Ford Motor Company

Fourth Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jim Farley - *President, Chief Executive Officer*

John Lawler - *Vice Chair*, *Chief Financial Officer*

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PRESENTATION

Operator:

Good day, everyone. My name is Layla and I will be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company fourth quarter 2024 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, and if you have joined via the webinar, please use the raise hand icon, which can be found at the bottom of your webinar application. If you have joined by phone, please dial star nine on your keypad to raise your hand. At this time, I would like to turn the call over to Lynn Antipas Tyson, executive director of investor relations.

Lynn Antipas Tyson:

Thank you. Welcome to Ford Motor Company's fourth quarter '24 earnings call. With me today are Jim Farley, president and chief executive officer, and Sherry House, our new CFO, effective tomorrow, February 6. Joining us for Q&A will be John Lawler, vice chair and current CFO, and Cathy O'Callaghan, CEO of Ford Credit. Today's discussions include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck. You can find the deck along with the rest of our earnings materials and other important content at shareholder.ford.com. Our discussion also includes forward-looking statements about our expectations. Actual results may differ from those stated. The most significant factors that could cause actual results to differ are included on page 23. Unless otherwise noted, all comparisons are year over year. Company EBIT, EPS, and free cash flow are on an adjusted basis. Lastly, I'd like to call out a near term IR engagement. On February 11th, Jim Farley and Sherry House will participate in a fireside chat in New York with Emmanuel Rosner at the Wolfe Global Auto, Auto Tech and Mobility Conference. Now, I'll turn the call over to Jim.

Jim Farley:

Thank you, Lynn. And hello, everyone. We appreciate that you're joining us. I want to start by welcoming Sherry House to our first earnings call as our incoming CFO, and I want to thank John Lawler as he transitions to our vice chair. Last year was a year progress in key areas, building on our fundamentals at Ford. Our global revenue reached an all-time record at the company of 185 billion. This was our fourth consecutive year of top line growth, driven by some of the strongest and most durable franchises in our industry. Ford is the undisputed leader of pickup trucks in our industry. The F-Series is once again, America's best-selling pickup and the best-selling vehicle of any kind. The Ranger's grown into a strong global franchise for us. It's key to our profitability in many markets around the world at Ford. And by the way, Ranger won North America Truck of the Year. That's the fifth time in a row Ford has won that award.

Hybrid trucks are a key growth area for us. It's not what you think about when you think of hybrids, but this non-traditional channel is allowing us to capture the lion's share of revenue and command pricing power within the pickup truck market with unique features like Pro Power Onboard. Vans are another stronghold globally for us with our best-selling transit family. And the story is no different for Pro as a whole. Our commercial business is focused on unit sales and series mix to maximize revenue. And last year, we really saw that, a sizable growth in mix of profitable high-series super duties and transit wagon. But at the same time, Pro is building something new, reoccurring revenue streams through our software and physical services business. Pro software subscriptions rose 27% to nearly 650,000 subscriptions last year.

Jim Farley (cont'd):

Telematics software grew 100%. Mobile service units increased 57% and the stickiness of that ecosystem of services is increasing. The second half of last year, 25% all of our brand-new telematics customers in North America purchased additional software including dash cams and fleet management software.

And with BlueCruise, equipped units have now in operations are now more than doubled in the last year to just under 700,000 vehicles. And since launch, our customers have now driven over 300 million miles, hands-free. So, you can see our relationship with our customers no longer ends at the point of sale or financing. We're starting to build lasting relationships in creating new avenues for reoccurring growth at Ford. Last year, Ford had the highest share of revenue among all brands in our home market, the U.S. But the key for us is matching this revenue growth with improved execution and discipline on cost and quality. We're working differently and it's starting to show. We've upgraded talent throughout our industrial system. We brought in industry's best third-party experts to inspect and validate our findings.

We're identifying best practices to attack our operational issues. We're quantifying the upside, and most importantly, we're bringing home the savings. We're changing our culture to be more focused on quality. And with countable measures for all of our engineering teams and leadership, these changes produce green shoots delivering about a $500 million of net cost reductions in last year's second half. But this is frankly a small down payment on the work to be done at Ford. We're focused on closing our competitive cost gap over the next few years. And lastly, we continue to monitor and adapt to the changing market conditions, which last year, unfolded about what we thought. The EV market, we continue to see new models launch, increased competition with increased pricing pressure.

On hybrids, we continue to see the market grow aggressively, but now, in diverse markets like truck customers, who are learning that a hybrid can also mean uncompromised towing and torque and payload and other performance advantages including fuel economy. In the ICE market, the industry's inventories and pricing have normalized. We also see the Chinese OEMs continue to expand and be a major force in our industry. Their operational fitness is incredible. Their supply chains are now expanding globally and they're increasing their exports around the world.

