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# Ford Motor Co. (F)

Q1 2022 Earnings Call

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*President, Chief Executive Officer & Director, Ford Motor Co.*

**John T. Lawler**

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*Chief EV & Digital Systems Officer, Ford Model e, Ford Motor Co.*

**Hau Thai-Tang**

*Chief Industrial Platform Officer, Ford Motor Co.*

**Marion B. Harris**

*President and Chief Executive Officer, Ford Motor Credit Company, Ford Motor Co.*

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, ladies and gentlemen. My name is Andrea, and I will be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company first quarter 2022 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' prepared remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please go ahead.

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### Lynn Antipas Tyson

*Executive Director-Investor Relations, Ford Motor Co.*

Thank you, Andrea.

Welcome to Ford Motor Company's first quarter 2022 earnings call. With me today are Jim Farley, President and CEO, and John Lawler, our Chief Financial Officer. Also joining us for Q&A is Marion Harris, CEO of Ford Credit, Hau Thai-Tang, Chief Industrial Platform Officer, and Doug Field, Chief EV and Digital Systems Officer, Ford Model e.

Today's discussions include some non-GAAP references. These are reconciled to the most comparable US 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](https://shareholder.ford.com).

Today's discussions also include 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 28.

Unless otherwise noted, all comparisons are year over year. Company EBIT, EPS, and free cash flow are on an adjusted basis, and product mix is volume-weighted.

With that, I'll turn the call over to Jim.

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### James D. Farley

*President, Chief Executive Officer & Director, Ford Motor Co.*

Hello, everyone. Thank you, Lynn, and thanks for joining our first quarter 2022 earnings call.

Yesterday, I was with Bill Ford and our incredible team at the Rouge factory, where my grandfather worked, to celebrate job one for the F-150 Lightning. We were also proud as a team for delivering a truly breakthrough electric truck and delivering it on time as a launch. The excitement around the truck is like nothing I've ever seen in my career. In fact, the power went out in the facility, and we ran most of the presentation with F-150 Pro Power Onboard.

While we have work ahead to fully scale production and fill an extraordinary order bank, both for our retail Lightning customers and Ford Pro, make no mistake. This is a very important moment for us at Ford. We're accelerating our significant transformation. We have the right plan called Ford+. We're putting in place the right organization.

As you know, on March 2 we announced a plan to form two distinct but interdependent business units called Ford Model e and Ford Blue. Together with Ford Pro, these three automotive businesses allow us to clearly define and assign priorities, make the most of our existing strengths, but also build new strategic muscles and, most importantly, capabilities.

Ford Model e is responsible for delivering clean sheet breakthrough EV designs, software-advanced electric architectures, partial autonomy. And Ford Blue's mission is to deliver a more vibrant and profitable ICE business, a business that's going to serve in the short term as our profit and cash engine for the entire enterprise.

So, what have we learned since March 2, and what are we working on at Ford? In terms of Model e, first, it's very clear to us that battery capacity is the key unlock to our EV aspirations and propel our growth in the future. We're in good shape in the near term. In the medium and long term, securing raw materials, processing, precursor, and refinement, and setting up battery production here in the US and around the world is a big work statement for us. Expect a lot of news from Ford in the future related to the vertical integration of our EV business.

Second, we're getting after our talent gap in key areas, EV engineering, software, and autonomous driving technology. We have a very good start already, and we will continually be very aggressive on recruiting talent.

Third, we're now deep into discussions with our dealer partners around the globe but especially in North America on brand new standards that are required to launch a completely different customer experience that is leaner and better for our customers that we believe will not only be competitive but superior to a solely direct model. We're drafting standards as we speak and plan to roll these out this year.

Finally, we're crafting our EV future product pipeline and are focused on a small number of highly compelling, high volume models in key segments where we already lead. I want to make this very clear. Some companies seem to be pursuing a strategy of trying to match Model Y's volume with eight or nine top hats. That's not a winning plan in our view. We will focus on key volume name plates. Constrained capital, as we have it, but really to leverage scale and efficiency to reach and eventually exceed our 8% EBIT target for EVs.

I want to be clear here that as we move forward, our EV designs will be progressive, and they're going to be aimed at bringing new customers to Ford and Lincoln. They will not be electric versions of our existing lineup.

Now in terms of Ford Blue, we will accelerate our restructuring and address our uncompetitive cost structure. We're going to attack complexity in areas such as powertrain. We can't wait. This work starts now. We will continue to invest in our ICE business but in targeted ways to build our most popular and profitable vehicle lines: F-Series, Bronco, Super Duty, and a few others.

Another focus is quality. We've made good progress on initial quality and launches. However, we continue to be hampered by recalls and customer satisfaction actions. This has to change. We must do more to aggressively address our engineering process and improve our robustness.

