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MANAGEMENT DISCUSSION SECTION

Operator: Good day. My name is Ian, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Ford Motor Company Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-answer-session. [Operator Instructions]

I would now like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please begin.

Lynn Antipas Tyson

Executive Director, Investor Relations, Ford Motor Co.

Thank you, Ian. Welcome, everyone, to Ford Motor Company's Third Quarter 2018 Earnings Call. Presenting today are Jim Hackett, our President and CEO; and Bob Shanks, our Chief Financial Officer. Also joining us are Jim Farley, Executive Vice President and President, Global Markets; Marcy Klevorn, Executive Vice President and President of Mobility; Joe Hinrichs, Executive Vice President and President of Global Operations; and Brian Schaff, CFO of Ford Credit.

Jim Hackett will begin with a brief review of our progress relative to the value creation framework we unveiled earlier this year, which we now call Creating Tomorrow, Together. Bob will then review our quarter results in more detail and then we'll open the call for questions. Following Q&A, Jim Hackett will have a few closing remarks.

Our results discussed today include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck which can be found along with the rest of our earnings materials at shareholder.ford.com.

Today's discussions include forward looking statements about our expectations for future performance. Actual results may differ from those stated. And the most significant factors that could cause actual results to differ are included on slide 35. In addition, unless otherwise noted, all comparisons are year over year. Company EBIT, EPS and operating cash flow are on an adjusted basis and product mix is on a volume-weighted basis.

Now let me turn the call over to Jim.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

Thanks, Lynn, and thanks, everyone, for joining us today. I'll briefly cover three topics before I turn it over to Bob for more detail and then we'll take your questions. First, let me provide an overview of third quarter results and our 2018 guidance, which remains unchanged. And then second, I'd like to share with you specific detail on the progress we're making against our strategy to create value for all of our stakeholders. And then third, I want to provide a look ahead at a number of upcoming touch points we'll have with investors and provide an update on our midterm guidance. So let's get started.

If you would, please turn to slide 2. Starting with the quarter, top line grew 3% in the face of significant global sector-wide headwinds and our company EBIT margin was sequentially unchanged, despite substantially lower volume. Our North America performance was strong with an EBIT margin of nearly 9%. And I have to say that the North American leadership team has done a great job optimizing every opportunity to improve growth and returns. And now, we're heading into a really busy and exciting period of product renewal, which you'll hear more about.

I believe North America results demonstrate the early evidence that our fitness actions and commitment to focus on higher return opportunities are now taking hold and this is driving a more resilient business model. Within North America results this quarter, we achieved a \$1 billion mix improvement from our strong product line focus, including more F-150s and more Super Duties that had record transaction prices.

And additionally, the F-Series share of the full-size pickup segment increased in the quarter and Ford continued to be the number one best-selling brand in the U.S. We also remain the number one selling brand for commercial vehicles in Europe. In fact, we gained commercial vehicle share, reaching our highest quarterly share in over 25 years. In addition, we delivered record year to-date sales of Ranger in Asia Pacific.

I'm delighted that our earlier proclamations that we can find that right winning portfolio has this positive news in the quarter. Our future work on our portfolio is directed at making this even better. In addition, Ford Credit quarterly results were the best since 2011. We delivered positive company operating cash flow and we generated earnings per share of \$0.29. Our balance sheet and available liquidity remain at healthy levels. We are committed to maintaining a strong balance sheet and an investment-grade credit rating. In the quarter, we had over \$23 billion of company cash and our target balance of \$20 billion with liquidity over \$34 billion.

Well, turning to the balance of the year, we are reaffirming our EPS guidance of a range of \$1.30 to \$1.50 and positive cash flow, albeit lower than 2017.

So now let's go to page 3. This framework, which we have shown before, illustrates our plan for creating value for our stakeholders. At the highest level, the obvious strength of our F-Series trucks and our Transit family of

commercial vehicles has positively driven margin in recent years. When I look back at these successes, there's not much I would have wanted to change. But it's clear these strengths probably masked weaknesses in the fitness of our overall business and also shrouded poor design elements of other areas of the business where we destroyed value.

To be a great company, my message to everyone is, we have to attack this opportunity. In answer to the question, what have we again been working on this past year? We've developed and implemented a plan to redesign the company to dramatically improve the fitness of the overall business, address those areas of weakness I just pointed out and prepare Ford to win in a fast-changing future. Our mission is to build on our traditional strengths, while capitalizing on the sweeping changes brought about by propulsion technology, shared mobility and artificial intelligence that are all ushering in an era of smart vehicles for a smart world.

Now this transformation is predicated on the best and highest use of our capital across four growth drivers. Now earlier, I mentioned the efforts on creating and bringing to market a winning portfolio, so let me start with that. At a high level, we plan to fortify and grow our leading position in trucks, our leading position in commercial vehicles and performance vehicles such as the Mustang. Despite our heritage in SUVs, we know we're not the leader in this space, but we certainly are a solid player. Customers consistently rave about products like the Ford Explorer and the new Lincoln Navigator. This is a multibillion dollar opportunity and we're moving with urgency to leverage our SUV expertise and brand image to become a global leader in utilities.

This drives clear choices, like our decision to phase out sedans over time in North America. Not only are customers increasingly migrating to different silhouettes, but also because of their lack of profitability, these traditional sedans destroy value. And we can reallocate that capital to higher return opportunities. This decision means new entries in the utilities, trucks and white space vehicles with new silhouettes that will be more attractive to customers, while delivering higher returns.