So, let's talk about this year. We expect the company's adjusted EBIT of 7 billion to $8.5 billion range. Sherry's going to get into the details. We want to be clear though that our guidance has not factored in impacts from changes in policy by the current administration. That said, from an operational standpoint, we believe a few weeks of tariffs are manageable given the rate and flow of our products. As everyone is aware, we're already seeing changes in trade policy and we expect changes in tax policy like the IRA and emissions policy, CO2, that could be very consequential for our industry.

At this early point, I want to emphasize a few things. There's no question that tariffs at 25% level from Canada, Mexico, if they're protracted, would have a huge impact on our industry. With billions of dollars of industry profits wiped out, an adverse effect on the U.S. jobs as well as the entire value system in our industry. Tariffs would also mean higher prices for customers. We said that. We believe based on our conversations in D.C. with the Trump administration and congressional leaders, that they're committed to strengthening, not weakening our nation's auto industry. That is certainly our expectation, and we look forward to working with our leaders to make sure that that becomes a reality. Because they understand and appreciate how vital our industry is to jobs, the economy, our national security and the communities across our country.

As America's leading auto producer and the leading exporter of automobiles, we applaud the administration for their agreement they announced with Mexico and Canada on Monday, and we're closely monitoring the situation in China. There is a fundamental transformation

Jim Farley (cont'd):

happening in the backdrop of these policy changes in our industry globally. Of course, the overall tariff and trade situation, the growing importance of digital vehicles, the Chinese OEMs growing to become a global reality, these dynamics will all play out for some time to come. But Ford controls its future.

While we are certainly operating interesting times, at the end of the day, we control our destiny. Our products and services are compelling and get even stronger this year with great new launches like the Expedition, the Navigator, the all-new electric Puma, as well as Ford Pro's service offerings. We will match that potent revenue power with real progress on cost. To realize this multi-billion dollar upside opportunity on cost, we will stay focused on the following areas: faster identification of defects and issues in the field, deploying dedicated teams into our supply base to help them improve key manufacturing disciplines to improve their part quality to us, holding suppliers accountable when they send us defects, reducing complexity to eliminate waste, dramatic increase in our OTA capability. We performed 9 million over-the-air updates and fourth quarter alone. 80% of those were focused on addressing customers' concerns and warranty. We're enhancing our software development process. For example, more upfront experts reviewing coding, not just ours, but our suppliers to catch potential issues early. And we're continuing to integrate AI, data analytics and other tools and process to further improve our manufacturing efficiency. Early input metrics provide us confidence in our 2025 cost reduction target. We already have over a billion dollars of product design cost reduction ideas to be implemented this year. We have fewer lost units during our launches. The improvement in the number of days from warranty defect and field fix is an encouraging sign for us in warranty. We're seeing an 18% improvement in the quality of our vehicles leaving our facilities for the 25 model year launches. And we're increasing the number of supplier technical assistance site visits for critical suppliers. I want to touch on our EV strategy since it's so critical for any car company. We're on course. We're deep in the development of our next generation of vehicles that we believe will be affordable, high-volume, and great for our business. On the U.S. retail side, the sweet spot that has emerged is small and medium-sized trucks and utilities.

These vehicles' use case fits perfectly for EVs. Daily commuters, well-suited as the second vehicle in the household. They require smaller, much lower cost batteries. These vehicles can be offered at lower prices to help adoption of EVs for the customers who really appreciate their lower operating costs. But for larger retail electric utilities, the economics are unresolvable. These customers have very demanding use cases for an electric vehicle. They tow, they go off-road, they take long road trips. These vehicles have worse aerodynamics and they're very heavy, which means very large and expensive batteries. Retail customers have shown that they will not pay any premium for these large EVs, making them a really tough business case given the expense in the batteries. For Ford, our commercial customers do show potential for large EVs. They're willing to pay a premium over ICE because they can really measure the TCO advantages of EV, and they can live with depot charging. They don't have the same range anxiety that retail customers have. Profitability for these larger family haulers that take long trips will be more frequently occurred through partial electric options. Yes, PHEV, but especially hybrid and EREVs that on one tank of gas can get over 700 miles of range but still drive most miles all electric. Ford will be developing flexible body-on-frame and unit body platforms that will be designed for these multi-energy powertrains that are needed given the realities of customer affordability and range requirements.

We are in the heart of our transformation of Ford. My optimism comes from our improved execution and our commitment to delivering on Ford Plus, creating a more dynamic, more capital-efficient, higher margin company. Now I'd like to hand it over to Sheri to walk you through last year's operating performance and an outlook for this year.

Sherry House:

Great. Thank you very much Jim, and greetings to everyone on the call with us today. We really appreciate you taking the time to get a current update on the business. Before I get started, I want to personally thank John Lawler, Jim, and the entire Ford team for their incredible support over the last several months as I've ramped up in this new role. I'm very excited for the opportunity and I'm especially excited for the future of Ford.

2024 was another important year for us as we continue to execute against the Ford Plus plan. We finished the year with global wholesales, up 1% to four and a half million units supported by growth in Ford Pro. Revenue increased 5% to 185 billion and we delivered 11 consecutive quarters to top line growth. Our strategic decision to offer retail and commercial customers freedom of choice through a compelling portfolio products continues to pay off.