Now our Ford Pro business is on track. We see healthy growth in parts sales, mechanical repairs, growth in subscriptions for both charging and telematics, and CV financing. Most importantly, we're making our customers' lives and businesses better. They're using data. They're improving their up time and their bottom line.

Supply chain constraints continued to impact our business, including some of our key profit pillars. That said, we're making progress on launching and scaling new products, as you can see with Lightning. That said, our

major focus now is accelerating a more fundamental change in our supply chain management to improve visibility through our entire value chain and secure supply, especially in places like semis and batteries.

We're absolutely committed to unlocking value by improving our growth profile, our profitability, and ability to generate sustainable cash flows from our automotive-related businesses. Our new targets include producing more than 2 million EVs in four short years by the end of 2026. That's about a 70-plus CAGR. And we expect that by 2030, EVs will account for about 50% of our global sales. We have also reset our profit ambition. We are now targeting 10% company adjusted EBIT margins by 2026.

Now in terms of the first quarter, I would describe our performance as mixed. The appeal of our new products is really clear, and customers' demand is extremely strong beyond the supply constraint of our industry. However, we are still grappling with persistent supply chain issues that prevent us from posting an even stronger quarter. We're working to break constraints whenever they exist to take full advantage of this incredibly hot product lineup, both new EVs like the F-150 Lightning, but our iconic ICE vehicles as well. We remain committed to delivering our targets quarter after quarter, year after year, earning your confidence along the way.

And now I'd like to turn it to John to take you through the quarter and our outlook this year.

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**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

Thank you, Jim.

In the face of ongoing industry-wide supply chain disruption and unrelenting pandemic hurdles, we continued to execute against our Ford+ plan, including strengthening our product portfolio, investing in electrification, and other new and exciting opportunities fundamental to growth and value creation.

In the first quarter we generated \$2.3 billion in adjusted EBIT, resulting in a margin of 6.7%. The year-over-year decline in total company profits was driven by higher commodity prices and lower volume and mix, partially offset by higher net pricing as we take top line pricing while remaining disciplined with our incentive spend. Importantly, our operations outside of North America were profitable.

Global wholesales were down 9%, consistent with our guidance and reflecting the continued supply chain issues. However, our run rate of vehicle production in North America improved significantly during the month of March, and we ended the quarter with an extremely healthy order bank. In fact, in the US alone, our order bank is primed to deliver about \$17 billion in revenue.

Ford Credit delivered another strong quarter. EBT was \$900 million, reflecting strong lease residuals and credit loss performance. Free cash flow was \$600 million negative, more than explained by unfavorable timing differences and working capital deterioration due to the higher inventory levels, which included about 53,000 vehicles on wheels completed but awaiting installation of components affected by the semiconductor supply shortage.

We ended the quarter with strong cash and liquidity, nearly \$29 billion and \$45 billion respectively. This includes our stake in Rivian, which was valued at \$5.1 billion at the end of the quarter. Our strong balance sheet provides a solid foundation to continue investing in our Ford+ priorities.

Now let me briefly touch on business unit performance for the quarter. North America delivered \$1.6 billion of EBIT with a margin of 7.1%. Now this is down year over year, as net pricing improvements were more than offset

by higher commodity costs, higher warranty expense, unfavorable mix, and lower volume. The volume and mix impact primarily reflects supply constraints unique to full-size pickups and large utilities.

South America continues to benefit from our global redesign efforts, delivering its third consecutive profitable quarter and its highest quarterly EBIT margin in over 10 years. The region continues to focus on scaling its business for growth, especially pickup trucks and commercial vehicles.

In Europe, our operations delivered an EBIT margin of 3% despite a 9% decline in volumes. The underlying trajectory of our business continues to improve. However, the adverse impact of the near-term supply chain disruption is dampening our overall results.

Importantly, we continue to be the number one commercial vehicle brand in Europe. The Transit has an extremely healthy order bank, and we recently launched the all-electric E-Transit in Turkey. FORDLive continues to grow, helping our commercial customers improve vehicle uptime and ultimately their bottom line. And finally, Mustang Mach-E is now being sold online in most major markets. Europe is building momentum towards a fully electric future, expecting to reach 600,000 vehicles by the end of 2026.

In China, we posted a modest loss in the quarter. However, our cost performance improved on both a year-over-year and sequential basis. Lincoln continues to be a bright spot and profit pillar for the region. Market share improved 20 basis points year over year, and the all-new Zephyr is off to a fast start.

In the first quarter, China also continued to make progress towards our electrification strategy. We opened 10 more customer experience centers, now 35 in total, and made other investments to modernize our direct-to-consumer network.

Our International Markets Group performed well in the first quarter, continuing to be solidly profitable despite supply constraints and suspension of our joint venture operations in Russia. The upcoming launch of the next-generation Ranger remains on track, and in March we unveiled the next generation Ranger Raptor and Everest.

