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Emmanuel Rosner: All right. Good morning, everybody. Thank you so much for joining us for this keynote session with Ford, as part of Deutsche Bank's global automotive conference. My name is Emmanuel Rosner. I'm the lead U.S. autos analyst here at Deutsche Bank. I'm extremely pleased to be joined today by John Lawler, who is the CFO of the company but also recently named Vice Chair. And so, congratulations for this, and thanks for being with us.

John Lawler: Thank you.

Emmanuel Rosner: Just for the purpose of the webcast, this is meant to be a 45-minute session, because this is counting down to 35.

Ford needs no introduction, but it's a leading global automaker. And in the last couple of years, Ford has been executing against its Ford+ plan, segmenting the business into Ford Blue, Model e, and Ford Pro. Ford has shared strategies, targets, and opportunities for each of the businesses, and today we're hoping to get a pulse on how things are going, and we'll also dive deeper into the longer-term strategic opportunity.

So, with this, John, thanks again.

John Lawler: Thanks for having me.

Emmanuel Rosner: So, to start, congratulations on being recently promoted to Vice Chair. Can you talk to us about your new role and what the top two or three things you will focus on are?

John Lawler: Sure. Well, I'll continue in this role as CFO through the end of the year. We have Sherry House who has come in. She's going to be a great CFO when she takes over. Great automotive experience, banking experience, tech experience. Perfect background for where we're headed as a company.

So, I'm really excited about this role. I've run operations. I was in the strategy group when we did the foundational elements of the Ford+ plan. And I'm looking forward to get back focusing on some of the strategic initiatives we need to push forward and accelerate, given the amount of disruption we have in the industry. So, alliances are going to be critical. The choices on technologies and areas where we choose to invest and expand, as well as partnerships. So, I'll be responsible for global partnerships, the ones we have today and the ones we need to develop and put in place.

And then, the last thing I'm going to focus on is really around leveraging my overseas experience. I've worked and lived in China. I've worked and lived in Japan. I've worked and lived in Europe. And there's a lot of policy dialogue going on. And so, I plan on engaging in the overseas markets quite heavily with political leaders and governments.



Emmanuel Rosner: So, let me ask you immediately, based on your strategic hats, what are the biggest challenges for the automotive industry over the next five to 10 years? And how will you help Ford be positioned to face them?

John Lawler: Well, I would say that – a couple of them, because there's numerous strategic opportunities or challenges, depending on how you want to look at it. The transition in the industry and the rate of change is unprecedented. We've been saying for the last, I don't know, 10 years, how quickly the cycle is moving, how quickly it's changing. But when you look at the new competitive threats facing the industry as we transition to not only electric vehicles as a much larger percentage of the mix of vehicles that we'll sell, but also the digital platform and the digital architecture of the vehicle, these are significant changes in the industry.

And the pace of that change is only accelerating. Just look at China. Look at how big their market share is in EVs. Look at what they're doing relative to the digital experience and the growth overseas and their cost structure. Those are significant, significant competitive threats that we need to deal with.

So, that's what we'll do.

Emmanuel Rosner: This is the plan. I was going to ask you specifically about China, because I understand management recently spent some time there. Obviously, you used to run the China business for Ford. But certainly, given how fast things are moving there and the threat it could represent for the global autos industry, it seems like an area where it makes sense to focus on. Can you share what you learned from this trip? How will this influence Ford's strategy in the region and globally?

John Lawler: So, when you look at China – I started in China in 2010. I left in mid-2016. The entire time that I was there, the global OEMs were the lead, with the partners. When you look at China now, the global OEMs are not the leads in that marketplace. It is the local domestic Chinese. Their EV technologies are advanced relative to what's in the West. They have a development process that is much faster -- 24 months.

And then the way they think about the vehicle, the concepting of the vehicle, it's significantly different. The West is incremental; they're functionally doing step-changes. And they think about the vehicle much differently than we do in the West, as a third space. So, their product concepting is something that has gone to a new level.

So, as they've done that, they've also developed the technologies around electrical architectures, as well as the digital interface with the consumer. And when you look at that society, they're much more digitally advanced than we are. When I left in 2016, their digital footprint was much bigger than it was in the West. And so, that's just continuing to accelerate.

