



**Ford Motor Company | RBC Capital Markets Global Industrials Conference
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Tom Narayan:

I'm Tom Narayan, RBC's Global Autos Analyst, excited to have Ford Pro CFO, Navin Kumar with us. Navin, you've worn many hats. You've been at Ford for a while. Before that you were on the dark side, let's say, Wall Street, so something that all of us could probably appreciate. I was at the 2023 CMD where you guys made us drive around in E-Transit and measure each other against other sell site analysts. And I was very proud to come up on top, but then was quickly told that if I were actually in the field it wouldn't have been that great.

But a number of things at the CMD, I think as an analyst were quite eye-opening. As you know, we always look at, especially in autos land, any business that has really strong market share, such a competitive industry. Some have called Ford Pro, I've heard the Ferrari inside Ford. Not sure that's a direct...that makes a lot of sense directly, but I get the vibe so to speak. Sustaining this leadership position you have in North America and then growing in Europe, pretty remarkable. Just love to hear more about the key factors and how you've maintained this leadership. The obvious next question will be if you have such dominant market share, the next biggest guy is so much smaller than you, then what's stopping them from just cutting price and just gaining market share?

Navin Kumar:

That's a good place to start, Tom. Good morning everyone. It's great to be here. So we have moats in vehicle software and physical services distinctly, but it's bringing that offerings together into an integrated set of solutions. That's what drives durable competitive advantage. And our long-term strategy, it's built on three interlocking moats. And the first one is we serve commercial customers with the right tool for the job. We have the widest and most flexible vehicle lineup of any commercial vehicle brand that includes trucks, chassis cabs, wagons and vans. And we tailor that offering including with certified upfitter partners. And so basically that allows us to serve virtually all end-use cases and all vocations. And we have and will continue to invest in this market-leading lineup, that includes the Super Duty and Transit in North America and the all-new Transit Custom and Ranger in Europe. The second is Ford and our dealer partners have deep relationships with customers that have been built over decades and our dealer's long-standing commitment to the commercial space, that's a key competitive advantage for us.

Since 2022, and that Capital Markets Day you've been referring to, our dealers have invested over \$2 billion to expand our commercial service footprint. That includes dedicated physical service centers and mobile service. And our dealers are now generating the majority of the leads for our software business for small and medium customers that are the backbone of the economy. And then the third moat here is

scaling our digital fleet solutions. And that's bringing together software, connected vehicles and proactive uptime monitoring solutions so that when a service event occurs, our dealers and Ford can provide service quickly, efficiently, and keep those fleets running. So it's really bringing all of that together in an interlocking fashion. That's what drives this durable competitive advantage. And for Ford and our dealer partners, it really helps us deliver our north star for every commercial customer, which is continual enhancements to fleet uptime and productivity.

And then regarding the last part of your question around competitor dynamics and pricing. So we're very data-driven and surgical in our approach regarding pricing, there's a couple inputs, macroeconomic factors, industry and end market specific considerations as well as the levers we have on top line pricing, variable marketing incentives and series and option mix. And when you put that all together, our customers, they're focused on total cost of ownership and so pricing and competitor actions can be an input, but it's not the only input, it's the demonstration that you're delivering total value and improvements in total value to customers. And that's our Ford Pro ecosystem and what we bring. So it really drives resiliency. And as we grow and scale that ecosystem offering, that'll drive growth in that resiliency. So we feel pretty good about our progress with Ford Pro to date. We have over 750,000 paid software subscriptions that's grown nearly 25% year-on-year and the build out of our physical service has gone pretty well. So we are going to continue that trajectory but to really harden the competitive advantages of this business, it's really about scaling that ecosystem.

Tom Narayan:

And suffice to say that the competition doesn't have as robust a feature set.

Navin Kumar:

Yeah, I think we're really pleased with our progress and it's about really treating customers like clients and having a more partnership engagement model so that what we're bringing to them will not just drive fleet up time but more productivity in their business as well. And I think the way we're scaling and driving that, it takes a bit to start replicating that because we will continue to enhance our offerings and solutions and that'll just continue to make our competitive advantages more durable.

Tom Narayan:

Maybe to just help us understand the business better. Could you clarify Ford Pro's end markets? Maybe give us a customer breakdown. Are certain end market's more dominant into where you guys are? I know the government sector is one that obviously comes to mind. What's the mix between large enterprises and small enterprises?