We delivered $10.2 billion in adjusted EBIT with a margin of 5.5%. Adjusted free cash flow was $6.7 billion and our cash conversion rate was 65% above our target range of 50 to 60%. Our balance sheet is strong with more than $28 billion in cash and close to $47 billion in liquidity. We believe it's prudent to have extra cash on hand during this dynamic time in the industry, marked by evolving customer needs, regulations, and a fluid macro environment. Excess cash also provides us the opportunity to strategically pursue adjacencies in signature partnerships. It would be accretive to our growth and ROIC.

We hold ourselves accountable to strong capital discipline as we continue to efficiently invest in our future with plans to consistently reward our shareholders with 40 to 50% of free cash flow. Over the past three years, we've paid out over $10 billion to our shareholders and today I'm pleased to announce that we declared our first quarter regular dividend of 15 cents per share, plus a supplemental dividend of 15 cents per share, payable on March 3rd to shareholders of record on February 18th.

Now, let us take a closer look at our segment performance. Strong demand in super duty chassis cabs in transit wagon helped to lift Ford Pros revenue by 15% to $67 billion while wholesale were up 9%. Full year EBIT was $9 billion with a margin of 13.5%. Software and physical services represented 13% of Pro's EBIT. Ford Pro Intelligence continues to drive recurring high margin, non-cyclical revenue. Paid subscriptions, attachment rate, and monthly average revenue per unit were all up strongly in 2024. The Model e team where I've been spending a lot of my time did a tremendous job delivering $1. 4 billion in cost reductions last year, net of a $100 million increase in spend to launch our new battery plants and next Gen EVs. This cost performance was particularly important given industry pricing pressure, which resulted in year over year reductions in revenue and wholesales of 35% and 9% respectively. Model e remains focused on continuous improvements in gross margins and disciplined capital allocation that will drive profitable growth in the future.

Ford Blue's full year revenue was flat due to positive net pricing which offset a 2% decline in wholesales, driven by the discontinuation of low margin products. EBIT was $5.3 billion with a margin of 5.2% and includes a positive impact of building stock in our home market. In 2024, our Blue investment strategy mirrored customer demand with significant investments targeted at the next generation of our most iconic brands such as F-Series and Explore. It is also focused on bringing multi-energy solutions, particularly hybrid power trains across a broader part of our product portfolio.

Ford Credit generated earnings before taxes of $1.7 billion for the year.

So, let's turn to our 2025 outlook. For the full year, we expect company adjusted EBIT of $7 billion to $8.5 billion, adjusted free cash flow of $3.5 billion to $4.5 billion, and capital expenditures of $8 billion to $9 billion. Relative to tariffs, the precise impacts of new tariffs would depend on a number of secondary and tertiary effects, such as price elasticities, how our tier

Sherry House (cont'd):

one and tier two suppliers react, substitution effects, possible duty drawbacks, and so on. Other potential changes in policies such as changes to the consumer tax credit or CTC, commercial and production tax credits or PTC, would also be harmful. However, the impacts of such changes are much smaller for Ford in 2025 than later years. For example, PTC will become a more meaningful benefit for us later this year with the launch of our BOSK battery factory. And for the longer term 27 and beyond changes to these programs would be very material. Hence, we continue to stay in close contact with the administration to support a strong auto sector into the future. Our full year outlook assumes headwinds related to market factors. We're planning for lower industry pricing of roughly 2% driven by higher spending throughout the year.

For Ford, we expect this will be partially offset by top-line growth from upcoming launches. We expect these headwinds to be partially offset by about $1 billion of net cost reductions, primarily coming from lower warranty expense and material cost. Our team is aggressively working to deliver more than $1 billion, which would likely lift us to the higher end of our guidance range, and we expect the majority of these savings to occur in the second half of the year. From a calendarization perspective, we expect our first quarter adjusted EBIT to be roughly breakeven. This sequential decline in EBIT versus the fourth quarter of 2024 is more than explained by a reduction in wholesales and unfavorable mix, including the impact of launch activity at major U.S. assembly plants, including Kentucky Truck and Michigan assembly plants. Our plans to utilize Oakville for our next major truck launch will help us better optimize production stability during major launch periods, a benefit we highlighted to you when we announced the repurposing of that manufacturing facility.

We expect a more normalized adjusted EBIT in the second quarter with a plan to hit our underlying EBIT level in the second half as cost improvements tied to lower material costs start to accrue to the bottom line. To help you better understand this calendarization and the levers for each quarter, we have included a full year 2025 bridge for you in our earnings deck. Our segment outlook anticipates another strong year at Ford Pro with EBIT of $7.5 billion to $8 billion at target margins. The fundamentals of Pro's business are strong, especially super duty chassis cabs in transit wagon in North America and the transit family in Europe, and we continue to grow our mix of profitability coming from software and physical services globally. We expect a loss of $5 billion to $5.5 billion for Ford Model e, holding losses stable year over year.

