV and car sharing and the complexity of where the business will go in the future.

But the reality even in those complex situations and changes in those factors, I mean it's product, product, product it really that matters, right? And you're starting to see that as we're kind of discussing here. I mean, do you feel like there is real buy in from the board to Hackett to – I mean, it won't be Shanks anymore, but Stone coming in that this is really the solution and that stuff is a little bit more sort of on the – it's very important, but sort of was more on the margin, and this product is really the heart of the business?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

No question about it. I think there's absolute alignment and clarity. And I don't think the two need to always be in tension. We actually need both, right? These new technologies are going to fundamentally change the experience for customers in vehicles. We have to be as invested in those as we do with product programs, vehicles that we actually put in customers' hands.

The difference here is, again, it's all a set of choices, right? So, in some cases, those underperforming businesses are consuming capital, time, energy from the entire system. That's where we shouldn't spend our time and we have to spend time in the new technology space. But we have to continue to actually grow the portfolio at the same time. And so, I think there's clarity around that. And there's going to be this amazing mash up that's going to happen around the application of this technology in the vehicle environment for our customers that are going to actually – it's going to change the game. So, one is not in competition with the other. They're actually complementary.

Q

Okay. And then, when we think about Michigan Assembly, I mean, obviously – well, maybe not obviously, but I would assume that's not something that is just made in the product development or PLM arena. I mean, obviously, that's a big change, right, to get rid of the existing products and putting the Ranger and Bronco in there, and that's kind of been a long – not a long time coming, but that's been a multiyear decision.

Are there other decisions like that that are happening right now or other product changeovers where you think there can be more of these major swings when you're talking about 150% of your profit coming from just a few nameplates. I mean, it seems like there should be more of this going on – I mean, this is great news, but there could be even more of this going on over time.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

There is more. I'm not at liberty to share some of the details at the moment. That will actually play out over the course of the year. But we have a couple of examples like that where we're making major changes in the overall profit contribution of vehicle A to vehicle B. And what's really important about this is, and back to your earlier question, it's really around working across the horizontals, right? We have really capable, skill teams that kind of work and execute their various different disciplines to get to these types of decisions. It's around working across the horizontals, and it's really a cross-functional team effort. But we have a number of examples that will actually be material improvements to the business that are inbound.

Q

Okay. [ph] Tim (00:24:25)?

Q

I have a question internationally. So, I think the audience has a pretty good read on North America and the U.S. kind of launches. I would say China has been a sore spot for the entire kind of North America industry. But Ford

has had some particular kind of difficulties in China. If you can maybe give us a little color on some of the launches and some of your strategy around kind of refreshing China, I think it'll be helpful.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. So, I think we've announced kind of recently our accelerated product plan, our 330 plan in China and it's really around getting more vehicles to Chinese customers that they're after and also actually making material improvements in the business, so an example being locally producing the core share. That will be a phenomenal improvement to the Lincoln business.

And that coupled with additional insight to the Chinese customer, we've put into place a whole range of things in the market where we're tailoring those products uniquely to the Chinese needs in ways we hadn't in the past. And that includes some purpose-built vehicles just for China based on different segment trends that it makes it more applicable to compete in China in that way versus in the other markets.

And I think this is actually an area where we've learned a lot and we're getting better at where traditionally we would go after a global program and we would see the opportunity where we will look to actually bring each of the markets together because by definition if you engineer less, that's going to be more efficient for the business. The reality is, is there are a lot of differences by market, both the context in which customers use these vehicles that influences the design of a product, but also the tastes.

And so, we're very specifically leveraging product line management to ensure that we prove that we want to bring these together versus actually keeping them separate, or defining how we want to keep them unique in market A versus market B when you have some significant differences in that context, how customers use the product or the tastes of that market. And I think that's all kind of – that's the basis of our plan in China.

Q

How quickly is that going to be implemented? Are we going to see some of those, like, vehicles that are sensitive to the consumer taste in the later part of 2019 or is it 2020?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

I think you're going to start to see the influence of that on product we're launching actually end of this year. So, we've been taking fast action on some of the existing product that we had in the pipeline and larger, more significant architectural influences on the wave of product behind that.

Q

Okay. Thank you.

Q

I've got a bunch more questions, but are there any questions in the audience? [ph] Jim (00:27:27)? The mic will be over there in a second. The mic will be there in one second. We're just webcasting so...

