



Ford Motor Company
Wolfe Research Auto, Auto Tech and Semiconductor Conference
February 11, 2025
8:45 AM EDT

Emmanuel Rosner: Alright. Good morning, everybody again and thank you so much for being here for the Wolfe Autos and Auto Tech Conference. I'm excited to kick off this year's Wolfe Autos Conference with Ford Motor Company, an American icon with highly regarded portfolio of brands and models that resonates with consumers and businesses and with a strong competitive mode led by its dominant pickup franchise, commercial vehicles and others as well as a growing aftermarket software and services business.

It's no secret that I've personally been cautious on the Ford stock for a long time essentially pointing to considerable cost structure disadvantage versus the competition. But the other side of the coin is also true. Ford earnings and free cash flow could literally double if Ford was able to achieve benchmark combustion engine costs and eliminate its Model e losses. So to discuss this and much more, please join me in welcoming CEO, Jim Farley, and newly appointed CFO, Sherry House.

Sherry House: Thank you.

Emmanuel Rosner: The format for today will be a discussion, a fireside chat around some of my prepared questions as well as we'll leave some time for some of yours. But before we do that, Jim, would you like to share some opening comments?

Jim Farley: Well, Emmanuel, thank you. Thank you for including us. And I really look forward to the Q&A and our discussion. Just a few comments about Ford. I just want to second Emanuel's insights. The reality of the company is the biggest unlock for us is absolutely going to be and continues to be for some time our cost opportunity. And that is something that we're very focused on and hopefully get into.

The second thing I want to highlight is just the uniqueness of Pro. I know everyone acknowledges that, but I'm not sure everyone truly understands how the Pro business is different from other OEMs and how the revenue is being de-risked. Something that after 40 years of multiple brands in the industry, I've really never seen anything like Pro. And there's really no other benchmark in our at least OEM industry that's similar to Pro. And so the opportunity we should be talking about is really on the services side. The vehicles are very strong, but they're still cyclical and tied to economic cycles and fuel prices. It's really the services where the magic is for Pro.

The last thing is just the growing energy on the Management team around our capital efficiency and focusing more about spending less and earning more. I would say that's always been a focus, of course, any management team. But I think for a variety of reasons, that's become clear to us as a management team that our job is to outperform our competitors on capital efficiency. And that is, I would say, a relatively new focus for the company from my experience. That's all I wanted to highlight.



Emmanuel Rosner: I appreciate it. Thank you so much. There's room in the front for any of you. Grab a seat. All right, so I would love to start with costs, which, as you know, is sort of a key opportunity for Ford. You've been very open about Ford's cost challenges and your large cost disadvantage versus direct competitors. It's actually been years that Ford is trying to improve costs, but they keep going up. What is it about Ford that makes it so challenging to improve the cost structure, and what are you doing about it?

Jim Farley: Well, I've been at Ford for over 15 years, and there's really been one period of time where we did have our costs in a competitive zone, which is in '08, '09, but we restructured to do that in North America, and then the cost came screaming back. So for us as a leadership team, it's been a humbling journey, but it became very clear to me about a year and a half ago that we had to change our approach to cost.

The first thing is we need a competitive talent. You can't change the culture around cost in a company. Coming at Toyota, cost and quality just came out of the pores of everyone in the company. To do that at a company like Ford requires a concerted effort, and the culture change won't happen unless you have new people. But that's not enough. Bryce from manufacturing, Liz in supply chain, even Matt Jones in software, all critical new hires that took some time to get up to speed.

Coming into a new system, an industrial system like Ford, it takes time to understand what processes are robust, what are not, and now that talent has been up to speed for about six months, and we didn't stop there. I was actually very forceful to bring in third party to validate our approach for this year. It's not that anyone didn't want third party. It's that I didn't think that we would be doing our job as managers if we didn't have someone to validate our approach.

