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CORPORATE PARTICIPANTS

Erich Merkle *Ford Motor Company - U.S. Sales Analyst*

Mark LaNeve *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Bryan Bezold *Ford Motor Company - Senior U.S. Economist*

CONFERENCE CALL PARTICIPANTS

John Murphy *BofA Merrill Lynch - Analyst*

Dan Levy *Barclays Capital - Analyst*

Rob Lache *Deutsche Bank - Analyst*

Colin Langan *UBS - Analyst*

Joe Spak *RBC Capital Markets - Analyst*

Dee-Ann Durbin *The Associated Press - Media*

Christina Rogers *Wall Street Journal - Media*

Keith Naughton *Bloomberg News - Media*

Megan Lampinen *Automotive World - Media*

Bernie Woodall *Reuters - Media*

PRESENTATION

Operator

Good morning. My name is Kalia and I will be your conference operator today. At this time I would like to welcome everyone to the Ford monthly sales call. (Operator Instructions)

Thank you. I would like to turn the call over to our host, Erich Merkle, U.S. Sales Analyst. Please go ahead.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

Thank you, Kalia. Good morning, everyone, and welcome to Ford's November 2016 US sales call. Today we are joined by Mark LaNeve, Ford's Vice President U.S. Marketing, Sales and Service, and Bryan Bezold, Ford's Senior Economist.

So first up, we're going to take a look and get a little bit of industry perspective from Mark, so I'm going to turn things over to him. Mark.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thank you, Erich. Good morning, everyone out there. What will be hard to believe, but our last one of these calls for 2016. So with that, let's look at some November highlights. Based on this morning's incoming data and looking at our own data, obviously, we believe the industry performed very well in November.

Our early read is that total sales including medium and heavy trucks came in at approximately 1.41 million vehicles last month. This will correspond to a total industry SAAR of about 18.3 million vehicles, providing the overall industry with an approximate 5% increase versus a year ago. Much of that increase last month came from a retail increase of approximately 6%, albeit that increase did come at higher overall industry incentive spend at approximately $570 per unit higher versus the same month a year ago.

We estimate a retail sales number of about 1.15 million vehicles for the month. It would appear that November sales at these levels were likely a record November for the industry.

Moving on to Ford, at Ford overall sales were up 5% with 197,574 vehicles sold. Strong retail performance drove that increase with retail sales up 10%, making it our best November retail sales month in 12 years. Our fleet sales were down 9% and as we stated, in the first half of the year much of our sales of daily rental fleets were frontloaded in the first half of 2016, and would decline moving through the second half of 2016. In November, our overall fleet sales in line with this were down 9%.

As I mentioned, industry incentives were up about $570 compared to last year. Ford incentives were up less than that at $460 relative to year-ago levels, and compare very favorably not just to the industry but to one of our primary competitors that increased their incentive spend by well over $1000 per unit last month.

In fact, we had very strong ATP performance, with Ford's overall average transaction pricing in November expanding by over $1,000 versus a year ago. This was more than 3 times the rate of the industry. We saw a $320 increase in overall transaction pricing last month.

Our overall transaction prices totaled $34,900 per vehicle last month, which represents some of the strongest levels we have ever seen at Ford. One of the factors driving this is Super Duty's overall average transaction prices, which were again very strong last month relative to the overall industry and to the segment. We are seeing higher sales and rich mix of the all-new Super Duty pickup. I will add a few bullet points on that in a minute.

Our outlook for the year remains unchanged at 17.8 million total vehicles. We had a strong sales in November, which places the year-to-date pace at a level consistent with a year ago, with 2015. We're maintaining our guidance for 2017 as well at 17.7 million vehicles.

Looking at the performance of our individual products last month, let's start by focusing on pickups, which were a terrific story for us. Ford F-Series sales totaled 72,089 trucks last month, representing an 11% increase for our best November F-Series sales performance since 2001, so our best in 15 years.

We saw retail sales increases on both the F-150 and Super Duty, and government and commercial were also up year-over-year for F-Series. This year F-Series is on track to achieve their best sales performance in a decade with a shot at hitting 800,000 pickups this year.