While continued industry pricing pressure remains, we plan to materially increase our global volume driven by the full year impact of European launches and we significantly increase investment in our battery facilities and next generation products, which are just two years away. The team started the year with a strong pipeline of cost savings ideas, which together with the launch of our BOSK battery JV later in 2025 enables meaningful savings through eligibility of the production tax credit. And for Ford Blue, we expect EBIT of $3.5 to $4 billion reflecting lower volume and unfavorable mix driven by the non-repeat of last year's stock build in anticipated adverse exchange, partially offset by several cost reductions initiatives that are already underway. Cost remains our largest value unlock to achieve Blue's margin target. Lastly, Ford Credits EBT will be about $2 billion.

Our performance in 2024 demonstrates the positive progress in our Ford Plus plan, capital discipline, the right product portfolio, and consistent cash generation to reward our shareholders, customers, and employees. Importantly, I see us working differently as a company, evidenced by our second half cost progress. We are carrying forward that higher level of discipline and execution into 2025, commensurate with our goal to deliver at least $1 billion of net cost reductions this year. We're relentlessly working to make our business better and we remain highly focused on improving both quality and cost. That concludes our prepared remarks, and I'd now like to open it up to your questions.

Operator:

We'll now move to our question-and-answer session. If you have joined via the webinar, please use the raise hand icon, which can be found on the bottom of your webinar application. If you have joined by phone, please dial star nine on your keypad to raise your hand. When you are called on, please unmute your line and ask your question. We'll now pause a moment to assemble the queue. Our first question comes from the line of Dan Levy with Barclays. Please go ahead.

Dan Levy:

Hi, good evening. Thank you for taking the questions. Wanted to double click on your commentary first on calendarization of earnings throughout the year. In the first quarter, you have to assume I think something like a 25% volume decline to get to breakeven. If you could just talk through that, what's the confidence of recovery in subsequent quarters? Is it volume? And then should we expect inventory to be fully right sized by the end of the first quarter?

Sherry House:

Okay, so as I talked about for the year over year, you're really seeing the pricing come in and also the net cost improvements year over year. But when you go for just the first quarter, what you're seeing is largely the impact of wholesales that are coming down and the non-recurrence of a stock build that's happening. We also see adverse exchange primarily in Argentina, Brazil, and Turkey. So that's really what's happening in that particular quarter.

Jim Farley:

Dan, quarter over quarter, our wholesales are down to almost 20%. Okay, so it's really clear what's going on our launches, and the question is where are we on day supply for our growth stock? We're in good shape. We'll be in good shape after the first quarter, even actually gets leaner after the second quarter. I think we finish-

Sherry House:

That's right. So, we finished the year at about 620,000 gross units and that came down about 5% in January. And we expect that with this activity that's happening in the factories where it's impacting Super Duty, Navigator, Expedition, that that may come down a bit more as well,

Jim Farley:

Like 40,000 units. So, it's a very large reduction in the first quarter and we're planning another reduction in Q2 again, so we'll be right where we want our dealer day. Supply for our sales will be right in that mid-50 range, which is exactly where we want to be as a company.

Dan Levy:

Great, thank you. As a follow-up, Jim, you frequently talked about the critical nature of EVs. You actually gave a very long blog post on this over the summer, but I think we also know that your strategy is in part driven by compliance. So, we've heard President Trump talk about pulling back the so to speak EV mandate. How should we think about your EV plans and resource allocation in this environment and to what extent would you maybe revisit timing of Skunkworks

Dan Levy (cont'd):

or the next Gen Lightning, which I believe are planned for 2H27, given the changing environment?

Jim Farley:

Well, we're really confident of our EV strategy because believe it or not, most of the things that are happening are playing to our strength. We believe that if the EPA or the California waiver is pulled, if there's some change to the CO_2 regime in the U.S., starting from 27. By the way, the next two years, nothing happens. So, it'll be 27 and beyond. We believe that that will still be some kind of modest CO_2 improvement required. But more importantly, EVs are 8% of the U.S. industry. They're growing. The satisfaction with the vehicles is higher than combustion and people who buy these vehicles don't go back to combustion for large part. So, this is a very vibrant market. It's also a global capability for Ford. Given what's happening around the globe, this is not just happening in the U.S., it's happening everywhere. This capability of making money in high volume EVs, getting new customers, it's going to be a global capability.

So that's why it's strategically important for us. Actually, in this kind of environment, the Skunkworks platform becomes more important. It's more affordable for customers. Let's say that the CTC goes away. In that environment without a leasing advantage, for example, more affordable on the actual cost of the vehicle becomes more important, not less. So, I would say our bet a couple years ago to build that platform I think winds up being... Well, we'll see, but winds up being a good move. We have made some decisions on the three-row and others and we will continue to make adjustments. We are not shy about our lower capital ambition as a team, and we are going to make sure that the EVs we produce are not me too products. That they play to our strengths. And we know commercial EV customers are out there. We know that they like these vehicles. So those are our two big bets. We can make changes to our lineup. We don't see that at this point in time, but as we said, we're not shy about making those adjustments. We need to, Dan. Does that make sense?