It was just too important that a delivery in '25, to me it's kind of a Maginot Line in a way this year on cost, and so we spent three months in detail going through each of the key areas, especially in the new areas, like negotiated supply chain cost and warranty cost. We spent three months looking at all of our processes, what is benchmark, we went through all the different areas of the business from talent evaluation, our data relative to our supply chain, our responsiveness for field fixes, software and hardware, and we incorporated all that into our plan this year.

We have dedicated governance, which was haphazard. We have a leader above all of our industrial system now, Kumar, because many of the cost areas are cross-functional. So to solve a problem in the field on a warranty item, it requires like four or five different organizations to work well together. So we had to change the org design, and that's coming home now. We had some, a lot of progress last year that was probably hidden because of our Turkey inflation costs on material costs.

We had over \$1 billion of material costs improvement year-over-year off a really bad base, but it's the first time at Ford that I had seen the company have a hopper at the beginning of the year, execute the hopper during the model year change in the plants with redesigned parts and negotiated also the suppliers. And Bryce had done an amazing job last year after the strike on our manufacturing efficiency. We had almost \$1 billion as well. Again, that was a lot hidden from all the other costs that came in the business.



But this year we wanted to make sure our hopper on those two areas of manufacturing and material costs were robust enough to actually do it again or even more. But then we added this whole emphasis or focus on supply chain negotiated TVM as well as the warranty cost. And that is a process going to play out as you know, kind of from the second quarter on for us. I don't want to say that I'm confident. All I can say is that I'm confident in the approach and the people.

Sherry House: Yes, I would say that the level of granularity that went into the planning this year was exceptional. So, we looked and picked apart the entire industrial system. So the freight, we looked at that, we looked at what types of market effects that we might have. We then have built in efficiencies. So we have very specific plans for efficiencies in freight. Similarly in manufacturing by looking at it at the cell design level. Similarly in all areas of the industrial system. So this level of granularity that's gone into the planning sets us up for a better position going into 2025. The other thing I would say is that the last half of 2024, we saw a \$500 million year-over-year improvement. And so this is one of the first times we're really starting to get some traction on these actions that we're taking.

Emmanuel Rosner: For this year, you're guiding for \$1 billion net cost improvement. Can you maybe share with us some sort of breakdown of where you think this will be coming from? And why are these back-end loaded? Because you've obviously been at it for a fairly long time. So you presumably didn't start those initiatives on January 1st. So why will these costs come mostly in the back half of the year?

Sherry House: Sure, so as I said, when we broke out the industrial system, you look at all of the elements of it and for each one of those we have a plan that's against it. So that's why we're feeling more comfortable. Then we're looking to make real structural changes on the warranty side and the material cost side as Jim mentioned.

What's interesting about the back half effect is one of the things that you have to take into consideration is that the costs are compounding. So a lot of these costs as you take them out, whether they be the design and engineering costs that come out or the manufacturing efficiencies that you see, those compound through the course of the year. And so as you get to the back half of the year, you really start to see some of the accumulation that takes hold.

Jim Farley: The big cost requires negotiation with suppliers. It doesn't just happen. You have to redesign a part and then you have to go and renegotiate the costs with the supplier. Same on the material cost. We have a \$2 billion of hopper and counting on about \$1 billion. So the process of redesigning or taking the content out, verifying the quality of that so we don't create other problems and then actually putting it in a plan with the supply chain behind it, it takes time. Most of our big changes, we aren't constantly changing parts in our vehicles. Our quality system would fall apart. So we have specific time frames like model years where we adapt all that change into our plants. That's a big reason why you don't get these costs immediately in the first-half of the year.

Emmanuel Rosner: Maybe last one on cost. You frame Ford cost disadvantage into three areas. Warranty, materials, and then structural. Can you give us context on when and how each can improve longer term?