Last week, my team and I hosted almost 4,000 North American Ford dealers in Las Vegas and we showed them how our lineup of nameplates will grow in the next five years versus where we are now. Overall by 2020, we expect 75% of our lineup in the U.S. to be new or refreshed. In fact, I hope you saw the new Built Ford Proud ad campaign we launched this past weekend to support this product push.

To deliver this fresher, more vibrant lineup around the world, it's not enough just to reallocate capital to higher return opportunities, though. We also have to improve in two key areas, engineering efficiency and product line management. And both of these will deliver huge benefits downstream. You have heard Hau Thai-Tang, our executive over product development explain how we're moving to five flexible global architectures that will give us the ability to deliver more product faster and with that less capital.

We believe that we can reduce the time it takes from sketch to showroom by 20%, while improving capital efficiency by an additional 20%. In addition, we have implemented new product line management teams. These are agile cross-functional teams; they're responsible for product lines from end to end, including P&L. This brings us much closer to our customers and their wants and needs. We have established clear lines of responsibility for every product line with the mandate to deliver appropriate level of returns.

The next area of focus is propulsion and we use that term not to confuse you, but because we're going to offer our dealers a portfolio of powertrains to give our customers a variety of options. We have the internal combustion engine; we have hybrids, plug-in hybrids and all-electric. And, yes, we are redeploying capital and increasing investment in electrification, and I'm even more excited about the strategic view that we've developed here. We're going to electrify our most popular nameplates like the F-150, Explorer, Mustang and Transit.

We'll leverage hybrids to deliver fuel economy and performance, similar to the way we employed EcoBoost so successfully in the past decade. For example, we currently offer hybrids on three of our U.S. nameplates. And by 2022, we'll have – offer hybrids or plug-in hybrid powertrains or both on 12 nameplates.

We're developing a suite of fully-electric vehicles that aspire to have an impact like other exceptional nameplates you associate with Ford. An example is the performance utility vehicle coming in 2020 that has received early reporting from the press, and yes, we will also offer fully-electric commercial vehicles. In fact, further on electrification, we'll leverage partnerships with Zotye and JMC in China and Mahindra in India to deliver affordable electric vehicles at scale. Well, as you know, our customers have an intimate trust in Ford Motor Company and we are confirming to them with all this kind of news that Ford is committed as a company to meet the Paris Accord for CO2 and we love the challenge of doing it in a way that excites them, helps them get their work done, while supporting strong returns for Ford.

We are making real strides in autonomous vehicles and are in a far better competitive position than we were only a year ago. In August, we formed our standalone Autonomous Vehicles LLC. As expected and intended, we're receiving significant interest from potential partners and financial investors. And due to the trust our customers have in the Blue Oval, we are singularly focused on developing a profitable business model, gated by safety. Look for an event we have planned in Miami early next month to share much more about our self-driving system and business model innovation related to autonomy.

And then with Mobility. When we refer to Mobility in our discussions, I want to be very clear: Mobility is all about wrapping software and services in new offerings to our customers. We already made a financial commitment to build our Transportation Mobility Cloud. This is an open platform through which Ford and its partners can deliver a myriad of products and services that will drive higher margins and recurring revenue streams that enable greater functionality and productivity for our customers.

For example, yesterday, Ford Commercial Solutions announced a partnership with Avis to connect more than 35,000 Ford vehicles in the Avis fleet. These vehicles will allow Avis customers to manage their entire rental experience through the Avis mobile app. Additionally, these Ford vehicles will provide valuable telemetry data in real time, including odometer, fuel level and vehicle condition updates, allowing Avis fleet to quickly process information to prepare vehicles for customers. No longer will you have to report your fuel when you turn your car in.

Now, having provided that overview, I want to emphasize that we've had an extremely productive quarter in terms of putting building blocks in place to support that strategy. Let me share some key highlights here. In the U.S., our product offensive started in earnest with the launch of the Edge and the Edge ST. And just this past Monday, Joe Hinrichs and I celebrated the start of production for the new Ranger pickup in the United States, which will be on sale early next year. This all-new Focus is off to a strong start in Europe. And in China, we introduced the Territory SUV, which will be key to reaching new customers in second-tier Chinese cities.

In terms of autonomy, we just announced our second test city in the U.S., which is Washington D.C. And this will allow us to accelerate and build on the work we are already doing in Miami.

I was also part of an announcement where we are teaming up with Uber and Lyft to support a concept called Shared Streets. This is a platform designed to leverage data to improve urban mobility. The datasets pledged by all three of us will provide the public and private sectors with new tools to reduce congestion and emissions, while improving the efficiency of city streets, making it easier and safer for everyone to get around.

Let me add that our performance in China clearly has been disappointing. I can assure you the leadership of the company has swarmed the issue and we identified what is required for a turnaround plan. Importantly, you read yesterday that we named a new CEO of Ford China. I'm excited about the hire of Mr. Anning Chen, whose background, believe it or not, includes a stint at Ford more than a decade ago. Anning's appointment allows us to reorganize our AP region so that China is now a standalone business, reporting directly to Jim Farley to ensure that we improve speed, execution and local expertise.

No doubt you've read about the fact that we've recently kicked off a redesign of our global salaried workforce. This is a new approach and it will improve costs. But that's only a secondary benefit. The sustainable fitness targets that I put out there – ensure that we recognize that our organization must be more agile, accountable, flatter and faster. This is important to the kind of company we're trying to become. This kind of fundamental change, especially in how we work and what we work on, cannot be solely designed from the executive suite and executed top down. The goals here are to flatten the organization and increase managers' span of control.