Q

IHS Mike Wall spoke earlier this morning about affordability, pickup trucks now at the high end being \$70,000, not \$50,000 not so many years ago. He also mentioned crossover utility vehicles, great segments, great product, lot of competition coming into it. Could you talk about – in the product development process, what are you guys assuming in terms of average transaction prices over the next one, two, three years the products that are coming? What underlying assumptions have you built into that competitive landscape on CUVs?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. That's a great question. So, the easy trap to fall into is to assume that the transaction prices are going to continue to increase. And so, our mindset is we're developing new product programs as a minimum. We're counting on them to stay flat. And so, anything that is upside is upside opportunity.

And so, it's really around trying to tailor the product and the cost we put in the product to actually best resonate with customers, get the highest value from that customer lens in the product for the revenue point that we've planned towards. And then, we have the opportunity to use our whole range of derivatives to actually stretch the boundary of transaction price. So, an example would be on the Navigator which has been clearly a runaway success for us.

We are transacting incredibly high. It's only increased. In fact, quarter over quarter the transaction price has increased \$4,000. And the mix has shifted towards our Black Label which is the upper end series. Now, we don't have to carry all the cost of that into every vehicle line, but we can use the series differentiation or derivative vehicles to actually stretch the transaction price like spectrum.

Q

So, maybe a follow-up to that is when we look at the product intros and getting into new white spaces, but some of those white spaces being higher price points versus the outgoing vehicles which is a big swing factor in the improvement in profitability. Do you think that also from the board-level C-suite down to that product line management that there is a recognition that maybe having slightly lower volume, but much higher profitability per unit is something that you'd be willing to make the trade-off on, right? Because this is a constant thing.

I mean, when you look at the Bronco Ranger – I want to talk about those in a second very specifically, but the profitability on those could be huge, but the volume would be lower than like an outgoing Fusion or the products they're replacing. And it's really the trade-off between volume and profitability – absolute profits, forget about profitability. I mean, is there a mindset change there or do you think you can kind of keep the same relative market share and just mix up in a significant way?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

I think the way we're approaching it is what's the better business. And I think there's full alignment that if the better business has a slightly lower volume, then so be it, that's the better business. I think the way that we're trying to allocate our capital is where we know we can win, and it's sustainable and differentiated over time and that's been the mindset. And there's clear alignment from top to bottom from the team's perspective.

Q

Okay. And then, maybe to think about the Bronco specifically and for unselfish reasons really to think about the profits here. We look at the Wrangler, right, direct competition, historically 150,000 units, right? Great profitability. We could argue it's almost a third to a half of FCA's total profitability. They ramped that up to 250,000. And then, you have the Gladiator that's launching in. They got Toledo North and South. So, it'll be a 400,000-unit program. So, what was a great program for Fiat Chrysler which is sort of a nichey product that they're kind of taking to a large volume run, it's kind of that risk of maybe, at least in our opinion, fading pretty hard for them over time because they're saturating the market.

When you think about Bronco being sort of the head-to-head competitor or maybe not, I'd love to hear how you think you might be positioning this. Is this the kind of thing that we should think about sort of the old school discipline around the Wrangler, right, versus what seems to be sort of a potential saturating of the market on the Wrangler? And if you think about also – so positioning sort of – I know you can't give exact numbers, but sort of rough thoughts around volume positioning, so market positioning, volume positioning.

And then, from the dealers, we're also hearing that there's sort of a little bit of a request coming from Ford to create maybe a separate space in their showrooms for the Bronco to have sort of a sub-brand inside of the dealerships. I mean that seems like you're trying to push this really sort of [ph] hind line (00:32:26). So, positioning in the market volume and then also [ph] as you're going to (00:32:30) think about the distribution channel, where this will go? Because I got to imagine of that \$1 billion swing, this is probably even bigger than the Ranger, in my opinion. I won't make you say that, but I think that's kind of where it is. But I don't know how much you can talk about this.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

There's a lot that I can't talk about in detail, but what I would say is we're not just launching Bronco to go chase volume. We are going to be very disciplined in how we kind of go to market. We think we have a very unique and compelling and differentiated positioning for the product. Again, as much as I'm dying to share the details with you, I've been asked to hold off until we actually do the reveal.

Q

It's a '72.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

That's a great looking vehicle. So, we've been very thoughtful. We think of Bronco as having a lot of legs for a whole range of derivatives and that's the opportunity that we want to investigate, but right now we're focused on getting that winning product to market, and from there we will grow in a very disciplined way.