Sherry House: Let me start with a little bit with warranty. So both warranty and material costs, those two areas, we're working, we said, with a third party. We spent the last four



months of last year, coming up with what the plan would be. We developed four to five work streams for each of those areas and we're going after those. For example, in warranty, some of the things that we're looking at is our dealer costs. We're looking at ways that we can improve our repair times. We're doing more over-the-air updates. We're developing more customer service communications that are happening with the technicians that are in the dealerships so that they know when they should actually get an over-the-air update and when they should do a hardware replacement.

One of the issues that we had last year is there were a lot of hardware replacements that were happening instead of over-the-air updates. That's expensive. So we're getting at some of these items. We've also noted in the warranty area that in some cases our resolution is too long. Maybe 3 times too long versus what the benchmark is. So we're going very specifically after that. And we've put plans in place to do that through the first couple of quarters of the year. And we think that a lot of that will start to take hold as you exit the year. Similarly on the material cost area, we develop a design hopper. So we look at all of the different engineering ideas that we plan to put in place for the balance of the year. As Jim said, you stage those out and that is exactly what we're doing in those areas.

Emmanuel Rosner: Let's shift maybe to just a free cash flow outlook for this year. Looking at free cash flow this year, we can identify nearly \$5 billion in headwinds from our vantage points. There's the lower EBIT which by itself you guide it to EBIT being lower by \$3 billion this year. There should be some working capital swing from sort of the inventory swings. There's some cash accrual timing. That would bring free cash flow from \$7 billion last year to something that is more like \$2 billion this year. Yet you're guided to about \$4 billion in 2025. What are the key offsets?

Sherry House: Yes, sure. So let me just kind of unpack that a bit for you. So the way that we look at free cash flow is we think that the majority of the change that you see on a year-over-year basis is really due to the EBIT change. Okay so primarily EBIT. There are some puts and takes that are also in there.

One of them is timing differences. So this past year we had a lot of warranty accruals that happened or the cash actually went out to pay for it. This coming year will still have that effect but not to the extent that we did before.

We expect to have lower working capital as we enter this year. So that's also an offset. And part of the reason for that is we ended the year with pretty healthy balances in our inventory. So we didn't have the need to bring that up like we have in the past. So those are the three main components that we think about that are in the adjusted free cash flow.

Emmanuel Rosner: Switching to electric vehicles. Ford and the industry have made major investments anticipating an EV shift. But with U.S. adoption increasingly uncertain and policy less supportive, how are you approaching capital allocation? Is there an opportunity to materially scale back or appetite to materially scale back structural costs or CapEx tied to EV? Or is that not an option?

Jim Farley: Well we reduced our CapEx a lot. 30% on batteries alone. So I think we have made adjustments before other companies on our CapEx for EVs. Canceling what I would have believed to be one of our most successful on the market vehicles



because we just didn't think we could make money on it. And yes, there's more we could do. The regulatory, hopefully we'll get to that, but the regulatory environment is very uncertain. We are also in a global race to develop profitable EVs, and we can't forget about that. Ford's a 120-year-old company. We didn't go bankrupt, and we have to compete and win against BYD and others, Geely, etc.

And so we're not going to be so short-sighted to just eliminate all of our capital. Some of our competitors have done that, but they're very late to the EV market. Now they're coming with very expensive EVs that are not going to work. We acted quickly with EVs. We learned quickly. We adjusted our capital spending in line with where we think the market is going, irregardless of regulations.

One of the biggest bets we made, which at the time was not super popular at the company, was to develop a platform for an affordable EV outside of our industrial system. My badge does not work in that building. We hired a whole new team in California. A lot of them were from our competitive all-EV brands. They have developed a platform that we think is fully competitive with BYD. We've quoted 70% of the parts.

We're not guessing anymore. And that was super capital efficient. Literally, we did it on \$0.30 on the dollar, compared to what Ford would develop the same platform. And I think that will give us a huge benefit, because we believe that EV demand is still out there, that there is a very underserved group of people on the super-affordable, where actually running an EV is cheaper than an ICE product. But these very large EVs that cost \$50,000, \$60,000, \$70,000, we don't believe in. We think EREV or hybrid is a much better, more profitable investment in our capital.

