Ford Motor Co | Barclays - 2023 Global Automotive & Mobility Tech Conference | November 30, 2023

Dan Levy:

John Lawler, CFO of Ford. Very topical, a lot of things to discuss. You put out a press release this morning. So we are going to go through a series of questions, fireside chat style. Folks in the room if you have questions, please raise your hands. Anyone who has questions on the webcast, you can email my colleagues Daniel Lai or Joshua Cho, firstname.lastname@barclays.com. They will ask questions anonymously. And then I also have on stage with me Andrew Keches, my colleague who covers Ford on the IG credit side. So with that, John, thank you so much for joining.

John Lawler:

Thanks for having me.

Dan Levy:

Great. I actually just want to start with capital allocation, because one of your competitors announced a large return to shareholders yesterday. So I just want to start with the question that we've gotten a lot of. You're sitting with $30 billion of cash on your balance sheet. Net cash is almost $10 billion. You are generating a decent amount of free cash. And then even after you clear out the dividend, there's still more left over. So maybe we could just start with the question du jour is, how are you thinking about capital allocation and return to shareholders today?

John Lawler:

When we look at capital allocation, we have complete confidence in our Ford Plus plan, and we're investing in our businesses for growth, profitability, and with that, driving a higher stock price, plus the return to shareholders, 40% to 50% of our free cash flow to shareholders, through the dividend, and that's where we're focused.

We have religion on capital efficiency. When you look at the segment, the sector, we have a tremendous amount of change going on. So we're very pleased with where our balance sheet sits due to that, because we have the flexibility to do what we need to do to invest for growth. Now, when we step back and look at where we're heading with capital allocation, and the investment in the business, and the improvement that we have there, we've put some wins on the table. And we know we have more work to do, but if you look at what we've done with international operations, we've de-risked it, we've taken it to low capital intensity, down to the segments where we have profitability.

2018 through 2021, our free cash flow in international operations was $9 billion negative. Past two years, $2 billion positive. We made the decision over a year ago on our L4, we were sinking close to a billion dollars a year in autonomy. And we said, "Hold on, we don't see how that technology's going to be there for L4, and then where the business equation rounds out, and the benefit for customers." We backed off on that, we focused on L2 plus L3, much lower expense each year as we designed those systems, and now we have the highest rated driver assist technology in the marketplace with Blue Cruise. Those are two distinct areas where we've been focused on capital allocation and you'll see more come to us, so we're going to make the decisions around that.

We're targeting a 20% return on invested capital. So we have to be prudent, efficient with that capital, and we've learned a lot this year. In our growth businesses, Pro, tremendous amount of opportunity there to invest and grow higher margins in the segment. Integrated services de-risks the business in the way that it reduces cyclicality, we're going to continue to invest there. Margins should be much higher than what we've seen in this industry to date, right? We haven't seen margins like we should see in the integrated services. And it's not just software services, we also see significant margins in physical services, especially in Pro with the service network we have.

Then in AVs, we've learned a lot in the past year as we've been out in the marketplace, and we understand that we have to adjust to this dynamic environment. That's why you saw strategy's not changing, but we reduced the amount of capital allocated because the growth in this segment is slower, and we understand that so we'll invest less capital upfront. Now, if that growth takes off, we'll allocate more capital in there, because that's what we'll need to do to remain competitive.

So we are completely focused on capital allocation, and I would say, the phrase we use around the company is, we have religion on capital, because it's one of the key pillars, I think there's four, that have been holding down the valuation of this sector. It's not enough growth, margins are too low, capital efficiency is too low, and then it's too cyclical, and those are the four things we're focused on.

Dan Levy:

Just the dynamics of how a special dividend would work. Is there a specific timing if you were... I mean, you've done that in the past. Is there any set timing around when we would expect to hear something on that if you were to choose that route? Or it could be anytime you want?

John Lawler:

Our strategy is to pay out 40% to 50% of free cashflow. We have our base dividend, it's 15 cents a quarter, and anything above that, to hit to the 40% or 50% of free cashflow, we would pay out as a supplemental like we did earlier this year. And we'll make that decision at the end of each year and pay that out at the first quarter of the next year.