And finally, in Mobility, we continued to make steady progress towards scaled commercialization of moving people and moving goods. In the first quarter, we divested our investments in both TransLoc and Spin, further rationalizing our portfolio with a focus on autonomous development.

Now I'll share with you our current thinking about the remainder of 2022. For the full year, our guidance is unchanged. We expect to earn between \$11.5 billion and \$12.5 billion in adjusted EBIT, which is up 15% to 25% from 2021, with adjusted free cash flow of \$5.5 billion to \$6.5 billion. This reflects year-over-year growth in wholesales of 10% to 15% and assumes that semiconductor availability will improve in the second half, including the constraints that adversely impacted our full-size pickups and large utilities in North America in Q1.

We also assume in our guidance that disruptions in the supply chain and local vehicle manufacturing operations resulting from the renewed COVID-related health concerns and lockdowns in China do not further deteriorate our supply chains.

Now, relative to adjusted EBIT, on a year-over-year basis, our range assumes significantly higher profits in North America and collective profitability outside of North America. We also expect Ford Credit EBT to be strong but lower than 2021, and Mobility and Corporate Other EBIT to be roughly flat.

Other assumptions factored into our guidance include, first, we have a very strong order bank, as Jim mentioned, for our new iconic products such as Bronco, Bronco Sport, Maverick, along with a robust EV lineup of Mustang Mach-E, E-Transit, F-150 Lightning now in production as well.

Second, pent-up demand beyond our order bank, a continued strong pricing environment, including the benefit of pricing actions taken in the first quarter, and improved mix. The interplay, though, between volume and pricing will remain dynamic.

And third, we expect commodity headwinds of about \$4 billion, which we expect to offset by improvements in net pricing and mix.

Fourth, we anticipate other inflationary pressures to continue impacting a broad range of costs. We are aggressively looking at all opportunities to offset this reality, including aggressively ramping up our efforts on additional cost reductions.

And fifth, at Ford Credit, we expect auction values to remain strong as supply constraints persist. However, as I mentioned, we anticipate strong but lower EBT, reflecting primarily the non-recurrence of reserve release, fewer returned off-lease vehicles, and more normalized credit losses.

Our results in the quarter, our balance-of-year outlook, and commitment to our medium-term targets demonstrate the power of our Ford+ plan as we continue to invest aggressively to drive growth and value creation. This includes devoting resources to customer-facing technology, connectivity, our always-on relationships with customers, and electrification. We are confident the long-term payback from these investments will be substantial.

So that wraps up our prepared remarks. We'll use the balance of the time to hear your questions and address what's on your mind, and so thank you. Operator, please open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And our first question will come from Rod Lache of Wolfe Research. Please go ahead.

**Rod Lache**

*Analyst, Wolfe Research LLC*

Q

Hi, everybody. Thanks for taking my question. First, I wanted to ask you about inflation. Price versus cost is obviously a pretty big drag here, and I assume that you would expect inflation to stick around for a while. I was hoping you might talk a little bit about how that's influencing your decision-making, your internal messaging. What is, in your view, going to be the interplay between price and volume? As volume and inventory starts to normalize, is there still pricing power after everything you've achieved over the past couple years, and does this affect your margin targets?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Hi, Rod. Thank you for your question. Obviously, we're seeing on the commodity side steel, aluminum, copper, lithium, nickel. On the logistics side, a lot of premium freight. We're seeing pressures on inflation from suppliers. So it's really across the board.

I'll let John answer the pricing question, but I would say we really have quite a bit of pricing we've recently put it in the market. It stuck. And in addition, we feel like we have a lot of cost upside as well in the company. I know that's not your question, but that's an opportunity. John?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

Hi, Rod. From a pricing standpoint, so far we have seen pricing just about offset the inflationary pressures that we've seen. And so we've been aggressive with top line. We've been balanced with the incentives. We do expect the commodity inflation, as Jim said, to continue through the year. So the pricing that we've taken reflects that. And so I would say that we've been aggressive so far, starting last year, from a pricing standpoint.

I would also say that the dynamic between the volumes and the pricing is going to remain in flux. And as we go through the rest of this year and volumes improve, we have assumed that in the second half you would see increased pressure on your incentives, and that's assumed in our guidance. I would also say, Rod, that right now many of the dealers are transacting near or above MSRP across the industry. So that has to be a compression that's going to happen first on the pricing front, and we're watching that very closely.

We've also taken actions where we can improve our pricing by work we've done with our dealers. So one of the things we did in the quarter is we adjusted our floor plan adjustment to the dealers. In the past, we had paid them 1.5% of MSRP to cover the floor plan, the carrying costs. We've adjusted that to about 75 days, actual cost up to 75 days. So that's been a benefit that's flowing through our pricing as well.