We've already had success at Ford when we've given people this type of approach and the chance to redesign their teams and how they work. This isn't a new experiment. Quietly, the North American team, for example, has set up energy rooms where cross-functional teams focus on specific product opportunities. We're smiling because there's no private offices, no endless PowerPoint, no faceless emails and no long meetings. It's been a revelation to see how fast they have moved to improve the business, evidenced by the strong margins you're seeing that North American has delivered the past two quarters. And yes to the question, we are racing to replicate this globally over the next few months and we plan to provide an update on the efficiencies we're getting from this in future calls.

The transformation I've just shared with you is but one of a fraction of what we as a team have imagined and we clearly are executing. For example, we previously told you that our marketing function needed an overhaul to become more fit, effective and modern, especially in terms of leveraging Big Data and technology. Well, we've taken action. Earlier this month, we announced key changes to bolster our in-house capability and we moved to a new agency model that will yield more creativity and substantial efficiencies. So we're addressing real issues. We are moving quickly to redesign the business in support of our stated strategy.

With that progress, I know that you want to hear more about how we'll implement the \$11 billion restructuring plan, which we highlighted in the second quarter, as well at that time, we talked about ongoing discussions with various strategic partners such as the one with VW and the partnership with Mahindra. These are big pieces of the picture that I'm trying to paint and we're fully committed to sharing detail as soon as we can. But I can't allow us to get ahead of the process. I assure you that the need to get our stakeholders up to speed is the priority for me and the entire company.

But I've committed to you that we'll have several touch points with you in the coming weeks and months to give more specific detail of areas of important progress in AVs, the extensive fitness plans that we're now implementing and progress on our strategic partnerships.

So before I turn it over to Bob, let me touch on our medium-term targets. There are adjustments here given the dynamics of the environment and I want you to pay close attention. We know that the underlying earnings power of the company is at least at an 8% EBIT margin or better with a high-teen return on invested capital. I mean, we know this because 150% of our EBIT is already coming from products generating mid-teen margins, with an ROIC above 40%. We've been transparent about this.

In April, on a call like this, we said we believe we could hit an 8% EBIT margin and a high-teen ROIC by 2020. And at the time, that was assuming reasonable economic conditions. We also said that our improved fitness would drive a more resilient business model at all points of the cycle, which I want to confirm we continue to stand by. Well, the news today is that the current external environment has driven higher costs and uncertainty for the entire sector. And as we said last quarter, we had an unexpected deterioration in our business in both Europe and China. As a result of these factors, our current forecast shows we will not reach our EBIT margin and ROIC targets by 2020.

However, I tell you as I told the board, we're not standing still. We're attacking everything that is in our control. We're working with urgency to re-design our business to operate more profitably. Our fitness initiatives are tracking as planned, our restructuring and strategic partnering initiatives are progressing and our reallocation of capital toward a winning portfolio of products and services is beginning to deliver results. Our progress on these fronts gives us even more confidence that we are building a more resilient and vibrant high-performing company capable over time of attaining EBIT margins of 8% or better, with an ROIC in the high teens.

So at this point, I'll turn it over to Bob, and I'll be back to you in a moment to answer questions. Bob?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

Yeah, thanks, Jim, and good afternoon, everyone. I'd like to start my comments on slide 6, pointing out a few items from the company key metrics. So first, we reported mixed results on the top line, with company revenue higher than a year ago, driven by strong product mix in North America. Wholesale volume, on the other hand, was down 10%, and this was largely due to our joint ventures in China and Turkey. Market share also was lower. This was driven by lower share in China, although we had share declines across all regions. Company [Company EPS came in at \$0.29] and this reflects an adjusted effective tax rate of about 11%. Finally, net income was \$1 billion [down \$600 million from a year ago].

Now to put the quarter into context against recent performance, you can see on slide 7 that revenue was lower than in the past three quarters due, mainly, to lower volume. Now, some of this is seasonal, reflecting the normal summer plant shutdowns that occur in Europe and North America. Company EBIT and EBIT margin were essentially flat from the second quarter despite the lower volume, and our positive company operating cash flow was substantially higher than the second quarter and a year ago.

Now turning to slide 8, we see the absolute results for our company across our reporting elements. Company EBIT was driven by Auto and Ford Credit results, with losses as expected in Mobility and Corporate Other. The Mobility loss was split about equally between investments in mobility services and our Autonomous Vehicle business. The increased loss from a year ago also was driven about equally by higher investments in both those areas of our Mobility segment.

The Corporate Other loss consists of costs for corporate governance, mark-to-market adjustments of marketable securities and interest income. The year-over-year increase in the loss was due to higher governance costs and unfavorable fair market valuation adjustments to our marketable securities.

The details of our Automotive segment, which are shown on slide 9, highlight our performance in North America, where we generated a healthy EBIT of \$2 billion, which is higher than a year ago despite lower volume and higher commodity costs. This was enabled by strongly positive mix, as our portfolio continues to shift more to trucks, utilities and vans. As a result, and as Jim mentioned, EBIT margin reached nearly 9%, which compares to an average first-half margin of 7.6%.

While we continue to see a combined loss in our Auto operations outside North America, the loss slightly improved from the second quarter despite lower volume. This includes adjustments to dealer inventories in China that now have us positioned right where we want to be in terms of days supply.