And then you have new competitors coming in, competitors that have an ecosystem, a digital architecture ecosystem – Xiaomi, Huawei – and they're building vehicles. And they're competitive vehicles, they're good vehicles. And when you look at that, they're tapping into that ecosystem of millions of customers. And now that interface with the vehicle, it's exactly the same interface they have with other electronic goods that they have. So, this is a competitive threat that is going to be significant, maybe not in the United States in the very near term, but definitely in Europe, definitely in Southeast Asia.



John Lawler (cont'd): And so, that's what we learned coming out of that, that the pace of change is even accelerating much quicker than we had expected. And the amount of change that happened between last March and this March was significant.

Emmanuel Rosner: And so, how do you deal with it?

John Lawler: So, I think we're in a really good position. Two years ago, we started our skunkworks team. It's an independent team out in L.A. It's leaders that have developed electric vehicles, leaders from the industry – Tesla, Apple, other tech companies – led by Doug Field and Alan Clarke.

And the way they're developing the vehicle is very different than the traditional way OEMs have developed vehicles in a linear, progressive process, a process we've basically been incrementally improving over the last 120 years or so, where it's a systems integration process. It's agile. The engineers do not rely on suppliers for design. They'll work with suppliers. We go down into the supply base a couple of tiers. We will own the entire electrical architecture. It's a distributed electrical architecture. We'll own the software on the modules, the systems integration between the vehicle and the digital architecture and then the experiences that come from that, the pace of development, and then the cost structure.

We're developing those vehicles to be competitive with a return at between \$25,000 and \$30,000. And the thing is we have people that have done that in the past and they're doing it for us now.

And what we learned is that there are significant competitive threats, but we also learned that our skunkworks program is putting us in a really good shape to compete with those companies around the world.

Emmanuel Rosner: And maybe one quick follow-up on this as well. I think you mentioned as part of your new role, partnerships is a big piece of it. How will partnerships help you win?

John Lawler: So, I think when you look at that, we will leverage the partnerships we have today. One example of that is we're leveraging our partners in China today to export from China – now, mostly to Southeast Asia and South America – and that's significantly growing. So, we expect to be more than 200,000 units this year. We were over 100,000 last year. Margins are very good because we maintain the distributor profits; they get a manufacturing markup. And we continue to leverage them for growth in emerging markets so we can compete at the lower end.

And then you add on top of that vehicles like Ranger and Everest at the higher end in those markets, and we feel we have the ability to cover most of those emerging markets and do it profitably, something we haven't had in the past.

And that's starting to show up in our results, and we've talked about this. When you look at our returns '18 through 2021, in overseas markets, we lost roughly \$6 billion, and we burned about \$8 billion of cash. The last two years, we've been positive from a profit standpoint, over \$5 billion, and we're positive from a cash standpoint.



John Lawler (cont'd): And so, we're going to continue to leverage partnerships in ways like that. And then when it comes to technology, we'll leverage those partnerships as well to make sure that we're at the forefront of being cost competitive.

Do you want me to keep going? Okay. Now, the other thing about this industry that has been an Achilles heel – and you see that through our multiples – is the fact that we have not been good stewards of capital. Very capital intensive, low returns. Right? So, part of our Ford+ strategy is to grow top line, and you're seeing that come through, through product and market mix. It's to improve our margins, to be more capital efficient, and to be less cyclical and more robust as an industry.

So, partnerships are going to allow us to really work on being more capital efficient as we spread that capital and leverage partnerships and technologies. And you see that with what we've done in China, and you're starting to see that in other partnerships in areas that we're moving to make sure that we're much more capital efficient.

We're looking at how we do that. We have metrics across all four of those key variables. And then when you look at that relative to the best-in-class industrials, you can really understand where automotive is and has performed over the last 30 years relative to best-in-class industrials. So, we know exactly where we need to go to start to provide the types of returns in a business that is competitive with the best-in-class industrials. So, that's another way we're going to leverage partnerships.

Emmanuel Rosner: And I think when we last spoke, when you were named Vice Chair, I think part of those partnerships are meant to be also on the combustion engine side.

John Lawler: Absolutely. So, when you look at that, not only is it around the digital electrical architecture and what we need to do there, it's not only around the transition to electrification and the various types of technologies in electrification, because it's not just pure EVs – it's plug-ins, it's EREVs, and other technologies that are emerging in that space – but then what are we going to do as ICE volume comes down? Now, we don't believe ICE volumes are going to go away anytime soon, but EV mix is going to increase.

And so, as that happens, how are we as an industry going to manage that wind-down in the consolidation of assets and the efficient wind-down? If we all want to do it independently and we're all not working together, I think that's going to be very inefficient relative to what could be. But we need catalysts across the industry to make that happen.

