



Ford Motor Company

Barclays 41st Annual Industrial Select Conference

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Dan Levy:

Thank you, everyone for joining us on day two of the Barclays Industrial Select Conference, the autos track here. I'm Dan Levy. I lead U.S. autos research coverage, and I'm joined here by my colleague, Andrew Keches, who leads coverage of autos on the IG credit side. And very pleased to have with us Ford, and actually very timely, because a lot of Ford's success has been driven lately by Ford Pro. I'm very pleased to have with us Navin Kumar, who is the CFO of Ford Pro. So, I'm going to hand it off to Navin, who's going to give just a very quick intro to those of you who aren't as familiar with Ford Pro, and then we're going to proceed with a series of fireside chat questions. So with that, Navin, thank you so much for joining.

Navin Kumar:

Sounds good, Dan. Thank you for having me and it's great to be here and meet everyone. So Ford Pro is a nearly \$60 billion business within Ford that serves commercial customers with a one-stop shop of work-ready vehicles, service, software, charging, and financing solutions that makes running a fleet simpler and more productive every day. We are the market leader in the space. We serve every industry, every vocation, and we understand our customers' complex needs.

These customers include small businesses, municipal departments and governments, larger corporates and enterprises, as well as rental fleets. And our market leadership is driven by competitive advantages we built up over decades, including deep relationships with hundreds of thousands of customers and industry-leading vehicle portfolio of trucks and vans, all powertrains, internal combustion engines, diesel, hybrids, and an expanding electric vehicle lineup, and the largest dedicated commercial service footprint of any brand. And that includes dedicated commercial vehicle dealerships, mobile service, and a partnership network of over 500 operators and body builders.

We're building on that by expanding our physical service and our software portfolio to continue to improve total cost of ownership and uptime for our customers. It's something they greatly value. And for Ford, this is high-margin, high growth services business we're expanding into, and it further drives customer stickiness and loyalty.

We're seeing progress in our business. It's manifesting in our financial results. We report that externally now. In 2023, we generated over \$7 billion of EBIT and over 12% margins. That was driven by robust demand as well as a fresh product lineup, including the all new Super Duty. And in 2024 were guiding to \$8 billion to \$9 billion of profit, driven by continued growth, vehicle mix and partially offset by some net pricing adjustments.

But we are also seeing really strong momentum on our software. We have over 500,000 paid subscribers; that grew 46% year on year. And we are seeing that trajectory continue.



Dan Levy: Great. So a lot to unpack there. So we're actually going to, kick off with the questions just with the ARS [Audience Response Survey] questions. And I think, you know, helpful to frame the sentiment on Ford because I think you're a very key part of the narrative going forward. So, if we could just pull up ARS question number one, please get the timer going. Please – there we go – are you currently on the stock, hope you own the stock. Okay. So, opportunity.

Navin Kumar: Great opportunity.

Dan Levy: A lot of opportunity to convert people here, okay? What's your bias toward the stock by now? Question two, please. I think there's, you know, I would say in my discussions with people, you know, some mixed sentiment. Okay. So, polarizing, a bit polarizing there.

Navin Kumar: This gets me more and more excited about this discussion.

Dan Levy: Okay. Question three: through cycle EPS growth? I think this is an interesting one. And I think, you know, this is technically relative to the industrial universe. But, you know, I guess we can also consider this relative to autos. This is again, another critical part for you, show the cyclical – okay, below peer there, because you've got to show how you can go against the cyclical. And then if we can –

Navin Kumar: Absolutely.

Dan Levy: And then if we could just – question six – the most significant investment issue for Ford? Yeah. Sorry, we're going – yeah, there we go. I think a lot of points on the strategy that you guys are pushing towards, okay, margin performance. And I think, you know, interesting to see on the margin performance side, because at the same time, there's a lot of strategic pushes within Ford, especially within EV. So, actually on that topic, why don't we just start here?

This is a new segment, relatively, right? We've been more accustomed historically to the regional segmentation. You changed your segmentation last year. I think we generally understand, okay, split the business into ICE and EV, Blue and Model E – I understand. Pro was a little – a little bit of an interesting development. Why break out Pro and how has this re-segmentation really changed the way that you've run the business?

Navin Kumar: Yeah, so our Ford Plus corporate strategy, you know, enables a much more robust business model that collectively drives higher margins, lower cyclical, lower capital investment and higher growth. And so it's part of that strategy, we re-segmented the automotive business into three business units that are customer-facing: Ford Blue, Ford Model E, and Ford Pro. Really to drive that customer focus, that internal accountability and that external transparency through reporting the results. And Ford Pro, this has been really, really great for us and our customers, because the Pro customer is fundamentally different from the retail customer.