So we see it as dynamic. We do agree that as volumes increase, it will be dynamic relative to incentives. We're not Pollyannaish about that. We've reflected what we think is appropriate in the second half relative to incentives



to adjust for the volume that we see coming in. But we'll also be aggressive on pricing if commodities keep going up. We'll be aggressive as we can. So I think it's going to be a dynamic play as we go through the rest of the year.

I would say though that when we step back and we look at the pricing relative to 2020 model year, what we've taken since the 2020 model year, we'd have to increase incentives considerably to offset that pricing. On a run rate basis, they'd have to move from – I think we're in single digits today, low single digits. They'd have to move up into like 15% – 16% to offset that pricing. And that's back in a time when we had extremely high inventories and we had a very push-through process, and we're not going to go back to that. We're going to be very disciplined with our inventory.

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**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

As a percent of revenue.

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**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

Yeah, as a percent of revenue. And so we're working costs, we're working all the angles.

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**Rod Lache**

*Analyst, Wolfe Research LLC*

Q

Thanks for that. And any color on the outlook for Europe for the rest of this year, just given all of the macro pressures there? It looks you've been posting pretty solid results there recently.

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**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

We expect those results to continue. We were in Europe hampered by the supply chain reductions, but it was nice to see that even though we were hit by that, Europe did post a better than expected quarter for us. So we're continuing to do well in commercial vehicles. We launched the E-Transit which has been very well received. Mustang Mach-E has been very well received as well. So we do expect the business in Europe to continue to improve in the second half as the rate and flow of supply improve for them as well.

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**Rod Lache**

*Analyst, Wolfe Research LLC*

Q

Thank you.

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**Operator:** The next question comes from John Murphy of Bank of America Merrill Lynch. Please go ahead.

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**John Murphy**

*Analyst, BofA Securities, Inc.*

Q

Good evening, everybody. I just wanted to ask a question sort of on the growth side, Jim. The F-150 Lightning orders sound like they're mostly incremental buyers, folks that haven't been Ford or F-150 buyers before. I'm just curious if you think that is just sort of a surge here at the launch of the truck, or is this sort of 15% to 20% incremental orders relative to the base F-150 something you think will stick around? Because obviously that's very powerful potentially to your earnings.

And do you expect the profitability of this truck over time to have a variable margin that would be similar to the F-150? And sort of being even a little bit more verbose, do you expect the same kind of thing with the F-250 and F-350 Lightning, which will launch in two or three years?

**James D. Farley***President, Chief Executive Officer & Director, Ford Motor Co.*

A

I didn't know we announced that, but thank you very much for your question. I'd like to maybe ask Doug to come in here and talk about the levers we have on the profit side, but so far it's very clear to us that the Lightning customers are incremental. And as you said, it's early days. We capacitated at the end of the day the facility that we were in. It's about 80,000 units. We'll almost double that by the end of next year. And I would say at this point the customer profile is dramatically younger. It's in states like California and New York that we normally don't sell full-size trucks. We do have lots of orders in Texas. It's higher education that we see, and what they're interested in is different about the truck. So I think it's very clearly, so far, incremental.

Now when we get into volume production, the 150,000 units, that may change, and we'll see that as we open the order bank again for the next model year this summer. Doug, do you want to highlight the opportunities you see maybe on F-150 Lightning, but more generically on our next product?

**Douglas Field***Chief EV & Digital Systems Officer, Ford Model e, Ford Motor Co.*

A

Sure. To start with, I am really excited about what we're building off of in Ford's strength. These are cost bases that I'm drooling over in terms of the future products. But when we talk about EVs specifically, the first thing we have to do is really control the battery materials and the chemistry. They are the single largest bill of materials opportunity, of course. But the next is really obsessing over how we use those materials and chemistries. Energy efficiency is a religion, and the team's really stepping up to this. Every single watt of consumption is now being tracked and optimized.

And on the new programs, changes in aerodynamics and drive unit optimization, we're seeing dozens of miles of improvement in range. That's hundreds and even in some cases thousands of dollars of battery that we can take out.

Finally, I think we're really going after a true ground-up approach to how we build EVs. They're different than internal combustion vehicles, and you could take advantage of that and really change the number of [indiscernible] (00:27:48-00:27:53). In our next F-Series EV factory, we're going to have on the mainline half the stations that we use today to build a Lightning. So I'm very optimistic with this journey, that we have some really good ground to make up on margin.

**James D. Farley***President, Chief Executive Officer & Director, Ford Motor Co.*

A

John, so far...

**John Murphy***Analyst, BofA Securities, Inc.*

Q

Actually one follow-up.

**James D. Farley***President, Chief Executive Officer & Director, Ford Motor Co.*

A

Go ahead, John.

**John Murphy**

*Analyst, BofA Securities, Inc.*

Q

No. Keep going, Jim. Sorry. I had a follow-up on something else.