Emmanuel Rosner: Let me ask you some questions on the near term and industry conditions. How are things going for Ford this year? And specifically, so far in the second quarter? You had flagged some calendarization of vehicle sales from Q1 to Q2. You now have almost a full quarter of model year '24 launch for the F-150. Talk to us about how Q2 has been shaping up for you overall.

John Lawler: Well, I'm not going to give any guidance or information around Q2, given we're so close to the quarter. But when we guided in Q1, we said that we'd be at the high end of our range. And when you look at what's been unfolding relative to the launch of the F-series, it's launched now. We're working down that inventory, which is good. When you look at the progress we've been making, Q1 is a good



John Lawler (cont'd): indicator of where we can head as a company and how this year is going to unfold; hence, the guidance we gave at Q1.

And I think that when you start to unpack some of the key levers for us, it's really around growth. And you saw that in Q1 as we grew. And we've grown over the last 24 months, really, around product and mix. And you're seeing that strength in product. This year, 60% of our product in Ford Blue will be all new by the end of the year. We're continuing to see strong growth in Ford Pro. And right now, what we're seeing in electrification is continued growth, slower than what everybody had expected, but growth is continuing. And you saw that in the results that we had coming out of last month.

So, it's really about those four levers: capital efficiency, growth, growing margins, and then what we're doing to become less cyclical. And the area to become less cyclical is we are growing out both our service businesses as well as our software business. And you see that growth in Ford Pro, you see that growth in Ford Blue, et cetera.

So, right now, Q1, off to a good start. We reflected that in our guidance. We're working through some of the issues.

Now, for Ford, Emmanuel, I think you'd be the first one to say that, "Your Achilles heel is costs." And we're working through that. We're seeing some puts and takes on costs. It's interesting, we're seeing some inflation in the warranty space; the cost per repair is going up. But we're seeing a little bit of good news come through on commodities.

We're on track to deliver our \$2 billion of cost reductions this year. We're gaining traction in the design reductions. Those will come with the '25 model year. So, those will really start to show up in the second half of the year. And we're doing good work in our manufacturing facilities, leveraging cost reductions to offset a majority of the cost headwinds we see coming out of the new contract.

And as with any year in this industry, there's puts and takes, but we're continuing to progress, and we're consistent with what we had said coming out of Q1.

Emmanuel Rosner: That's good to hear. Have you seen any signs of weakening consumer demand so far in the market? The U.S. obviously continues to be robust, but I always think of it as more like an output. Inventories seem to have been building up at some of the Detroit Three and especially for trucks. So, are you worried at all about supply now outstripping demand?

John Lawler: I think we're back at equilibrium and we're getting to the point right now where supply is – it's not constrained any longer.

I think when you step back and look at it, there's a – the market in Europe, I think there's a little bit more pressure in Europe than there is here in the United States. So far, the consumer has held up pretty well. Pricing has held up. But as you said, inventories I think are back to the point where we need to be very thoughtful as industry about the production versus demand and then the supply that's in the marketplace. So, we're watching that very closely.

We're still targeting to be somewhere between 50 and 60 dealer days supply. New vehicles that we have out there are turning very quickly.



John Lawler (cont'd): So, I think, Emmanuel, we're at a point as an industry where we need to be very thoughtful about how we proceed from here and watch our production relative to supply very closely and the stocks on the ground at the dealers.

Emmanuel Rosner: I guess, so far, what are you seeing in terms of vehicle pricing for you and the industry? Is there a risk that price cuts are coming to help reduce this inventory?

John Lawler: So I can speak about where we're at at Ford. We had been planning for a 2% reduction this year from a top line pricing standpoint. I think that as we see the year unfolding, first quarter was a little bit stronger than that. We didn't see much come through. But I think there's a bit of increasing pressure, and I think you'll see that flow through in the second half of the year. So, I would still expect that you'll see a little bit of pullback on top line.

And I think that's something that you would expect, given where the consumer is. We keep watching not nominal pricing; we keep looking at real pricing. So, that is cost increases, prices increases relative to wage growth. And we're still at the higher end of what we saw pre-COVID, is monthly household income required to purchase a new vehicle. Before COVID, it was in the 13% to 14% range. During COVID, it went up into high 14%'s, low 15%'s. Now we're back, getting back into that 13% to 14% range, but I think there's a little bit more that's going to come off the top end for the consumer to get back to where it was before COVID.