I think we're in good shape. More news will emerge, I think, about Ford's restructuring of our EV investment. I think we're very well-placed right now. I would say we're among the leanest, but I would say the most impactful investments. The big decision we have to make is, what do we do globally? We have this huge franchise globally, Ranger. When I became the CEO, it's not about me, but when I became the CEO, we were losing \$3 to \$4 billion every year on overseas operations. We took \$7 billion of restructuring. We're now making \$2 to \$3 a year now. We had record profits on IMG last year. We made almost \$1 billion in China. Who can say that?

So our operations overseas are very fit, but the Chinese are coming to those markets now, globalizing the supply chain, the emerging EV market in emerging markets like India, especially South America, they're being dominated by the Chinese and so we have to think about future-proofing that Ranger business as well. And that has to be a very capital efficient approach – I'm not ready to kind of explain all that right now but I think we've learned from our U.S. experience that partnerships are very important to that kind of approach. We've been very smart I think in Europe with Volkswagen on our commercial vehicles you can apply that same model to this new emerging electrification trend around the globe. So, I would say we're in good shape, it will emerge over time.

Sherry House:

I think for the continuity to give customers freedom of choice and put out our capital behind. So if you think about hybrid powertrains you can see us continuing to invest there and other types of multi-energy propulsion systems where we expect that the returns that we would get would really be much better, you can see the premiums that we're able to get on the hybrid for instance. So being very smart



about where those investments are that the return is going to follow.

Jim Farley: Our hybrid margins are now higher on F-150 than our ICE margins. I'm not sure I ever thought that would happen.

Emmanuel Rosner: That's interesting. So you're making a good case for the skunkworks strategy building a bottom-up, software-defined EV architecture benchmark to some of the cheaper competitors and it makes sense but with the launch not until the latter part of the decade, how do you stay competitive against a moving target? And while design is one thing, scaling profitable manufacturing is another, how can investors gain confidence in the strategy?

Jim Farley: Well, first of all we're doubling our EV volume this year, so that's maybe not so clear to everyone. We still have a vibrant business in Europe, the Puma electrics coming out. We have the MBB products scaling for a full year so we'll, we're going to go from 100,000 to 250,000 to 260,000 EVs. So we have a lot of growth but it's not in America so it's not as obvious to investors.

Look we, we have really smart people in skunkworks and the actual innovation is a little different than people think. The actual innovation is to design a vehicle for manufacturability. For the simplest smallest footprint in a plant with the lowest labor content and that drives a lot of complexity reduction, massive complexity reduction and it requires large and new investments like unit casting in the front and the rear of the vehicle for it to be made completely differently.

We think that our battery strategy is more fit than our competitors. And we have understood BYDs through teardowns and future knowledge from the supply chain.

On the EV component side, we really have been surprised that they're very affordable LFP batteries, that they don't pay a margin. They develop them themselves. Their EV systems, inverter, motors, gearboxes, are not as efficient as they need to be. So we have extremely efficient. We bought a company called AMP, and they really helped us understand how to radically reduce the, improve the efficiency of the actual motors, gearbox, and inverters so that we can operate with a battery that's 20% or 30% smaller than their Chinese competitors, even though they have a cost advantage. I think that engineering team is very focused on the future.

Some of the more challenging parts about that is going to be how much risk we take on the supply chain. There are a lot of great new age suppliers in the EV space that are not the traditional suppliers. And they have not scaled to Ford's scale before. And making a vehicle this way, when you see how we're going to make it, it's a completely different manufacturing process that will also be very new.

So I think the risk to me, I know this, I don't want to sound arrogant, but the risk to me is not, will our tech be competitive? It's actually, will we be able to execute at large scale with these suppliers in a manufacturing footprint that is a fraction of what we normally have in terms of labor content? There is so much new technology in the manufacturing and the supply chain that that's where I think we have to do a good job on execution mitigation.