Dan Levy:

Okay, great. Thank you, that's a good start. Maybe we could just talk about some more near term aspects. You put out a press release this morning, you gave updated guidance for 2023, some updated figures that you've already provided, reaffirming some figures on the impact of UAW. I don't know if you want a moment to run through some of the puts and takes on the 10 to 10 and a half billion this year, UAW costs $900 per vehicle by 2027/28. Any sort of considerations within these numbers?

John Lawler:

So the 10 to 10 and a half billion, if you think about that, we also had identified that the strike, the lost volume from the strike, cost us 1.7 billion, a 10th in the third quarter, 1.6 billion in the fourth quarter. So

if you take that 10 to 10 and a half, if we hadn't lost that volume due to the strike, we would be at the high end of our original guidance of 11 to 12. So I think what that tells you is that there's strength in that underlying business that's out there, and that's a positive for us. As we move forward, the numbers that we put out there, the $8.8 billion over the life of the contract, the $900 per unit by the time you get out to 2028, it's 60 to 70 basis points on an income statement standpoint. But that's before efficiencies, that is just the pure math on the contract and the physicals of the contract today.

Now, it's our job to go off and drive productivity and efficiencies. And we need to do that by reducing the number of hours it takes to build a vehicle, simplifying designs and reducing complexity, as well as driving increased efficiencies through our factories, and that's what we're focused on. As we go through and we have the details around how we're doing that, and we've started, believe me, we've started, we'll be sharing that as we go forward, specifics of what we're doing in each of the facilities. So we have our work cut out for us, but we knew that was coming.

When we look at the plan, we had assumed that the contract in our base plan would've been about two times larger than the prior contract, but it ended up four times higher than our past contract. So it was larger than what we had expected, but we knew that we were going to have to, with the inflation, we were going to be required to pay our employees. So now where we're at, we have the reality of that, and now we need to work it.

Dan Levy:

Maybe you want to talk about some of the offsets. What's lower hanging fruit, versus stuff that's going to require a little more effort?

John Lawler:

There are some things in the contract that we did secure that is going to allow us to drive some of those efficiencies. We can rebalance now, our lines, and our footprint, and what we're doing within the US on a more regular basis, working with our union partners. That was more inflexible in the past. The level of efficiency that we have in our plants, I would say there's opportunity there. Bryce has come in, as you know, Bryce is a new leader of our manufacturing facilities. We're reinvigorating the lean initiatives, we're reinvigorating the Ford operating system to drive those efficiencies. And we see there's opportunities in automation, we see that there are opportunities in line balance, we see that there's opportunities in the complexity of our vehicles as we take that out and reducing the number of hours to build the cars. So driving productivity is going to be our focus and our key to offsetting a large part of this contract.

Dan Levy:

Just one more on UAW, and I know that one of the questions, or debates, was what happens to the battery plants? And at the end of the day, everyone conceded that the employees at the battery plants would be part of the master agreement. So maybe you can talk about some of the considerations, the nuances. What does this do to your battery cost targets? How should we think about the impact?

John Lawler:

Our battery plants are not part of the contract. They're joint ventures with SK and they are not part of the contract. They will have to be organized by the UAW.

Dan Levy:

And the Marshall plant?

John Lawler:

The Marshall plant needs to be organized. That may be different from what others had agreed to, but the battery plants are not part of the settlement on this contract for Ford.

Dan Levy:

Okay. Great. Maybe we can pivot and just talk about some directional puts and takes

Dan Levy:

On 2024, I think a good place to start is just industry assumptions.

John Lawler:

Yeah, so 16 million in the U.S., 15 million in Europe is the type of assumptions that we're planning. But I think when you look at 2024, one of the things I appreciate about the segmentation is our ability to talk about the business because each of those segments is unique and the puts and takes for 2024 will be unique by segment. Let's unpack that a little bit. If you look at pro, the pro customer, still a lot of demand. There's growth in commercial, the IRA, the CHIPS Act, et cetera, is driving a tremendous amount of demand for commercial vehicles. Likewise, that segment commercial customers have been underserved for a number of years. Demand is still long to the supply that we can provide. At this point, our order books are beyond our production capacity today. Pricing remains strong, and as you may or may not know, the 24 volumes that we will sell, those contracts are being written this year, pricing's being set this year, and the order books are being taken.