Emmanuel Rosner: I think you've also said for a while that dealer margin would be the first to potentially moderate. How much of that has played out from your observations? And how much more room to go?

John Lawler: I think it's still coming through. The dealer margins were really strong during COVID, just as they were for the OEMs. I think the dealers, as inventories built up, they're transacting again and they're working what they do, and I think you're starting to see some of those margins come in a bit in select vehicle lines. In other areas where there's strength, I think the dealers are managing their business well. So, I think it's going to be a combination of both the OEMs and what the dealers have been doing and what the dealers do. I think it's all going to be focused on providing the customer good value, and our role is to make sure that we keep inventories in good shape.

Emmanuel Rosner: Maybe one last one on this year, and then we'll move on to the midterm outlook for each of your businesses. Your overall guidance this year is \$10 billion to \$12 billion of company-wide EBIT. Your last commentary there was you're tracking towards the high end of this target. Is this still true? And can you share the drivers behind that?

John Lawler: So, there's no change to what we guided at Q1. The drivers behind that are, one, if you – this is where I think the segmentation is really helpful. So, you have to peel back based on each of the segments and how we guided at Q1 for those segments. So, let's do that.

In Blue, 60% of our products are going to be new this year by the end of the year. We have an all-new F-Series that launched in Q1. We're bringing that through the market now. Demand has been very robust. They're turning at a fast pace, which is very positive. And then we have quite a few new other vehicles that we've launched and that we are launching this year. Right now, we're launching the new Explorer.



John Lawler (cont'd): And so, we should see continued improvement with Ford Blue as those new vehicles come in. And so, we think that that's going to allow us to continue to progress that business, grow the business, and provide strong margins.

Pro has been I think the proof case of what we can do as a business and the opportunities that we have in this industry. Margins were very strong in Q1, consistent with us approaching and hitting the mid-teens targets for that business. We're continuing to see demand because of the amount of spending that's going on in sectors that drive that business. You have a lot of work going on on the infrastructure around this country. You've got the CHIPS Act. You have 5G. And that's all driving demand for our vehicles. In the past, it used to be as housing starts went, so went the commercial vehicle business. That's no longer true. There's a lot of other industries driving that. And you can see the data about the amount of capital flowing into those industries, which then drives demand for our vehicles. And we're continuing to see that unfold as well.

And then on electrification, when you unpack what happened with electrification, 18 to 24 months ago there was a hype about how quickly that was going to grow, and there was a strong narrative around that. And I think we had a false signal coming out of COVID and the fact that the early adopters came in so strongly. Then when we got through the early adopters and we moved into early majority, you saw that back down a bit, and those customers are not willing to pay the premium and there's not as much of an understanding around the benefits of an EV.

And then some of the things that are out there around the drawbacks of EVs aren't completely understood. Range. Something like 90% of the customers drive within the mileage capability of an EV on a regular basis. Very few trips over 200 to 250 miles. And so, that range anxiety is really just something that's there that the consumer doesn't really understand the capabilities of the EVs, the charge capabilities, the number of chargers that are out there actually that are available to consumers. So, we've got to work on that as well.

But demand there has come off, and I think it's not a matter of if it's going to be there, it's how fast. And so, when you look at the S-curve, it kind of looks like we're in the bathtub period, where we're in the saddle of it, and it's going to come back at some point here. And exactly when, I don't think anybody knows.

So, we're continuing to invest in EVs. We're working on our second generation of products which are ground-up. We've delayed a few of those – the three-row SUV – because we have battery technologies that are coming in which are going to be much lower cost – mid-nickel, low-nickel technologies – as well as other technologies that we're going to leverage to lower the cost for those as well.

So, I think across all three of the segments we've got a plan that's moving forward and you can see the results there and you can see how we're progressing within each of those. But very focused on the specific needs of those customers and driving the business around meeting those needs in a profitable and competitive way.

Emmanuel Rosner: Let's go a little bit deeper into the specifics and midterm outlook for each of these business segments. So, starting with Ford Blue, you indicated that you think the company is on track to cut costs by \$2 billion for the year. I think it was both manufacturing and design materials reduction. I think you've talked in the past



E. Rosner (cont'd): about closing a \$7 billion cost gap versus some competition, with opportunity mostly in Blue. Is this \$2 billion part of the \$7 billion? Is the \$7 billion still something that you're targeting? What more needs to be done beyond this year?

John Lawler: So, the \$2 billion this year is across the company. Blue will have a part of that. When you look at the \$2 billion, it's primarily coming through material and manufacturing, as I talked about earlier. Material, it's largely driven by the design changes we're making on the products, especially launching with the '25 model year coming in the second half of the year, and then what we're doing in the manufacturing sector.

And it's part of the overall cost reduction efforts that we need to be more competitive with some of our core competition. And so, we're focused on that, and this is a step in the right direction, and we're going to continue to focus very diligently on driving out additional cost reductions over time.

So, it's not the end of it, that's for sure, and we expect to see the pace of change in that space accelerating as we gain traction on moving through some of these cost reductions.

Emmanuel Rosner: The size of the opportunity, is that still \$7 billion?

John Lawler: I'd say the size of the opportunity hasn't changed much. We've made some progress, but our competitors are making progress as well. And so, we need to get our pace of progress to accelerate beyond where our competitors are and start to close that gap. But we're going to continue to do that.

Emmanuel Rosner: And then you've obviously had a major product refresh, which we spoke about, and you're baking in some price deterioration of about 2% at the industry level, which you just mentioned. But I think you're also assuming the average transaction price is a bit better than this, or more flat, for Ford this year based on these product refreshes. So, can you go over the drivers behind this outlook, maybe specific vehicle? And then you were talking about some of your inventory targets. Where are you at on that basis in terms of dealer inventory?

John Lawler: For dealer inventories, we're focused on being somewhere between 50 and 60 days. We're in that range, and we're going to continue to stay in that range. It may fluctuate a bit month to month, but overall the trend of where we're at. So, yes, that's specifically on.

From a pricing standpoint, we said the 2%. We believe that given the new products that we have, there will be some pricing power that we have. Because as you know, with new products you tend to have more of a price premium than the older models. And so, we expect that to offset some of that price degradation. So, we'd be about flat in Ford Blue.

On Ford Pro, we're continuing to see strength. We said that through the second half, we're protecting for some pressure on the top line. We'll see where that comes out. We're starting to move into the '25 model years. Because in our commercial business, we'll go out and we'll do two major contracts with our larger fleet customers. With fleet customers, we'll do something around July, and then we'll do something again at the end of the year, towards October/November, as we take orders. And so, we're about to go off and do that right now on the first



John Lawler (cont'd): tranche of the '25 model years. But so far, we're seeing continued strong demand for our Pro products.

Emmanuel Rosner: When you watch some of your D3 competitors having really high inventories in some of the important product lines – I mean, we're talking about 100-plus days in some cases – does that worry you in terms of your ability to realize those price increases?

John Lawler: It worries me that the stocks are building. We haven't seen that impact us so far, but we're watching it very closely.

I think when you look at what happened across the industry, one of the pitfalls you can run into is if you're pushing product out that isn't necessarily what the consumer wants, it's really tough to move them. Within Ford, we call those the ones with pink polka dots, in that they're not spec'd right and it's really hard to move them and it takes a significant amount of consumer incentives to move them forward. And so, when you look at that and if you get into the situation where you have a lot of vehicles that we call the pink polka dots, you're going to run into trouble.

So, we're watching it closely. It hasn't been a contagion onto us yet. We're still seeing strength. And I think primarily because much of our product is new.

Emmanuel Rosner: Let's shift to Model e. Can you give us a sense of where Model e stands now versus how you were thinking about it a year ago? You've pushed out some of the launches of a few next-generation EVs. How should we think about Model e in the interim, between now and some of these, sort of like, pushed-out launches?

John Lawler: Well, price compression for that segment has been significant, down over 20%. So, our cost reductions haven't been able to keep up with those price reductions.

When you look at this year, we're going to continue to have cost reductions in Model e. The question is, is the pricing going to stabilize? Or are we going to continue to see pressure, downward pressure, on the top line? So, we planned for additional price compression in the e segment through the rest of this year, and that's how it's unfolding. Let's see. So far through midyear, we've seen some price come off in the first half. Let's see where we go in the second half.

When we look at the Model e business, it's really about the second generation of products. And we did delay the three-row SUV because we've said we will not launch a second-gen product unless it's profitable within the first year and we are going to get a return on that capital we're investing.