In South America, the ongoing recovery in Brazil slowed, due predominantly to external headwinds, including an 18% currency depreciation compared to a year ago and increasing inflation, including higher commodity prices. In Argentina, the peso lost 45% of its value compared to a year ago and annual inflation is running at 34%. Our team has responded with substantial price increases, resistance of inflation recovery by suppliers, and continued reduction in structural costs. We also continue to progress our plans to fundamentally transform our longer-term operating model in the region.

Turning to Europe, we saw favorable market factors from a year ago related to new products, such as EcoSport, Fiesta and Transit Custom. Our Commercial business continue to be strong as well, delivering a record market share as Jim noted. EBIT, however, deteriorated from the year ago largely due to unfavorable external factors affecting performance in Turkey and Russia, combined with launch-related cost from the new Focus. Our team is focused on accelerating actions to improve our near-term performance, while we continue to put in place the plans to substantially to redesign our future business in Europe.

In Asia Pacific, the markets outside China remained profitable although lower than a year ago, generating a 9% EBIT margin, as in the second quarter, the EBIT loss in Asia Pacific was driven by China reflecting the loss for consolidated China operations, as well as at our China joint ventures. The losses were driven by the same factors as in the prior quarter, which is lower volume and lower net pricing.

Compared to our second quarter, however, we reduced the loss in China by over \$100 million, or about 20%. We've made very good progress in addressing the underlying issues with more work to do. We're focused intensely on our sales turnaround plan for China and we're now just at the beginning of a strong product launch cadence, starting with the all-new Territory SUV, the all-new Focus and the new Escort.

All of these models will make significant contributions to reinvigorating our sales growth in the first quarter next year. We also expect to benefit as we move forward from the added focus of transitioning China to a standalone business unit within Ford, led by a strong Chinese leader with deep local knowledge and proven, extensive operating experience.

We also intend to strengthen over time our position in emerging markets, enabled in part by the creation of a business unit largely focused on how to win in these challenging and growing markets.

Let's turn now to slide 10, Ford Credit key metrics. Ford Credit was an outstanding performer in the quarter, generating an EBT of \$678 million, which was the best quarter in over seven years. This was driven by favorable volume and mix and favorable lease residuals. We saw our auction values rise 5% from prior year at constant mix and we now expect auction values for the full year to improve on average 3% at constant mix. We're very encouraged that U.S. consumer credit metrics remain healthy and in addition Ford Credit's balance sheet remains strong, with managed leverage remaining within the targeted range of 8:1 to 9:1.

Slide 11 reminds us of the strength and stability of Ford's balance sheet, featuring cash and liquidity levels in excess of our targets, and global-funded pension plans that remain fully funded. Finally, we're reaffirming our guidance for full-year company-adjusted EPS of \$1.30 to \$1.50 per share.

So in addition to what Jim and I covered in the call, we have provided supplemental material in the earnings deck with more details and insights on the business.

So with that, what I'd like to do is to turn it back to the operator to start the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from the line of John Murphy from Bank of America.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Good evening, guys. Jim, just in your comments and the way you're discussing everything, all the actions you're taking at the company, it kind of feels like the restructuring actions that you're talking about, \$11 billion non-cash, \$7 billion cash will be over a multiyear period and maybe more of a rolling process as opposed to what some of us in the industry are used to as sort of a big-bang outline of a plan and massive charters upfront. Is that possibly a correct characterization and we're going to learn about this along the way? Because \$7 billion and \$11 billion over a three-to-five-year period in the auto industry can get washed out in the total to some degree. I'm just trying to understand how you're thinking about this, if this is more of an ongoing rolling program as opposed to a big-bang one.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Yeah, I think if I could have some license to think of the language a little differently, let me set this up for Bob, which is the way Bob and I think about this is I've come into the company trying to assess the design of the business kind of at an underlying level. Design for, as you know, John, reduced capital, higher margins, but there's other things, clock speed. We're talking about things moving faster. And when you think about that, I sit in your shoes and you say, hey, when will we know this? At what rate are you making these things happen? What I remind everybody of is we first have to find the areas that need the attention. We're through that. We then have to design the solutions for them. We're through a lot of that, but not all of it. And then we have to put them in place and perform.

So if you read any hesitancy from me, it's not that we don't know where we're going or that we don't know how to do it, it's that it's a massive undertaking that we have to have very thoughtfully orchestrated. Because my experience in doing this is the worst thing we could do is disrupt our business and we aren't going to do that. So now, the accounting of it and things like that, I'm going to turn it to Bob and let him – give your opinion on that.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yeah, I just want to supplement what Jim said. I think that's a perfect way of thinking about the way you expressed it, John. I'm very thankful for the question. When you think about the business and even if you look at the quarter, we have a strong North America, can be and should be stronger, but it's now gaining momentum. We have a strong Commercial business in Europe despite the loss that we had in the quarter. We talked about a big part of geography in terms of the market outside of China and Asia Pacific, a 9% margin. I didn't talk about MENA, but there we had I think a 7% or 8% margin. A small market, but it's 1.3 billion consumers and it is going to grow dramatically over the next 10 years and we're already starting to see the ability to be profitable there.