That's kind of a magic number for us and for reference, the last time we did 800,000 in F-Series was 2005, over a decade ago. We are obviously very pleased with F-Series' performance as the all-new Super Duty is becoming a larger part of our overall mix, and I will have more to comment on that in a second.

The all-new Super Duty continues to be off to a great start. It's a class-leading product. We are able to really deliver what Super Duty customers demand by light-weighting with the military-grade aluminum alloy body and reinvesting some of that weight savings in class-leading capability.

In addition, customers are choosing our Premium series and smart technology such as trailer guidance and adaptive steering at record levels. In fact, Lariat and higher trim level 2017 Super Duty trucks made up 71% of the nameplate's retail sales last month.

Days to turn remains brisk, with the trucks sitting on dealer lots just 22 days. Wherever I go across the country, our dealers and customers share very high praise for the capability and technology being incorporated into the all-new Super Duty. So we continue to be extremely pleased with the launch of this breakthrough product.

Let's take a look at Ford SUVs. Ford SUV sales totaled 60,079 vehicles last month, representing a 20% increase versus a year ago. The increases were across the entire portfolio with Escape up 11%, Explorer up 14%, Edge up 32%, and Expedition up 75%. The increase was entirely retail-driven, although we did have another strong month with the Explorer police vehicle as we have had all year. Ford SUV sales are running really close right now to the record levels that was achieved in 2001.

Finally, let's turn to Lincoln, which had another very strong month. Lincoln retail sales were up 19% in November, again outperforming the premium segment which we estimate was likely flat or maybe even down slightly last month.

We are also seeing much improved transaction pricing at Lincoln with average transaction prices up $1,600 for the Lincoln brand compared to a year ago. This compares very favorably to the premium segment, which was up about $300 per unit. Our new products in Lincoln are working to deliver strong sales and much improved transaction pricing.

MKX was up 30%, while MKZ was up 9% last month, and the all-new Continental added 1,419 vehicles to the brand's overall sales in November, representing the vehicle's best performance since launch. With improved availability, we saw Continental turning on dealer lots in just 13 days last month. Customers are purchasing richly-appointed Continentals. Our two highest trim packages, Reserve and Black Label, made up half of Continental's sales, which is a great sign.

So that's a look at November, strong month for Ford and the industry. With that, I would like to turn it over to Bryan for an update on the economic front.

Bryan Bezold - *Ford Motor Company - Senior U.S. Economist*

Thanks, Mark, and good morning, everyone. Incoming data show the US economy remains characterized by a relatively healthy household sector, along with signs that the corporate sector has begun to adjust to the strong dollar and low oil prices.

The second estimate of third-quarter GDP data showed that the economy grew by 3.2%, the fastest since 2014, as growth in household spending was complemented by improving growth in private investment and exports. Third-quarter consumer spending grew by 2.8%, investment by 2.1%, and exports by 10.1%. Imports grew by 2.1%, and government consumption and investment grew by 0.2%. Third-quarter corporate profits rose by 6.6% after falling by 0.6% in 2Q.

Other economic data show the trend of a relatively healthy household sector and improvement in the corporate sector extending into the fourth quarter. Aside from U.S. auto industry sales, PMI, unemployment insurance claims, and consumer sentiment, these data reflect conditions prior to the election and do not reflect consumers' or businesses' assessment of any new policies from the new administration.

Specifically, through October the labor market continued to provide support for households as non-farm employment rose by 161,000. The unemployment rate fell 0.1 percentage point from September to 4.9%. Average hourly wages rose 2.8% from prior year in September, and are up 2.6% year-to-date.

New claims for unemployment insurance show that labor market strength extended into November. During the week ending November 26, there were 268,000 new claims for unemployment insurance, with the forward-moving average of 251.5 thousand (sic). The last time new claims were consistently below that level was in 1973.

October inflation-adjusted disposable personal income rose 0.4% from September, and inflation-adjusted consumer spending rose 0.1%. The November reading of the University of Michigan Consumer Sentiment Index rose 4.4 points to a five-month high of 91.6%. Respondents' view of current economic conditions, as well as conditions over the next year and next five years, improved from October.

The share of survey respondents who reported that it was a good time to buy a car rose 3 percentage points to 67%, and the share reporting that it was a bad time to buy a car fell by 4 percentage points to 25%.