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

I just want to say, on the Super Duty, obviously that's a quarter of our profitability as a company globally. And when we look at the customer usage, we just don't feel at this point that an electric solution is going to be ideal for most of those customers. So our vehicles, plural, will be really focused on light-duty and the lower end of Super Duty for sure but not F-250, F-350, F-450. That's a whole different ball of wax. They require a lot of payload, heavy batteries. That doesn't make sense.

**John Murphy**

*Analyst, BofA Securities, Inc.*

Q

Got it. And I'm sorry, a follow-up on the 53,000 units that are inventory on wheels. Is that what we're seeing in this 21% increase in inventory on the balance sheet from the fourth quarter to the first quarter? Presumably the cost has not been accounted for at all here, and we'll see those vehicles flush out into the system in the second or third quarter when the chips become available. I'm just trying to understand, John Lawler, the economics and what the profitability boost may be from these vehicles flowing out. Could you just kind of explain sort of how you're accounting for this and what the benefit might be in the second and third or fourth quarter when they actually are finished?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

So, John, that's exactly right. That's what's hitting us from a cash standpoint, and the inventory increase is for the most part the vehicles on wheels, the 53,000 units. We have the cost of those in our results, but we have no revenue for them. And as they build out and we complete them in this quarter and into the third quarter, we'll start to get the results for that on the bottom line. And they're primarily our more profitable vehicles, and it's primarily F-Series and Explorer. So there's definitely an opportunity there that will start to roll through the bottom line once we start shipping those out.

One of the reasons why we built those, John, because the modifications we need to make, we're very confident we can do that without compromising quality, but our production is fully subscribed. So we would have lost these units if we hadn't built them and set them aside until the chips are available.

**John Murphy**

*Analyst, BofA Securities, Inc.*

Q

I'm sorry, John. The costs are recognized in the first quarter results, but obviously the revenue is not. I'm just trying to understand this because it sounds like it might have a big impact in sort of people's understanding of the cadence of earnings for the course of the year.

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

The profits aren't recognized in the quarter, but the costs we backed out. The labor, et cetera, that's been all backed out. That's in inventory.

**John Murphy**

*Analyst, BofA Securities, Inc.*

Okay, got it. Thank you very much.

**Operator:** The next question comes from Colin Langan of Wells Fargo. Please go ahead.

**Colin Langan**

*Analyst, Wells Fargo Securities LLC*

Great, thanks for taking my questions. As you mentioned, EV battery costs have really dramatically increased. Has that changed your EV strategy at all? Do you think you're going to need to maybe raise the pricing of the Lightning and the Mach-E? And what can you do about it, maybe switch to different chemistries, roll out more hybrids? How can you address it if raw materials stay at these very high levels for those battery materials?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Thank you for your question. First of all, the demand for EVs right now is extremely robust at Ford, so we have the opportunity, we believe, for pricing. We're not going to get into those details now, but Doug said something very important, Colin, I want to emphasize, which is battery chemistry. We believe very strongly at Ford that chemistry will be a really key part of our protection against commodity price increases and frankly the benefits to the customer. Doug, do you want to add anything?

**Douglas Field**

*Chief EV & Digital Systems Officer, Ford Model e, Ford Motor Co.*

No. Ford a number of years ago started Ion Park, which is a team of experts really focusing on chemistry. Lithium iron phosphate, of course, we know from the industry is something that takes you away from the dependence on nickel. That will be a part of our future, and we're also looking at chemistries that give us an opportunity to be less dependent on the specific materials that everyone seems to be fighting over in the market.

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

So in the short term – go ahead with your question. Sorry, Colin.

**Colin Langan**

*Analyst, Wells Fargo Securities LLC*

Yeah, I was just going to say you mentioned you're able to do LFP or that's in the plan. How quickly can you switch? Because nickel is like now, and I was just kind of wondering how flexible and how quick you could adapt for that 2 million target by 2025.

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Yeah, we've been working on LFP for quite some time, so let's just leave it at that. What I mean by that is, engineering LFP solutions in our first generation of products, something that we see as a big opportunity and to move quickly.

**Colin Langan**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. And just second question, you mentioned in your comments about warranty costs, and that was going to be a big driver of margins. It does look like it was up year over year. Is that just sort of a temporary blip in the quarter, or is there a structural issue that we're going to see some higher – elevated warranty through the rest of the year?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Hau?

**Hau Thai-Tang**

*Chief Industrial Platform Officer, Ford Motor Co.*

A

Yeah, Colin, thanks for the question. When we had our Capital Markets Day event, we signaled that we were targeting \$1 billion to \$2 billion of warranty opportunity by the mid-decade. In 2021, we delivered \$1.4 billion of that, so roughly 70% of that total opportunity.

When you look at Q1 of this year, we had a deterioration. Some of that was just a non-repeat of items that we recognized in 2021 that didn't flow through. This is still a huge opportunity for us. It's the number one priority for us, for my team as a skill team is really focusing on improving quality, warranty, as well as recall performance, not only because of the drag on the business but more importantly because of the impact on our customers. So this is something that we're really focused on. And as Jim and others highlighted earlier, it's a huge opportunity for us to eliminate waste within the company and offset some of those commodity and headwind costs that we discussed earlier.