So it's the rest of the business, right? And that business has got to be fundamentally redesigned. The restructuring is an output of that or a result of it. It's not a restructuring play, it's a redesign play. The result is the consequence of this restructuring and it will unfold. There will be, I presume, spikes. There'll be like a big thing that comes in this region at a certain point in time and then maybe it's a bit quiet for a while then something else big as we get to that next chapter of what's going to be an unfolding story. So I think that's a perfect way to think about it, which also I hope – I know it's frustrating, but I hope it helps investors understand why one can't sort of go to the last page of the book and look at the ending. It's got to sort of unfold. And that's – and we'll share everything with you as we can and as things are announced.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And, John, just to confirm too, you know that at the point where you're examining these kinds of options, if there was expedience options or more big bang ways of doing things, yeah, I was open to all kinds of ideas like that. That's what we've already plowed through. And so your understanding tonight should be just the way Bob and I are describing it.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

And just to be clear, the timeframe is around five years in sort of what you're thinking here as far as what you know right now? Is that about right?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Well, I mean, our business planning period is five years. There will be a lot that is completed in five years, but frankly, I think there'll be some elements that go on a bit beyond that. Let me just give you a good example. We may have made recent investments in new products that a normal cycle would be to run for five years. As long as those products are generating positive cash flow and sort of an incremental basis, we'll run them out. So we're not going to short cycle them at the expense of being able to demonstrate how strong we are in taking action. We want to generate cash. And so the consequences then of that running out and not redeploying capital in that particular location or plant or segment could result then in something that takes place outside the period.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And, John, it wouldn't be fair to say it takes a full five years, right? So part of the reason we're going to have a gathering where Joe Hinrichs takes you through a deeper understanding of the fitness actions is that you can see the range of things in terms of – some of them are, what I call, the now-near-far kind of clock. Some of them are now. Some of them are actually impacting now. I think we're trying to be really clear that North America, some of its results are from many of the fitness actions that we put in place a year ago. But you're also right that some are going to take longer because they're more complicated design challenges.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Okay. And then just a follow up on this. I mean, we're two years away from where you talking about hitting 8% EBIT and high teens return on invested capital. Obviously, market dynamics have changed dramatically more recently, so understandable. But just curious, what kind of market dynamics you need to hit those numbers? I mean, are we looking at sort of – is this sort of a mid-cycle thought process? I mean, just really trying to understand what you're thinking about there, because it is a big change.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

I think it's really more around timing. We had expected to hit those types of numbers in our five-year planning period. Back earlier in the year, we saw the opportunity to do that earlier through the impact of the fitness actions. But subsequent to that, we've seen more bad news on commodities, some related to policy, some not. We've seen issues on exchange. We've seen South America take another dip and so forth. So, there's – Turkey is another one, Russia. So, there are other issues.

And then, frankly, what we saw happen in Europe and in China that was unrelated to externals, we expect and are addressing them very aggressively. But as you kind of flow that through to 2020, that could still have some sort of negative impact versus what we had expected back in April. Trust for that not to happen, but based on looking at the numbers today, that's where we are and we've just got to disclose what we see and that's where we are. But certainly, we're not backing off and we certainly see the ability to achieve the 8% margin and the mid-teen ROIC in the years ahead.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Those targets are still there.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yes.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And this is the tough kind of leadership question. We have to keep our foot on the throat of our performance, so we are doing that. All of us are really happy actually about the momentum we're building as we adjust that target. Isn't that ironic? But we think it's important as we get a better handle on our business that we share with you that we need to change the timeframe on that.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

And then just one last quick one on market dynamics. Net price in North America, negative \$318 million, a little bit surprising to the downside. Obviously, mix is a huge, more than positive offset. Just curious what you're seeing in the dynamics in the North American market because some of the data we're getting externally is kind of positive and negative and it's kind of a little bit unclear to understand exactly what's going on there.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

I think that's a fair question. Let me give that to Jim Farley.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Certainly, in the utility and car markets, we're seeing more pressure because of availability, but it's really encouraging to see Ford's performance in full-size truck. Our transaction price is up more than the market. Our

share is up. It's never been a more competitive segment. Ford's lead continues to grow. And we've had meaningful product investment, new diesel, Raptor is being well-received, new powertrains, so that all helped.

I think the opportunity for us is, as we refresh those utilities next year, we really accelerate our opportunity for pricing and mix. These are high-volume products for us with enormous car parks and we're going off older vehicles to brand-new vehicles. I think we'll have the freshest utility lineup in the U.S. here pretty soon.

So as far as the background market, I think it's – we're really in a bit of a different situation given the freshness of our products, so great opportunity for us.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Jim, that's the Escape and the Explorer next year, is that correct?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Among others. We actually have more Lincoln. We have quite a few and of course, we have 13 million pickup truck owners in the U.S. and we're about to launch a great new Ranger, which is a brand-new nameplate, so it's not just utilities, it's also pickup.

John Murphy

Analyst, Bank of America Merrill Lynch

Q

Great. Thank you very much.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thank you.

Operator: And our next question is from the line of Joseph Spak from RBC Capital Markets.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

Good afternoon, and thanks for taking the question. Maybe just to follow on some of the longer-term planning and some of the market dynamics that you didn't anticipate that caused to take that down, have you similarly built in some contingencies around potential variation, your assumptions for the North America market or does that also assume that we remain roughly around the current levels?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thanks, Joe. I'm going to let Bob add to this, but in my text, remember I made reference to resiliency more than once. Because one of the things we hope to convince you of is that the design of the business has more resiliency in the downturn. So it's my expectation that you wouldn't be modeling that the way you used to. But Bob, how would you...

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yeah, I guess from a couple of standpoints. Joe, one is, and this has been our view for quite a long period of time, is that we do expect industry to decline over the next number of years, I mean, still be strong absent a recession, but to decline in part due to affordability from all these increasing transaction prices and ultimately the effect of rising interest rates on monthly payments. We also have not assumed that there is any material change in the level of commodity prices that we're seeing, and that's hitting North America more than any other business unit. And that includes the bubble that we presently have in place that's a result of some of the policy decisions that have been made. So that's not assumed to back off. So all those could be opportunities if that weren't the case.