The housing sector appeared buoyant in October as new housing starts rose by a surprising 25.5% from September, with both single and multifamily construction improving. Permits rose by 2.9% from prior month, on improvement in both the single and multifamily components. Existing home sales rose by 2.0% from September, while new home sales were the lone weak spot, falling 1.9%.

October industrial production was unchanged from September. Manufacturing production rose 0.2% but was offset by a 2.6% decline in gas and electric utility output. The November manufacturing PMI rose 1.3 points to 53.2% on improved production and new orders.

As Erich mentioned earlier, we see the November SAAR approaching the 18.3 million unit range, putting the year-to-date industry SAAR at about 17.8 million units.

With that summary, let me turn it back to Erich.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

Thank you, Bryan. Taking a look at a few housekeeping items, I will take care of those here a second. Taking a look, we'll start off here with our fleet as a percentage of total sales. In the month of November 2016, our fleet as a percentage of total sales was 22%. The breakout on that was 11% commercial, 6% government, and 5% daily rental.

Comparing this to November of 2015, our fleet as a percentage of our total sales was 25%. The breakout on that is 12% for commercial, 6% for government, and 7% for daily rental.

Taking a look at calendar year to date, so if you look at November calendar year to date 2016, fleet as a percentage of our total sales was 30%. The breakout on that is 13% for commercial, 6% for government and 11% for daily rental.

Taking and comparing that to calendar year to date November 2015, fleet as a percentage of our total sales was 28%. The breakout on that is 12% for commercial, 5% for government, and 11% for daily rental.

Taking a look at stock levels, inventory, our gross stock for the month of November 2016 was 654,000 vehicles, which translates into 83 days supply. The breakout for that is 155,000 cars, 306,000 trucks, and 193,000 SUVs.

Comparing this to October 2016, the month previous, our total gross stock was 650,000, which translated to 90 days supply. The breakout was cars were at 145,000, trucks were 315,000, and SUVs were at 190,000.

Comparing our gross stock to November of 2015, a year ago, our total gross stock was 665,000 vehicles, which translated into 85 days supply. The breakout on that was 184,000 for cars, 310,000 for trucks, and 171,000 for SUVs.

So with the housekeeping items out-of-the-way, Kalia, we are going to turn things over and take some questions. And we will kick things off with the analyst community first if we could, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Murphy, Bank of America.

John Murphy - *BofA Merrill Lynch - Analyst*

Just had a couple of questions here. First on the F-150 and the Super Duty, in general I'm just curious what you are seeing on pickup truck pricing in aggregate. And it sounds like some of the competitive actions you were highlighting on, incentives, were targeted at this segment. And also where you are in the Super Duty build and inventory in dealer lots, because it seems like there's still some way to go and it's got some pretty good strength already.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thank you, John. We saw that, obviously, there was heightened level of incentives across the industry, as I mentioned. Ford was actually less than what the average industry increase was. Some of that we are seeing in pickups. Not an alarming number was up; basically in general, almost in every segment incentive spending on a year-on-year basis. So we didn't see anything in particular on incentives on pickup trucks that is worth mentioning.

Our ATP performance, price performance was strong, as I mentioned, especially with the new Super Duty. I would characterize it as we have had a great launch in terms of getting the right mix out to the dealers. We are still continuing to build inventory and to ramp up, filling our commercial and government orders, and selling a very rich mix.

The biggest problem we have right now, we are selling an incredibly strong rich mix in terms of Lariat, an up-level edition. So fulfilling those orders as dealers replenish their inventory is actually a good problem to have, and that's what we're working on right now.

John Murphy - *BofA Merrill Lynch - Analyst*

Then just a last question, just on the Lincoln Continental. The launch there sounds like it's going very well. Any early read as to the channels that that is being sold into or really who the buyers are at this point?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

I don't have that information in front of me, John. Anecdotally, Lincoln dealers, we just had the Lincoln Dealer Council in with about 15 of our top Lincoln dealers from around the country. They would tell you is that they are seeing really an all new buyer to the Lincoln brand being brought in by Continental.

