Ford Motor Company

Announcement

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CORPORATE PARTICIPANTS

Mark Truby – *Chief Communications Officer*

Jim Farley – *Chief Executive Officer*

Peter Stern – *President, Ford Integrated Services*

PRESENTATION

Operator
Hello and welcome to the Ford Motor Company Announcement. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing a star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note, today's event is being recorded.

I'd now like to turn the teleconference over to Mark Truby, Ford's Chief Communications Officer. Please go ahead.

Mark Truby
All right. Hi, everyone. Thanks so much for joining us today for the conference call. Hopefully, you've seen, by now, the news of the newest addition to Ford's senior leadership team. Pleased to have with me on the call today, our CEO, Jim Farley, as well as Peter Stern, who I just mentioned is joining Ford today as President of Integrated Services.

After a few remarks from Jim and Peter, we'll have time to take a few questions. I know there's a lot of hot topics going on in the industry, but we're going to stay focused on this leadership announcement for this call, if you guys don't mind.

So with that, let me turn it over to you, Jim.

Jim Farley
Thank you, Mark. Hi, everyone. Thanks for joining. I'm really excited about this news from Ford. When we first developed Ford+ two years ago, we laid out a vision to transform the company from just a hardware company to a hardware, software and services company. Doug Field and the leadership team are now the well along the way of landing our first software enabled vehicle, which will be coming out in conjunction with our second cycle EVs. We're not going to stop [with the EVs, we're actually going to ship that advanced electric architecture with our ICE vehicles as well, like F-150 for scale. That install base is going to be huge and we are already shipping a BlueCruise, a 1.3. The second software ship is our productivity software for Pro and we're on the eve of announcing and deep in the development of our safety and security software.

So we are like in really good shape with our platforms and we are well on our way of scaling our software business. So that's why I'm so pleased to announce Peter Stern's arrival at Ford at this very moment. He's a very special leader. His accomplishments at Apple are truly remarkable. He was the driving force behind the launch of Apple's portfolio of services that most of us all use every day, Apple news, Apple TV+, Arcade, Fitness+, MLS Season Pass, Apple One. It goes on and on. He headed marketing for all of Apple services, including the App Store, app card, Apple Play, Apple Music, Apple Podcasts, which I'm completely addicted to personally and Apple Max. He also oversaw Apple's ad business during the period of rapid growth.

Before joining Apple, this is very important, in 2016, Peter was at Time Warner Cable as EVP and Product Chief, People and Strategy Officer Leader. At Ford, Peter will be president of Ford integrated services, which will lead the P&L and the delivery and the creation and marketing of valuable software enabled services and customer physical experiences across Ford Blue, e, Pro and Lincoln. He starts today and Peter reports to me.

I know he plans to build out a world class team that can maximize the potential that we're just seeing with

BlueCruise, as I mentioned, Ford Pro's productivity software, safety and security features and that's really frankly, just the beginning at Ford. He will also lead services marketing, the whole go-to-market piece, the new physical customer experiences and of course, Ford Next. This is transformational for Ford because it's the cornerstone of the Ford+ plan. Everyone is so focused on the EV transformation, but I keep saying the biggest change in our industry is to go to a digital product and physical services. That intersection is why Peter Stern is at the company. There is simply no one on the planet better able to lead this then Peter Stern. He is just an incredible, capable person.

I'll turn it over to Peter.

Peter Stern
Thank you, Jim. I'm going to take a few minutes to talk about why I'm so excited to be here at Ford. In my career, I've been lucky, as you said, to have worked a media industry leader, followed by a tech industry leader during periods of rapid change and significant growth, in both cases driven by services. At both companies, the transformation resulted in the creation of a lot of shareholder value. From where I sit, the auto industry will change more in the next 5 to 10 years than it has in the last few decades combined. Now, it's going to be centered around great customer experiences. It's going to create tremendous opportunity for services delivered by Ford across our entire product lineup.