We delayed the three-row SUV because there's technologies that are developing specifically around batteries, going from high-nickel to mid-nickel, which will provide us significant cost reductions. The energy density comes down. Nickel, that chemistry and the make of that chemistry, is more affordable. And as the energy density comes down, what you need to do for thermal propagation, et cetera, can be managed differently, which is a significant cost reduction. So, we pushed that out, with those developing technologies around the batteries.

The other thing we need to understand is that in the electrification space, what's happening on the retail side is different than what's happening on the commercial



John Lawler (cont'd): side. So, remember that electric vehicles are in Pro as well. So, the electric van, the Ford Lightning pickups that they sell that are electrified, those are in the Pro business and those are in the Pro business results.

And when you look at those and you look at what the consumer from a commercial standpoint has done is they've been very careful about how they've come into electrification. So, they started out buying a few number of vehicles, because they wanted to put it into their duty cycles and they wanted to understand what that complete equation was for them from a total cost of ownership standpoint. And as they've done that now for a year to 18 months, they're seeing that in certain duty cycles that the cost of ownership is better. And so, therefore, then they're starting to adopt. And we've had some of our customers who have gone – now are moving to a full-EV fleet or a majority-EV fleet, given their duty cycles and the cost of ownership is better.

And so, the Ford Pro business, the great thing about the Ford Pro business is not only are we selling them the vehicles. We're selling many of them the charging networks for their depots. We're selling them the software to charge. We're selling them fleet management software, et cetera. And then we're servicing those vehicles for them. So, we have that ecosystem that's built out that I think is accretive.

And it comes back to that fourth pillar I was talking about, is that the way you become more resilient and less cyclical as a business is you grow those services and you grow that penetration there. If you look at the Ford Pro business, when you look at the attached services, the physical services, we're going to grow from roughly 30%, 35% to 50%, and those have gross margins of 40%. Our software services are growing at over 40%. We have 560,000 customers buying our software, fleet management, telematics, et cetera. And so, we're going to increase our penetration of connected vehicles from roughly 30% to 60%.

So, it's a cycle there that's happening. So, you have to look at the electrification in the commercial business separately than what you see it in the retail business.

Emmanuel Rosner: Let me ask you a question about skunkworks. I think obviously initially your next-gen EV project was going to be about larger vehicles, in general. It feels like as part of this sort of like next generation new strategy you also have a lower end, more affordable. What essentially prompted that? Because on the ICE side, it doesn't look like you're trying to compete that hard in the \$25,000, \$30,000 type of price point. But is it necessary on the EV side? Do you feel like a big piece of the U.S. market will end there? Or is this a global effort? Is it a regulatory effort? Can you just put it in context for us?

John Lawler: All of the above. There's a global effort. Compliance is something we work on every day. Tailpipe emission standards are getting more stringent year after year.

The other thing is the conventional wisdom in the industry is – and it's true, right? – when you look at our larger vehicles, they're profitable. The bigger you go, the more profit you make. The cost of that and marginal cost of adding a third row into an SUV is much less than the revenue that you can gain for that.

It's the inverse in electric vehicles. The most expensive part of an electric vehicle is the battery. The smaller the vehicle, the smaller the battery you can put in. So, therefore, then the cost is lower.



John Lawler (cont'd): And then the other thing is on the larger vehicles when it comes to electrification, the duty cycles for some of the larger vehicles are not going to be conducive with an electric vehicle, full EV, because the battery you would need is just too large, and then it's that much heavier, and then you need a larger battery. So, there's diminishing returns, for sure, the bigger the vehicle and the larger the battery that you put in.

And so, we are designing that flexible platform that will have several top hats on top of it. They'll be global products. And we see that in that smaller footprint with that flexible platform, starting out in that \$25,000 to \$30,000 price range, we can create a vehicle that's going to be profitable and will allow us to meet the needs of those consumers with those top hats off that flexible platform and allow us then to meet our compliance requirements that we have coming and fill the market demand that's going to be out there.

Emmanuel Rosner: On the regulatory front, there's a lot of change and uncertainty around EVs. There may be a risk to higher incentives after the U.S. election in November. The U.S. just passed tariffs on imports of China EVs and some components. Obviously, in Europe, this is also being discussed. How does Ford deal with this situation? How do you solve for CO2 regulation? What is the role of hybrids?

John Lawler: So, we're continuing to invest in electrification because CO2 tailpipes aren't an option, right? Emissions aren't an option. From CAFE, or fuel economy, you can pay a fine. But when it comes to tailpipe emissions, if you're not compliant, you can't sell vehicles. So, there's no choice of not complying.