We'll see another turn of that for the second half of 24, early next year. But so far, that segment remains very robust, demand is very strong, opportunity there to continue to serve our customers, drive productivity for them. Really good outlook for 2024. EVs, electric vehicles. And it's really important that we understand this about EVs, pricing has come down much quicker than we expected, or I think anybody else expected in the segments. And so when you look at that, I don't see that there'll be much more price compression next year. But over time, I think we're going to continue to see significant price compression because as we've moved from early adopters to early majority, those customers are not willing to deal with some of the issues that early adopters were is one, they are not willing to pay a premium. So over time we see prices for EVs commonizing with gas vehicles.

So we see that converting in conversion. Now while the IRA is in place, you may have that net of IRA, but eventually over time you're not going to see a premium for electric vehicles. And that's very important as you're setting up your business equation. And we've learned that this year, that top line, you can't count on that premium in the top line for electric vehicles. And we saw it collapse this year in the marketplace. And so when we set up our second generation target stand, what we did is we said that the revenue would be equal to gas for electric like vehicle. And then we built up how we get to that return, that 8% target we put out there, the cost structure, and now the team is working to deliver a cost structure that gets us that margin at revenues equal to a gas vehicle in that 26, 27 timeframe.

So that's really important because if you assume that you're going to have a significant premium, you can get to any margin you want, but I don't think it's going to be there. We really don't think it's going to be there. And then when you talk about Blue in the retail customer for internal combustion vehicles, what I would tell you is next year, and I talked about this for this year and it didn't happen, is I think

there's going to continue to be price compression as we go through 2024, but not a tremendous amount, not unlike we've talked about. It's not beyond what we've planned for as we go into 2024. So we like to look at the amount of disposable income it takes to buy a vehicle. So what's your monthly disposable income, percentage of monthly disposable income to purchase a new vehicle? If you go back to 2019, it was about 13.5%.

2022, it was at 15.7%. That's a huge increase. And I think everybody's looking at that saying, "All this can't continue." But fast-forward to today, end of 23, it's about sitting at about 14.5%. So it's come down quite a bit and we expect that it's going to revert back to that run rate of about 13.5% as we move through 2024. So that's about another $1,800 per vehicle. And dealer margins are still high. So let's say that 800 of that will have to come out of the dealers and incentives will probably increase by roughly a thousand dollars. So that's how we're thinking about 24. But that's all in the plan that we've set up and how we're planning for 24.

Dan Levy:

So if we could just double click on the pricing comment on Blue and Pro. So first of all, Pro has done really well this year because of pricing. Am I interpreting your comments correctly? That could be sticky pricing?

John Lawler:

Yep, so far as we look at the 24, and as we're filling orders on 2024, the pricing is remaining robust. Yes, it is.

Dan Levy:

And I think if I just zoom out and I think someone who just knows, okay, homes have done very well, pricing, if I just aggregate the last four or five years, like $30 billion of price tailwinds, I think your point is that the vast majority of this is structural. And so don't think this is going to fall off anytime soon.

John Lawler:

Yeah, so we spent a lot of time thinking about that. One of the things that we have to, that's why we look at disposable income, percent of disposable income towards buying a new vehicle because wages have increased as well. And so as those wages have raised that water level, you have to think about the affordability relative to disposable income. And I think that's the right measure to think through relative to supply and demand. From a supply and demand standpoint on internal combustion vehicles in Blue, we think we're back at parity, right? We don't think that there's any pent-up demand left. We don't think that there's going to be any pricing upside because of imbalances between supply and demand. We think we're right at the balance there between supply and demand. So pricing's going to be important. That's why we see over the next year or so, prices coming down some back to that 13.5% of disposable income to buy a new vehicle.

Dan Levy:

If you could just give a comment on mix, how, I think generally most are assuming mix will be a headwind next year, how should we think about this?