Dan Levy:

Yes, thank you. That's really helpful color.

Operator:

Your next question will come from the line of Daniel Roeska with AllianceBernstein. Your line is open. Please go ahead.

Daniel Roeska:

Hey, good evening. Thanks for taking the questions. And Sherry, welcome again. Jim, let me start with a quite strategic question. It seems like the business is facing a level of uncertainty not seen before. I hope that's fair, both from the strategic challenges you mentioned, but also from the policy and the rapid change in domestic policy. As you guide Ford through this choppy water, what are some of the convictions or guiding principles that still hold true in this environment and what are some of the principles or convictions where you and the board had to go back and say, well, we'll have to take a look at that, or that's become a little bit more uncertain. So, we kind of just trying to understand how your thinking is making decisions in this environment. What can you rely on and where do you need to kind of exercise extra caution?

Jim Farley:

Thank you. Well, first of all, the cost journey that Ford is on is non-negotiable. It is absolutely mission-critical and controlled by the company. No one else controls that. It's us. So, we want everyone to understand how serious and how prepared we are to take out cost of business without and improving quality at the same time, which often can become at odds with each other. So that is a guiding principle for Ford Motor Company I hope forever. Within that, it's very clear that customers and regulators and leaders around the world are expecting our industry to bring down prices and make affordability more a priority for car companies. So, one of the second big principles is we are going to invest in affordable vehicles, but we have to do it profitably, which means a transformation at Ford. You can see the transformation we've had to take on the EV platform with Skunkworks. We will have to take the same type of approach on body-on-frame and unibody multi-energy platforms. That's why I mentioned it. That's the second thing.

We want to make sure that we have diverse powertrains. That's another really important principle for us, because we've learned actually when it wasn't popular to invest in hybrids that it turns out to be a good move. And therefore, we want to lean into EREVs and other new powertrains to make sure that we go with the flow, so to speak, of the customers. I think the last one is I have never in my 40 years had a chance to have reoccurring revenue where the company is not as susceptible to economic cycles and gas prices, and we can do that with Ford Pro. I think Ford Pro is leading this industry in showing large scale services, both software, almost a million subscriptions now, and it's getting sticky so we can start to see the flywheel turn on Pro and we're just getting serious about repair of the vehicles.

Those two attaches to our traditional vehicle is frankly what I've been waiting for 40 years to do as a leader for the company and for the industry and how ironic it is that it's happening not in the retail world, it's happening in the Pro B2B space. Those are the principles that we hold dear at the company and probably the most important for me is the best talent and the best culture because none of that is going to happen unless you get the best people in the company, which we continue to upgrade our industrial team and our technology team, and to have a sustainable culture where quality and cost never go out of fashion. Now we have a lot to execute to do all those things, but those are our kind of four or five key principles.

Daniel Roeska:

Thanks. And then maybe more tactical for Sherry on the guide for Model e in 25, volumes in Europe are higher, PTC is coming in H2, lithium prices are coming down. You're doubling down on cost efforts, yet the guide is flat. Could you kind of help us close that bridge? Where do you see the weakness in Model e this year to offset those gains and improvements you're making?

Sherry House:

Yeah, so we're making improvements so that the Gen 1 products are still net profitable. What's really interesting about this though is that we're able to hold flat while you're increasing the volume significantly. The other thing that's going in there is the $1 billion of additional costs that are related to our BOSK battery factory as well as related to our Gen 2 products. So that $1 billion, it's about half engineering and about half in the BOSK area as well, and that's about a half a billion more than in the past. So, one of the questions that you asked about was just what's kind of going counter to that. So that would be some of the downward pressure that you continue to see that's on the pricing potentially in Europe, potentially in North America. What's been great though is Model e as it landed Q4 last year, the Mach E, we had a fantastic selling over 30% increase quarter over quarter, and we stayed above the average transaction prices.

Sherry House (cont'd):

So, while we're seeing the pressure, we have been continuing to do well, even with our Gen 1 products in our sales base.

Daniel Roeska:

Great, thanks.

Operator:

Our next question comes from the line of Adam Jonas with Morgan Stanley. Your line is open. Please go ahead.

Adam Jonas:

Thanks everybody. So, hey Jim, we've heard that you really, really like the Xiaomi SU7.

Jim Farley:

Yes.

Adam Jonas:

Which as you know, is their first car, and I'm just thinking when a country like the United States puts 100% import tariff on another country that isn't even selling vehicles here yet, that's kind of talent. Do you think that U.S. tariff policies will be successful in keeping Chinese EVs out of the U.S. market long-term? I'm just curious what you think, especially given your experience working at Asian automaker before. We've seen this movie in the 70s and 80s. You think the Chinese come here or that we keep them out? Is that good?