Navin Kumar:

So the business is very intentionally diversified and it's on a couple different vectors. So I'll share what we've said publicly about the North America side of the business at the end of 2024. So about 1/3 of our volume goes into large corporate fleets, enterprise fleets. 1/3 of our volume is in more small businesses and fleet tail retail. So the vehicle is being procured at the dealer and they're negotiating on price, volume, incentives. 18% of our volume roughly is in government and that includes state, local and federal. And the majority of that is state, local. And about 15% is in daily rental. And where we have real robust market leadership is what I'd call essential economy vocations. And so that includes the trades, utilities, construction and first response. And that's across large enterprises, small business fleet tail and government. And as you can imagine, first response is more oriented towards government.

And why do we have that leadership? It's what I was talking about earlier regarding those moats. We bring a very extensive and flexible commercial vehicle lineup paired with an ecosystem offering of software and solutions. It really helps customers in this space to boost their productivity with these vehicles so they can do more with these vehicles as well as leveraging the services to ensure fleet uptime. And the diversification of our customer base, that's a key competitive advantage for Ford Pro. We serve all fleet sizes and markets, vocations and what that allows us to do is flex our offering into end markets that are growing like the trades or end markets that are benefiting from long-term structural investment opportunities. So take data center infrastructure build out for AI.

Tom Narayan:

In your prior life, you were in the ADAS, in the autonomy space. I know maybe this is something that capital market quite a bit from [inaudible 00:08:23] value. I remember talking about with the telematics and the speed management, you could just give us some details on how ADAS and autonomy plays into Ford Pro.

Navin Kumar:

Yeah, absolutely. So like I mentioned, Pro's north star is continuing to enhance fleet uptime and productivity for commercial customers. And so we evaluate all types of solutions and technologies that can deliver that including advancing levels of autonomy. So to break that down, in the level 2 and level 2+ space, we have an offering out in market called BlueCruise. It has hundreds of millions of miles driven and interest from commercial customers is growing for the BlueCruise solutions. And in my view, this builds an essential foundation of trust because oftentimes when you talk to people in the space, they go with the technology definition and level two and level three and level four are different. But from a customer standpoint, building trust with the level two solutions, that starts setting a foundation for more advanced levels of autonomy. And in our world that's a key precursor to level three.

So level two is eyes on, on highway. Level three is eyes off and on highway. And for a fleet customer that could be really game changing because if your eyes are on you're not able to reinvest that time in other productivity solutions for a fleet. So it's starting. We're seeing a lot of level two interest in sales fleets. As we grow into level three, I think that's going to open up the aperture and we believe our internal build out of our level three autonomy solution, which is leveraging people that used to work in Argo, we believe that's going to be among the best in execution. And then you get to level four. So Ford is not developing an internal level four solution. We're being really pragmatic about that. We're watching the market as it evolves and we're definitely open to potential partnerships, especially if it can deliver value for the commercial customers we serve.

And what we hear from some select commercial customers is there is interest in level four autonomy. It often comes up in point to point routes to think about shuttle routes or middle mile logistics. So we definitely do hear some inbounds of that. And we think Ford Pro can be a real great partner with autonomy fleets for a couple of reasons. We've been scaling in electrification and that involves working with customers that are integrating electrification technology in a mixed fleets. And the same type of logic happens with autonomy. It's not a wholesale switch overnight.

Fleet customers, they're very methodical, they're very data oriented. They're going to want to ensure that integrating these type of technologies ensure fleet productivity and uptime and it's a gradual integration and we've done that with hundreds of thousands of commercial customers in EV and that's very much a precursor for what you see in autonomy and we feel our solutions and charging telematic software as well as service has an important role to play in partnering with autonomy fleets as that starts to scale over a longer period. So we feel well positioned from a Ford Pro services standpoint and I

think we're taking a very methodical and surgical approach on how to integrate autonomy into fleets over time.

Tom Narayan:

Just on that as a follow-up, would you see adoption of autonomy and you mentioned level three happening is the big catalyst quicker on the Pro side or on the consumer side?