John Lawler:

Yeah, so one of the things for us this year is mix has been a bit of a drag this year, especially as we've launched some of our new vehicles because we've continued to have some supply constraints. And so from a mix standpoint, we still see strong demand for higher end super duties. So we think there's some strength within that going forward. And then the other thing is, when you look at our Blue business next year, over 50% of our volume's going to be new. And we tend to have a higher mix as we launch newer vehicles. F-Series, new Explorer will be new. We have a new Expedition and a Navigator. Most of our Raptor franchise will be new. We've just launched Ranger, a global pickup truck this year. So a lot of that's going to be new in markets around the world next year. And so we have a really strong lineup. As we launch newer vehicles, we believe, and we've seen in the past that we have a bit of a stronger mix, and we expect some of that to run through to next year.

Dan Levy:

That's an offset to-

John Lawler:

Partial offset, partial offset. I wouldn't say a full offset, I'd say partial offset.

Dan Levy:

Then maybe we could just wrap with considerations on cost. Maybe you could give us a sense. There's moving pieces on the commodity, freight logistics side. That's one piece of it. And the other piece is structural costs and spend toward overhead on EV, R&D, et cetera, software.

John Lawler:

Right. So when you look at our costs for next year, we saw commodity costs come in quite a bit this year. We've seen commodity costs around electric vehicles come down in the fourth quarter. We expect commodity costs to be a tailwind next year, not as great as this year, but somewhat of a tailwind. And I think for us, from a standpoint of what we're doing on cost, it's no secret that we have a lot of opportunity on cost, material cost, warranty cost, and structural costs. And so the team is intensely focused on what we're doing to drive improvements in our cost structure overall. And that's the area where we have the most opportunity in front of us and where we have a lot of work to do.

Dan Levy:

Great. Thank you. Okay. I want to pivot to EVs, but before, let me just ask a broad question. And I think this touches on the broader challenge or question that we have for automakers. Everything you're doing is a very long planning horizon. You have to make decisions and calls today that will take years to know if they fully pay out. And the challenge is that within that interim period, industry conditions can change drastically. So we've seen you obviously over the last two years, very heavily turn around the ship and embrace the EV transition. Things have changed a bit this year. So how are you balancing this long-term commitment with the need to pivot near term? And to what extent should we look at what you told us within the last two years and see that there could be some changes or pivots here?

John Lawler:

Yeah, I think the key distinction here is that there aren't any changes to the strategy. It's the tactics of execution of that strategy. We believe we have three very strong businesses in Blue, Pro, E. Integrated services and software are a creative opportunity for us for higher margin recurring

John Lawler:

... Occurring revenue business. And so that strategy and building out that strategy, focusing on three segments, the unique customer needs for those segments doesn't change. It's how we go about doing that and how we're adjusting. So, EVs are going to be here. EVs are up 50% this year, volume growth, right? So they're going to be here. It's just how quickly EVs grow as a percentage of the total industry. And so that's why you saw us adjust, not changing our strategy, but changing our tactics and pulling back on some of the capital investment around the capacity that we're putting in place, so that we can better match capacity with demand. The other thing that we're seeing, and I mentioned this a bit earlier, is you have to adjust as you see what's happening with the customer and the top line, and what matters to them. That's why the transparency and focus we have around the segmentation is key.

If you really think about this industry, the OEMs for the most part over the years has been wholesalers. We haven't been a customer-focused business, right? We're now moving into a retail business where we have a relationship with the customer, and understanding what's happening with that customer in unique detail by each of the segments is critical, so you have to adjust. That top line on the EVs is not going to be a premium. Now, we're setting ourselves up for that, we're building our structure around it, but we have to adjust. We have to deal with that reality and we have to build that into our planning. So as we set those assumptions up for that second generation and that third generation vehicle, you have to be really critical around, what is the revenue? What is the customer going to play? What's the value proposition to the customer?

And then you have to rightsize your cost structure for that. And that's why, for us, really making meaningful progress on cost and quality over the next year and into '25 and '26 is critical for us, and that's our number one and number two priority. Strategy's not changing. It's the tactics and how we're delivering that strategy.

Dan Levy:

Capital spend. You said that, on the last call, you were deferring $12 billion of spend. Could you be a bit more specific on what types of things are being deferred? I think we've seen some deferred plans on battery plants, I think the second Kentucky plant. We've seen subsequent news on the plant in Turkey. So, what is that $12 billion of deferred [inaudible 00:22:20] consist of?