Jim Farley:

Thanks, Adam. Tom Freeman wrote a really interesting piece on this topic that I think is really pertinent for us. In the end, the level of subsidies that these companies have in China is very material as well as these are digital vehicles with digital footprints and really deep into people's digital life. So, we have to have the right policies around privacy, the right privacy policies around national security because these are not the cars of old. They're data collection machines. On the unfair part or the subsidy part, I think we will have to sort that out as a country because they're part of the competitive environment that when you list the kind of advantages the companies have, it's a page long, so we have to resolve that. But in the end of the day, Adam, what I learned after 40 years in this industry is the company has to stand on its own toe to toe with the cost of those companies and the product appeal of those companies. So I guess what I'm saying is we need to work with our government partners to make it a level playing field as much as possible, but in the end of the day, it's management's responsibility to beat the SU7 straight up in a street fight.

Adam Jonas:

Got you, Jim. Thanks. Just as a follow up, autonomy hasn't come up really much in your prepared remarks, and I find that interesting given all the attention around AI. Gen AI has put the autonomous vehicle theme on a totally different shot clock. You were clearly very wise to

Adam Jonas (cont'd):

pause and restructure the Argo initiative in hindsight, but I mean, Ford has, I think you guys in the U.S. alone, you got 40 million vehicles on the road driving a billion miles a day, probably more than that, a billion miles a day, Jim. And the data from that swarm is just insane.

So I hear you on service bays and Ford Pro and that's all great, and we understand that on the physical services, but what's the strategy around AI and autonomy really? Because I think many argue that if you're an industrial company, an auto company like Ford, you either have an AI strategy or you don't have a future. I don't know if you agree with that, but how confident are you in Ford's leadership position in autonomy and what changes that? Is Sherry going to have to pay for that in-house with an in-house effort or is now the time to partner? Thanks, everybody.

Jim Farley:

You got it. I think we're at that point where we have to decide, look, level three is around the corner. BlueCruise is now over 300 million miles. Customers are still paying for it. We did drop the price by the way, so it is getting commoditized to some extent, but it is still a great opportunity, but the capability in the company is growing. All those Argo people that came with Ford, they are developing a really nice level two, level three system that we think will be among the best in its execution. We may not be the first, we may not grab all the headlines, but look at BlueCruise. BlueCruise is continuing to win all the consumer awards for the best operating system on level two. Level two plus is around the corner. Level three we think is a huge unlock on highway miles, eyes off.

I think we're in good shape with our internal capabilities, but look, we're not so pollyannaish about our own capability that we're not going to look at other people's system or not believe that level four personal autonomy is going to be interesting at some point. They're making a lot of progress over there in level four, and it is time for us, not just in the U.S. but globally, they're looking at, and that's why we made some of the announcements we did today because we need a strong strategy team to decide do we partner? Do we continue to ride our own team into this level four personal autonomy?

And I think you're going to find just like our move on Argo, we'll be thoughtful and practical. We won't get in love with the size of the market. We'll make a practical decision and I think we'll be well positioned. I'm very confident in Sami and Doug and their technical prowess. They know the FSD system, they know what's out there. They know the Waymo system as they get democratized for individual level four. And so I think we'll make a good decision, but I think, Adam, we're a lot closer to that partnering decision at Ford.

Adam Jonas:

Thanks, Jim.

Operator:

Your next question comes from the line of Emmanuel Rosner with Wolf Research. Please unmute and ask your question.

Emmanuel Rosner:

Great, thank you. My first question is around your plans for cost savings this year, so net $1 billion improvement. Can you give us a little bit more color around what the drivers are for that, the buckets and how do we acquire confidence that this will be the year where we see visibly a

Emmanuel Rosner (cont'd):

net cost improvement at Ford? Because if I'm looking at your guidance, seems like in the second half of this year you're probably now guiding for earnings growth despite fairly large cyclical headwinds, I assume. So that sets a high bar for cost execution. So how should we think about the visibility into delivering this execution?

Sherry House:

Yeah, thanks for the question. So why we've got confidence going into this year is the approach that we took to building the business plan was very granular. We went through all areas of our business and we're targeting efficiencies across all areas of our business, but there's two in particular that we're extra focused on. And in Jim's prepared remarks, he also talked about the fact that we're really zoning in on material cost and warranty, and in fact, we're even getting outside third party support to be able to look at benchmarks, what is best in class and what are all the different ways that we can make that even stronger. So, it's because of those detailed plans that sit behind those items that we have more confidence.

The other thing I would say is that on the design costs we are entering this year with about 90% of our pipeline filled, and let me just double click on what I mean by that. So, as we think about the cost savings that we want to make from a product design perspective, we have already identified those and we've characterized when in which quarter those are going to be introduced into new products. So that gives us a lot of visibility as to when we would expect to see those cost savings be realized.

Emmanuel Rosner:

Is this why this is back end loaded?

Sherry House:

That's why it's back end loaded.