And then of course we do normal modeling, both variable and central cases around other scenarios that affect each of our regions and as well as North America. So if there's something else that you had in mind, but that is sort of the present thinking around those assumptions.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

That's helpful. And then the second question is, not to get too semantic, but I think there's a lot of investor concerns and questions over this, on Slide 11 when you say committed to the regular dividend through the cycle, is that at current levels? Or just to continue to pay a dividend through the cycle?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

At current levels.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

The regular dividend.

Joseph Spak

Analyst, RBC Capital Markets LLC

Q

Yes. Thanks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

And we want to emphasize that we don't know how we've lost control of the way that's been projected, but we've been consistent saying that we plan to pay the regular dividend in this five-year plan.

Operator: And our next question is from the line of Colin Langan from UBS.

Colin Langan

Analyst, UBS Securities LLC

Q

Oh, great. Actually just to follow up on that, there's also questions about your credit rating. How important is it to maintain investment grade in your view? Because I imagine the dividends and all this cash restructuring, [ph] I think of many that are (41:04) getting downgraded, how critical is it?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Well, it's important. I mean, we have been there before, don't want to go back. But the impact is largely on, firstly, Ford Credit. We have to fund them to the tune of over \$40 billion a year. And of course some of that is unsecured, some of it's securitized. So it impacts the size of the market that we have available for that funding and obviously the cost of it. Ultimately Ford Credit is going to pass that cost along to Automotive, so at the end of the day it sits in Automotive in terms of the impact. But it's important. I think it's an important thing. It's not around the balance sheet. It's not around the fact that we pay a dividend. It's around the operating performance of the business. It's very, very clear in talking with the rating agencies that even if we stop paying the dividend, that doesn't address the operating performance.

So we're extremely focused, going back to what Jim talked about around the EBIT margin, return on invested capital, we are extremely focused on getting this business back on to a stronger operating performance track, because that is the issue that the rating agencies are expressing concern around. Obviously it relates to cash flow generation at the end of the day, but that is what we've got to focus on, is that issue. It's not a dividend issue; it's an operating performance issue.

Colin Langan

Analyst, UBS Securities LLC

Q

Got it. And just to follow up on the question on the 2020 target, why not just push the targets out? I mean, there's no – unless I misread it, there's no new target date. But any color on why the decision not to just to actually put it back to where it originally was?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Well, we haven't – not done that, I mean we're just simply saying it's not going to be in 2020. Since we had put that marker out there and based on what's happened since then, we're compelled to share with you that we don't see, at the moment, a way to get there. So we're simply saying, not in 2020. But as I mentioned in my earlier comments, certainly we're trying to get there as soon as we can. But I'm not going to put a timeframe on it because I don't want to have to come back again and change it.

Colin Langan

Analyst, UBS Securities LLC

Q

Got it. And just lastly on China, any sense to when that stabilizes? And any idea when it gets back to a profit? How should we think of that inflection? Thanks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Again, I'll turn this to Jim Farley, because Jim has been making a trip there almost every three weeks and you've heard about the news in the organization. I've been talking to the partner. While we've been fixing Ford's problems, there's a lot that's been going on in China. And Jim, you might share what you're seeing the last three months in China at large.

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Sure. Well, first of all, this is such an important and urgent work by the team. The good news is we've addressed the error states we had, which is great. The stocks are down to 45 days. Dealers are profitable again and our sell-down units for these new products, the three that Bob mentioned were in fantastic shape. So we – I think we are in really good foundation for the launch of these new products that come basically, as Bob said, in the first quarter. And these are high volume products for us.

Anning is a very experienced operations leader. And we feel that the accelerated costs, addressing the cost in the business is really essential for our profit turnaround in China. He has deep experience in purchasing, engineering and these are going to be keys to our turnaround in China for profit. The other one is profit line management, which has really yielded so much benefits here in North America. With these new launches, a launch mix in rates, series, feature content, we have a tremendous opportunity to drive better margins in China. So as far as the Ford team is concerned, this is all hands on deck, as Jim mentioned, and we are working urgently and as a team, as you can imagine.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Want to talk about industry sales?

James D. Farley

Executive VP & President-Global Markets, Ford Motor Co.

A

Yeah, industry, as you know in the third quarter was down about 10% in China. To be honest, that's a bit expected because the previous two years, there was a purchase incentive boost to the industry, which was eliminated this year. We saw a pretty big hangover in the first quarter. Industry demand came back, but it has not really recovered to last year's level in the third quarter. As Bob said, there's a lot of speculation about incentives or not. Look, our turnaround in China is really up to us. It's about our new products and our cost performance. But we definitely see a weaker market there. Some of it is external. Some of it is internal, like the purchase tax I mentioned. But for us, the opportunity is within our control.

Colin Langan

Analyst, UBS Securities LLC

Q

Got it. All right. Thank you very much.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thank you, Colin.

Operator: And our next question is from the line of Ryan Brinkman from JPMorgan.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Hi. Great. Thanks for taking my question. Thanks for the earlier color in China, too, but wanted to ask on Lincoln in China specifically and on branding more generally. Relative to these tariffs that you're having to pay 40% now, where are you in terms of the localization of Lincoln in China? Can that at all be accelerated?