We're experiencing a dual transformation in our industry, as you mentioned, Jim, toward the fully networked vehicle and also from ICE to EVs. As we undergo these transitions, the base use for differentiation are shifting from the vehicle alone to the integration of hardware, software and services. I'm so excited by the wide array of services that we're going to be able to launch to enrich people's lives and help Ford Pro customers transform their operations and their experiences. For us, that's things like safety and security, peace of mind, productivity and, of course, the service of autonomy, which represents the most radical transformation to the experience of driving since driving itself.

My focus here is going to be on creating customer experiences that feel like magic, experiences that are so helpful, simple and intuitive that they seem obvious, in retrospect. When we do that right, we're not only going to elevate the customer experience, we're also going to deliver significant incremental revenue and high margins. This is going to translate into meaningful shareholder value creation.

We call this group Integrated Services rather than just services because it's a team effort involving all of us here at Ford. We're going to succeed when we activate our large and growing installed base. We're going to give back as well, building sustained always on relationships that strengthen Ford's connection with it's customers and our differentiation in the marketplace. That's going to result in better pricing and even more vehicle sales.

So with Ford's history of democratizing transportation, it's forward looking ownership, the best in class engineering team and our collective commitment to the Ford+ plan, no company is better positioned than we are to win. I consider myself truly fortunate at this pivotal moment to become part of the Ford family. I look forward to getting to know all of you on this call in the media and analysts at the appropriate time and look forward to sharing exciting news in the years to come.

Mark Truby
All right. Thanks, Jim and Peter. Keith, if you want to open up for questions for Q&A now.

QUESTIONS AND ANSWERS

Operator
Yes, thank you. At this time, we will begin the question and answer session. To ask a question, you may

press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble the roster.

The first question comes from Andrew Hawkins with The Verge.

Andrew Hawkins
Yeah, hi. Can you guys hear me?

Mark Truby
Go ahead, Andrew, yes.

Andrew Hawkins
Yeah. Hi, thanks for taking the question. So I guess the question for Peter. I'm wondering how you see this challenge, particularly sort of for yourself, at Ford. There's been recent data and surveys done that show that car owners, not Ford owners, particularly but just car owners across the board, are growing sort of dissatisfied with the in car software experience. I'm wondering what sort of mindset that you're bringing to this particular challenge to maybe see a reversal of that trend, potentially.

Peter Stern
So let me start. Thank you for the question, but let me start by saying one of the reasons that I was so excited to join Ford is because the engineering team here, led by Doug Field, I believe, is already world class and getting even better every day. So I have tremendous faith in our ability to not only deliver a great experience in the future, but also to build on the foundations that I've seen today that are already quite strong.

What I know in terms of customer satisfaction is that the more we build an always on customer experience where we're delivering value to consumers every day through software and services, the more they're going to love their Fords and that will elevate the user experience. So I feel nothing but optimism at this—from where I sit.

Andrew Hawkins
Are there particular areas that you plan on focusing on sort of right out of the gate?

Peter Stern
Obviously, BlueCruise is an enormous opportunity. I also think we have tremendous opportunity to build on Ford's existing success in the Pro space, where we're already delivering a number of productivity solutions that customers value. Safety and security services, I believe, are a significant untapped opportunity for the company and to improve the user experience.

Andrew Hawkins
Great. Thanks so much.

Operator
Thank you and the next question comes from Keith Naughton with Bloomberg.

Keith Naughton
Hi. Thank you for taking my question. I have questions for each of you. So I'll just run down them, and then you guys can address them.

Jim, I was wondering, who had these responsibilities previously, maybe Doug, and why you decided to

create a new role to oversee them? Then Peter, I'm curious to know if you interacted with Doug at Apple, and if so, how and then how you expect to interact with him at Ford. Then finally, for both of you, I'm just wondering what you see as the total addressable market for these sorts of services. Thanks.

Jim Farley
Peter, I'll take the first one. So, Keith, it's a really important [indiscernible]. We actually had the accountability for the P&L and the go-to-market and the input to the engineering teams split between all three businesses. So BlueCruise, for example, was Model e was taking the lead for and Pro was taking the lead for productivity.

Many people won't notice this, but it's an important point. This quarter, we're going to be shipping Pro software that controls the speed of the vehicle and actually, the time of access. Obviously, that's a good example of a feature, software feature, that we can also shift to retail customers. So, we are shifting from having the software P&L go-to-market and the input to the engineering team and the physical services from the three auto business into one separate P&L unit. It's a really big move and we've studied this very carefully.

It's the right time to do it because BlueCruise is really maturing quickly and we just passed half a million subscribers for all of our software. It's 50% margin and it's growing at 15% a quarter. So it's now time to really make this complete professional integrated effort across all three businesses.

The ambition— the ambition for the business, we're in the hundreds of millions of dollars now in revenue, with very healthy margins. As I said, the gross margin is over 50% and we expect to 10x that in the coming years, just based on the growth we see. The biggest force multiplier, as Peter said, is going to be the FMV for electrical architecture, which we ship in the '25, '26-time frame and that will be the time when Ford takes back its embedded electrical architecture and ships its first fully software enabled vehicle with our own software. That will be the time when we really see Peter's work accelerate.

Peter Stern
I'll take the question with regard to my relationship with Doug. Of course, Doug and I knew each other at Apple. The company operates as sort of one integrated whole. I greatly admired him and his work. Here at Ford, the best description of our relationship will be that we will be tied at the hip. Doug will be leading the technology and the vision for EVs. I will be leading the services vision and the product direction and that business P&L around services. So we will be together often and extremely close.

Keith Naughton
Great, really good. Do either you guys have a specific number for the TAM on what you see for services?

Jim Farley
Yes, we'll get it to you. We shared that at the investor day, recent investor day, so we'll get that to you immediately.

Keith Naughton
Thank you.

Operator
Thank you and the next question comes from Mike Martinez with *Automotive News*.

Mike Martinez
Hey, guys. This may be a variation of the first question, but I know there seems to be a little skepticism about software subscriptions, especially when it comes to retail customers that maybe they don't want to

be nickeled and dimed on top of the price of the new vehicle. So I'm wondering if you could address just the opportunity you see, even outside of BlueCruise, for subscription services for the retail side versus the commercial side?

Peter Stern
Sure, I'll take this. This is Peter. I really would not view this as nickel and diming our customers. The opportunity that we have is to deliver significant ongoing value to our customers and when we do that right, customers will sign up not only for individual à la carte services, but I think we'll also create bundles of services that make it really easy for customers to get the most out of their vehicles and to have a safer, more convenient, more productive experience in the car.

We're going to be able, for example with BlueCruise, over time to give significant time back to our customers and that time has enormous value not measured in nickels and dimes, not measured in single dollars, but a lot more than that. When we talk about Pro services. I know your focus was on retail here, but we talked about Pro services, we have very rational customers who are doing a calculation every day about how much money they can save by making smart investments in the vehicle. So on both sides, retail and Pro, we have the potential to deliver substantial value.

I've done this before. I did it in the context of a media company, where people worried about whether we would ever break $100 per month in average revenue per user and that was in the rearview mirror pretty quickly because of the value we delivered.

We did it again at Apple. When I joined, we had two subscription services, iCloud and Apple Music and relatively low penetration for both. When we left, we had over a billion subscriptions from our customers.

So we know the playbook. We have some great ideas about the services that we need to offer. I'm confident about their value.

Mike Martinez
Thank you.

Operator
Thank you and the next question comes from Tom Krisher with the AP.

Tom Krisher
Hi, thanks. Nice to meet you, Peter. Sorry, I had mute on there. I talked to Doug not that long ago about some of these services. He used the example of bear cam that they had at the investor day. Do you see safety and security as being kind of the biggest one where you're going to go after things?

Peter Stern
I view safety and security as something that every Ford customer should enjoy and the peace of mind that comes with that. I view it as a service that will have very high penetration, whether it will actually be the largest in terms of dollar value remains to be seen, but I would focus on that as a high penetration service. In many ways, that then will open up the opportunity to sell some of the other services that I believe have the potential to generate significantly higher average revenue per customer.

Tom Krisher
Thank you. I have a couple of quick housekeeping ones. Jim, will this unit be a separate accounting unit on your— the way you report income, just like Model e and the other units?

Jim Farley
Yeah, great question. Not right away, but obviously, you set it up with that optionality. It's getting big now. I mean, we're 550,000 paid subscribers. We're not nickeling and diming them. So, it's like— it's big now and the margins are really strong, but no for now, but we have the optionality and we set it up that way.

Tom Krisher
Okay and then a real quick one. The electrical architecture that you referred to would be next gen EVs and they come out in 2025. Is that correct?

Jim Farley
The answer is it will come out in ’25 and we are not going to— not, NOT, not going to limit it to EVs. Actually, we are going to put this advanced electric architecture on the F-150, America's best-selling vehicle. So, Peter’s arrival comes at a time when we are going to dramatically change the scale of our install base with that, fully software updatable vehicle. As Peter said, our engineering team, led by Doug, is making tremendous progress.

So, it will be coming out in that timeframe, but it will not be limited to just EVs. This digital transformation is for Pro customers and Blue customers, as well.

Tom Krisher
Very good, thank you.

Operator
Thank you and the next question comes from Jordyn Grzelewski with *Detroit News*.

Jordyn Grzelewski
Hi, there. Thanks for taking questions, whoever is best suited to answer this one. So Ford says that it has more than 550,000 paid software and services subscribers, with Pro making up about 80% of those customers. Is there a growth target for that total number that you can share and is there a mix of Pro and retail customer that you would like to get to or is 80%, I guess, your expectation for what it will be?

Jim Farley
Yeah, so let me, let me take that one, Peter. We laid this out in our last investor day. We can get you all the information, but obviously, though, the retail side as BlueCruise takes off, when we launch safety and security, as Peter said, will become a bigger and bigger mix. Pro took the lead, so far, because of the productivity software telematics, driver coaching, energy services for recharging, but you're going to start to see now, we're already seeing it, very large growth in the retail side, which is more balanced now. We're very fortunate to have Pro.

As far as the growth ambition, I mean, as Peter said, we don't actually really know, but we have a very conservative estimate that we shared in investor day and we'll get that to you, but it's an order of magnitude increase, like this is going to be the fastest growing revenue at Ford. Again, unlike our vehicle business, sometimes you're talking about enormous margins to— what really matters to Peter and me and Doug and the whole company is improving the lives of our customers. So we're happy to talk about the business to give you the growth forecast, but what really gets us out of bed in the morning is to make our customers lives better.

Mark Truby
Okay, thanks again, everybody for joining us.

Oh, Jordan, did you have follow-up? Didn't mean to cut you off.

Jordyn Grzelewski
I was just going to ask, just to kind of put a finer point on some of the previous questions about retail, consumer weariness about subscriptions, are there services or features that you both think of as this is not something that Ford will ever monetize or charge people money for?

Peter Stern
I firmly believe that when services deliver value to the customer, it's appropriate for customers to pay for those services and that allows us to then take that money and invest in delivering even better services. So, of course, we're committed to delivering a great experience for every customer, whether they pay for a subscription service or not, but we can do better for them when we have a subscription and when we have service that's paid for.

Jim Farley
I want to make something really clear to the media because it's a theme coming up in the questions and I really appreciate it. So we, at Ford, we are not going to charge for things that don't make sense for us to charge for. Like if someone has a heated steering wheel or heated seats, like that is literally the opposite of our approach. We're charging for making the customers lives better. We don't really see us charging for content, like a lot of— some brands that have even charged for e-commerce capability. That's not the direction we're going as a company. We're kind of going in a completely different direction.

Our Pro customers pay for productivity software because they can train their drivers to drive more efficiently. They use that software like predictive failure components because, as Peter said, their vehicles are up longer. I mean, the place where we have the rights to improve people's lives and to charge for it is when the vehicle data is uniquely allows us to create services. I think that needs to be said because our industry is littered with bad choices about subscription services. That is not the direction we're going in at Ford. I hope that's clear.

CONCLUSION

Mark Truby
Thanks again, everyone, for taking the time to join us today. If you have any questions, feel free to call myself or call TR. We're happy to follow-up on any of the questions that you had on the call. I look forward to seeing you all soon, for those that are going to be at a car week or at the Woodward Dream Cruise.

Thanks, again and have a great day.

Operator
Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.