Jim Farley:

Exactly. Takes time to execute, but boy, do we have a strong offer.

Emmanuel Rosner:

All right. Thank you. My second question is around pricing. So, you're assuming a 2% price moderation for the industry, Ford doing a little bit better. You both have, in terms of outlook, you're highlighting pricing moderation as a headwind. Now when we look at pickup inventories, there's almost 100-day supply on dealer lots across not just Ford but GM and RAM as well, and there are signs of pricing pressure and mix erosion. How should we think about the risk of something that is more than just price moderation here?

Sherry House:

The risk is something more than price moderation? I mean, I think that-

Emmanuel Rosner:

Just a little bit of moderation, yeah. Something that a larger price war in pickups when you have so many trucks sitting on the lots across essentially all offerings.

Sherry House:

Well, one of the things that we're thinking about is the fact that as we left Q4, we only had 13% of model year ‘25 in there. And so, when we move through Q1, we're expecting that our transactions are then going to be about 50% model year ‘25. So, your natural uptick that you get with the transaction pricing increasing some relative to the model year is one effect that we would see that's counteracting it. We also have the new product launches of Navigator of Expedition, F-150. So those are some of the effects. I mean, where we see the pricing pressure, maybe in particular if you were to double click into Pro, we see some pricing pressure there specifically around the environment for fleets including daily rental. So that's one of the areas where we're seeing more of the pricing pressure versus the rest of our portfolio.

Jim Farley:

More granularly, I noticed that one of our competitors is running a dealer cash program for the pickup trucks. That's a very significant change. So, we'll watch this very carefully. I mean, we know as a management team, the most important thing is going to be inventory discipline for us as we go into this period of time, as Sherry said. And I just want to reassure you that we will always protect our brands in those key segments and always protect our pricing capability. The cost journey we're on as a company will take years and it'll be great, but we will lose everything if we do not keep our pricing discipline.

And that really is tied to inventories. So, I really like our plan going in for the first half to get our dealer supply inventories back down below 60 days. That's a really big effort by the company and will give us some room, but as you said, we don't know how our competitors are going to act, and that's why we thought it would be prudent for us to go into this year with a very realistic guide in the range we did.

Emmanuel Rosner:

Great. Thanks for the color.

Operator:

Your next question comes from the line of Mark Delaney with Goldman Sachs. Please unmute and ask your question.

Mark Delaney:

Yes, good afternoon. Thanks very much for taking the questions. First on Pro. The company's had a view that Pro profits will be resilient in part as you increase your mix of software and services. You just spoke a bit around some of the headwinds you're seeing, especially tied to the daily rental piece of Pro, but can you speak a bit more on the puts and takes to that business segment for 2025 and then maybe what's your confidence that you can perhaps sustain or even grow Pro even beyond this year as you think about adding some of the Super Duty capacity in 2026 and further increasing software and services mix toward that 20% of Pro EBIT target?

Sherry House:

Sure. Yeah, so as you said, I talked a little bit about some of the softening and pricing around the environment for fleets, including daily rentals. We'd say volume and mix right now we think are about neutral, maybe a little higher in North America being more offset by some market weakness in Europe. The other thing that's coming into play there is you're starting to introduce more EVs into the Pro business. So that does tamper profitability slightly. I wouldn't say that it's a large percentage of the mix yet, but that is growing. And so, our ability to continue to bring costs down commensurate with the introduction of the EVs coming in is one of the areas where we're really focused for this year. So cost we think is going to be largely neutral, maybe slightly better. We're expecting material cost efficiencies and some lower product costs and potentially lower warranty costs as well due to some of the initiatives that I mentioned earlier.

Jim Farley:

To give you some context about the changing revenue mix for Pro, in the fourth quarter we'd gotten actually up to about 13% of our Pro business profitability was from services. We want to grow that to 20, and as you implied in your question, the vehicle side is always going to be super important, and the pricing within that is going to be a super important driver for our profitability. What gives us optimism about the Pro business on the vehicle side is the freshness of our product. We have a brand new F-Series, a brand new Super Duty, a brand new one ton Transit in Europe. We have the freshest lineup on our vehicles that we have ever had. The competitors may react to that, and we'll see how that plays out in the market. But what we're also really focused on is getting that 13% higher because those margins on the vehicle repair side are 35%, on the software side, they're up to 50-60%. So that's really our opportunity to de-risk the company's profile.

Mark Delaney:

Thanks for that. My other question was on tariffs, and you spoke a bit about this in your prepared remarks, and I know it's a really challenging thing to try and forecast, but to the extent there are 25% tariffs put into place and they actually come into effect next month, I know you spoke about a few weeks of ability to absorb it, but if tariffs are sustained, maybe just talk a little bit more around what kind of cost impact that may have to Ford to the extent you can size it, and how much of that you could potentially offset via actions such as pricing. Thanks.