Q

Okay. And one other specific product when we think about the Mustang-inspired BEV which have been rumored to be called the Mach 1, you got push-back on that. When we think about that coming to market, the positioning

has been so far outside of Tesla for the most part in the U.S. is [ph] the condo box (00:33:50) EVs, right? I mean, obviously this sounds like it's kind of the antithesis of that. When you think about sort of pricing this, is this going to be priced as a luxury vehicle? Maybe you can't give exact price points, but \$50,000-plus where there's actually a business case for it where it's profitable unto itself, so it's not a loss leader like a lot of other EVs – or not a loss leader – loss-making product like a lot of other EVs. I mean this is going to be a stand-alone profitable vehicle.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

The goal is profitable and contributing. So, our thinking around the battery electric vehicle, the Mustang-inspired as well as we've announced that we're going to have an F-150 battery electric vehicle is playing to our strengths, okay? And so, how do we take electrification and amp up because architecturally there's a very significant change in the architecture that allows us to actually reinvest that time, space those elements of the vehicle into other things.

So, how can we repurpose the space that's enabled by eliminating an ICE engine and now having a battery electric? So, we think that by playing to our strengths we're going to have a differentiated space in the marketplace. It won't just be another EV and I think that's – unless you're the low-cost producer, you got to differentiate and so that's kind of our approach.

As far as the other part of your question, I can't share any of the details of our volume and that type of stuff. But we will be contribution margin positive right out of the gates. And we're taking actions across the entire income statement to actually grow that profitability over time. And we're being thoughtful around how to leverage a whole range of scale and industry assets to actually improve the overall health of that business.

Q

Okay. I've got one more, but are there any other questions in the room? Good. Okay. So, if we could juxtapose that profitable EV here in the U.S. versus your EV plans in China, right, and when you look at the EVs in China, they're much more regulatory push, here it's going to be consumer pull at least the way that the regulations are set up largely right now. There are some regulatory requirements. But I mean, how do you think about sort of the EV product portfolio in China versus the U.S.? And is that a regulatory push or this is a demand pull, I mean, and how the profits will work in each region?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. Clearly, the influence in China is going to probably accelerate the shift to electrified products faster. We also see a huge amount of competition. So, last number I saw is that would be somewhere above 20% of the market could be EVs in China. The strategy is really no different. It's play to our strengths, play to what we could stand for and then how do we amp up, take advantage of that architecture change to really amplify various different attributes that are going to speak to those affected customers. And that's exactly why we're looking at electrifying some of our strongest nameplates.

Q

Okay. A question here.

Q

Europe; Europe has been a challenging market for the entire industry. Ford's got a very branded product in Europe and some others have not sold kind of their brands in Europe. Can you just give us like a little sound bite on kind of your thoughts, big picture about like how to win in the European market?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. I think, well, it starts with our commercial business. We have one of the strongest commercial businesses in the world. And Transit specifically – the combination of Transit and Ranger makes us the number one brand in commercial in Europe. So, make no mistake, we're going to double down and continue to grow that business and it's on a great trajectory. As I mentioned, Transit specifically has improved market share every year for the last six years.

On the passenger car side of the business, it starts with some of the vehicles we're launching right now. We have a world-class Escape and the development of our battery electric vehicle, we think, is going to be again unique and differentiating in the marketplace in Europe, so.

Q

And then, I would be remiss to let you get off stage with one last question on autonomous. I mean and when you look at all of this, this product development, I mean, how do you think autonomous fits into this, whether it be Level 2 in the near term or Level 4 or 5 in the 2021 timeframe which you guys have discussed in the past?

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

Yeah. I think it's the whole spectrum and so we look at it as a spectrum of technology. We've been leading for many years and growing the application of driver assistance technologies. So, you'll see a propagation of a whole suite of feature set across the early part of that spectrum of autonomy into the investments we've made with Argo and our AVLIC where we believe and we see a very clear way on how to win with autonomous vehicles and moving people, moving goods. And we're on a very good trajectory in terms of competing in it.

Q

And in your current seat in PLM with Argo AI, how integrated is that in your development of your products? I mean is there a back and forth or is it kind of siloed? And how's that...

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

A

So, we're running the AV business as a stand-alone business, but we actually support that business through some of the strategy work specifically in [ph] my shop (00:39:17) so there's resources that we do share across. But that is a bit of stand-alone entity that's kind of running in that side of the business. On the vehicle side, that's where we actually play a lot in that space in supporting [indiscernible] (00:39:30) AVLIC on how to optimize the product around execution of that offering.

Unverified Participant

Okay. I think with that, we're just out of time. But thank you very much for the announcement on Michigan Assembly. That's great news and thanks so much for coming, Jim. We really appreciate it.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

Thanks for having us.

Unverified Participant

Thank you so much.

Jim Baumbick

Vice President, Enterprise Product Line Management, Ford Motor Co.

Appreciate it.

Unverified Participant

Appreciate it. Thank you.

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