There's three levers. You can sell less gas vehicles. You can sell more electrification and you can sell more hybrids. Or you can buy credits that are out in the marketplace, which is very thin and not widely available. So, those are the three levers, and we look to optimize across all three of those in the near term. And then we have our strategy to build out our electrification fleet.

As I said earlier, electrification is going to come in many forms. We had always been investing in hybrids. We've been investing in hybrids for over 20 years. Our mix has increased, and we expect it to be at 40% this year. You can't just flip a switch and then all of a sudden you have hybrids, right? So, we didn't walk away from them. But 18 to 24 months ago, the narrative was all about EVs. So, we weren't talking about the hybrids. We were investing in hybrids. We were developing hybrids. We're #3 in the U.S. right now in hybrids: Maverick and F-150 and our Escape vehicle. And others will be coming with hybrids.

But there's additional hybrid technologies, where is it a hybrid or is it an EV and how is that going to develop, that are coming that I think are going to help bridge the electrification transition as well. EREVs is one notable to think about.

So, it's going to be part of our transition. That's why we're providing choice. And we think that's very important for our customers, that they can come to Ford and they can get gas and diesel, they can get plug-in, they can get full hybrid electric vehicles, they can get battery electric vehicles. And I think that choice is going to be very important.

Now, the regulations have the benefit of plug-ins and hybrids coming down over time so that as we move out, your mix of pure EVs is going to have to increase.



Emmanuel Rosner: Let me ask you a question on Ford Pro, then shift in there. It's been a clear source of strength and upside for the company.

John Lawler: Absolutely.

Emmanuel Rosner: Demand is outstripping supply. It's resulted in strong pricing that we've seen already in the first quarter. First of all, in the near term, should we expect some moderation following a very strong first quarter? Because obviously, if we annualize first quarter, you would be well above your guidance for the full year. But then longer term, can you just give us some color on, like, some of the key strengths? And what is the longer-term potential of this thing?

John Lawler: So, we are very bullish on Pro, and you see it in the results. Mid-teen targets, and I think that's a great return for the automotive segment. It's, I think, proof point of what we can do at Ford Motor Company.

So, when you look at Ford Pro, it really is – it starts with our vehicles, and they're tools for our customers. We lead in the U.S., and we lead in Europe. Our vans are paramount to the commercial industry in Europe. Super Duty is the leading vehicle here in the U.S. when it comes to commercial, along with the Transit Van. And when you look at that business, we have been working with upfitters and partners for a long time.

So, the moats that we've built is, one, we have the leading products in many of the categories. We lead in Class 1 through 7 from a share standpoint.

We have the most relationships with upfitters. And that's important because upfitters turn a very strong vehicle into an even more productive tool. And those relationships are key. In fact, when we design our vehicles and we come out with a new model, we make sure that those upfits, for the most part, can be transferred from their old model to their new model.

We have the most expansive service network for commercial customers. And that's in two forms. We have Service Elite centers. We've added in a significant number of service bays, because downtime is the most critical issue for our commercial customers. Because they're not making money with that tool if that tool is off the road. So, they need that service.

And then, we have the largest fleet of mobile service vans. Eighty percent of all repairs or service that needs to happen for a vehicle can be done through a mobile service unit. So, if you're a customer, you're out there, you're on a job site for eight hours, the van comes out, does all the service your vehicle needs - you never lose a minute of work. And so, it's really important.

Those are key moats that we've built. And now we're building out moats with our software: our telematic software, our fleet management software - it drives productivity. And the way we're selling that software is we're going out to the fleets and we're saying, "Give us the data. Let's look at this. And we'll show you how we can add to your bottom line." And when we do that, we're getting a significant uptake on customers wanting that software because it is accretive to their bottom line.

And then when it comes to electrification, we're also doing charging software, we're doing the charging depots for them, we're putting those systems in place.



John Lawler (cont'd): And all of that, as that's growing – and software penetration is growing 40%-plus; service penetration is growing, we have a ton of upside there – all of that's going to make a more robust, less cyclical business as we move forward.

So, when we look at the business now, there's strength, there's top line strength. When we look at the business as we grow into those physical services and those software services, there's going to be strengths continuing there. It's going to make the business less cyclical. And as we said, we believe those mid-teen targets are sustainable and achievable over the life and moving forward for the Ford Pro business.

Emmanuel Rosner: That's very interesting to hear. Maybe let me conclude with a capital allocation question, especially in the context of our next presenter.

John Lawler: I'm surprised you waited this long.

Emmanuel Rosner: I had some very strict instructions to start – to keep it – but no, I'm just kidding.

But let's talk about it. You've been highly disciplined – let's go at it this way – in terms of capital allocation.

John Lawler: Thank you for that.

Emmanuel Rosner: What are your thoughts on additional capital returns to shareholders? Your balance sheet is now sitting comfortably above the \$20 billion minimum cash requirement. Free cash flow is expected to be solidly positive this year. Is there room to return more than 40% to 50% of free cash flow to shareholders? And if so, what will it take? What do you need to see?

John Lawler: So, let me put it in context. I'm not going to announce anything today. So, if that disappoints you, I'm sorry. There's nothing to announce.

So, yes, our strategy has been to pay out 40% to 50% of free cash flow. We've paid out at the high end. Over the last two years now, we've paid out close to \$8 billion in dividends.

And what we've said is that at this point in time, given the disruption across the industry, that we would rather invest in accretive opportunities for the company if they're going to drive long-term value. But we've also been very clear that as our balance sheet remains strong and as our cash positions continue to grow, that if we don't have those opportunities for accretive growth and investments, that we will look to return more to our shareholders.

And we're consistent with that, that's not changing, and there's nothing to announce today. But we're looking at this very closely. We have been. We always will. And it's important.

Understand that for Ford's management now, we have changed our long-term compensation that's at risk to 100% total shareholder return. That's what we get paid on. That's the one metric we have, TSR. So, our vested interests as a leadership team are the same as our investors on TSR. And I think that's important for people to understand.



John Lawler (cont'd): But as you said, we have been very disciplined. And I think that's served us very, very well in the past. And so, right now, we're being very thoughtful about this.

And I think you can admit, Emmanuel, the amount of disruption we're seeing in the industry right now brings with it risk, but brings with it tremendous opportunities. But you have to be in a position to take advantage of those opportunities and really think about long-term accretive growth and what's going to happen with that. And that's where we're at.

Emmanuel Rosner: All right. Very clear.

I think we have one minute for maybe a question in the room, if there is. Jim?

Jim Irwin: John, good to see you again. Jim Irwin. Is the mic on? Can you hear me?

Could you connect the Ford Pro EV opportunity that you mentioned in terms of duty cycles – that's dollars and cents, those customers, if you save them money, they're going to adopt that EV product – versus the glide path on Ford E to profitability? And maybe you can right-size the Ford Pro EV volume opportunity and how that could contribute to Ford E volumes and profitability given, to your earlier point, that the consumer side is a little bit in debate right now. Any connection there that gives you confidence that the Ford E targets on profitability are still out there in two or three years? Or should we be thinking about Ford E glide path a little bit more modestly now?

John Lawler: I think it's encouraging, in that once the customer really understands the equation on the EVs, that the willingness to adopt and then the pricing and margin power is greater. One of the things is that on the retail side, the consumers can't easily calculate what that savings is. So, that's an issue that we have as an industry in educating the consumer.

Now, you can see it when you buy a hybrid or a plug-in hybrid because you know exactly what the mileage is, you know what the cost you're paying is for that plug-in hybrid or hybrid vehicle relative to a pure gas, and you can do the calculation. And that's why I think consumers are purchasing them and demand has increased so much.

So, part of that is an education.

So, it's encouraging, in that once the consumer is educated and they know what they're getting and they know the benefits, that they're willing to adopt more. And I think as that demand increases, that will help put some floor and pressure under the pricing drops that we've seen, right?

And then I would say that the build-out, although it's slower in the commercial space than what we're seeing in the retail space of course, because they're being thoughtful about it and the duty cycle has to work for those customers, that it is helping E from a standpoint that, remember, Pro is a services and distribution company, E and Blue provide the vehicles to Pro. So, that puts additional demand in the factory which is starting to scale and it provides better flow there. So, that should help E as we move forward as well.

We're very focused on Model e on cost reductions in the near term and driving costs out where we can on the models that we have today and really hitting that



John Lawler (cont'd): inflection point for the second generation of vehicles and getting them into the marketplace and then scaling them, both the skunkworks platform that we'll have, which will be in the smaller, more affordable end, plus then the next pickup truck and the three-row SUV.

Emmanuel Rosner: Awesome. I think we're out of time. John, thank you so much for your time and insights today. Thank you.

John Lawler: Thank you.