Navin Kumar:

That's a good question. I think we have a more methodical adoption curve because there's a couple parameters. It's not just the demand side, it's the supply side. So when you look at level three and level four, it's about the mapping and the operational domain in these markets and starting to scale that. And then for fleet operation it's also, can I match that with my demand patterns, my use cases, my operating patterns, so I could scale that? So think of it more like a waterfall. You could see fleets adopting it in multiple markets as the technology becomes available, but then there's a scaling in each market and some markets it may not be available.

Level four autonomy may take some time to scale into markets where you have more heavy precipitation and fog for example. Whereas on the retail side, I think you have a similar set of factors. That said, there are I would say mobility fleet use cases like ridehail and what you're seeing happen in San Francisco and Los Angeles and other markets where the operational domain has been defined, you're seeing vehicles start to deploy and you're starting to see that ramp. So I think in some moving people cases and some city specific goods logistics use cases, you're going to see that ramp faster. I think it's going to take a little bit longer for retail as well as on fleets that have more of a national operating footprint or a state operating footprint. It's all tied to the technology roll out.

Tom Narayan:

Got it. You mentioned electrification as your corollary with autonomy. There's a logic for electrification in the consumer side and then there potentially is a different logic on the business side, it's all about bottom line total cost of ownership. But then we hear at least where we are now with electrification, our challenges like aerodynamics of the vehicle, the size, the weight has impacts. Typically, business vehicles tend to be heavier, maybe less aerodynamic. Yeah, maybe just talk about Ford Pro's EV transition and how all of these complications factor into your strategy.

Navin Kumar:

Yeah, I'd say you're exactly right. For a commercial customer, these type of decisions are very rational and math based and it's a very much a focus on total cost of ownership and ensuring that fleet productivity and uptime. And what we're seeing is starting to diverge and by market. So in the U.S. with policy adjustments that's changing potential incentives which is changing return on investment for some customers. That said, there's some use cases where we're going to continue to see real benefits and a high ROI in the U.S. so you're going to see EV adoption continue in some of these use cases. In Europe, that EV mix is going to continue to grow and that's driven by regulation. And for Ford, we are the market leader in commercial electric vehicles. We have, like I mentioned earlier, hundreds of thousands of customers, but I think it's important for everybody to hear how we built that business and it's not just about the product like the E-Transit, which is just like the Transit - has a similar cube, has a similar configurability.

And so that helped us serve these customers, but it was really working with these customers and more like the enterprise larger customers to understand their operating patterns, their use cases, leveraging

that data to understand where EVs would fit or not fit, and then designing the optimal ways to integrate those EVs in the mixed fleets and the optimal set of charging solutions to ensure fleet uptime. And having that leadership position in the now really helps as EVs ramp and it's just a more gradual ramp in the U.S. in the future. And there's two elements I think that we've benefited from in Ford Pro overall. First, it created a natural evolution in our go-to-market business model from focus on a transactional vehicle price-based relationship to more of a consultative client engagement model because it's more complex to integrate these EVs, but once you do, you start really seeing the benefits of that. And that has helped set the foundation for future technology integrations like we mentioned earlier with autonomy.

So we feel well positioned but we're eyes wide open and we've done this in a way that's flexible. So our E-Transit is produced in our line at Kansas City and we can actually flex between our E-Transit and Transit. So as market demand factors change, we have levers we can play with and that's a little bit different than some of the competition out there that are pure play or they focus their EV play and commercial on a specific use case like delivery. We took the same breadth of approach in how we serve customers with our electric vehicle lineup as we do our ICE lineup. And so that's a real differentiator for us. And like I said, being able to integrate these vehicles into mixed fleets because it's not about 100% conversion immediately, that just gives us a lot of competitive advantage, especially with more future technologies coming, like autonomy.

Tom Narayan:

Maybe on that topic, and obviously this EV slow down at least in the retail side, gets a lot of media attention. I think you've just laid out a good argument for why on the commercial side it's more about your relationship with these customers improving an argument for why maybe they should electrify, but then you have cross currents like policy maybe impacting EV adoption. Is Pro able to flexibly change its production schedule? And maybe on that, you could touch on the relationship with Ford in general. I think some people would like to understand that dynamic of the vehicles actually being produced and where you guys source the vehicles and how it works with Ford corporate.