The lower cost vehicles, you can't put a level three electric architecture in. So we're not going to have LiDAR systems and all sorts of very sophisticated sensor set



because it won't be affordable. We'll have its own electric architecture, which is great, but we're not going to put all the bells and whistles on it at that price point. So it's really, to me, what keeps me up at night is the kind of new technology execution in the manufacturing and supply chain.

But we'll see. I mean, what I am always amazed at for the last three or four years with the Chinese is their speed. Everyone talks about how good they are or how cheap they are. What they should be talking about is how fast they are. And so you're asking the right question. Is there going to be a battery chemistry breakthrough? Is there going to be, what's coming next? What's going to get 30% of the cost out? And have we thought about that up front in designing this platform? I don't know, but I think we're pretty close to it.

Emmanuel Rosner: Trade risk is not top of mind for investors. We have a window before things could heat up again. When we look at Ford, we think cumulatively you probably have something like \$35 billion of cost of goods sold exposure to finished vehicles and parts that move from Mexico and Canada to the U.S. The good news is all of your large trucks are made in the U.S. At a high level, how are you managing your manufacturing base and supply chain in this uncertain environment both near term and longer term?

Sherry House: As you would imagine, we're spinning up teams throughout the organization as most big industrial companies are at this time. So we're looking at all of the material flows. We're looking at stock levels. We're thinking about commodities. We're thinking about Tier 2, Tier 3 effects as well. So that is going. Right now, we're paused on a lot of the Mexico and the Canada tariffs today. But that doesn't mean that we aren't thinking about where might it make sense to invest strategically in a small amount of inventory build in key areas to protect our flows, to protect our customers.

But generally speaking, we're not making a lot of large decisions at this point. We're waiting to see the impacts that are going to happen. We think that what's really important is that we understand what the secondary and tertiary effects are. If tariffs were to come in in some sort of persistent way, we'd have to look at price elasticities. We'd have to think about, the supply chain effects all the way down to Tier 2, Tier 3, Tier 4 suppliers. We'd have to look at things like duty drawbacks to really be able to make a more informed perspective on it. But we're doing exactly what you would expect in terms of preparedness in all of our factories, in our supply chain, in our logistics organizations.

Jim Farley: Let me just kind of tackle that at the top of the house. There's a global street fight in the auto industry right now between electrification, zone electric architectures, and of course, kind of the emergence of the Chinese as a global force in our industry. And I think President Trump, has talked a lot about making our U.S. Auto industry stronger, bringing more production here, more innovation in the U.S. And if his administration can achieve that, it would be one of the, I think, one of the most signature accomplishments.

So far, what we're seeing is a lot of cost and a lot of chaos. If you look at the tariffs, let's be real honest, long term, a 25% tariff across the Mexico and Canadian border will blow a hole in the U.S. industry that we have never seen. And frankly, it gives free reign to South Korean and Japanese and European companies that are bringing 1.5 to 2 million vehicles into the U.S. that wouldn't be subject to those



Mexican and Canadian tariffs. So it would be one of the biggest windfalls for those companies ever.

Meanwhile, we're USMCA compliant with almost all of our content, finished vehicles and components going across the borders, to have that kind of size of tariff would be devastating. At the same time, we have the potential repeal of various IRA elements. We've already sunk capital, even though we've rationalized it in battery production and assembly plants all through Ohio and Michigan, Kentucky and Tennessee. And many of those jobs will be at risk if the IRA is repealed, big parts of it is repealed. So we're expecting and hoping that this will be a pony for the auto industry with the administration. They've certainly been very clear. So far, as Sherry said, we're doing a lot of shoveling.

Emmanuel Rosner: What's Ford exposure to the potential steel and aluminum tariffs?

Sherry House: Sure. So in steel, we get 90% of that from the United States. We get about 10% from Canada and nothing meaningful from Mexico. Aluminum also is not that impacted for us.

Emmanuel Rosner: Because it's domestic sourced or on the aluminum side?

Jim Farley: Yes. The reality is, though, our suppliers have international sources for aluminum steel. So that price will come through and there may be speculative part of the market where prices come up because the tariffs are even rumored. So we'll have to deal with it. And that's what I'm talking about, cost and chaos. It's like a little here, a little there. A couple weeks or a couple months of vehicles crossing the border, components crossing the border, that's going to be a tariff. This is what we're dealing with right now.

Sherry House: I think for us the most concerning is if you start to get a number of these small things strung together, right? Then it starts to make them more sizeable.

Jim Farley: They're not small. They won't be small together. So that's why tomorrow I'm going to be in D.C. It's the second time I've been there in three weeks. Because they need to understand that there's a lot of policy uncertainty here. But in the meantime, we're scrambling to manage the company as professionals. And we're in a global race.

Emmanuel Rosner: Let's speak about the a little bit of this cyclical and also want to touch on Pro. First of all, so, Jim, when you started in the industry, full size pickups were maybe 12% of the D3 volumes. Now it's probably like 32% and it drives most of the free cash flow. With nearly 100 days supply across Ford and your competitors on pickups and maybe some signs of pricing pressure, are you worried about the risk of a price war? How do we manage this?

Jim Farley: I think anyone in the domestic industry has gone through what we've gone through. I've been at Ford for 15 years and I was on the Tundra project at Toyota. So, watch it from a distance and watch it up close. Saw an update when we had to shut down our truck plants, so been through it.

I think generally we see very reasoned and thoughtful inventory and pricing of our competitors. It'll be interesting to see RAM, they're starting to advertise more. They launched a dealer cash program. That's something that I haven't seen in a while.



As you said, so it doesn't surprise me. The reality is, though, the full-size truck market is in two different markets and they're almost completely different. You have the RAM price zone and then you have the Ford GMC price zone. And, as RAM suffered, GMC has done a great job as Ford has gotten some market share. We've had four years in a row of revenue increase. A lot of it is because of Ranger, but also to that. We've managed the high-end mix really well between Super Duty and F-150.

And we think that, people who really want the newest trucks, really want Pro Power on board, the newest Super Duty, the Platinums, the commercial people want the cab chassis versions. That market is very strong right now. It's really strong. The commodity part of the market, someone who's on a budget and is going to buy an XL or an XLT F-150, but they're really looking at RAM and Silverado. Yes, I think there's going to be a lot of price pressure. And there always has been. The good news is that we invested. We have a brand-new F-150 and a brand new Super Duty.

When you go into these kind of cycles, you want to go in with fresh product. And that's why we invested. And it was painful. The Super Duty launch was painful. The F-150 launch was painful for us. But now we go into it with the freshest product we've ever had, with technology like hybrid that our competitors don't even offer. You can't even buy a hybrid, F-150 is, 25% mix is are hybrid? 25% mix, it's really very popular. But I think we're not naive, that's why we have to work on our costs. This is going to be a heck of a market this year. But so far I've seen very thoughtful strategies by our competitors on their inventories. Even when they got out of line, they quickly focused on getting back in line. Same with Ford.

Sherry House: Yes, and if you look at our January incentive spending, it's actually lower than the industry average. So yes, we're seeing some pressure in key areas, but we're really moderating that in terms of our incentive spending.

Jim Farley: I think only maybe 20% of our sales right now are '25 model year. We're still way behind our competitors in transitioning to the '25 model year.

Sherry House: It's about 13% in Q4 and we think it'll probably take till the end of Q2 before we get to about 50%.

Jim Farley: Our competitors are 60%, 70% of the volume is '25 model year now. So we're going into this with good stock with good prices.

Sherry House: And some fresh product, the Navigator, Expedition, that's a new product as well.

Emmanuel Rosner: Yes, and breaking out Pro, you've highlighted a sizable earnings and cashflow base that is less exposed to normal cyclicality. And you're aiming to further reduce that cyclicality by growing software, aftermarket services, earnings from \$1 billion to basically \$2 billion.