Jim Farley:

I think Sherry and I both said it in the weeks scenario, we're in good shape, if it was a number of weeks. I think with changing our stock level of our components, both to ourselves and our suppliers, and changing our manufacturing patterns in both Mexico especially and the U.S., we can make sure nothing crosses the border for a couple of weeks. We have good stock situation in our dealers right now, but longer term, 80 plus percent of our vehicles are made in the U.S., 100% of our transmissions, more than half of our engines. You look at our competitors and they're a country mile away from that. And our U.S. plants are busy. We do not have... I'm sorry, we have some plans for Tennessee and Kentucky and some expansion plans for our new EVs, but our teams in the U.S. are flat out already, so there's not... I mean, we would've to make some major strategy shifts in the U.S., build new plants, etc. If this persists, obviously it's a devastating impact.

What doesn't make sense to me is why are we having this conversation while Hyundai Kia is importing 600,000 units into the U.S. with no incremental tariff, and why is Toyota able to import

Jim Farley (cont'd):

a half a million vehicles in the U.S. with no incremental tariffs? I mean, there are millions of vehicles coming into our country that are not being applied to these. So, if we're going to have a tariff policy that lasts for a month or whatever it's going to be, years, it better be comprehensive for our industry. We can't just cherry pick one place or the other because this is a bonanza for our import competitors.

Mark Delaney:

Thank you.

Operator:

Our next question comes from the line of Joseph Spak with UBS. Please unmute and ask your question.

Joseph Spak:

Thanks. Good evening. Sherry, just maybe to start on the free cash flow guidance. On a dollar basis, looks to be down, I'd say roughly in line with the lower EBIT year over year. But given that you're talking about some de-stocking, I'd imagine there'd be some working capital and timing headwinds. So, can you just help us understand some of the drivers that maybe get that higher and also maybe what type of distribution from foreign credit is assumed in the guidance?

Sherry House:

Yeah, so let me just talk about that a little bit. So, you will see that the free cash flow that we are guiding for this year is going to be right in line with the 50 to 60%, which is our target. We have been running higher than that, as I mentioned in our prepared remarks. Part of that's due to timing differences. Most notably, that's related to warranty, and it's related to some of our marketing incentive items, which is causing timing differences. So, as we go into next year, we do expect that the reduction you're seeing is going to be due to the reduction EBIT, as you pointed out. There is going to be increasing in working capital. And we do expect some timing differences to continue into this next period as well. So that would be some of the major items. We're not guiding on credits distribution at this time, but I think it's fair to say that we're expecting equal or greater than what we've had in the past.

Joseph Spak:

Thank you.

Sherry House:

In the past year, I should say.

Joseph Spak:

Yeah, thanks for that. Jim, I want to go back to a little bit of the conversation you were having earlier on the multi-power trend strategy. Multi-energy strategy, sorry. And you alluded to EREVs on the call. I think in various other forums you've talked about that. And I guess I just was wondering if you could spend another minute or so talking about how you plan to really

Joseph Spak (cont'd):

position and market that as a value proposition, because there is a world where it may not be as necessary from a regulatory perspective if policy evolves. So that would mean that it does rely more on consumer pull. So how do you really convince the buyer and what were maybe some lessons learned from the BEV experience? Because I think there's probably a little bit of over exuberance about consumer reaction to that at the start.

Jim Farley:

Yep, thank you. When you have a chance to spend time with Li Auto, some of the best EREV companies out there and their customers, what's interesting for me when we started to absorb this leadership team is we were really impressed that the customers thought of these vehicles as EVs. They do not think of them as hybrids or plugins. These are electric vehicles. They use 95% of the miles is electric and they plug them in every night, and the satisfaction is even higher because they're more affordable for people. The batteries is so much smaller with 150 mile range versus these huge batteries in three-row crossovers for 300-350 mile range. You're talking about tens and tens and tens of thousands of dollars. So, for the customer, you're able to buy an electric vehicle that's fully comparable to an ICE vehicle in terms of cost. And because there's no transmission, there are no gears, there's no driveline, there's no axles, duplicate axles, there's no duplicate powertrain, the incremental investment of fitting that combustion engine in there is very minimal for the customer.

So, I think at the consumer level, Americans love their big cars. They love their big trucks. That's what we do. We drive these big vehicles. But some people would love to feel that instant acceleration. They'd love to be able to drive by a gas station all the time. They love the feeling of electric, but they just can't get it. It's 30-$40,000, too expensive for these big vehicles. So, this technology gives them the electric experience without the range anxiety. Now it's not perfect. If you tow, it's not a good technology. The batteries have to be too big. So, it's not a panacea. But I think how we look at it is, given we're number three in hybrids, the Pro Power Onboard thing really surprised us. People love hybrids for more than just fuel economy, and I think we see this in more degrees of hybrid and PHEVs as a solution for customers, EREV for certain kinds of vehicles, heavy vehicles that don't tow and that pure EV for commercial or very affordable. I don't know if that makes sense to you, but that's what I hear from the customers on why they love these vehicles.

Operator:

This concludes the Ford Motor Company fourth quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect.