F Q2 2014 Transcript

Executives: Mark Fields - President & Chief Executive Officer Bob Shanks - Chief Financial Officer Stuart Rowley - Corporate Controller Neil Schloss - Corporate Treasurer Paul Andonian - Director of Accounting Mike Seneski - Ford Credit, Chief Financial Officer George Sharp - Executive Director of Investor Relations Analysts: George Galliers - ISI Brian Johnson - Barclays Colin Langan - UBS Patrick Archambault - Goldman Sachs Adam Jonas - Morgan Stanley Joe Spak - RBC Capital Markets Ryan Brinkman - JPMorgan John Murphy - Bank of America Dee-Ann Durbin - AP Emmanuel Rosner - CLSA Rod Lache - Deutsche Bank Itay Michaeli - Citigroup Operator: Good day ladies and gentlemen and welcome to your Ford, Second Quarter Earnings Conference Call. My name is Kanti and I'm your operator for today. At this time all participants are on listen-only mode. We will conduct a question-and-answer session towards the end of the conference. (Operator Instructions). As a reminder, this call is being recorded for replay purposes. I would now like to turn the call over to Mr. George Sharp, Executive Director of Investor Relations. Please proceed sir. George Sharp: Thank you Kanti and good morning everyone. I'd like to welcome you and thank you for joining us today either by phone or webcast. On behalf of the entire Ford management team, I'd like to thank you for taking the time to be with us this morning, so we can provide you with additional details of our second quarter 2014 financial results. Now, presenting today are Mark Fields, who became President and CEO of Ford earlier this month, and Bob Shanks, our Chief Financial Officer. Also participating are Stuart Rowley, Corporate Controller; Neil Schloss, Corporate Treasurer; Paul Andonian, Director of Accounting; and Mike Seneski, Ford Credit CFO. Now, copies of this morning's press release and presentation slides are available on Ford's Investor and Media websites. The financial results discussed today are preliminary and include references to non-GAAP financial measures. Now any non-GAAP financial measure are reconciled to the U.S. GAAP equivalent in the appendix of the slide deck, and final data will be included in our Form 10-Q. Now finally, today's presentation includes some forward-looking statements about our expectations for Ford's future performance. Of course, actual results could be different. The most significant factors that could affect future results are summarized at the end of this presentation and detailed in our SEC filings. With that, I'd now like to turn the presentation over to Mark. Mark Fields: Thanks George. I'm really pleased to join you this morning and today we'll review our second quarter financial results, the details behind them and our outlook ahead. So let's get right into the first slide. Our strong results this quarter are due once again to the success of our ONE Ford plan, which remains unchanged. We are continuing to focus on all four elements of the plan. They have served us very well and will continue to be our focus going forward. We also plan to build on our success by accelerating the pace of progress throughout our business. In many ways we are just starting to see the full benefits and strength of ONE Ford and we intend to maximize these opportunities going forward. At the same time, we are passionate about product excellence and leading in innovation. We are committed to building on the product strength today, with even more new products and innovations that will deliver growth for our stakeholders and define our company going forward. Now let's turn to slide two for a look at the second quarter. Overall, we delivered a strong quarter. We achieved our 20th consecutive profitable quarter and our best quarterly pretax profit since the second quarter of 2011. We also delivered positive automotive operating related cash flow and ended the quarter once again with strong liquidity. Although second quarter wholesale volume and revenue declined 1% year-over-year, we achieved higher market share in Asia Pacific, driven by record share in China. All automotive business units contributed to the company's pretax profit, and all improved from a year ago, with the exception of South America. North America achieved record quarterly performance for pretax profit; Asia Pacific achieved a second quarter record; and Europe earned its first quarterly profit since the market dramatically declined three years ago. Ford Credit once again delivered solid results. As we've said, this year is the most aggressive in our history for new product launches. We remain on track with our 23 global product launches. Our full-year outlook for the company pretax profit is unchanged, ranging from $7 billion to $8 billion. Our outlook for automotive revenue and operating margin also remains unchanged. Today, we are improving our outlook for automotive operating related cash flow to lower than a year ago, from substantially lower, due to the strong cash flow generated in the first half. As we look forward, we expect the payoff of our investments this year will be a strong product line up, with higher volumes, revenues and margins in 2015 and beyond. Let's turn to slide three to recap some of the quarter's other achievements. Both our Ford and Lincoln brands made strong improvements in the latest J.D. Power 2014 U.S. Initial Quality Study, with the F-150, Edge and Lincoln MKX ranking highest in their segments. To support growth, we revealed several new products, including the all-new 2015 Edge, Focus ST and Escort in China. We also revealed a number of concepts, including the Ford Everest in China, the S-MAX Vignale in Europe, and the Ford Lightweight Concept, which showcases our commitment to light-weighting and advanced material innovation. In China we launched our Lincoln brand, including the reveal of the MKX concept. We also began North American production of Transit from our Kansas City plant, and the Lincoln MKC from Louisville. In Europe we increased production of Fiesta in Cologne to meet growing European demand. Ford Otosan, our joint venture in Turkey, began vehicle production from a new plant in Turkey. In China, we opened a new transmission plant with our joint venture partner, Changan Ford Automobile, and in Brazil, we launched a new engine plant. We reached agreement with the German Works Council to improve flexibility and efficiency at our Cologne plant, with the production of the next-generation Fiesta. Currently, we are implementing a previously announced share repurchase program for up to 116 million shares to offset an up to 3% dilutive effect of potential convertible debt conversions and stock-based compensation. Now, Bob Shanks will take us through the details of our second quarter results. Bob, you want to take it away? Bob Shanks: Yes, thanks Mark and good morning everyone. Starting at the top on slide four, second quarter wholesale volume was 1.7 million units, down 17,000 units from a year ago; and revenue was $37.4 billion, down $500 million. Pretax profit was $2.6 billion, excluding special items, $44 million higher than a year ago. After-tax earnings per share at $0.40 were $0.05 lower. Net income attributable to Ford, including pretax special item charges was $1.3 billion, $78 million higher than a year ago. Earnings were $0.32 a share, up $0.02. Pretax special item charges were $481 million in the quarter. These include the impairment of our equity investment in the Ford Sollers joint venture in Russia, reflecting the present outlook for the business, including a weaker ruble, lower industry volume, and adverse industry segmentation changes that negatively impact sales of Focus. Also included in special item charges are separation related actions, primarily in Europe, to support our transformation plan. You can find details on these charges in appendix three. Automotive operating-related cash flow was $2.6 billion, our 17th consecutive quarter of positive performance, and automotive gross cash was $25.8 billion, exceeding debt by $10.4 billion. Consistent with our most recent guidance, our second quarter operating effective tax rate, which isn't shown was 44%, reflecting calendarization effects, including the impact of regional profits. We continue to expect our full-year operating effective tax rate to be about 35%, assuming retroactive extension of U.S. Research Credit Legislation in the fourth quarter. Our third quarter rate is expected to be about equal to our second quarter rate. In the first half, vehicle wholesales increased by 2% from a year ago, while company revenue was about flat. First-half pretax operating profit excluding special items was $4 billion, a decline of $721 million and net income was $2.3 billion, $544 million lower than a year ago. As shown on slide five, both our Automotive and Financial Services sectors contributed to the company's second quarter pretax profit. As shown in the memo, the year-over-year improvement in company second quarter pretax profit is more than explained by the automotive sector. As mentioned, all regions improved except South America. Compared with first quarter, company pretax profit was $1.2 billion higher, more than explained by automotive. The improvement over first quarter largely reflects non-recurrence of several significant adverse factors that we highlighted last quarter. The key market factors and financial metrics for our automotive business in the second quarter are shown on slide six. As you can see on the far left and as already mentioned, wholesale volume decreased by 1% compared with a year ago, and automotive revenue decreased by 2%. The lower volume is more than explained by lower market share in all regions, except Asia Pacific. Global industry SAAR is estimated at 87.3 million units, up 3% from a year ago. Ford global market share is estimated at 7.5%, down two-tenths of a percentage point. Operating margin was 6.6%, up two-tenths of a percentage point from a year ago and automotive pretax profit was $2.2 billion, up $66 million. As shown in the memo below the chart, first half volume was up 2% from a year ago, while automotive revenue was down 1%. Operating margin at 5% was down eight-tenths of a percentage point and total automotive pretax profit at $3.1 billion was down $658 million. Slide seven shows the factors that contributed to the $66 million improvement in second quarter automotive pretax profit. As you can see, lower cost and favorable market factors more than explain the improvement. Adverse exchange driven by South America was a partial offset. As shown in the memo, pretax profit was $1.3 billion higher than first quarter, more than explained by favorable volume and mix and non-repeat of the significant adverse factors referenced earlier. Slide eight shows second quarter pretax results for each of our automotive operations, as well as Other Automotive. North America and Asia Pacific were strongly profitable, with the former reporting a record quarterly profit and the latter a second quarter record. Middle East and Africa and Europe also were profitable, while South America reported at a loss. Other Automotive primarily reflects net interest expense. For the full year, we continue to expect net interest expense to be about $700 million. Now we'll look at each of the regions within the automotive sector, starting on slide nine with North America. North America's second quarter pretax profit continued to be driven by robust industry sales, our strong product line-up, continued discipline in matching production to demand and a lean cost structure, even as we continue to invest for future growth. North America's second quarter wholesale volume and revenue declined 5% and 3%, respectively from a year ago. The volume decrease is explained by lower market share and an unfavorable change in dealer stocks, offset partially by higher industry sales. The U.S. industry SAAR of 16.9 million units in the second quarter was 1.2 million units higher than a year ago. Our U.S. market share deteriorated 1.2 percentage points to 15.3%, reflecting primarily a planned reduction in daily rental sales, lower F-Series share as we continue to balance share, transaction prices and stocks as we prepare for the new F-150; and lower Edge and Focus share. As shown in appendix seven, U.S. retail market share of the retail industry was 12.9% in the second quarter, down eight-tenths of a percentage point from a year ago, explained primarily by lower F-Series, Edge and Focus. The decline in revenue is more than explained by the lower wholesale volume and a weaker Canadian dollar, offset partially by favorable mix. North America operating margin was 11.6%, up one percentage point from a year ago and pretax profit was a record $2.4 billion, up $119 million. As shown in the memo below the chart, all first-half metrics declined from the year ago. The adverse first quarter impact of $500 million associated with changes in warranty reserves and weather related premium costs explains the majority of the lower profit and operating margin. On slide 10, we show the factors that contributed to North America's second quarter increase in pretax profit. The improvement is more than explained by lower cost and higher parts and accessory profit. As shown in the memo, pretax profit was higher than first quarter, more than explained by favorable market factors and non-recurrence of the significant adverse factors experienced in the first quarter. Turning to our full-year guidance for North America, we continue to expect pretax profit to be lower than 2013 and operating margin to range from 8% to 9%. Our guidance includes 13 weeks of production downtime this year for the launch of the new F-150, including the summer shutdown at our Dearborn and Kansas City plants. Three weeks occurred in the first quarter, and at the Dearborn plant, eight consecutive weeks are planned beginning in late August. The Kansas City summer shutdown in July and a few individual down days in the second half make up the remainder of the downtime. Now let's turn to slide 11 and review South America, where we're continuing to execute our strategy of expanding our product line-up and progressively replacing legacy products with global ONE Ford offerings. We are also continuing to manage the effects of slowing GDP growth and lower industry volume in our larger markets, weaker currencies, high inflation, as well as policy uncertainty in some countries. In the second quarter wholesale volume and revenue decreased from a year ago by 22% and 30% respectively. The lower volume is primarily explained by an 800,000 unit decline from last year's SAAR of 6.1 million units. This includes the impact of the weakening economy in Brazil, import restrictions in Argentina, and lower production in Venezuela, resulting from limited availability of U.S. dollars. South America market share at 8.8% was down three-tenths of a percent, more than explained by the model changeover of Ka and the phase-out of Fiesta Classic. The revenue decline is explained primarily by the lower volume and unfavorable exchange, offset partially by higher net pricing. Operating margin was negative 14%, down significantly from a year ago and pretax loss was $295 million, a deterioration of $446 million. As shown in the memo below the chart, all first half metrics deteriorated from a year ago. On slide 12 we show the factors contributing to the decline in South America's second quarter pretax results. All factors were unfavorable, with the exception of pricing, which did not fully offset the adverse effects of weaker currencies and high local inflation. As shown in the memo, pretax results improved compared with first quarter, more than explained by favorable exchange, mainly non-repeat of adverse balance sheet exchange effects in Venezuela and Argentina. For the full year we now expect South America to incur a larger loss than we previously guided. Although we continue to expect higher market share and positive net pricing in the second half, as we launch the all-new Ka Small Car, we now expect the rest of the year to be about breakeven to a loss due to lower than expected industry volumes and weaker currencies. The volatility in the region, including potential currency devaluations, adds uncertainty to our short-term projections. Let's turn now to Europe, beginning on slide 13, where we continue to implement our transformation plan, focused on product, brand and cost, and remain on track to achieve profitability in 2015. Europe's wholesale volume was about unchanged from a year ago, while revenue improved 10%. Europe 20 SAAR was 14.4 million units, up 700,000 units from a year ago. This was offset partially by industry declines in Russia and Turkey. Europe 20’s market share at 7.9% was down two-tenths of a percentage point from a year ago, reflecting primarily a reduction in rental and fleet share, as well as adverse industry segmentation in passenger car. Although not shown, our commercial vehicle share improved in the second quarter to 10.6%, up 0.5 percentage point from a year ago to our highest second quarter share since 1997. This was driven by our refreshed and expanded range of Transit products. As shown in appendix seven, passenger car share of the retail segment of the five major European markets was 8.3% in the second quarter, down one-tenth of a percentage point from the same period last year, more than explained by adverse industry segmentation. The increase in revenue mainly reflects higher volume in the Europe 20 markets and favorable exchange, offset partially by unfavorable mix. Europe's operating margin was two-tenths of a percent, an improvement of 4.4 percentage points from a year ago and pretax profit was $14 million, a $320 million improvement. As shown in the memo below the chart, all first half metrics improved from a year ago. Slide 14 shows the factors that contributed to the improvement in Europe's second