So in the near term, how are you thinking about the cyclical risk to Pro earnings this year, given softer pricing and maybe tough Super Duty comps? But then longer term, can you update us on the progress towards the \$2 billion goal for software and aftermarket earnings?

Sherry House: Yes, so on the demand side of Pro, we're continuing, as Jim said, to see strong



demand on Super Duty on our chassis cab variants. So that isn't where we're seeing softening. The pricing issues that we're having are more in the non-core. It's things like the rental space. So we're really holding strong there to not succumb to some of this pressure that's happening there. We think that the inventory levels are starting to grow a bit in that space. And some of our competitors are choosing to transact at lower prices, and we're not.

We think that some of the other areas of the moat that we've been building with these strong software attach rates, and the fact that we've got high and growing physical services is really important in terms of the offset. You saw a significant investment that our dealers are making, that we're making in terms of the remote repair capabilities, in terms of the base that we have for service. All of that's going to enable this increase in EBIT as a percentage of total EBIT for Pro coming from software and services. So that's really where we're continuing to focus as an organization is doubling down in those key areas in order to enable us to be able to ride through that cyclical.

Jim Farley: I'd like to be more specific, the vehicle business in Pro is very significant from a revenue and profit standpoint. So it's going to take a lot of scale to get the parts and software business to de-risk that scalability that the cyclical of Pro. So we should be honest about that. But we've worked really hard to get it to 13%, we made \$1.3 billion on parts and software last year and every point of VIN share increase. It's about \$30 million.

Sherry House: That's right.

Jim Farley: We're at about 30%, we want to get to like 50%. So that means that 50% of the people we sell a Ford Pro vehicle to, they do service with us. Right now it's about one out of every third. To do that we have a herculean job of dramatically changing our service capacity. Most of our customers do not go to Ford for service and the service margins on the parts of 35% plus. So it's a very profitable business and it's something pretty new to Ford.

We've added over 2,000 service trucks, where they go to our Pro customers and do service at their location and customers are absolutely loving the fact that they don't have to bring their truck into Ford, and that has been great and we grew that 57% last year. So we double almost double the number of service trucks. We added 2,000 service stalls last year that's about 50% of the journey that we need to get to, we have to attract the technicians too get to 20% of our profit for Pro coming from service and software.

So I would say we're kind of past the -- we're past the launching Pro we're now into the real nitty-gritty of building the capacity on after sales in our specialty dealers. We have 700 dealers that are not retail, they're devoted the Ford Pro commercial. They don't really sell the rest of the lineup. They only focus on that and they're really focused on after sales and the team has done a really nice job, as Sherry said, building that capacity, but it's it takes time and for that reason it's a really good moat. Because it's hard for someone else to do, you need to put the technicians in you got to get the trucks hired. You got to get people out there repairing vehicles on this in parking lots. These are really tough jobs and they're very special kind of jobs, but Ford knows how to do this.

We now have almost 700,000 subscriptions for software. When I started as a CEO,



we had none. So we're now starting to really sell productivity. And what I'm excited about is that we're now seeing what we always talked about in theory, the flywheel effect is actually happening. When you look at our telematics people, they're buying more software than they bought even a year ago. So the attach rate on software is increasing, which is really exciting.

What's even more exciting to me is the next generation of vehicles we're designing for that software. Predictive failure components, so that our software can not only limit speed, limit access, we actually can be able to do predictive failure components. So vehicles never go off the road. People will pay a lot of money for their vehicle to never go off the road. And that's the next generation of vehicles that we're designing for Pro, EV and ICE. A lot of people are putting their electrical architectures only on EVs. We are not. That's an ambition. Could be a risk, too. But we think our software attach rates will be much higher than our competitors because we have Pro, where the attach rates are way higher than BlueCruise on the retail side. And we're designing our vehicles, including ICE vehicles for that capability.