And then the more general branding question is, previously I think it was seen that Lincoln would benefit in China from being associated with like the limousines used historically by American presidents, et cetera, by its American

branding. Just curious how you think American car brands are being perceived in China currently with some of the headlines this year. I see Chevrolet and Cadillac seem to be doing all right, so maybe there hasn't been too much change, but just wanted to check in to see if you're detecting anything at the margin.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Well, the good news is – great question – good news is we have not seen any sentiment change at the consumer level. In fact, Lincoln is up about 3% year over year for us, despite having to take pricing. So we see continued very strong demand. We watch the favorability of both the Ford and the Lincoln brand monthly and we have not seen any change in the favorability of the brand as of yet. And this is a very important question about localization of Lincoln. We haven't been specific about the model. But one of the keys to our profit improvement plan for China will be accelerating our localization. We've already announced a Ford-modeled Explorer as well as a Lincoln model and that's very key to our progress.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Okay. That's good to hear. And then I thought I'd ask too on Europe and WLTP, what has been the impact to your position there? How are you positioned relative to the other automakers in regards to that transition? And then just more generally in Europe; on the last call, you talked about how maybe there hadn't been as much of a profit improvement from some of the recent launches over there. Just wanted to follow up to see if that was still the case and what your current plan might be to improve the profit in Europe short of the better contribution margin from new models, et cetera.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Okay. Well, WLTP has been a really large effect in Europe. As you know, it's had a pretty big industry effect. The great news is that Ford planned this very thoughtfully. We had no capacity issues, very little in our transition to 6.2. We're already through that transition. So Joe's team did a fantastic job and we don't really see any hiccups in our business due to that. But I know it – obviously it has a big impact on the industry as a whole. We're seeing – we're kind of entering the second month of a hangover for the sell-down of 6.1, but we're through that now as a team. As far as Europe is concerned, Bob mentioned it, we have such a gem in our LCV business, continues to get stronger actually for us. Our share goes up. Even if the UK, our leading market is down, we continue to make more progress.

The opportunity for us in Europe is twofold for our profit turnaround. The first is costs in every part of our business and the team is really – continues to accelerate that work and we're working with all of our stakeholders on that. The other one is addressing our mix deficit on our passenger cars. We just have been under-representing the utilities, as Jim said, globally, but especially in Europe. But that all changes as we launch a new generation of utilities in Europe and even add nameplates next year and beyond. So I think the mix effect and cost will be key.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Okay. And then just very lastly, on mix in North America, looks like there's some very impressive gains there. Can you elaborate on the drivers? I think I heard SUVs. Anything else? Speak to the sustainability of that. And I just wanted to check too because the line item there is called mix/other. What the other bit might entail and its sustainability?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yeah, it's almost nothing. It's almost all product mix. And about 60% of it is that we're selling – as a percent of our total sales, we're selling more F-Series, more Navigators, more Expeditions, more higher margin products. And about 40% is that we're selling less of cars, but also the Escape. And I think the Escape one is an interesting one. We're going to launch a new Escape next year. And Jim might want to comment on it. We're actually taking conscious actions, decisions to kind of pull back a bit on volume because we're trying, not trying, but we're protecting, if you will, residual values and protecting the nameplate brand as we prepare for the launch of the new one. So as a result, less of those, so it's benefited us to the tune of favorable mix overall. Do you want to comment on that? And it's a great example of like the work we're doing around the product rooms.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

We believe as the utility business in the U.S. becomes a lot more competitive, given all the nameplates have been launched, Bob said we really feel like there's two big bets for Ford. The first is differentiation, where we're going to expand the number of nameplates into more differentiated, like authentic off-roaders or really fantastic on-road urban crossovers. But the other one is to address our total cost of ownership. We feel that for models like Escape, for them to continue to be great profit opportunities for the company, the residual value, the fuel economy performance of the vehicle, these are critical metrics for this leadership team.

And as Bob said, we are actually taking some short-term share decisions on Escape to protect the transition to the new vehicle as well as protect our residual value to minimize our variable marketing spend. And that's another reason why we've had this mix effect.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Very helpful. Thank you.

Operator: And our next question is from the line of David Tamberrino from Goldman Sachs.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Yeah, great. Got a couple of questions here. I think we'll start with 2018 guidance. You held the \$1.30 to \$1.50, but you brought your tax rate down from 13% to 10%. I think that implies a couple of hundred million dollars of EBIT where your guidance got lowered. It looks like that might just be South America instead of improving just being flat, but wondering if there's any other buckets that we should be looking at for that implied EBIT guidance reduction.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

We haven't adjusted our EBIT guidance reduction, our guidance. We had a guidance on EPS and that is still within the range of \$1.30 to \$1.50. We've not provided any guidance on EBIT. So it is incorrect to assume that there's a reduction.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Follow up on that later. Jim, on the fitness plans that you've outlined, it's about [ph] \$25.5 billion (53:10), I know it's over a long period of time. But I'm just wondering how much, if any, has accrued to the bottom line so far in this quarter?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

You're asking the question of in the five-year plan, what has happened in one quarter?