quarter pretax results. The improvement is more than explained by lower cost and favorable exchange. Partial offsets include lower results and royalties from our joint ventures, primarily in Russia, along with lower parts and accessories profit. Restructuring costs were lower than a year ago, primarily due to a reserve release this quarter associated with our Cologne investment agreement and non-recurrence of a facility write-off in Genk last year. As shown in the memo below the chart, pretax results improved compared with first quarter, more than explained by lower cost and favorable market factors. We are very encouraged by Europe's first quarterly profit since 2011. This supports our unchanged full-year guidance for the region, which is for results to improve compared with 2013. Consistent with the normal seasonality of sales and production, we expect our second-half loss to be higher than the first half loss of $180 million. Projected lower second half wholesale volumes of about 100,000 units include the effect of summer shutdowns in the third quarter and year-end shutdowns in the fourth quarter. In addition, we expect higher restructuring related cost in the second half, including non-repeat of this quarter's reserve release, and higher launch related costs with started production of the all-new Mondeo and the new Focus. A final comment on Russia. The current environment clearly is difficult, but Russia remains a large and important market. We are working with our partner in Ford Sollers to develop actions to improve our business outlook going forward. Let's turn now to slide 15 and talk about Middle East and Africa, our newest business unit, which was created to better serve customers and expand in this fast-growing region. We are intensifying our focus and targeting opportunities for growth in small, midsize and large vehicle segments. In the second quarter, we wholesaled 49,000 vehicles in the region, 3,000 fewer than a year ago. Revenue was $1.1 billion, $100 million lower. The lower volume primarily reflects lower market share, driven by increased competitive pressures on Expedition in the Middle East. The lower revenue is explained by the lower volume and unfavorable exchange. Operating margin was 2%, up nine-tenths of a percentage point from a year ago and pretax profit was $23 million, up $10 million. As shown in the memo below the chart, first half volume and revenue deteriorated from a year ago, but operating margin and pretax profit improved. Our full-year guidance for Middle East and Africa remains unchanged. We expect results to be about breakeven, with quarterly variability driven by factors such as the timing of production, the mix of vehicles, and long shipping time.

Let's now review Asia Pacific on slide 16. Our strategy in Asia Pacific continues to be to grow aggressively with an expanding portfolio of ONE Ford products, with many factoring hubs in China, India and ASEAN. As shown on the left, second quarter wholesale volume was up 21% compared with a year ago, and net revenue which excludes our China joint ventures grew 9%. Our China wholesale volume, not shown, was up 26% in the quarter. Higher volume in the region primarily reflects higher market share and industry volume. We estimate second quarter SAAR for the region at 39.6 million units, up 2.2 million units from a year ago, fully explained by China. Our second quarter market share was a record 3.7%, four-tenths of a percentage point higher than a year ago. This was driven by China, where our market share improved three-tenths of a percentage point to a record 4.6%, reflecting continued strong sales of Mondeo, Fiesta and Kuga. Asia Pacific's higher revenue is explained primarily by the higher volume and favorable mix. Operating margin was 5.5%, up six-tenths of a percentage point from a year ago and pretax profit was $159 million, up $29 million and a second quarter record. As shown in the memo below the chart, all first half metrics improved substantially from a year ago. Slide 17 shows that the improvement in Asia Pacific's second quarter pretax profit is more than explained by favorable volume and mix. As shown in the memo, Asia Pacific's pretax results declined from first quarter, more than explained by higher costs. These cost increases include a higher warranty cost and continued investment in growth, including costs associated with fixed plants, one that opened in China during the quarter, and five plants still under construction in China and India. For the full year we continue to expect Asia Pacific to earn a higher pretax profit than a year ago. We expect full-year results will be strong for the region, with third and fourth quarter results down from the second quarter. Volume improvements will be more than offset by higher cost as we continue to invest for future growth, including the five plants still under construction in China and India, and the launch of Lincoln in China this fall. Let's turn now on slide 18 to Ford Credit, which is an integral part of our global growth and value creation strategy. Ford Credit provides world class dealer and customer financial services, supported by a strong balance sheet, providing solid profits and distribution to Ford. Ford Credit's lower pretax profit this quarter compared to a year ago is more than explained by a higher level of insurance losses from storm damage to dealer inventory in the quarter, which is included in other. As shown in the memo, pretax profit was lower compared with first quarter, again, more than explained by the insurance losses just mentioned. For the full year, we now expect Ford Credit pretax profit to be higher than 2013, improved from about equal to or higher. We also now expect year end managed receivables of $112 billion to $115 billion, up from our prior guidance of about $110 billion. Our guidance for Ford Credit managed leverage and distributions to its parent is unchanged. Next on slide 19 is our automotive gross cash and operating related cash flow. Automotive gross cash at the end of the quarter was $25.8 billion, an increase of $600 million from the end of the first quarter. Automotive operating related cash flow was $2.6 billion. Automotive profit and favorable timing and other differences were offset partially by higher net spending and unfavorable changes in working capital. During the quarter we contributed about $300 million to our global funded pension plans, down substantially from the last two years, due to recent improvements in the funded status of our plant. Dividends paid in the quarter totaled about $500 million and other items includes about $850 million related to the stock buyback program now underway. Slide 20 shows that automotive debt at the end of the quarter was $15.5 billion, $300 million lower than first quarter. We ended the quarter with net cash of $10.4 billion and automotive liquidity of $36.7 billion. We completed in the quarter our corporate credit facility amendment and maturity extensions. The facility is now $12.2 billion, of which $2 billion has been allocated to Ford Credit. This concludes our review of the financial details of our second quarter earnings. So now I'd like to turn it back to Mark, who will take us through our outlook for the business environment, as well as our 2014 planning assumptions and key metrics. Mark. Mark Fields: Thanks a lot Bob. Slide 21 summarizes our view of the business environment for 2014. We project global economic growth to be in the 2.5% to 3% range, and global industry sales to be about 85 million to 90 million units. U.S. economic growth is now projected to be in the 2% range as a result of downward revisions to first quarter growth. We continue to expect improving conditions through the balance of this year and have seen economic indicators and industry sales recovering in the second quarter. In South America, Brazil continues to face inflationary pressures despite higher interest rates and weakening economic growth. The situation remains uncertain in Argentina and Venezuela. In