John Lawler:

It's around capacity. It's incremental capacity. So as you see, Marshall's going to be about half the size of what we had planned. Kentucky, number two. We're not going to outfit the plant with the equipment because we don't see that the demand is going to be there in the near term, but we have the optionality later.

We're taking down some of the capacity that we were going to put into inverters and motors. It's not about not moving forward on our electric plans. It's about the level of capacity that we're putting in place, so we're matching capacity with demand, and that's something that we're going through. Vertical integration has been important for electric vehicles, so pulling back on the amount of vertical integration that we're going to put in place because we don't need as much capacity in that space. So it's

not about changing strategy, it's about changing the pace and flow of the capital and the capacity that we're putting in place.

Dan Levy:

The comment on vertical integration, maybe you can unpack that a bit more because I think that was one of what we and some would interpret as maybe a slight tone shift that I think we saw the team being very aggressive on vertical integration to the point where we're hearing about you want to bring your own silicon carbide inverters in-house, and then batteries are very critical. All of a sudden, battery's commentary is that maybe batteries are commodities. So are the vertical integration aspirations getting pared back a bit?

John Lawler:

So I think we're adjusting as the market adjusts. So let's think back about 12 months ago to 18 months ago. There was going to be no access to batteries, there was going to be no access to the minerals to build those batteries, and there was going to be a significant shortage of capacity. So beyond just vertical integration for the point where there's competitive advantage for certain vertical integration, everybody was trying to secure that capacity because the projections of growth were going to outpace what's available. Now as those projections for growth have pulled back, you can adjust to that.

Now, vertical integration is going to be important in areas where you have a distinct competitive advantage, and we did pivot a bit and say that over time we don't believe batteries per se, the cell pack are going to be a differentiating element of the electric vehicle. And so if that's the case, you have to think about your capital allocation in that space. So we have to be very thoughtful about where we build, where we buy, and where we partner. And that's part of our capital efficiency and improved capital efficiency that we're focused on. And that's how we're thinking about things moving forward. So we will adjust. We'll adjust as the marketplace changes.

Dan Levy:

And maybe some of the deeper aspects of vertical integration, things like bringing a lot of powertrain components in-house. And maybe I'll just say, broadly not just that, and I recognize software is maybe a separate stream, but you are very ambitious there. Is any of that getting pared back?

John Lawler:

No, I think that's where you'll have a bit of differentiation is your battery management software is going to be critical, right? And that's going to be key. So the cell and the pack structure could be very common. There may be tweaks around what you do within that, but the inverters, the converters, the battery management software, things like that where you think you can have a distinction or a competitive advantage, we'll continue to work on vertically integrating there. And look, we have two of the best and most accomplished EV technologists in the industry between Doug Field and Alan Clark, and those guys are really thinking through very clearly not just this iteration, but the next iteration, where do you get that competitive advantage and where should we be investing versus partnering? And where we should just go out and buy.

Dan Levy:

If we could just wrap with one on EVs, just on hybrids. I'll make this a two-part question. One is, if you're pairing back EVs, but you still have regulatory standards in the near term, do you just lean more on hybrids to achieve those? And the second point is, some would interpret the commentary you gave on

hybrids to be incremental. Lynn was very quick to point out to me, "it was always in the slides and you guys just weren't paying attention." So how incremental is the strategy on hybrids?

John Lawler:

I think for us, we've been in the hybrid business for a long time. The number one selling hybrid pickup trucks in the US are Lightning and Maverick, and maybe we became a little bit complacent in how we spoke about hybrids, because to us it was just part of our DNA and our business for Blue. Hybrids were always a big part of the mix. Now, as adoption of EVs slow, sure. Hybrids are a bridge to that and it has a much better CO2 footprint, I think. About 25% less CO2. So that's going to be a critical part of how we meet our regulatory requirements as the adoption rates for EVs slows. And so we're really pleased.

Again, it comes back to the segmentation and focusing on the unique needs of each of those segments, having the transparency around that and driving where we can adjust. And so with EV adoption slower, hybrids are going to be a bigger part. Hybrids have always been an important part from use case standpoint. You are not going to have large truck customers that pull a fifth wheel driving an electric vehicle. It just isn't going to happen with the technology that's there today. But they may use a hybrid that would provide a 25% lower CO2 footprint.

Dan Levy:

Great. Let's pivot to warranty material costs. It's your CMD, you talked about a $7 billion cost disadvantage versus your competitors. I think we were reminded of that on the third quarter call. You had a big warranty hit and even the material cost on what should have been an easy comp material cost was up. So Kumar Galhotra has been promoted to COO. You're looking at the structural issues. Maybe just give us a sense of, "hey, what's going on here?" We've had these missteps and it just seems like it's been multiple years where this has been festering, and we hear about efforts, but we haven't seen as much visibly in the way of improvement. What gives you confidence that this time around there is a path to improvement? Maybe, what's the low hanging fruit versus what's going to take deeper work?

John Lawler:

Yeah, that's a great question. The reason why we put Kumar into the position as the COO and in charge of the industrial platform is because we lost the connection points, the deeper connection points that we need, as well as some of the discipline. We have great processes, but we didn't necessarily keep to the discipline around those processes. Kumar has been around Ford for a long time like I have been. Kumar started out as a design and release engineer. He understands the system. But one of the things that Jim has done, which has changed our company significantly, is the amount of new talent that he's brought in from the outside. So the way to think about that and this very complex industrial platform between supply chain manufacturing and vehicle design,

John Lawler:

... design. And then you have electric on the other side with Doug. And so Kumar and Doug are very tightly tied together on this. You have a complex system that can work more efficiently and work better, and we readily admit that. And the inefficiencies we have in there are showing up in our cost disadvantages, and so we need to fix that. Kumar can bridge those gaps. He understands how the system works, he understands how we did it in the past where we were very efficient. And then, we have the new talent coming in, Liz Door on supply chain. We have Bryce Currie in from manufacturing. We have Josh Halliburton around quality.

So paired with the new talent and of course more new talent will be coming in, plus Kumar that understands how this all works and fits together. And remember, Kumar has run businesses. He understands what it feels like to get the output that's not at world-class and what that does to him as a business. And so he understands that he has to fix this. We have to fix this as a company. And so that intense focus, putting a leader like him over that with a new talent underneath the drive, the types of changes we need is why I have confidence that we're going to really start getting to the root cause of the issues.

And, Dan, I've been around a long time in this company and I can tell you that for the first time in a number of years, I really believe that we are having the right conversations about the root cause issues in this space. Now, is it going to turn around overnight? No. You're going to start to see progress. And I fully appreciate that this is a show me situation. I could talk up here for hours and I don't think anybody's going to really believe it until we start driving it home. That's just the facts of where we're at. And so we have to start showing you guys the progress and making that progress, from supply chain and the way we source, the issues we have about concentration and being completely exposed to individual suppliers on key commodities where we have absolutely zero leverage, and that's impacting us significantly over the past two years, significantly, over the past two years.

We've had suppliers come into us and say, "You owe us X amount." And we'll say, "No, no, no, the cost structure, no, we can't be that. It's half of that or a quarter of that." "Yeah, we know, but you have no choice. We're going to stop shipping you. Pay us that amount." So there's a lot of changes that need to happen structurally throughout this, strategically throughout this. Kumar gets it. He understands how to do that. We have the new talent. We're going to fix these root cause problems.

Speaker 1:

John, I actually just want to ask one more on EVs before moving on to some other topics. But you've said before, you've been clear, there's only so much you can do from a cost basis on Gen 1. Gen 2, we know you've talked about some buckets of improvement and we're not going to get into a bridge, but that improvement, can you talk about the phase in from Gen 2? I mean, I would think some of it's over, well, not overnight, but is there a certain level of scale you need to get to with Gen 2 before you start to realize those full benefits? Or is some of that actually upfront, once you start the lines up on those Gen 2 vehicles on the new platform?

John Lawler:

A lot of that's upfront in the design. Gen 1 is our ICE vehicles that were converted to electric. There's a lot of inefficiencies in there. We're focused on improving gross margin on our Gen 1 vehicles as we go through '24 into '25, but the scale of that's limited given the design of the vehicle.

Gen 2 is a clean sheet of paper. Scale's an important piece of that; some vertical integration on key components to take out that margin to the intermediary. And then it's really comes into efficiency of design. It's about system design, it's about optimizing the battery, it's about optimizing the kilowatts required per mile and getting to the smallest battery as possible. It's about the arrow, it's about the whole approach to designing the vehicle that Doug and Alan bring to us. And so you're going to see an improvement as we launch those vehicles and then you're going to continuously see improvement over time because we're also now working on our third generation vehicle, which is going to be a step function from a design standpoint beyond the second generation vehicle. So this is going to be a journey over time as we drive that. And I think the most important thing we have to think about is the top line sets the whole thing up.

If you're assuming revenues and premiums well beyond what the market's going to bear, it's going to be a very difficult situation. And that's why we went forward and we've said that in that timeframe, parity with gas vehicles net of IRA, from a revenue standpoint.

Speaker 1:

Great. Dan asked earlier on capital allocation, but I would phrase that discussion a little bit differently. I mean, you've talked about the improved consistency of cashflow. We've seen it now for several years, and now you're talking about the reprofiling and spending over the next couple of years on EVs. So with that consistency and that confidence in the cashflow, how do you think about the cash you need to hold on the balance sheet? You've been in a net cash position for quite some time. Does the higher confidence allow you to run slightly lower or should we still consider that this is about the steady state?

John Lawler:

We're very pleased with the level of cash we have from the standpoint as it gives us flexibility. And we're going to pay out 40 to 50% of the free cashflow in dividends, and we're going to look to invest in the business where we see growth, where we see a turn on that invested capital of at least 20%, and over time we'll see where this goes. But through this transitionary period, our view is that having that cash available for us to invest in the business and growth and profit and profitable growth, 20% return on invested capital is the flexibility that we like right now, and that we will drive improved share price through the growth in that business and profits in that business.

Look, Pro is an incredible opportunity for us. No one else has the ability that we have in commercial vehicles. Largest share in the United States; I think the second competitor's about half our share. Number one brand in Europe. We have an incredible relationship with our customers and the upfitters, which provides a tool that others can't match. We have software integrated services, and we're building out that relationship with those customers through our service networks, improving their productivity, improving their uptime, and we're going to continue to invest in that business. We said mid-teen margins, profits are going to double this year. So that's what we need to invest in. We need to invest in the growth in this business, but we have to do it wisely and we have to do it in areas where we can get a return on that capital.

Speaker 1:

Then real quickly, it's a very large part of your business, but gets less airtime. Ford Motor Credit.

John Lawler:

Yeah.

Speaker 1:

The guidance for this year, we know you're not taking dividends this year up from the business. As you think about going into next year, what are some of the levers that can drive some improved profitability? I mean, we are down meaningfully this year, but it's up from a historically strong year, the past, well, frankly, couple of years. Fed, if it's on hold, you have the investment-grade ratings now from two of the three. Can you talk about some of those drivers where we can actually see some improvement from that business going forward?

John Lawler:

See the investment-grade rating, that's of course very important for us at Ford, we're very pleased with that, but it's very important for Ford Credit from their cost structure. So that's going to be a tailwind for them, of course. And so that's a positive. When you look at Ford Credit, we will make the decision every year if we want to grow the balance sheet or if we want to return capital to the motor company, and that will be part of our capital allocation process every year.

The thing about Ford Credit is we're restructuring in Europe. We're looking at how we lower our costs; they have a very good cost structure. And so for them, the growth is going to come back into what we're doing with our dealers and then the top line growth of the company overall from a volume standpoint. But the key about Ford Credit is the strategy is how they're moving to become more of a digital finance company where they're more a part of every transaction as we start to increase digital services.

They're how they're going to approach fleets with Ford Pro, what we can do there with commercial lines of credit and help finance things beyond just the purchase of the vehicle, like charging network, et cetera. So there's a lot of areas that Marion's focused on on growing, and he's done a great job with the strategy, and I think you're going to start to see a lot of changes coming through Ford Credit as we leverage them and as we work on our integrated services and we work on growing our commercial business.

Speaker 1:

Thank you.

Speaker 2:

All right, I think we're at time. Thank you. Thank you so much, John.

John Lawler:

Thank you.