Emmanuel Rosner: So there's two more topics I was hoping to squeeze in in the last couple of minutes. First one, the topic of potential partnerships or industry consolidation. The auto industry has long struggled to earn its cost of capital. And even after a historically tight supply-demand environment, returns haven't meaningfully improved, which very much underscores the need to eliminate redundant investment, potentially to partnerships or consolidations. So how do you see partnerships evolving, both between traditional OEMs and in the newer entrants? Do you see industry consolidation on the horizon? And if so, how would Ford participate?

Jim Farley: We're already seeing it regionally, right? In Japan, it's happening. I'm sure it's going to play out very soon in China. They have to. It's a huge price war. No one's making any money in China. And there's a lot of overcapacity. So I think the consolidation that we've always been talking about that never has really happened in our industry, we're on the eve of that in certain regions. And it'll be cascaded by region. I think that's pretty easy to see. I think the more likely scenario is partnerships. We learned a lot from Volkswagen. After 120 years, we have a lot of partnerships. Ford Otosan has been one of the stellar partnerships we've had. We've learned a lot about what works and doesn't on partnerships.

The complication of partnerships, even though there'll be huge pressure to do it, is electrical architectures. Huawei and Xiaomi are in almost every vehicle in China and all those systems will not be accepted by places like the U.S. For PII and other reasons. So, it's going to be difficult to use someone else's platform but have your own electric architecture. So, I think that will make it difficult between the West and the East to kind of find good partnerships. Maybe in a Europe it'll work, maybe in a South America or Thailand, Oceania, Middle East it'll work fine. But in places like the U.S. It could be very, very tricky. Biden just put out the law on this kind of intelligent vehicle and I think that'll be a big issue for partnerships.

But I, there's no doubt about it. Whether it's hybrid unibody, whether it's affordable EV, there is enormous pressure for partnerships and it makes perfect sense. You have to work out the electric architecture.

Emmanuel Rosner: Maybe just very finally because I think we're out of time. Can you talk to us about Ford's strategy for autonomous driving? Last week on the earnings call you



suggested that Ford is looking into potential partnerships. You mentioned Tesla, Waymo. What will Ford develop in-house? What may require suppliers or partnerships?

Jim Farley: Yes, I think Sherry's view will be helpful coming from outside of Ford. But -- we still think that level three is something that our team can do with the Argo team. They've done a great job on BlueCruise. Our BlueCruise has gotten better and better and better. Level three is a kind of organic, obvious -- next step for them. Level four though is a completely different animal. And so for level four, I don't want to preview too much, but -- there's plenty of really good companies out there for pure level four for personal autonomy or for a fleet. I think for our commercial customers, level four is something that we have to make sense of as a team. And I think there's a couple of good choices out there. That's all I'll say. Anything to add?

Sherry House: I would just say the personal car ownership, I think, is going to be maybe a ways out yet. Then we'll have to see what happens with some of these Chinese players that are making announcements even, I think, yesterday in this area. But if you think about when are you going to have ubiquitous coverage that a vehicle could drive anywhere, that may be a ways out. And so you have to think about where would Ford play in that. And generally when you get into this type of new technology, often it comes into your higher priced vehicles first. That's the only place where you can really afford it. So we would probably think about partnerships. And this is -- this is still a ways in the future, perhaps.

Jim Farley: We have to really think about commoditization of this part of the market. It's getting commoditized faster than a lot of people thought. ADAS had lots of pricing power a couple years ago and it's getting commoditized. So I wouldn't -- to be honest it's a really interesting topic and very important but for us Pro is a software machine we have 700,000 subscriptions they renew new every year we haven't gotten to prognostics yet. The software tam for us is huge among commercial customers they're not like retail customers they make their business off the vehicles. So the more efficient they can use the vehicles and if the software can do that they will pay. So to us that's really exciting opportunity maybe different than other companies. Thanks, Emmanuel.

Emmanuel Rosner: Jim, Sherry thank you so much for joining us and for all your insights. Thank you.