And incidentally, are buying other Lincolns or Fords -- if it happens to be a dual dealership -- in the process. So we are delighted with the start Continental has, it has had, and what is doing for the brand. And we are seeing -- it's mainly anecdotal at this point, but they tend to true out over time as you hear that kind of feedback from the dealers. We are seeing a different kind of buyer into the Lincoln dealership with Continental.

John Murphy - *BofA Merrill Lynch - Analyst*

Great, thank you very much.

Operator

Brian Johnson, Barclays.

Dan Levy - *Barclays Capital - Analyst*

This is Dan Levy on for Brian. Thank you for taking the question. Wanted to just ask, there was an Edmunds article from a couple weeks ago in which they mentioned that about a third of the trade-ins that we've seen for new car sales this year have had negative equity. I'm wondering if you are seeing a similar trend.

Can you give us a sense, first of all, for just what percent of your new car sales involve trade-ins, and are you hearing more requests from your dealers for greater trade-in allowances so that they can accommodate consumers with negative equity?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Dan, good question. It kind of goes hand-in-hand with what's been publicized in terms of overall residual pressure, pressure on residual values in the industry. That would go hand-in-hand with equity. Obviously, the less that a trade is worth would put the customer more at risk from an equity position.

We have seen it -- I don't have it at a third of the industry. The latest number I saw was actually below 30%, but it would've been climbing over the last several years. This is in terms of customers in a non-equity position, it's actually been climbing for several years, a couple percentage points a year.

Ford, with our strong residual values, our lower lease penetration in the industry, we run at a more favorable position to that. But it's obviously something -- the overall residual value is something that we are keeping our eye on, we've talked about.

And one of the reasons that our guidance does not have the industry going up next year is that's in line with what are a lot of positive factors in the industry; that is one of the drags on the industry that we keep an eye on.

Dan Levy - *Barclays Capital - Analyst*

Got it. Do you have a sense roughly what percent of your sales are trade-ins of some sort?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Trade-ins are over half, and 80% of the buyers do need a loan, obviously, to purchase their new vehicle where our partnership obviously with Ford Credit becomes a key asset for us.

Dan Levy - *Barclays Capital - Analyst*

Got it. Then a question more broadly on the industry and the economy. I realize it's still early days post-election -- with the election -- but I'm wondering if you have an updated view of the industry post-election. I know at your Investor Day a couple months ago you cited your total SAAR for 2017 of 17.7 million, so probably slight decline versus 2016.

But with all the discussion of potential tax cuts and potential for greater productivity in the economy, do you think there is upside to your estimate, or is any of that upside washed away by risk of higher rates, maybe restraint from automakers around what we have seen as higher incentive spend?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Another good question. We do have the yin and yang of you've got positive factors; the consumer is still in good shape; consumer confidence is strong; interest rates, although at risk of increasing are still relatively very low levels. The carpark is still -- average age of the vehicle well over 11.5 years. These are all positive. Gas prices still relatively really low.

That's all positive for the industry, but we could be looking at gradual rate increases. We just talked about residual value, so we are always looking at all those factors and trying to balance them out. But in terms specifically of the presidential election, we haven't changed our financial guidance or our industry volume guidance as a result specifically to the election, Dan.

Dan Levy - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Rob Lache, Deutsche Bank.

Rob Lache - *Deutsche Bank - Analyst*

Good morning, everybody. Just I wanted to ask you on the interest-rate question first, how you think the industry adjusts to that; whether that's something that would affect demand mix or do you think industry subvention levels adjust for those rate changes? Then I wanted to sneak in a question on 2017 if I can.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Okay, Rod, thanks. We have long anticipated a gradual increase in interest rates over time, and we have that accounted for in our Ford business planning. We expect that any increases will be moderate and only made if there is evidence that the consumer buying power, employment, and other factors support that increase.

The industry has done a pretty good job of keeping payments relatively stable as terms have extended gradually over time, and we had some fluctuation upwards, obviously, in industrywide lease penetration. But that's our outlook toward it, is that it would be gradual and that it would only be done if the consumer would be in a position to accept it.

Rob Lache - *Deutsche Bank - Analyst*

Right, but you're suggesting that the industry adjusts maybe through subvention to keep monthly payments relatively stable. Is that what I'm hearing?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

You know, we adjust every month on incentives to a variety of factors, including overall outlook, consumer confidence, payment levels, inventory, competitive actions. So how much of that would go to any kind of increase directly into higher incentive spend is hard to say. Intuitively, you'd say some of it would, obviously, but very hard to say on a month-to-month basis.

Rob Lache - *Deutsche Bank - Analyst*

Okay, then just big picture looking to next year, big focus right now on infrastructure spending. Could you talk about any work you've done on the sensitivity for pickup truck demand against infrastructure?

More broadly, I think you guys when you are forecasting 2017, if I recall correctly, used like 2.5% GDP growth. If GDP growth were to accelerate by 100 basis points, do you have a kind of where you see this -- what the sensitivity would be to the broader SAAR at this point in the cycle?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

I'm going to kick that one over to Bryan.

Bryan Bezold - *Ford Motor Company - Senior U.S. Economist*

Thank you, Mark. I think one point I would make is that before we were to change our expectations or our guidance, we would have to have a better idea of what specific policies would be proposed and eventually enacted. So I think that would be the first answer to your question.

I think generally, of course, anything that leads to faster economic growth, all other things equal, would lead to faster industry volume and faster truck sales. But beyond that, I don't have any detail for you.

Rob Lache - *Deutsche Bank - Analyst*

Okay, but you don't have any rules of thumb on dollar of infrastructure spending or anything along those lines and how that specifically affects autos at this point?

Bryan Bezold - *Ford Motor Company - Senior U.S. Economist*

No, I do not.

Rob Lache - *Deutsche Bank - Analyst*

Okay. Great, thank you.

Operator

Colin Langan, UBS.

Colin Langan - *UBS - Analyst*

Any color on the pace of sales through the month, and in particular anything following the election? There was a lot of chatter that the election might've been sort of an overhang, and with it resolved maybe things picked up a bit or any color there?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Colin, I would characterize the month as steady and then a pretty strong close in the last week, certainly in our case. You not only have limited knowledge of what the competition's pace is, but very strong pulls with all the -- Black Friday has become one of the cornerstones selling events in the automotive calendar now.

So everybody was fairly aggressive out there as we were with both advertising and really good incentive offers for the customer. So it was a very strong close for Ford and I would say, based on what I saw, steady for the entire industry with a strong close across the board.

Colin Langan - *UBS - Analyst*

Any thoughts -- you mentioned Black Friday. Do you think the seasonal factors aren't picking that up, now that it's been a bigger event over the last few years? Because the SAAR overall looked pretty strong.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

I think it's pretty well embedded in the seasonal factors. A lot of it depends on kind of where Thanksgiving hits -- is it an early Thanksgiving, late Thanksgiving -- could have some effect. A Wednesday close is typically not a great close day for the industry, but we certainly had a strong final three days.

And I am anticipating we're going to see, as we said beginning with the numbers, fairly strong numbers from the industry. But I think the effect of Black Friday is fully assimilated in the SAAR now.

Colin Langan - *UBS - Analyst*

Got it. So why is, do you think, November so strong? Because you're expecting sales to fall next year, but I think you indicated 18.3 million for this month that you're seeing?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

I think somewhat it is a really strong month, which is great. A little bit is year-over-year comparisons. November and December last year really weren't as strong as the preceding four or five months before them, strong as last year was.

So I think a little bit of that, and I mentioned incentive spending was up for the industry. So year-over-year, $570 is a pretty good number. We were up less than that. But as I mentioned, a lot of the positives that are out there: consumer is in good shape, a lot of great product out there, Black Friday promotions, it was a strong month; slightly above our internal forecast.

Colin Langan - *UBS - Analyst*

Got it, and any color -- you talked about earlier auto financing. There's been chatter about sub-prime delinquencies spiking. Are you seeing any issues getting customers' financing? Is it getting more challenging, or is this not really impacting?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

We have seen the articles, the same ones that you are referencing, we have probably seen. From a standpoint of Ford Credit, our delinquencies are in great shape, not running any different than they have run over the last several years. And the quality of the customers that we are seeing in buying remains very consistent. So we haven't really seen much evidence of what you are referencing.

Colin Langan - *UBS - Analyst*

All right, thank you very much.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

Kalia, we are going to take one more call from the analyst community before we turn it over to the folks in the media.

Operator

Joe Spak, RBC Capital Markets.

Joe Spak - *RBC Capital Markets - Analyst*

Thanks, good morning, everyone. Just going back to the lease angle, I know you guys have shown your leasing mix has gone down, certainly from earlier this year. But as Lincoln has put up some good results here, should we expect that to -- does that stabilize it or does it actually make leasing move a little bit north again?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Lincoln is -- obviously, you get a higher percentage of leasing in the premium market, much higher actually than you do in the overall mainstream market. Lincoln is competitive with their lease percentage, with their competition in terms of overall lease penetration. And at today's relative volumes, no, it doesn't have a material effect on the overall lease portfolio for Ford.

Joe Spak - *RBC Capital Markets - Analyst*

Okay, then one quick one. I noticed Transit was down this month, which I think is the first time I've seen it down in a long time, if memory serves correct. Was there something unusual there? Was it a difficult comp or is there some slowdown in that segment?

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

No, Joe. Transit is just running into some much more difficult comps. It's been doing great for us all year long so when you look at Transit year to date, we are up 24%. So it is just an issue -- it's timing and running into some more difficult year-over-year comps.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

And we had -- Transit continues to be largely a commercial vehicle. We have done excellent with it as I've talked about probably incessantly on these calls. But we are continuing to grow the retail business through our dealers.

And we actually had a terrific retail month with Transit that are sold to individual customers for personal use or what we call fleettail, a flower shop or a small local business that's looking for a great commercial -- I mean, a great either cargo or passenger van for their business. So Transit continues to be a star for us.

We were kind of fully loaded by this time last year, so we are running into more difficult year-over-year comps.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

But just to put a number on that for Mark, our retail Transit was up 20%.

Joe Spak - *RBC Capital Markets - Analyst*

Then last, do you have an estimate on model year 2016 versus 2017 mix for both sales and inventory?

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

Yes, yes. So if we take a look at model year 2016 to 2017, we're looking at about -- it's right around roughly the same as it is for sales and inventory. 2017 model year for Ford Motor Company overall represented about 46% of our sales inventory last month, almost 50%.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

We are close to a 50-50 mix at this point, which is normal for this time of year.

Joe Spak - *RBC Capital Markets - Analyst*

Thanks a lot, guys.

Operator

That concludes the analyst portion of the call. We will now be moving into the media portion. (Operator Instructions)

Dee-Ann Durbin, The Associated Press.

Dee-Ann Durbin - *The Associated Press - Media*

Good morning, thanks for taking the call. I'm wondering if December can still be strong or if there is just too much of a pull-ahead of sales in November because of Black Friday and all the deals. I was reading that even in mid-November, incentive levels were really high. I'm just kind of wondering how long that can last, or is December going to start being less of the big month that it has always been?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thanks for the question. The Black Friday kind of November push is -- I wish I could tell you how many years, but it's been at least five or six now that it's been a big focus for the industry, maybe longer. So almost like the similar question, I think the effect of Black Friday on November sales and then as they would pertain to or have an effect on December sales has been assimilated by the industry.

And December has been a seasonally great month for the industry for the last several years. We anticipate it being another, relatively speaking from a seasonal basis, very good month again this year. We're going to continue to be aggressive in the market and we have great continuation of our year-end sales event plan.

Dee-Ann Durbin - *The Associated Press - Media*

Thank you.

Operator

Christina Rogers, Wall Street Journal.

Christina Rogers - *Wall Street Journal - Media*

Good morning. I'd just like to go back to the Edmunds data on the negative equity. And I was wondering if one of the issues here is you are seeing a lot of people come in, they have cars and maybe their cars are not worth as much as they thought, and they want to -- because they still want to trade in for larger vehicles, SUVs and trucks. Are you seeing more of that situation in particular? Also, is it becoming harder to put those deals together as resale values drop, particularly on car models?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thank you for your question. A certain percentage of customers being out of equity, and there could be a number of reasons for it. It could've been how much they financed from the beginning, how many accessories were on the vehicle, did they finance extended service contracts, and their overall credit rating. There could be lots of reasons other than just pure residual values.

That is how it has been in our industry forever. It has been creeping up lately. I wouldn't call it alarming. You would like to see it go the other way, and we have said that could be a potential cautionary headwind for the industry. But that's what our dealers are really good at, is our Ford dealers are really good at working with the individual customers to get a financing program for them to get the kind of vehicle they want, get them the best possible value for their trade.

That's what they do every single day and it's part of the strengths of having a franchised dealer network and one as strong as the Ford, as well as having a partner like Ford Credit. So it's something that we are used to dealing with and don't see as anything alarming in any way right now.

Christina Rogers - *Wall Street Journal - Media*

Are you doing anything more for those customers or to help dealers put those deals together? Are you offering any more trade-in assistance, anything like that?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Well, the overall incentive level in the marketplace for Ford and for the industry is relatively high, which has been talked about, obviously, and covered well on these calls. We do get into -- with data now we do get in more specifically to some individual customer situations.

But broadly speaking, the overall incentive level in the industry, part of the reason it is where it is at is OEMs responding to the current volume levels and overall equity position of the customer. So it's kind of fully accounted for that, and we do specific things when and where it makes sense.

Christina Rogers - *Wall Street Journal - Media*

Okay, but on specifically trade-in assistance, are you offering more of that or feel you have to offer more of that going forward?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Not broad-based. If you think about, say, a normal cash rebate, that could be used for a customer in equity, out of equity. Just the dealer is able to take -- we give the dealers a whole tool of APR support, cash support, lease support. Sometimes we do individual programs on trade assistance and what have you, but not in a broad-based way. But the dealer is able to take our whole portfolio of incentives and make it work to the specific customer instance in the best way possible.

Christina Rogers - *Wall Street Journal - Media*

Just more broadly, how do you think the rising levels of negative equity will affect sales going forward for the industry and also for Ford?

Bryan Bezold - *Ford Motor Company - Senior U.S. Economist*

Yes, that is pretty much baked into our forecast. So next year our guidance is for 17.7 million, and that's one of the headwinds. That's why it's just a little lower than this year's volume.

Christina Rogers - *Wall Street Journal - Media*

Got you, thanks a bunch.

Operator

Keith Naughton, Bloomberg.

Keith Naughton - *Bloomberg News - Media*

Good morning, guys. So, Mark, you were talking about SUV sales running at record levels. It looks like the F-Series had its best November in 15 years. Yesterday OPEC approved its first production cuts in eight years. Oil is already above $50 this morning, on its way to $60 a barrel, according to Goldman Sachs and Morgan Stanley.

So I'm wondering how much it will take before we'll start seeing an impact on SUV and truck sales if gas prices rise.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thanks for the question, Keith. I don't have a specific answer for you. I can tell you a couple things, is that -- and I've talked a little bit about this in the past on some -- not specific to the OPEC action but questions on the mix shift we've seen for really five years, six years now, from cars and SUVs and trucks; is that one of the reasons for that happening is the vehicles and SUV obviously, the benefits of visibility, higher seating position, utility, in some cases better weather capability, have always been there. But the customers don't make the trade-offs that they had to make 5, 10 years ago in terms of our customers, in terms of fuel economy, technology, ride and handling.

So with higher fuel prices, would that put pressure on SUVs and cars? Logically yes, but I don't think it would be nearly -- unless it was something fairly dramatic, which nobody is forecasting, we don't think it would be nearly the effect that you would've seen previously.

Our lineup of trucks and SUVs is one of the most fuel-efficient in the industry and customers -- largely, a lot of them equipped with EcoBoost engines, and customers appreciate that and don't really have to make the trade-offs that they had to make years ago. The difference in fuel economy from, let's say, a C size or B or C size car to utility is very minimal now.

Keith Naughton - *Bloomberg News - Media*

Great, thank you. Just to follow up on a question that was asked earlier, did you see the election as a headwind? And is consumer confidence rising and sales rising as a result of that headwind going away?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

We are not changing our guidance in terms of the presidential election, Keith. I can tell you that there is no real way to know. I think November was strong partially because the competition was aggressive. The whole industry, excuse me, was aggressive. As I said, incentives were up $570 with a lot of promotional activity out there; good inventory situation for us. We are very pleased with the month.

As I did say, it was slightly above our internal expectations, which was great, but there's no real reason to peg it on -- that we can peg it to other than all the underlying factors that are positive, and pretty aggressive market in terms of incentives.

Keith Naughton - *Bloomberg News - Media*

Thank you, Mark.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

We are going to take one more call.

Operator

Megan Lampinen, Automotive World.

Megan Lampinen - *Automotive World - Media*

I was interested in hearing your take on some comments that came out of the Go Further event in Germany a few days ago regarding a move upscale, specifically with the Fiesta, and ambitions to compete with luxury brands. Jim Farley had said that many people feel Ford is a legitimate alternative to a premium brand.

Is this something playing out in the U.S. as well?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Thank you for your question. I am pretty U.S.-focused here at my job, so I wasn't at the event, although I did see some of the coverage. I was very proud of the Ford team in Europe and the exciting news around the new Fiesta. I can't comment specifically on that, what commentary was made specific to the car market in Europe.

I can tell you that we offer at Ford in terms of a brand in the U.S. market, we sell a fairly high percentage of up-level series, what we call them, across our entire portfolio. Our transaction pricing has exceeded the industry in terms of increases going all the way back to 2009. We transacted a very healthy level because of customers choosing to upgrade to our higher level series that have great content, great technology.

So in a way, in terms of the mainstream market, in many ways we are appealing to our customers in a premium way, but we are also always going to offer great value. That's part of our DNA to provide great technology, great performance, and quality and efficiency for the masses.

In addition, unlike Europe, we do sell the Lincoln brand here. So while they may have an interest in getting further upscale because of not having the Lincoln brand, Lincoln is a big part of our business here in the United States.

Megan Lampinen - *Automotive World - Media*

Just as a quick follow-up, can you share a little more details on how you expect the luxury segment to play out? I know you mentioned Lincoln vastly outperformed the rest of it in November. Can you share how you expect that to play out moving forward?

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

We have seen fairly flat segmentation. Unlike the last economic growth cycle where the luxury segment expanded fairly dramatically, with this one it hasn't expanded as dramatically and, in fact, segmentation has been relatively flat. We don't see any major movement moving forward, although we are delighted with how Lincoln is going within the luxury segment.

Megan Lampinen - *Automotive World - Media*

Okay, thanks very much.

Erich Merkle - *Ford Motor Company - U.S. Sales Analyst*

Thank you. We're going to take one more call and then we're going to wrap it up.

Operator

Bernie, Reuters.

Bernie Woodall - *Reuters - Media*

Good morning. Happy December. I was wondering and of course, Mark, you always say adroitly that you will adjust sales with -- or supply with demand. I'm wondering if your comments about the strength of SUV and truck sales, partly because of their handling capabilities much better than they were a decade ago, kind of makes them immune from $10 spikes in the oil price or so.

Does that tell us that Ford is going to adjust supply with demand again for compacts this calendar year? And I guess more broadly -- maybe this is a question for Mark Fields -- is U.S. production of compact cars doomed? Thanks.

Mark LaNeve - *Ford Motor Company - VP U.S. Marketing, Sales and Service*

Bernie, I would just say that, as you said -- and thanks for the compliment -- we do adjust continuously supply/demand. The numbers that Erich gave at the beginning on a year-over-year basis in November were down. Roughly, our overall inventory is down 10,000 units from a year ago, but cars are down 30,000, and we're about flat on trucks and up slightly on SUVs.

So these adjustments come in on a month-by-month basis, and we do adjust to the market. Our manufacturing team and our production forecasting team do an excellent job of that. But we in no way see the car market going away. We actually had a pretty good car month in November, with fleet being way down, but our retail performance was comparatively pretty good.

And our Fusion continues to be a tremendously hot vehicle in the marketplace. We had increased retail sales in Focus and Fiesta, which is our B and C entries. So we'll continue to be committed to that part of the market, but we are enjoying the mix shift while it happens because mix shift in SUVs and trucks obviously plays very well to Ford's strengths. And we don't see any evidence of that ceasing at this time.

Bernie Woodall - *Reuters - Media*

Great, thanks a lot.

Operator

Thank you, ladies and gentlemen. That will conclude today's conference call. You may now disconnect.