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Well, I'm asking to see if there's been any traction with those cost savings initiatives dropping to the bottom line just yet?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Yeah, yeah, okay. I'm trying to get at how precise you want that to be. So this is where I guess I was a minute ago, David, that we're seeing definite benefits now in our business. We said these were back-end-loaded because of the description I gave you a moment ago when I was reminding you how these processes get identified, to be reengineered, to be put in place, to realize value, kind of those four steps. So more value comes in the future. But it is happening and I've cited for you in North America is where I'm seeing early benefits. There's a concept that we've called yield management, which is one of the 19 that we're seeing real-time benefits there.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

But nothing quantifiable?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yeah, it's been – for the year it's several hundred million dollars. I wouldn't be more specific than that.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then just lastly for me, since you've outlined the modular architectures, I'm curious how much CapEx has been already spent on that transition, how long that's been contemplated within the organization and if there's any incremental spend that needs to be done in order to get you there and transition the portfolio?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Again, David, I'm sorry, but let me see if I can reframe that. So you realize the refreshing – the freshening that we just have done that we're just launching, the – kind of the capital that we have spent there, tied to the new products is one thing. And then this concept of these architectures, all the new things that are coming after this most recent refreshing. And so we have, in the five-year plan, definite capital improvements. I think I mentioned that in the text.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

You did. I'm asking because other OEMs have discussed developing modular architectures and it's taken multiple years for them to get to that and deploy it. So the question really is how much of that has already been done or established and behind us versus going forward and needs to be spent while you're launching those products?

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Yeah, well, let me tag team with Joe here because, remember as part of his executive role, he helped put this new architecture in. Joe, what's your sense of...?

Joseph R. Hinrichs

Executive Vice President & President-Global Operations, Ford Motor Co.

A

Yeah, the way I would describe it is we're at the peak of our capital and we've acknowledged that in our previous discussions. We're going to see the benefits over the next several years as the new product programs that we're launching today get the full benefit of the architecture and module work. So you're accurate in saying – in thinking that we'll get more benefit as the years progress, but we are starting to see engineering savings in the near term. On a capital basis, the capital reuse work we're doing and with the module architecture work combined will save a significant amount of capital over the next several years.

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Yeah, the only thing I would add and Joe can tell me if I'm wrong – but I think, David, conceptually, some of these things were piloted with our C2 platform, which is the new platform that underpins the Focus, the new Escape that comes and so forth. So a lot of it was piloted on that. That's already starting to go into our plants. So I think the learnings from that have just been further developed. So unlike some competitors who had huge changeover costs associated with going to a different approach, we don't see that happening inside Ford. And in fact, as Joe mentioned, we expect to see efficiencies moving forward.

Joseph R. Hinrichs

Executive Vice President & President-Global Operations, Ford Motor Co.

A

That's exactly right. We're timing it to the introduction of the new products. So we're doing this in a timely manner. But that product freshening that Jim Farley and Jim Hackett both talked about, it times nicely with the execution of all these initiatives.

David Tamberrino

Analyst, Goldman Sachs & Co. LLC

Q

Understood. That's helpful. Thank you very much, gentlemen.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thanks for the questions.

Operator: And I believe we have time for one last question. Our next question is from the line of Itay Michaeli from Citi.

Itay Michaeli

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. Good evening. Maybe just one more on the 2018 guidance for Bob. Is there any bias in terms of the range on the EPS or kind of the factors that would cause to be at the low versus the higher end of that? And then maybe just to confirm, do you expect Q4 to still have positive operating cash flow?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

So I'm not providing anything other than saying that we're very comfortable with the range that we've provided and expect the business to come in within that range at the end of the year. In terms of cash flow, I'm not providing any guidance on cash flow, other than for the full year, which should still be consistent with the guidance we've provided all throughout the year, which is positive, but down from last year.

Itay Michaeli

Analyst, Citigroup Global Markets, Inc.

Q

Great. And then on North America, I mean, looks like if I back out some of the recent recalls and some of the issues in Q2, you're running comfortably above 9% and you talked about the product cycle you have coming in the next couple of years. I guess, what will prevent North America from running even above the 10% that you previously talked about in the next couple of years?

Robert L. Shanks

Chief Financial Officer & Executive Vice President, Ford Motor Co.

A

Well, North America should. I mean, that's one of the things that Kumar and the team are working on with their Return to 10 initiatives. I mean, at this point in the cycle, it should. But if you think about the headwinds that Ford has around commodities, it's about \$1.5 billion this year and the vast, vast majority of it sits in North America. So that alone is worth quite a bit of margin, if you will. So I think if anything, you've raised a point around some of the increases we've seen recently in warranty costs.

You think about that, you think about the commodities, we're investing in EVs, which of course has an impact, we're not selling them yet, all those things and to see North America starting to pick up a pace in terms of its margin, it's 9% or near 9% in the quarter. It's very, very encouraging because they really should be operating at that type of 10%-plus level at this point in time. They understand that and that's what they're working to achieve.

Itay Michaeli

Analyst, Citigroup Global Markets, Inc.

Q

Great. That's very helpful. That's all I had.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

A

Thank you, Itay.

Operator: That concludes the question and answer session. I'd like to turn the call back over to Jim Hackett for closing remarks.

James P. Hackett

President, Chief Executive Officer & Director, Ford Motor Co.

Thank you very much. Just want to confirm quickly that we're moving with urgency to execute against this strategy. We are pleased with signs of our success. These are early signs, including strong results as we just

talked about, with the EBIT margin in North America of almost 9%. We're very, very happy with the strong balance sheet with over \$34 billion in liquidity and we're making great progress on the product portfolio, I can't emphasize that enough. The dealers last week with lots of applause supported that. The redesign of the business includes these strategic partnerships with VW and Mahindra. They're all on track.

And finally, we look forward to sharing more about this global redesign of the company. We are going to be coming to you more frequently, including we're going to talk about these strategic partnerships in the near future. Thanks for your coverage and we look forward to our next call.

Operator: This does conclude the Ford Motor Company Third Quarter Earnings Conference Call. Thank you for your participation. You may now disconnect.

**Text in square brackets are edit requests which came directly from the company.

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