These are rational customers that have a wide variety of use cases. So they're really looking for the right tool for the job to be done. We have a full vehicle lineup, and, you know, those vehicles can be modified and outfitted to meet our customers' needs. They look for total cost of ownership in operation through the lifetime of the vehicle ownership, and they're very more focused on maximizing uptime because if those vehicles are not operating, the customer is not generating business, and they're not generating revenue.

So what we did was we took, you know, multiple teams focused on commercial in that automotive business, we brought it together into one business unit, and then we built on that and augmented that to really, you know, serve our customers because we're



Navin Kumar (cont'd): in the business of selling productivity and uptime. So it's a services ecosystem, vehicle, software, and physical service. And so now we have dedicated leadership focused on driving strategy, execution, and capital allocation. We have certain return targets and hurdle rates for the business and our offerings in the business. We have dedicated sales, business development, marketing, and customer support teams, working with our customers to scale our offerings with them and drive productivity.

But really importantly, they're helping our customers transition into electrification and integrate electric vehicles into mixed fleets. And we have integrated software and service teams that are developing, deploying, and scaling software to, you know, further optimize cost of ownership and uptime.

But really importantly, Dan, what the segmentation really did for us, it's helped with our recruiting. We've brought broadened external talent in software and in the digital space. You know, we are digitally engaging with customers and that's, you know, a customer lifetime engagement model. And so we really had to bring in talent that's done this in other industries and other companies that have this expertise. And we blended that with Ford people who really knew the customer, know vehicles, and know distribution. And that's been very powerful for us.

So to just summarize, the segmentation is really great and it's driven focus, you know, discipline and accountability, growth and services and recruitment. And also, you know, really focusing on the bottom line, financial discipline, and capital allocation.

Dan Levy: Great. Let's go a level further here, and I think people generally know when they think of Ford Pro, they just think of it as the fleet business. But that could mean a variety of things. So if we just conceptualize, call it the revenue pie chart, what are your sources of revenue?

And even better yet, maybe what's the earnings pie chart? What are your sources of the \$8 billion to \$9 billion of profit that you're going to generate this year?

Just help us understand the different components of the business. I think we generally know the core piece of it today is vehicle sales, and presumably a big part of that is Super Duty, right? But what are the other components of revenue today? So maybe break up the revenue and earnings pie charts for us?

Navin Kumar: Yeah. I'll deconstruct it. So, Dan, you're correct.

The high majority of our revenue comes from vehicles. And within that, Super Duty, Transit and the Transit Custom that we sell in Europe, the majority of our vehicle revenue. The Super Duty and Transit customer are all-new and, demand is strong.

Super duty has best-in-class towing, payload, torque, horsepower that really differentiates. That was the competition. It's one North American Truck of the Year, and this year we have full production. Last year we were launching the vehicle, we had a strike. So, you know, we gave up roughly \$1 billion of profit. But in '24 you got full production.

We're really excited about the Transit custom. It's all-new. It's kind of like our Super Duty in the United Kingdom, in Europe, and in the U.K. it's not just the number-one commercial vehicle sold, it's number one vehicle sold in that market, period. And EVs within that vehicle base, it's about mid-single digits, but that's growing and customer adoption is growing.

Another important way, Dan, to kind of deconstruct the vehicle side is from a customer and a segmentation standpoint, because we're very diversified in terms of customer segments and vocations. So we have this resiliency because we're so diversified.



Navin Kumar (cont'd): And I'll take the U.S. for example: so roughly a third of our sales last year in the U.S. was the small businesses and retail customers that, you know, are in many, many different vocations. A third of our sales was to commercial customers that are larger companies, enterprises. So these are industrial companies, services, telecom, utility, construction, last mile delivery, and other sectors. About 18% was to state, local, and federal governments, and really importantly in that is our police franchise. We are the market leader in police in the U.S., and these are modified versions of our F-150 and Explorer that we provide for police use cases. And about 15% goes into rental fleets. So very diversified.

And Dan, you're absolutely correct. So we have a service parts business, and so we provide service parts for supporting repairs that our dealerships do, as well as wholesaling those parts to larger enterprises and corporates that also have in-house service capability and a software business. And on a revenue basis, that is less than 10% of our revenue. But it's high-margin and it's high-growth. For example, our software business, we're getting gross margins over 50%. And that's a big part of what's going to drive our growth over the next few years. And by the end of 2026, we're expecting nearly 20% of our EBIT to come from service parts, services and software.

Andrew Keches: Maybe we could actually dig into that little bit. So, software and services are clearly two very important legs of the stool here. So what levers do you have to pull growth out of those over the next couple of years? Because they are going to be incremental from a margin standpoint. So just help us understand the story and the growth levers there.

Navin Kumar: Yeah, that's a great question, Andrew. So we're on the leading edge regarding services for Ford and the Company in total. Our customers recognize our offerings are addressing pain points for them, and they have a readiness to pay for those solutions. And for Ford Pro, this is driving deeper, you know, customer penetration. And we're growing our business beyond the point of sale of the vehicle. And the growth is really coming from a few critical areas.

One, we are expanding our physical service capacity in partnership with our dealers. Two, we are being much more efficient with our overall service capacity. And three, we are expanding our software portfolio so that we're able to penetrate a larger customer and user installed base, and I'll break each of those down.

So on physical service, so right now we have about a roughly 35% attach rate of service parts post warranty, and we're looking to grow that to over 50% by the end of 2026. We're going to be adding in North America over 3,000 dedicated commercial service bays in addition to our, you know, population that we already have. And this will help us with, you know, servicing vehicles that are upfitted. They're heavier, they're bigger, and we're adding extended hours of service, as well as technicians that are specialized in supporting and servicing these vehicles.

And when we do that, we are also getting more efficiency out of these bays, through technology. technician training, and, you know, design optimization of the service footprint. And mobile service is a big part of that. And mobile service is great. You know, we get Net Promoter scores that are ten points higher in our Pro customers for mobile service versus the actual brick and mortar physical service, because these vehicles are coming to a job site and they're servicing multiple vehicles concurrently, and they could do 80% of the repair work that a physical site could do. So mobile service is a big part of that growth.

And then on the software side, the two key drivers of our software growth is one, you know, our vehicles are connected, they have embedded modems. And by 2026, about 60% of our installed base is going to be connected vehicles. So that's one



Navin Kumar (cont'd): driver. Second driver of the growth in our attach rate. We have about a 12% attach rate today, and we're looking for that to be close to a third by the end of '26.

And so just deconstruct what it is today, a lot of our 500,000 plus subscriptions is telematics data- telematics data services for rental fleets and dashboards for small business. And our product pipeline includes adding functionality like video telematics, command and control features, and curated telematics data services so that you can integrate this functionality into, you know, a company's fleet management systems – and that opens up the addressable market for larger enterprises, corporates, and governments.

And just to give an example like Vehicle Health Insights is a big one, right? So knowing in advance, like, “hey, you may have a replacement item or a repair item” and then proactively servicing that will drive and boost uptime. And so this is a flywheel.

You know, we grow our software, we grow our attach rate with customers, that, you know drives uptime and productivity for them. It drives more service business for us, and it drives overall loyalty, which, you know, further reinforces our strong position on the vehicle side.

Andrew Keches: In terms of the portfolio today, you talked about getting to 20% of the portfolio from these two – these two pillars. Where does that stand today, roughly?

Navin Kumar: Yeah, I would say it's probably in the low to mid-teens. So one way to frame it out is we said we have a 35% attach rate. Every – on service parts – every point that grows, we add about \$30 million of incremental EBIT to the business.

Andrew Keches: That's great. Now, another aspect, I think of this business that you've spoken about it being underappreciated, but I think that the- the market share of the business, I mean, you have a commanding lead, even against your next closest competitor. Can you help us frame up that market share position? Why have you been able to hold it, and what are the moats that you see protecting that going forward?

Navin Kumar: Yeah, Andrew, so it really starts with a superior product line up with the Super Duty and Transit. We have a history of working with customers, understanding work product, and developing and deploying features that really help them get the job done. And these aren't commodity products.

So, for the Super Duty, we have a full line up including trucks, chassis cabs, multiple powertrain configurations. We're the only one in the market with a, you know, Crew Cab, Super Cab, Regular Cab. So, it's pretty comprehensive.

Same thing on the Transit. It's a full line up of vans, chassis cabs, cutaway variants. You can get multiple powertrain configurations, roof heights, lengths. So, depending on the customer use case, they may want to prioritize garageability. They want to want to prioritize space in the vehicle or ride and handling.