Navin Kumar:

Yeah, so the short answer is yes, we do have flex. It's not an overnight switch, but when these vehicles are being produced in the same factory and the same line as we do production programming and we're looking at commodities and other elements like that, we have flexibility and we absolutely do take advantage of that to meet the needs of our customers. Then in terms of that interaction model, it brings up a good point. So Ford Pro has been set up as a distribution business and the reason for that is a little bit of history. So when you look at our Europe operation, and this goes back at decades, we actually have a joint venture partner, Ford Otosan, and we source our vehicles from Ford Otosan. And that's under approached vehicle arrangement that includes a markup. And so as we set up Ford Pro overall in Europe and North America, we basically replicated that model we have in Europe for the whole operation.

So Ford Pro actually picks up all the costs in our P&L that includes all the direct costs tied to our vehicles. So think material costs, freight, as well as the depreciation and amortization related to the facilities and the tooling and any indirect costs like enterprise technology, IT, SG&A, admin and our share of those indirect costs. Where we also have a markup, it's about 1 to 2% depending on if it's an ICE or EV vehicle, and that reflects a charge related to those manufacturing assets that sit in Ford Blue or Model E. So the P&L picks up all the costs plus that markup. And why this model works really well from us? Well, externally for the benefit of all of you, you're able to see the financial performance, what we're

delivering, you get a better understanding of the strategy of how we're executing to deliver long-term value creation for all the investors and shareholders in this room.

And then internally it's very helpful because internally it also shows the set of physical operating metrics and financials and so that helps the teams prioritize resources and work to be done to deliver the Ford Pro strategy and execution. Additionally, in areas where you may have some shared elements of collaboration, so think managing compliance or production program, especially if a plant has shared vehicle lines between Ford Pro and Ford Blue, we're able to see and articulate where the business is going for Ford Pro to help drive that prioritization.

Now in that specific E-Transit/Transit case, that's Kansas City, that's all in Ford Pro, so we're optimizing that among us. But to your example on F-150 and F-150 Lightning for commercial customers, we work with our partners in Blue because we take roughly about 20% of that volume in the commercial fleet space. So the model, it provides the best of both worlds because we're able to robustly focus on commercial customers and drive value for them. At the same time, we're able to articulate that internally so that we can get the right prioritization, the right engineering, the right support and work where there's elements of shared collaboration. We're able to articulate what that means for the Pro business.

Tom Narayan:

I think on behalf of a lot of the investor base, I think it was maybe a gutsy move, but by breaking out those segments it's not always easy to do that. But you guys did it. It actually gave us the numbers and it's probably painful, but it was much appreciated.

Navin Kumar:

Yeah, what I love about my job is I get to leverage things I've done in my past career. As you mentioned, I was an ex-investment banker. I've worked on M&A and spin-outs and divestitures and we took elements of that to really approach the segmentation and how we present the financials and how we manage the business. So just that experience of building off that, it was really valuable for this type of work.

Tom Narayan:

You mentioned Europe, we are a global team and obviously we cover some of your peers in Europe on the Pro side and noted some macroeconomic challenges of late, which I'm sure you're aware of, weaker performance by some of your competitors, but you guys don't seem to be seeing that, which is really interesting. Just curious how you're navigating the commercial vehicle market in Europe. I know it's highly regulated, so maybe you could talk about how you're dealing with regs. Is the fact that you're strong in North America, does that have bleed over benefits in Europe or is there something else going on?

Navin Kumar:

Yeah, you're right. We're seeing a softening of the European commercial market overall. There's areas that are weaker like manufacturing and more competitiveness, especially in electrification with light commercial vans as an industry overall. That said, in the first half, Pro has grown market share in Europe and grown volume a little bit, and that's been driven by the strength of our fresh product lineup, which includes the all new Transit Custom and the Ranger. And to one of the points in your question, we provide powertrain choice, so that includes ICE, PHEV or EV variants. Those plug-in hybrid and EV variants are really important to delivering compliance along with representing the voice of our

customers as we're engaging with governments on policy so that you're able to better balance where the regulations are going with the demand, the needs of the customers. That's a journey, the three-year averaging of CO₂ in Europe as a start, but more work to do there.

And it's very similar to our approach in North America. It's pairing these vehicles that are flexible, that are configurable. We work with conversion and upfitter partners in Europe with software solutions to really deliver fleet uptime and productivity. Then the last point of your question is pretty interesting. The markets are diverging, but the customer needs, jobs to be done are very similar between Europe and North America. And actually, we've benefited immensely from having this be organized in a global way. We learn a lot from our European peers and the European operation. They've grown market share by brand for the last 10 years and we've actually incubated some of our software and service solutions out of Europe and then brought that into North America. So for example, some of our proactive uptime monitoring solutions for fleets, mobile service. And so this has been the beauty of the segmentation and taking this global approach. We're really able to take best of breed out of both markets and apply it in other regions to better serve customers.

Tom Narayan:

With your M&A background, what areas within Ford Pro are you targeting for growth? You talked about software charging services. What areas do you see as strategic priorities?

Navin Kumar:

Yeah, when it comes to M&A or just inorganic in general, it's really about accelerating our software and services flywheel and there's a few key priorities. So start with the first one, and I mentioned this a little bit earlier, interlocking moats. It's really accelerating the build out of that physical service and mobile service network with our dealer partners. And our dealers are partners, so this is really a form of inorganic activity. They're providing the majority of the capital and investment, we're providing some of it and it's really growing that. And the benefits are huge for customers when a mobile service vehicle can support your service needs at a job site or a depot. That's hours and hours of time back that you're investing in the business to grow the business. So it's the first key priority for us is continuing that scaling and that partnership model with the dealers.

The second is on our software solutions and partnering with market leaders to really enhance those offerings. A couple examples. So last week we announced a partnership with ServiceTitan. That's a multi-year partnership. They're the market leader for software and the trades, and we're integrating our telematics data services directly into their workflows. So if you're a customer of ServiceTitan, you don't just get the benefit of Ford Pro telematics, that real-time fleet monitoring and tracking those vehicle health alerts, the driver coaching, Tom, you experienced. They're also combining that data with theirs to track technician productivity. So that includes reconciling a text time sheet with where the GPS data may be different from the vehicles. And so that's huge for these customers and the trades because that ensures they can have more productivity out of their techs. They're not doing side jobs independent of the customer's business. And for the fleet and the vehicle side, that just ensures the vehicles are being used in the jobs to be done.

So that really ensures vehicle uptime and higher vehicle utilization. And that's an example because we're going to do more partnerships like that that are differentiated and unique with cohorts of customers like the customers and the trades that we are delivering for with this partnership with ServiceTitan. And we're really excited to get going with them. And Tom, you and I were talking a little bit before, my experience in M&A and partnerships, we are excited to do more partnerships because that's a place we can actually go faster. You don't have to go through the structures of a deal. And so that ServiceTitan

deal from a partnership standpoint, that took us from starting discussions with them to announcing it and going live and piloting [in] five months.

And that's the type of pace we're looking at in Ford Pro to really accelerate our flywheel. So we're absolutely open to partnerships. But at the end of the day, really, we take a customer first mindset to all of this. Can we drive a better, faster, simpler execution through a partnership or an inorganic activity? And that is the framework we apply. So we're absolutely open. You can see we're starting to get going and moving. We're really excited about our pipeline and it's really about delivering more value to customers.

Tom Narayan:

Great. I have to ask, I came up, it think on the earnings call about the potential for robotaxis. Would that fit in if you guys were ever to approach that within the Pro space or would that be in the retail space? Is that something you'd even consider?

Navin Kumar:

Yeah, great question. I actually referred to it as mobility fleets and cities earlier, so I should have used that terminology on robotaxis. But we think Ford Pro has a role to play in terms of supporting the service and uptimes of future autonomy fleets like that. It could be charging solutions, for example. So yeah, I think we have a pretty wide aperture. Like I mentioned earlier, we serve all fleets, sizes, vocations and markets, and so an autonomy fleet would fall in those categories. Absolutely.

Tom Narayan:

Great. That's all the questions I have. Any concluding remarks you have for us?

Navin Kumar:

I just really appreciate the time. We're excited about the trajectory of the business. There's a lot of opportunity and, again, just really appreciate the time.

Tom Narayan:

Awesome. Thanks a lot, Navin.

Navin Kumar:

Thanks, Tom.