Europe, an economic recovery is underway, with expected 2014 GDP growth of about 1% in the euro area and 2.5% to 3% in the U.K. Although not shown, the outlook for Russia is challenging and fluid, with weak GDP growth, inflationary pressures and a weaker currency. In Asia Pacific, China's economic growth is projected in the 7.5% range. Recent incoming data suggest the economy is stabilizing. Growth in India is expected to improve modestly at about 5% from last year, as high inflation and higher interest rates remain impediments to stronger growth. The recent general elections in India have generated positive sentiment and opportunities for better growth in the near term. Overall, despite challenges in emerging markets, we expect global economic growth to continue in 2014 and be supportive of our projection for higher global automotive industry volume this year. Slide 22 recaps the guidance disclosed earlier for our business unit, as well as for our net interest expense. In summary, full year guidance deteriorated for South America, improved for Ford Credit, and is unchanged for the other business units. Our company guidance for 2014 is detailed on slide 23. We now expect full year industry volume to range from 16.3 million to 16.8 million units in the U.S.; Europe 20 markets to range from 14.3 million to 14.8 million units; and China to be in the 23.3 million to 24.3 million unit range. In terms of our financial performance, we continue to expect automotive revenue to be about equal to 2013 and automotive operating margin to be lower than 2013. We now expect automotive operating related cash flow to be lower than 2013, improved from substantially lower. This includes capital spending of about $7.5 billion to support new or significantly refreshed products and capacity actions. We also now expect Ford Credit pretax profit to be higher than 2013, improved from about equal to higher than 2013. We continue to expect company pretax profit to be in the $7 billion to $8 billion range, in a period with an unprecedented number of global launches. Overall, 2014 will be a solid year for Ford Motor Company and a critical next step forward in implementing our ONE Ford plan to continue delivering profitable growth for all. The payoff from in the 2014 launches and investments will be a strong product lineup with higher volumes, revenues and margins in 2015 and beyond. In closing, our ONE Ford plan is built on compelling vision, a comprehensive strategy and relentless implementation, all leading to profitable growth around the world. We remain fully focused on continuing the success of our ONE Ford plan, in fact accelerating our pace of progress. We delivered strong results in the second quarter, and we remain on track in implementing our plan for the full year, including continued strength from North America, although down from recent years as we launch three times the number of products as last year; a loss in South America, as we adjust to a changed environment and continued risk in the region; successful execution of our transformation plan for Europe, as we progress towards profitability in 2015, even as we work through challenges primarily in Russia; establishing our Middle East and Africa business unit; continued strong growth and profitability in Asia Pacific; consistent, solid performance from our Ford Credit operations, and positive automotive operating-related cash flow. So now let's open it up to your questions. George. George Sharp: Thanks Mark. Now we’ll open the lines for about a 45 minute Q-&-A session. We’ll begin with questions from the investment community and then take questions from the media. Now in order to allow us as many participants as possible within this time frame, please keep your questions brief and please avoid asking more than two. Kanti, can we have the first question, please? Operator: Okay George. (Operator Instructions) And the first question comes from the line of George Galliers from ISI. Please go ahead George. George Galliers - ISI: Hello. Sorry, I’m having telephone issues. I have two questions; the first was just on South American production. I notice you have it stepping up sequentially in Q3. Is this due to normal seasonality? It’s just, when I look back at last year and also 2011, it looks like Q3 is down on Q2. So just wondering if you could elaborate on why you have production up in Q3 in that region. The second one is just with respect to the restructuring charges in Europe. Would you be able to give a breakout of how much is in relation to the reserve release and how much relates to the write-off? Mark Fields: Thanks George. I’ll take your first question and then Bob will take your second one. The step-up on production from the second quarter to third quarter in South America is due to the launch of our new K-A or Ka, which is a very important launch for us as it represents over 50% of the segment. That segment represents 50% of the industry in places like Brazil and the initial response we've gotten back since we have at least publicly shown it has been very encouraging, so we are looking forward to getting that into the marketplace and allowing that to help grow our business and also some pricing in the third quarter and the second half of this year in South America. Bob, you want to take the second one? Bob Shanks:

Yes, in terms of restructuring charges George, if you look at slide 14 to the far right, you can see on a year-over-year basis we had $178 million of good news from lower restructuring charges. So within that the reserve release which was related to the agreement that we made with the German Works Council was worth about $60 million, $65 million of good news, and that will be one time and won't repeat in the subsequent quarters. And then what we had a year ago was a reserve write-off of about $40 million to $45 million related to our facility at Genk, and so that's not repeating. So the two of those, you put them together, you get about $100 million of good news on a year-over-year basis within that $178 million. So we are still expecting to have about $250 million of restructuring costs for the full year and we still have obviously more of that in front of us than behind us. So that will be one of the factors that will drive the second half to be lower than the first half in terms of overall results. George Galliers - ISI: Great. Thank you very much. Operator: And we have the next question. It comes from the line of Brian Johnson from Barclays. Please go ahead. Brian Johnson - Barclays: Yes, good morning, and congratulations again Mark on your first quarter and call. In North America you said pricing was going to be positive for the year. It looks like first half was $100 million positive. Do you expect more price in the second half or with some of the model changeovers, is this kind of going to be what we see for the year? Bob Shanks: Yes Brian, I'll take that one. In the first half, if you go all the way back to December, if you remember when we had our initial guidance for the year, we actually thought that pricing would be adverse and in the first quarter we said it could be sort of flat to somewhat positive, and I think that's what we are seeing play out in the first half. That's consistent with what we expected at that time. When we get into the second half, I think we'll see more opportunities on pricing related to the new products, because as you very well know we've got a number of new products coming. Now a lot of that volume, because there's a lot of (inaudible), actually the big effect is going to be in 2015. But there will be some benefit that we'll get from that into the second half, so I would think that would be a positive for us in the second half versus the first half. Brian Johnson - Barclays: And also on North America, on the cost side, I mean we've become accustomed to seeing cost pressures coming up, and this was a fairly good cost improvement. Is that kind of cost improvement going to be sustainable going forward or are there various one-off or timing differences we ought to be aware of as we think about the pace of structural and content cost through the year? Bob Shanks: Well, I think in the case of overall cost, we usually do see a cost increase just typically in the second half versus first half. Some of that is seasonality; some of that is the fact that we are in a growth mode, so our CapEx will increase; we'll have launches that are going to hit the second half more than they did in the first half. On the product, the material cost piece, within that in the second quarter, pretty benign in terms of material costs on a year-over-year basis. I think that is just because we are in sort of the quiet period if you will. We haven't had a lot of big launches over the last year. We've got the big launches ahead of us in the second half. So, I think we've benefited from the fact that the normal, very strong material cost reductions that we get from design changes and/or from our work with our supplier partners, more of that is just flowing through in the quarter than what would probably be typical, and certainly more is flowing through than what you would see in the second half, because of the added product costs that will come. But again, with those product costs, that's new product, new features, new technologies, so we'll also get more pricing. So you have to kind of think about all that together. Mark Fields: And just to add to that Brian on the structural cost, as Bob said, to put it into perspective, we are in growth mode. We can assure you that we're being very thoughtful about the structural costs that we put into the business. We spend a lot of time as a management team looking at the breakeven levels, so we don't get ahead of ourselves, if you will. But we are very focused on that, just as we are focused on driving the top line of the business. Brian Johnson - Barclays: Okay, thanks. Operator: And we have the next question and it comes from the line of Colin Langan from UBS. Please proceed. Colin Langan - UBS: Thanks for taking my questions. Can you give me any color? Last quarter you mentioned that you thought the high end of your North America margin guidance of 8% to 9% was possible if you could get more pickup production out. How are you thinking about that currently? Bob Shanks: Well, we're not saying it is not possible; but we are just staying with the overall guidance of 8% to 9%, because we've got all these big launches coming ahead of us and what we'd like to do is take a save and revisit that after we get through particularly the F-150 launch, which based on what we've guided today in terms of down which is now just right at our doorstep. So we feel extremely good about the margins. You can look at that first half number; it's extremely strong. The launch of the F-150, and Mark can comment, is going well, as well as our other launches, so there is nothing at this point to be concerned about. So we feel good about it, but I think we'll just kind of update you if you will at the third quarter, once we get through the heart of the launch. Colin Langan - UBS: Okay, that makes sense. Can you also give some color on Asia Pacific? It was down quite a bit sequentially and you're guiding it down in the second half. I know you warned last quarter not to annualize the Q1 result, but what were the major factors when we think about it quarter-over-quarter. I think it's down about $130 million? Bob Shanks: Yes, I mean, there's really two things to think about. Actually, I'll mention three. If you go to slide 17 and look below the chart, which gives you the quarter-to-quarter, we are still getting top-line growth; but within the contribution cost we had an increase in our warranty reserves, which largely explains that. So that would be, if you think about it, it should be one-time. In the other cost what you have got there is ongoing investments in growth. So as I mentioned, we have five plants still under construction and just take India for example. The Sanand facility that will open next year, we are already bringing hourly labor onboard. We are training them, so if you will, there's costs associated with that. Plus the other plants in China that there is no revenue for obviously, so that's a factor. We are already incurring cost as well for the Lincoln launch that will occur in the fall. So that's ahead of us as well, but also affecting the quarter and then if you go to the very far right Colin, look at Other. Within that we had a non-repeat of a favorable insurance adjustment in Thailand. I believe that's just not repeating, so that's sort of the factors that are affecting us. But just broadly, if you step back and go back to the comments around North America, I think the growth story is even of greater effect in Asia Pacific, and you can see that from the top line. We are investing and continuing to invest heavily and so that's bringing cost with it, but very strong revenue and growth that we are expecting in periods ahead. Mark Fields: And just to add a little bit more context to your question around the Asia Pacific business and what's the trajectory, besides the financials and the comments that Bob just made, when you look across the region, nine out of our 12 markets in the second quarter actually grew their market share. So we are really pleased with the response to our ONE Ford products. And in China in particular, with the record market share, we are getting a lot of growth in the tier 4 through six cities, where there's a lot of growth and it's married to our network strategy. The consumers that we are attracting in China are younger, more educated and higher-income customers than the industry average and our retail sales, 70% to 90% of our retail sales come from either first time buyers or people buying an additional vehicle. So fundamentally, we think this positions us well for growth going forward. Colin Langan - UBS: Okay, all right. Thank you very much. Operator: And we have the next question and it comes from the line of Patrick Archambault from Goldman Sachs. Please go ahead. Patrick Archambault - Goldman Sachs: Great, thank you very much. So two questions for me. Number one is just following up on, I think it was Brian Johnson that asked the question on the slide 7, the materials excluding commodities benefit of $483 million. Obviously substantial tailwind there, and I get that you're going through a little bit of a quiet period before the launch of a lot of new product, but is that kind of reflective of just some of the purchasing efficiencies from global platforms that are kind of flowing through, all things equal or is there anything unusual that might have been a support to that this particular quarter? And then I had just a second question on Brazil. Can you guys maybe just with respect to your new guidance, maybe tease out how you are thinking about the commercial vehicle business that you have there, versus the light vehicle and how much each is kind of contributing to that sort of change in outlook if you will? Bob Shanks: Why don't I take the first one and Mark, do you want to take the second one? Yes, I don't think there's anything unusual and one-time or anything of that sort in the quarter. I really do believe Patrick that it's really the fact that we've got the strong efficiencies around material costs coming from the work with the supply base, as well as with the work in terms of design efficiencies. But it's just flowing more straight through to the bottom line than what you might expect in an ongoing quarter, because of just where we find ourselves with the launches, both behind us, but also the ones ahead of us. When you do look at the second half, as I mentioned, it clearly is going to be an adverse factor, at least based on what we're looking at today compared with the first half. But we also would expect to get some of that back within contribution costs from better performance in terms of warranty cost, particularly given what happened in the first quarter, but also maybe some improvements in freight and distribution as well, which in part was one of the issues with the added cost we had in the first quarter related to weather. So I think overall sort of a negative if you will in the second half versus first half on material, but a positive in some of the other factors. So I think they will more or less wash out when we look at North America second half to first half. Mark Fields: And Patrick, on your second question around Brazil, when you stand back and look at the business, as we mentioned earlier, clearly we are continuing in implementing our ONE Ford plan where we are replacing all the legacy products, including some of our commercial vehicles, our cargo that we launched last year, which is actually doing very well in the marketplace. But the second half of the year in Brazil is really due to the economic slowdown that we've seen and also to exchange volatility, and in some cases just dollar availability in places like Argentina and Venezuela. Specifically to the Brazil industry and your question around commercial vehicles, we are seeing the industry down overall, especially large and a big load of trucks where we don't specifically play. We are more in the medium truck segment of that right now. So the team is on top of this. We are looking at the business environment, understanding what do we need to do to improve the situation in a very changeable market, and we'll continue to work our process on that and maximize our results in a changeable environment. Patrick Archambault - Goldman Sachs: Okay, terrific. Thanks a lot guys. Operator: Thank you. And we have the next question. It comes from the line of Adam Jonas from Morgan Stanley. Please proceed. Adam Jonas - Morgan Stanley: Hey, thanks everybody. Just one question for Mark and one question for Mike Seneski, if he's still on the call. So Mark, when you look into the meat of the F-150 changeover, given the really unprecedented nature of the material substitution at this scale, and I know Ford has tremendous experience with aluminum, but this is completely unprecedented at the scale you are attempting it. Would it be unreasonable to allow a little extra margin of safety for you to prioritize absolutely perfect top-quality initial production, body integrity, etc., for those first units, even if it means a slower ramp? Because your tone on the changeover, it sounds so confident that I can't help but be a little skeptical or are we really able to properly judge the changeover before we actually switch the full machinery on and start putting the scanners on the bodies coming off the line? That's my first question. And the second, Mike, I know that the mood has been kind of all systems go on credit for quite a while, but if I forced you to pick one market development on the credit side, and I'm not referring to Ford specifically, but just the overall market, if I force you to pick one development that concerned you the most, could you think of anything? What would it be? Thanks. Mark Fields: Thanks Adam, thanks for the question and let me get to the first part on F-150. We are very excited about the F-150 launch and as you know, we are absolutely committed to delivering top quality in all of our vehicles and all of our launches. And I have to tell you, the innovative approaches that the team is taking to this launch are very, very comforting to us, and that we are going through the builds right now. I happened to drive a prototype last night. So the vehicles are coming together very well. But when you look at some of the things the teams have done to your point, to ensure quality, how we've tested the tools out, literally online before they are actually installed in their body shop, the riveting process and adhesive process that this is going to use, we're actually using that on pilot production, so it's running on current production right now for over a year now, so the team has a lot of experience on that. So when you stand back, when you look at it from today's perspective, we feel confident that our development and try-out processes have positioned us well to be ready for an on-time launch with quality. So for the second question, Mike, you want to take that? Mike Seneski: Yes Adam, I'll start by saying and you will see it on the fixed income call later. Our business continues to perform extraordinarily well. As you know, our standard line, our origination practices haven't changed, and we feel very good about the performance of our portfolio and what we are originating. The entire auto financing market, it really is a balance. You said pick one thing; I don't know what the one thing is. Leasing is pretty high. You are seeing extended terms grow, and you are seeing subprime grow. So with that, if there's big changes in variable marketing strategies, if there's big spikes in interest rates, those are the types of things that are going to create imbalances. The goal is to manage that and manage that within a construct that optimizes your risk appetite, and that's what we think we're doing in Ford Credit. Adam Jonas - Morgan Stanley: Thanks Mike. Thanks Mark. Mark Fields: Thanks. Operator: And we have the next question. It comes from the line of Joe Spak from RBC Capital Markets. Please go ahead. Joe Spak - RBC Capital Markets: Thanks for taking the question. I just wanted to get a little bit more color on the Asia Pac build-out. I know you said costs will be a little bit higher; you've got a lot of plants coming on. Unless I'm mistaken, I think that bleeds into '15. So should we expect those costs while they may ebb and flow per quarter, to persist for about another year? Bob Shanks: Well, I think until we see an end of growth, and frankly we don't, we'll continue to find opportunities to invest in the business. So if you go back and look at the last number of years, we've been consistently seeing an increase in structural costs, but going back to Mark's earlier comment, it's all been very well planned, very thought through, connected directly to revenue growth that we expect to get from that and that's exactly what's happening. Now what you're seeing is the balance between the costs and the revenue are starting to shift. So in the past it was costs and revenue ahead of us. Now you are starting to see some of that revenue come on stream. It's exceeding the cost, so we are starting to see the good, strong results and I think that change of balance will continue as we move forward. So I think you will see cost increases. Well, you definitely will see cost increases in the second half versus the first half which I already mentioned. For the reasons I mentioned, some seasonality, but also the continued investment. I would expect that would continue as we go into the forward years, as long as we find opportunities to grow the business, but the top line will grow more. Joe Spak - RBC Capital Markets: Right. And then just in Europe, everything seems a little bit better. I know you expressed some caution over Russia. Is it fair to say that even though the outlook is unchanged, maybe core or sort of Western Europe is a little bit better and Russia is maybe dragging that down a little bit? Mark Fields: Well, overall when you look at our performance this year and our goal for profitability for 2015, at this point we don't see issues in Russia affecting our ability to reach profitability in 2015. Clearly when you look at Russia, the current environment is difficult. But it's a big, it's an important market, and it has the potential as you know to be the largest market in Europe over time, and the business environment right now as Bob mentioned earlier, it's very challenging and fluid. You got GDP that's slowing down, which is affecting the industry sales; the weak ruble; the segment shifts of consumers from cars to some of the SUVs and of course overlaid by the geopolitical issues. So we are working with our partners in Ford Sollers to improve the business outlook, take the appropriate actions. The team is on it, and the senior team is meeting very regularly on this and just using our process of always looking at that business environment and understanding what do we have to do to maximize or minimize impacts on the business. Operator: We have the next question and it comes from the line of Ryan Brinkman from JPMorgan. Please proceed. Ryan Brinkman - JPMorgan: Hi, good morning. Congrats on the quarter. Mark Fields: Thanks Ryan. Ryan Brinkman - JPMorgan: So, I think that the profit in Europe obviously stands out for investors today. It looked like a lot of the improvement in 2Q and so far for you there it relates really to the contribution and structural cost lines, I guess explained by lower restructuring cost and now restructuring savings. In some of our previous conversations though, I think you suggested that the turnaround in Europe also hinges upon stronger pricing, which we haven't seen a whole lot of yet. I believe you have the goal of pricing comparably in the market to a brand like Volkswagen, sort of similar to how you price as well or stronger than Toyota in the U.S. now. So is it fair that the improvement in Europe this year is still going to be more about the cost and restructuring side? When do we see the pricing benefits? Is that more of a 2015 thing? And maybe if you could just take a moment to walk us through your strategy to get better priced in Europe, talk a little bit about the product push and maybe some of these headlines that we are seeing about this Vignale branding? Thanks. Bob Shanks: Yes, I think you're right. The overall transformation plan, which is very much on track was around the three things that I referenced earlier in the upfront comments, around the brand product and cost, and we are seeing progress in all those fronts. The brand favorability is improving. The team is doing a great job on the network and working with our dealers and their go-to-market strategies. In terms of product, we've had quite a number of products that have launched successfully. We've got more ahead of us and as part of that, if you remember our conversations on that, it's also to start to kind of if you will, pull the average of the portfolio higher in terms of overall mix and that will come from products that include imports from other parts of Ford, such as the next-generation Edge, the Mustang and other things that we've got coming. The Vignale series that Mark touched on earlier, that's another part of our strategy to move sort of the center of gravity of the portfolio up. We've sort of held our line this year, year-over-year in terms of pricing and that's an environment that still is very difficult in terms of where everyone is struggling to get that extra unit in a market that's still quite low, although it's improved from where it had been. And I think as you go forward, we expect as more of the new product gets out, we continue to work on all of these aspects of our brand and the overall business that we'll start to be able to see more of the improvement in the pricing area above the line, if you will. But I think we feel kind of good about where we are and we might see a little bit of improvement in the second half versus the first half as we get more of the new products out there, like the Mondeo, but yes, that's part of the plan and we feel pretty much on track with regard to it. Mark? Mark Fields: Yes Ryan, just to put a couple more things to that, we are confident in the trajectory that we are on in Europe for the reasons Bob mentioned. In addition, our plan has always revolved around product, brand and cost and as you pointed out, the team is making very good progress on cost. As Bob mentioned, brand is doing well in terms of favorable opinion and on the product side, interestingly enough, when you look at our sales in the first half of this