And, so, it's just a wide variety of flexibility. And that flexibility extends to being able to modify and update those vehicles with our upfitter partners. So when you take the vehicles and the ability to upfit them, and you combine them with our national distribution and having the largest service footprint of any brand, those are the key moats.

But, I want to deconstruct that national footprint because not just about being national, it's about being local in that national. And so we meet our customers where they are, to procure vehicles and to service those vehicles. Super important for small businesses. That might be more hyper local as well as, you know, larger national



Navin Kumar (cont'd): companies that may have multiple different job sites where they're managing the fleets in different ways.

And you see that manifesting in our results: we have nearly 40% of the commercial class 1 to 7 full size truck and van market in North America, we're the market leader in key vocations, services, government, utilities, construction. We're also the market leader in small business. And like I mentioned, that's really about engaging the customer where they are, and develop and cultivate those relationships over decades with our dealer partners.

Dan Levy: Great. Let's go back to some of the more near-term dynamics, because I think people were really surprised by the magnitude of positive revisions and strength in the Pro business, which is something people didn't understand. So a lot of the strength the last couple of years, if we just look at the earnings bridges from pricing, I think it's something like \$11 billion of combined tailwinds between '22 and '23 – I think you're talking to further tailwinds in 2024. Recognize a lot of this is from refreshed vehicles: Super Duty, this year Transit. But maybe you could give us a sense of how sustainable is this pricing and what demand indicators are you seeing?

Navin Kumar: Yeah, so Dan, we're confident it's sustainable, and you know the demand indicators in our business are tailwinds that are persisting. You know, from a total industry, vehicle industry standpoint, we're forecasting net pricing deterioration of 2% year-on-year, as incentives grow through the year.

But on the Pro side, we have modest escalation of incentives that's being partially offset by top line pricing. And we're able to take that top line pricing, because we have this fresh product lineup. It's our most freshest product lineup in this space in over the last two decades. And importantly, we've also added features and functionality to these vehicles that is further optimizing total cost of ownership. So that's part of that top line pricing.

For example, in Super Duty, we have an all-new digital upfit system, which makes it much more efficient to upfit these vehicles. And so there's also a content element to what's driving, the pricing. And, you know, the businesses has fundamentally different characteristics than retail and is resilient. About, in the U.S., 10% to 15% of vehicles in fleets is replaced every year due to high duty cycles. Nearly 1 in 4 fleets in the U.S. are all-Ford fleets, so 100% of the vehicles are Ford. And as we're growing our services portfolio, that's going to drive further customer loyalty.

And then the other leading indicator for us is like we look at our, you know, what, what are the orders coming in? And it's coming in significantly higher than supply. And pent-up demand is persisting. So, for example, on the Super Duty, you know, commercial customers, in terms of their requests for trucks and chassis cabs, is coming in twice the amount we're allocating from a production standpoint for those channels. Dealers are coming in with retail requests that are greater than two times what they've been provided. So we feel it's really robust.

And then you take the macroeconomic factors and there's definitely positives there for sure. You know, capital investment from state and local governments has been up \$75 billion last year due to, you know, the investment in infrastructure. We expect that to continue.

Construction's growing. So are housing starts and completions. We're seeing telecom investment in 5G, as well as utility investment in charging infrastructure and manufacturing, onshoring into the U.S. So collectively we feel really confident in our performance and the sustainability of that performance. And it's a combination of, you know, demand indicators, market macroeconomic factors, and the strength of the product and service offering.



Dan Levy: Let me double click on some of those points here. I think one of the concerns sometimes people have with the core retail vehicle sales businesses is the cyclical. And maybe some of the, possibly you could say, volatility of pricing and inventories run too high. You know, just some of the historical experience we've had.

Would you say that this business does not really have the same cyclic – there's always cyclical but this is maybe a smoother cyclical, and maybe you could just unpack some of the pent-up demand? I think we saw the last three years, finally in 2023, some of that pent-up demand was released. But we had prior to that, three years of unfulfilled fleet orders. So how large is that runway of pent-up demand? The cyclical and pent-up demand.

Navin Kumar: Yeah. We- so, you know, I agree with you, there's always elements of cyclical and we are very diversified business, right? So you have significant pent-up demand in parts of our business, like small business, where you're seeing, you know, a couple of years out, runway again. But at the same time, you know, we mentioned, you know, we have 15% of our sales are going into rental.

And, you know, rental travel sentiment, you know, it varies, but it's starting to pick up again, right? So like the diversity of the business means that there's definitely pockets where you're going to see some headwinds. But because of the aggregate of where we play, you know, it's overall really, really strong.

To try to unpack any other further economic indicators that we're seeing that we see that are positive for the business, I think, you know, small business sentiment, you know, depending on the survey you see, it could be mixed, could be positive. But I think what's sustaining our business, to your point, Dan, is that solid, pent-up demand. And in that small business space is where, you know, we have the, you know, vehicles that have, you know, have pretty robust margins.

But, we are expanding into services, like we mentioned. And that's going to, you know, also smooth out any cyclical elements in the business. You know, growing our service parts and our service parts retention, growing our software services. This becomes not a just a vehicle play, but this is a, you know, we are selling an uptime ecosystem and this is a lifetime play, so that's also part of the dynamic that's going to happen here.

Andrew Keches: Let's talk about EVs. Right, so the EV narrative has shifted in the past year in the US. But from your perspective within the Pro segment, and your customers, how are they thinking about EVs and total cost of ownership or adoption rates? And then maybe just zoom out, as you think about this business and running this business, how does the growth and presence of EVs down the road change how you're going to manage that business?

Navin Kumar: Yeah, Andrew, I think it goes back to exactly what you said. Our customers are focused on total cost of ownership, can it address the use case, and is this the right tool for the job? And so when it comes to electric vehicles in Pro, we've seen areas where it's going better than expected. And the EVs are actually really effectively meeting the use cases.

Specifically, with the E-Transit in the US, we actually have a higher mix of sales going into state and local governments and small business than we do on the internal combustion engine side. And that's because it's a great fit for the use case, as well as their ability to realize the incentives, including the Inflation Reduction Act.

With larger corporates and enterprises, they are procuring the vehicles, but they are trialing it for longer. They're testing it out, they're under many different conditions. And so they're scaling much more deliberately, and really importantly, and this is what we



Navin Kumar (cont'd): learning, is they're building out their charging infrastructure and support in advance of that scaling of EVs. And so these are the insights we're getting.

And what it really means for us is in the EV space, we have to be embracing and engaging our customers with a full EV solution. So that is vehicles, that is, you know, a full comprehensive suite on charging, charging at your depot or job site, charging for home, you know, access to public charging, software to integrate these EVs into mixed fleets, as well as the consultative services to bring and help our customers integrate the electric vehicles and have a really great customer experience.

So, what we've learned since the start of '23, we do much more substantial dealer training and sales associate training so that they can engage with customers at a very local level, while we're engaging with customers, you know, more of the enterprise corporate level. So it's a multi-pronged approach.

We're also partnering with utilities to simplify charging. Recently in January, we announced a partnership with Xcel called "30 by 30," to deploy 30,000 commercial vehicle chargers by 2030 across their eight-state territory. And we'll see more of those partnerships emerge.

But there's no two ways around it, the EV transition is really complex, but our customers are embracing it, and they've identified use cases where EVs work effectively. And as the capabilities grow and we adjust the charging infrastructure, we're going to see more and more use cases that are addressable. And for us, it's really, really important because, like to be here early to work with customers through that transition, it grows our product and services business. And for us this is a really critical customer lifetime play.

Dan Levy: We have a couple of minutes. I don't know if anyone in the audience has any questions?

Audience Participant: The nature of the market I hear you describing is a generally sophisticated buyer. Do you have some sense of how much the marketplace looks at the market, looks at their utilization of their fleet, in a sophisticated way versus some of them who kind of look at their fleet as just being kind of a necessary evil to running the business?

Navin Kumar: Yeah, it's a great question. I would say it's a really, really high. All our customers are rational and sophisticated. And what we've seen is an evolution, right? That the vehicles are getting smart, connected, and now electrified. And so they're looking at it in that complete sense.

Whether it's a small business, you know, they have they have a couple of vehicles in a fleet because of those vehicles aren't operating, they're not making, you know, revenue in a business, or a larger company, who is, you know, integrating them into their logistics operations. There's a fair amount of sophistication that goes into, you know, if we purchase decision along with the services support. And so we don't we don't necessarily see, like, "hey," you know, "I have to buy the vehicle," right? Like, it is a very much a partnership engagement model.

Our sales teams have decades of experience, so the people relationships matter, too. And that's a moat that, you know, we definitely don't underappreciate, because it is super, super valuable.

Dan Levy: Great. Okay. Well, leave it there. Great. Look forward to seeing the narrative play out, Navin. Thank you so much.

Navin Kumar: Thank you, Dan. Thank you, Andrew. Great to meet everyone.