year, over 50% of our sales are on these new products that we've introduced over the last year or so. So we think that bodes well. Our retail percent of the industry is higher as a percentage of our sales than the rest of the industry. So we're really pleased by the response from our European consumers, and with the products coming up, the Focus, the Mondeo, two very important, high-volume products and in some cases high-image products, followed by the Mustang, the Edge, and the Vignale series, we think positions us well for growth going forward and also buttressed by our commercial business, with our full revamp of the entire Transit lineup. We've had the highest share in the first half of this year since 1997 I believe, and I think that will also bode well to allow the business to grow and allow us to achieve our profitability in 2015, which is obviously a very important goal for us. Ryan Brinkman - JPMorgan: Okay, great, thanks. Very helpful, and for my second and last question, on the really strong results in China, obviously great volume and share improvement; I'm curious if you can give us a sense of the margins you earn there on your joint ventures. I think investors tried to claim some understanding by examining Changan's financials. Is there anything you can say on the margins now and also where you think that they can go? Is there any reason why you couldn't achieve the type of margins over time in that country, that say GM and Volkswagen currently earn? What are the gives and takes there? Maybe you don't have the luxury exposure, but presumably you've got a lot of SUV exposure, which is presumably high margin and I know you hope to grow Lincoln over time. Bob Shanks: Yes. We haven't disclosed those types of details, but I will tell you Ryan that the margins that we're getting from our joint ventures in China are extremely healthy and I think we can aspire to the types of margins that you are seeing from other competitors there. The business is very well structured. We are managing extremely well supply and demand; if anything, we kind of struggle to keep up with the demand. As Mark and I both mentioned, the brand is very well regarded in the market, so it's just kind of positives all around. So I think margin is extremely healthy and I think they can potentially even be healthier as we continue to kind of fill out the portfolio. Again, improve the overall mix as we add higher priced vehicles. I should also mention that we've also got a pretty healthy import business as well. Products such as the Explorer; the Edge is coming in, and of course Lincoln we have a lot of great expectations of, and that will clearly be a plus for the business. Ryan Brinkman - JPMorgan: Great, thanks. Congrats again. Mark Fields: Thank you. Operator: And we have the next question. It comes from the line of John Murphy from Bank of America. Please proceed. John Murphy - Bank of America: Good morning guys. Mark Fields: Hey John. John Murphy - Bank of America: Just a first question on CapEx at $7.5 billion this year. That includes a lot of expansion o investment, particularly in China. I'm presuming some of that does level off a little bit as we get into '15 and '16. Do you think you could pull back on CapEx or do you think you might just level it out at these levels, even on a base of a larger business? I'm just trying to understand the context of CapEx going forward, when we get through this big growth spurt. Bob Shanks: Yes, I wouldn't assume that the CapEx level is off, because we've got some really great and exciting growth plans for the business, so we'll continue to invest as long as we see those opportunities. One thing I just want to caution you on is that the investments in China are largely made by the joint ventures, which don't show up in our CapEx. That would be incremental if you will. We might have some more to say on this on Investor Day, which we sent out a notice on that for September 29, but yes, I wouldn't build into your models that the CapEx is going to be declining or flattening out. John Murphy - Bank of America: Okay, and then just a second question. Traditionally, the Expedition and Navigator have come just about a year after the F-150 launch and off the same platform and I was just curious, as we think about this going forward, I'm presuming the F-150 goes as well as you're expecting. That seems like that would come a year after and the benefits of the light-weighting and mass reduction that you are executing on the F-150 might be even more important on a large SUV, because on a large SUV with a 30 mpg or close to that, would resonate pretty big with consumers, to get a vehicle that large with that kind of mpg and hauling seven, eight kids around is something that a lot of people would like in this country. I'm just curious if you can comment on that or there would be any reason that there will be a change in the platform strategy between the F-150 and the Expedition and Navigator. Mark Fields: Thanks John. I'm still getting my head around eight to nine kids that you're hauling around, but… John Murphy - Bank of America: Well yes, but that's not me. That's not – sorry. Mark Fields: That being said, as you know we are just coming out with a major refresh in Expedition and Navigator and clearly we're very excited about bringing those products to our customers. Not at liberty to talk about our product plans going forward, but clearly as you look at our ONE Ford plan and our whole approach of looking at platforms, looking at trying to get reductions in those platforms to get scale efficiencies, to provide even greater value to our customers, is something that we are going to continue to execute as a company, and that's about all I can say at this point. John Murphy - Bank of America: Okay, great. Thank you very much. Mark Fields: Thanks. Operator: Thank you. And now we'll take questions from the media section. (Operator Instructions). And we have a question from the line of Dee-Ann Durbin from AP. Please go ahead. Please proceed. Dee-Ann Durbin - AP: Good morning, Mark. Thanks for taking the call, and I'll stick with two kids too by the way. I'm hearing a lot of Mulallyisms in your comments this morning, relentless implementation, compelling vision and it makes me wonder what we should be looking for in terms of your own mark on the company. What are we going to see in the remainder of this year and beyond that signals there's new leadership? Mark Fields: Well, it's a great question Dee-Ann. I think just to put things in perspective, I had the opportunity to sit side-by-side with Alan for the last eight years in terms of developing the strategy and then the implementation of that. So the indication that there has to be a new strategy, because there's a new person sitting in the chair, I wouldn't necessarily assume that. My message to our team internally and now externally is one of continuity, but also acceleration of our plan, of our working together, the way we run the company, our product passion, bringing even more innovations to the marketplace and I think that message of continuity and acceleration resonates with our team, particularly in an environment where there is lots going on in the industry, lots going on around the world and we can stay very focused on those things that have brought us to this point as a company and provides us a great foundation to move the company forward. Dee-Ann Durbin - AP: Thank you. Mark Fields: Thanks Dee-Ann. Operator: And we have the next question from the line of Emmanuel Rosner from CLSA. Please proceed. Emmanuel Rosner - CLSA: Hi, good morning everybody. I think I'm still part of the analyst group, not the media, but I'm happy that you're taking my question, so thanks for squeezing me in. I wanted to ask you a little bit more specifically on the timing of the cost and benefits from the launch of the F-150. You gave a lot of good detail on when the downtime would be. Now the eight weeks seem to be falling nicely half-and-half between 3Q and 4Q, but then there's some summer shutdowns in the third quarter and then on the other hand in the fourth quarter there may be some production already of the new ones and high pricing. How do you think about between 3Q and 4Q, if there is any strong difference in terms of North American cost and profitability? Bob Shanks: I'll answer that and if Mark has anything to add, he will follow. But the way I guess I would think about it is third quarter is the launch quarter and I'm talking about the new F-150, because remember, all the way through this, all the way through the third and fourth quarter, Kansas City is still producing the present F-150 until it gets to its own launch in the first half of next year. So that continues apace, so we are able to continue to supply the dealers with that product, which transaction prices continue to be highest in the segment and we are just doing extremely well with that, even in the balance out, so that continues. In Dearborn, I would think of third quarter as launch, because we've already mentioned that much of the quarter will be actually not producing anything as we transition to the new products and some of that continues in the early fourth. There will be units that will be released to dealers in the quarter and so that will be a benefit, but I would clearly think about the real impact of F-150 on the bottom line as being more of a '15 phenomenon than a '14 phenomenon, the new F-150. Emmanuel Rosner - CLSA: Understood, and so any major differences in profitability between three and fourth quarter or are we just assuming from now on this is sort of like the launch and then the benefit is in 2015? Bob Shanks: There will be an impact in both quarters from the launch, but you'll have more of those down weeks I believe in the third quarter than you'll have in the fourth quarter. And clearly when we are down, we are not producing, so the profit effect would be a little bit greater in terms of the launch cost, launch effect in the third quarter than the fourth quarter. Emmanuel Rosner - CLSA: Okay, now that's very clear. And then just back to Asia Pacific and I guess specifically China, you've done a phenomenal job growing market share from what used to be about 3% or so a couple of years ago to now some 4.6% in the second quarter. At the same time, when we look at sort of like share growth, it's been really good, but it sort of like seems to be stabilizing around these levels. You did 4.6% this quarter; it was 4.5% last quarter; it was 4.3% just a year ago in the second quarter, and a lot of your new product has actually already come out in China. There is obviously much more production facility to come; but in terms of the introductions I see a lot of it has come in. Do you still expect a 6% market share that's sort of like the achievable goal in the near term? I think that used to be your 2015 goal, and if so, how did you get there? Bob Shanks: Well, we have more new products coming, so we are clearly not finished with the product. We have quite a bit more new product coming over the next few years and looking for additional opportunities. We have more capacity coming and the way I think about the share improvement and actually its I think a couple years ago; it might have been more in the 2%-ish range, and again that's 2% of a massive industry remember, so the absolutes in terms of the volumes are quite large. But I would go back to a comment Mark made in reference to something else. I would think about the share improvement as relentless implementation and execution. We are just going to just keep growing and growing and just hope to see that relentless coming through in our bottom line, as well as in our share improvement. So we are not trying to win in a burst. This is sort of a marathon, and we're going to just keep going forward and keep growing and leverage every opportunity that we can find. So we celebrate two or three-tenths; it's great. Operator: And we have a next question. It comes from the line of Rod Lache from Deutsche Bank. Please proceed. Rod Lache - Deutsche Bank: Hi everybody. Mark Fields: Hey Rod. Rod Lache - Deutsche Bank: Hey. Just to Murphy's question, if you got eight or nine kids, you might want to rename the vehicle from Expedition to Evacuation. Mark Fields: We already have a vehicle named Escape, so… Rod Lache - Deutsche Bank: Yes, that's true. Well, when do we get the specs for the fuel economy on the new F-150 and when is the initial shipping release date to dealers? I know you guys tend to hold a bit of inventory initially as part of the quality process. And also on North America, are you still – I would imagine you are, but you did explicitly mention last quarter that you were expecting North American margins potentially to hit the upper end of the guidance. Mark Fields: Okay, when you look at the number of the questions, Rod we go to manufacturing launch in the fourth quarter, so you'll start to see some units show up at dealerships by the end of the year and we are very excited about making sure that we do that. From the second question around the fuel economy, as you saw yesterday, we announced the capability figures for the vehicle, which were very well received. We are working through our normal process on fuel economy, in terms of looking at the labels and making sure they get certified. So you'll see that in the next number of weeks as we close out on that process and follow that process with the EPA. Rod Lache - Deutsche Bank: Okay, and just two other quickly. In Europe your contribution costs have been improving despite the new product. Can you just comment on the sustainability of that and in South America, the structural costs have been on the rise. What's the plan to address that aspect of the profit outlook? Bob Shanks: Yes, just two things. First of all, on the European question, I would expect us to start to see added product costs coming in there with the launch of the Mondeo and the Focus. So we'll continue to see good results in terms of our material cost reductions, but you will start to see, just as I talked about for North America, you'll start to see product costs start to come through there. In the case of South America, that's an interesting question. To some extent you do see in those numbers what you see in the other business units, which is the investments for growth as we continue to transition the portfolio to the global ONE Ford products, but a lot of this is the effect of high local inflation. You've got inflation in a 50%, 60% range in Venezuela. What is it, Joe? 30%, 40% or something like that in Argentina; 6% in Brazil. So really when you're looking at South America, you have to look at that pricing number, which looks great. But you have to at the same time look within the cost increases, including material cost, because you see a lot of negative commodity cost coming through, because its dollar based and so in that particular region it comes through as a cost increase, because of the impact of the weaker currency. So there is that inflation effect and then you've got the exchange effect. It's just they are all related to each other. And as I mentioned in the comments earlier, we aren't actually, even with the pricing, fully offsetting the effect of inflation through the income statement and adverse operating exchange. So you got to look at all those three together. Operator: And we have a next question and it comes from the line of Itay Michaeli from Citigroup. Please proceed. Itay Michaeli - Citigroup: Great, thanks, good morning. So first question on North America margins, in the next few quarters we clearly have some noise with the F-150 launch. But you did do a 9.5% margin in the first half, maybe even north of 10% excluding the warranty. Is the first half a good baseline for us to model for 2015 once you get through all the launches or are there some things going on this year versus next year that might not create that as a good baseline for modeling purposes? Bob Shanks: Itay, all I would say is what we've said consistently for quite some time, is that we see the business in North America as capable of and targeting an 8% to 10% margin over time. And this year as you said, in the first half, 9.5%, but clearly we've guided that for second for a number of different reasons, including seasonality will be lower, but still strong, but we see it at 8% to 9% and I think that is what I would assume as I'm looking at the forward years. Itay Michaeli - Citigroup: Great. And then the second question, just a big picture on Asia Pacific. It looks like based on your guidance you'll probably maybe be at pretax profits of roughly $700 million, about double where you were last year. I know the mid-decade outlook is for that region to contribute very meaningfully. Maybe you can just help us with the overall glide path to kind of what roughly very meaningfully sort of means and then how should we think about that glide path over the next, let's say year or two? Bob Shanks: Yes, I think we'll take a save on that. Well, maybe that's something that we'll touch on at Investor Day, because I'd like to keep the focus today on this year and the quarter. But clearly, what you said about where this business is going is how we are seeing it and how we are thinking about it, but I don't think I'd get into it any further than that today. Itay Michaeli - Citigroup: Okay, great. We'll look forward to the September Investor Day. Thanks a lot. Bob Shanks: Okay, great. See you then. Operator: That was our last question. I would now like to turn the call over to Mr. George Sharp for closing remarks. George Sharp: Okay, terrific. Thanks everyone. That will wrap up today's presentation. We are really glad that you were able to join us. Operator: Thank you for your participation in today's conference call. This concludes your presentation for today. Now you may disconnect. Thank you for joining. Have a very good day.