**Colin Langan**

*Analyst, Wells Fargo Securities LLC*

Q

Got it. Thanks for taking my question.

**Operator:** The next question comes from Adam Jonas of Morgan Stanley. Please go ahead.

**Adam Michael Jonas**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hey, everybody. Is Lisa Drake on the call?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

No, but Doug's here.

**Adam Michael Jonas**

*Analyst, Morgan Stanley & Co. LLC*

Q

I hope she's doing well.

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Okay. I'll pass that on to her.

**Adam Michael Jonas**

*Analyst, Morgan Stanley & Co. LLC*

Q

We've got great people on the call. We're good. First, I noted the Lilac Solutions partnership. That's a really good call. Hearing a lot of really, really great things, so great job there. If you could imagine that the entire metal and mining industry were listening to this call right now, and they really should be, what would your message be right now, Jim?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

The message would be we need to work together and find good deals. That's what the message would be. That we know what we're looking for. We're focused on lithium and nickel, those two. We want to do smart deals that work for them and for us. And, number two, we want to move some of the processing to North America, and we're willing to invest capital to move the processing, precursor work from overseas to North America for a variety of reasons. Doug, would you edit that list?

**Douglas Field**

*Chief EV & Digital Systems Officer, Ford Model e, Ford Motor Co.*

A

No, I think that's the right list.

**Adam Michael Jonas**

*Analyst, Morgan Stanley & Co. LLC*

Q

The right list. And just my follow-up, on the Ford Credit side, you guys are massive, extraordinarily well managed portfolio in a market that at least historically can react to oil shocks and economic pressures of course over time, and we're seeing some pretty crazy changes in the market. Just for the record, any sign of pressure in the portfolio in terms of delinquency, loan losses, basically the strength of the consumer that you so very credibly and powerfully can comment on as an economic indicator for this audience? Thanks.

**Marion B. Harris**

*President and Chief Executive Officer, Ford Motor Credit Company, Ford Motor Co.*

A

Hey, Adam. It's Marion Harris here. The short answer is no. We're seeing strength in delinquencies. They're up marginally versus last year but still well below anything we've seen. And a lot of that's on the back of strong used car values which we expect to remain strong for some period of time.

And even getting into the gas price piece of this, one of the things we've been looking at is whether or not there's a change in auction values by segment. And we're not seeing any differences in prices or price movements for large SUVs versus smaller sedans. So the trends continue, and we still feel very good about the credit business.

**Adam Michael Jonas**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks, Marion.

**Operator:** The next question comes from Dan Levy of Credit Suisse. Please go ahead.

**Dan Levy**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi, good evening. Thank you for taking the question. First question is just on the guidance. We know you're maintaining the guide of \$11.5 billion to \$12.5 billion, but you've also said you're guiding to now \$2 billion to \$2.5 billion of higher raw mats. Europe is a choppy environment. China is a choppy environment. And then there's also other inflationary pressures that aren't in that raw mat guide. So I just want to understand, what is the full set of offsets to that? You've talked about price, but maybe you can just talk how that compares to maybe other cost offsets that will allow you to maintain your guide despite those incremental headwinds?

**John T. Lawler***Chief Financial Officer, Ford Motor Co.*

A

Dan, thanks. So price is the main offset there for the full year, pricing offsetting the inflationary pressures that we're seeing. We are being very aggressive in ramping up additional cost efforts because we know that this is not going to – we don't believe that the pressure on cost due to inflationary pressures is going to ease anytime soon. So we need to find more efficiencies. We need to improve productivity. And Jim and the team and we are working very hard on that. It's a priority for us.

So the other thing that we have is in the second half of the year we do have volumes improving based on the better availability of semis as we see that through the system. So that's another big driver for us in the year, and we'll see that in the second half over the first half as that comes online. So, Hau, do you want to talk a little bit about how you're seeing that and what we've been doing to manage that?

**Hau Thai-Tang***Chief Industrial Platform Officer, Ford Motor Co.*

A

Thanks, John. So as John mentioned in his remarks, in March we had the highest production run rate that we've seen frankly in the last couple of quarters. That's the result of a lot of hard work with all of our suppliers at every level of the value chain to break constraints, ensure that we're getting our fair allocation as well as expediting freight to pull ahead some of the available supply.

In parallel, the design actions that we've taken over the past year to design our way out of some of these constraints are coming online. And if you guys reflect on last year, many of our wafer and chip suppliers started implementing capacity actions, and those are also coming on in the back end of the year. So that's what's giving us the increased confidence around the guidance that John highlighted.

**John T. Lawler***Chief Financial Officer, Ford Motor Co.*

A

The other thing I would add is that the demand, as Jim said earlier, is very strong for our new products, and that's encouraging for us. We just can't build enough of them, and we see that demand continuing.

**Dan Levy***Analyst, Credit Suisse Securities (USA) LLC*

Q

And the mix assumption within this?

**John T. Lawler***Chief Financial Officer, Ford Motor Co.*

A

The mix assumption is that we'll revert back to a normal run rate mix that we would expect to see. We were disproportionately hit in the first quarter by a commodity, a module, and Hau can talk more about that. He's better to talk about it than I am – than me, than I can. And the team has worked through that, so we believe we have that resolve. So we should see a more normal run rate of our mix as we move forward.



**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Hau, do you want to comment on that specific commodity? Because I think it is really material.

**Hau Thai-Tang**

*Chief Industrial Platform Officer, Ford Motor Co.*

A

So we had a wiper module that was deployed on our most profitable vehicle lines, as John mentioned, our large pickup trucks and utilities in North America. So we had limited ability to do any mix management and flex with other lower profit vehicle lines. That issue has been resolved. We've designed our way out of it. And again, we have a line of sight to not only support the back half of the year production but also address some of the vehicle on wheels with that commodity.

**Dan Levy**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. And then my second question is just as we think about the costs that are coming online, I think you've discussed in the past that really in your reorg that Blue is going to be what funds Model e. So in a good market it's very easy to see how incremental profits from the core combustion business are funding your EV growth, but now that we have more costs that are coming into the system, maybe you can give us a sense how you're looking at your growth investments. EV, I assume you're going to invest in that regardless of what the underlying market environment is, but maybe you can give us a sense of are there other growth investments that are maybe more discretionary that you can, if you need to, pull back on or delay, how you think about other growth investments?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Our opportunity is really around our cost in our Blue business. That's how we look at it. In terms of investing, we need to invest in a fully networked advanced electric architecture. We need to invest in Level 2 and Level 3 autonomy. We need to invest in a new portfolio and changing our industrial system over to these electric digital products. We need to invest in our OS software that supports all of that. And we believe very strongly we need to invest in Level 4 autonomy.

So at this point in time, I don't personally see any discretionary. Our Ford+ plan is so specific about where to invest that at this point in time our real work that we need to do is to get after these inefficiencies and improve the productivity of our base business. That's really where we're focused. And of course it's implied that as a management team we need to make these investments as efficiently as we can for all this new technology and growth. I hope that makes sense to you.

**Dan Levy**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

That's helpful, thank you.

**Operator:** The next question comes from Mark Delaney of Goldman Sachs. Please go ahead.

Q – [072HMH-E Mark Delaney]>: Good afternoon and thank you very much for taking the questions. The first is on the new structure. It's been about two months now since Ford announced the split into the different segments, including Ford Blue and Model e. I'm hoping to better understand how employee reception has been.



And for Doug Field perhaps specifically, maybe you can talk about what is meant for your ability to get the right engineering talent. And are there any anecdotes or data points you can share?

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**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

I think the reception has been terrific. You know, we worked hard on this, and we were prepared. We knew kind of what we needed to communicate to the employees and why this is necessary and why it makes sense. So I think the reception has been good. The proof in the pudding is going to be how this executes, and that's why I wanted to give an update actually in my comments on what we've done since March 2, and a lot has changed. Doug, over to you.

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**Douglas Field**

*Chief EV & Digital Systems Officer, Ford Model e, Ford Motor Co.*

A

Thanks. We did think a lot about this, and I had a great partner in Hau to figure out how we were going to take best advantage of Ford's deep capabilities that I haven't had access to in any of my prior roles. So the organization is set up where Ford Model e can't and doesn't build cars by themselves. We rely on an industrial platform that does great work [indiscernible] (00:46:33-00:46:44). So there's an interdependency there that really helps the team work, I think.

As far as attracting talent, I've been really delighted and surprised by the kind of talent that we can attract from tech. I think there's a certain amount of fatigue in the tech world and a lot of mature products out there. The opportunity to work on high technology but do it in a brand that is so iconic in the United States and in something that is such a rich product like a vehicle is really attracting some great people.

Finally, I think from a talent perspective, Ford Model e is also helping us really dig into the internal team and find great people who can step up, take on different kinds of roles, be put in positions of authority, and really help drive us forward. There are great people here.

Q – [072HMH-E Mark Delaney]>: That's really helpful. My second question was on the volume outlook for 10% to 15% wholesale growth, which the company has maintained even though we've had unfortunately the war and also the new COVID restrictions pop up in China. So I'm hoping to better understand how Ford is still managing to that 10% to 15% growth, and to what extent is the company taking incremental actions to find different suppliers that perhaps you hadn't been expecting to have to do? And is it more that you're doing those sorts of things to still do 10% to 15% growth, or is it perhaps more about Ford suppliers not being overly impacted by these recent events? Thank you.

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**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Thank you. It really comes down to the commodities, semiconductor-related commodities, that have been hamstringing us. We obviously are spending a lot of money on premium freight and other things to work around COVID escalations in China, but really the second half of the year's production increase relates to those. So, Hau, I don't know if you want to add anything specifically.

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**Hau Thai-Tang**

*Chief Industrial Platform Officer, Ford Motor Co.*

A

Mark, so the two hotspots that you highlighted, Ukraine and Russia, I think we've done a really good job of managing that and minimizing any large significant production risk, mostly because of our global sourcing patterns. And we're able to get parts from other areas of the world.

In terms of China, we're scanning the Shanghai area. We have about 50 Tier 1 suppliers there. Our focus is on our profit pillar vehicles and, as Jim mentioned, really leveraging expedited freight. We've secured fast maritime shipment as well as airlift capacity to protect our suppliers, and then they're just starting to have a white list process to allow suppliers to resume production. So we're working with our teams on the ground in China to help those suppliers get partially operational. So those actions, we think, will really help us.

And as Jim mentioned, what's going to be gating us is semiconductors. A lot of these constraints are nested within that, so it comes down to the work that we're doing on the semiconductor supply.

**Operator:** The next question comes from Ryan Brinkman of JPMorgan. Please go ahead.

**Ryan Brinkman**

*Analyst, JPMorgan Securities LLC*

Q

Hi, thanks for taking my question. As we near the I think 180-day lockup expiry on your investment in Rivian, how are you thinking about the options available to you in terms of this investment going forward? Are you maybe more inclined to retain some or all of the stake given the recent decline in Rivian shares? And if you were to monetize it, how are you thinking about the use of any potential proceeds? Could you maybe use them to accelerate your own electrification efforts, or are you maybe already devoting all the resources necessary there and so would perhaps look to prioritize other opportunities? I don't know, maybe shareholder-friendly actions? How are you thinking about these options?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

Unfortunately, at this point, we're not going to comment on Rivian.

**Ryan Brinkman**

*Analyst, JPMorgan Securities LLC*

Q

Okay, great. Let me try one on Argo then. I recall you saying on an earlier call that you're supportive of Argo AI's potential tapping of public equity. Is there any update you can provide there in terms of where Argo may be with that process? Or just what is the latest you're thinking about in terms of their overall strategy and trajectory? What has been maybe the early result of some of your trials of robo-taxis on the Lyft network or in various cities beyond Miami?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Thank you, Well, first of all, Argo and Bryan [Salesky] continue to make great progress technically on the SDS for Level 4 autonomy. We're very happy with the technical progress.

Number two, we really see maybe different than others Level 2/Level 3 and Level 4 as two distinct products. Yes, Argo could help us with our semi-autonomous capability, but we feel like that would be a big distraction for them, which we do not want them distracted at all.

And number three, it's taking time, and this is expensive stuff. And so from our standpoint, getting access to the capital markets is very critical to give us the flexibility to continue to fund this for many years to come.

One thing I would say is we're very focused on partners that would be aligned strategically with Argo, use cases that would be very material in the deployment of Argo's technology. And we're getting more and more interested as a company, maybe a bit of a strategic shift on goods movement. It's aligned with our commercial vehicle business, and our customers feel they're getting more and more interested in middle miles specifically. I think that's a material update for Argo, and hopefully that helps you.

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**Ryan Brinkman***Analyst, JPMorgan Securities LLC*

That's very helpful. Thank you.

Q

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**Operator:** The next question comes from Joseph Spak of RBC Capital Markets. Please go ahead.

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**Joseph Spak***Analyst, RBC Capital Markets LLC*

Thanks so much. Couple questions on cash; I noticed CapEx is now \$7 billion. I think it was \$7 billion to \$8 billion before. Free cash flow the same, EBIT still the same. So is the delta to maintain the free cash flow working capital?

And then while we're on cash, looks like redesign cash is now \$1 billion lower this year versus prior, and I think even the total amount you expect to spend on that is lower now. So can you just talk about what's going on there?

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**John T. Lawler***Chief Financial Officer, Ford Motor Co.*

Sure. On the redesign, there's efficiencies that we're seeing as we work through the redesign across each of the markets that we've restructured, and so you're starting to see that show up. There's also some timing differences in there as well, where the work we're doing is, let's say, taking a bit longer to get to a solution or a final position with some of the counterparties we're working with.

And we also announced the fact that we will be selling our Craiova facility to Otosan, and that's going to allow to bring cash into that restructuring that we have there as well for global redesign. So that's the short of it from that standpoint. The other point, I think the question was around – remind me what it was.

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**Joseph Spak***Analyst, RBC Capital Markets LLC*

The lower CapEx versus prior.

Q

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**John T. Lawler***Chief Financial Officer, Ford Motor Co.*

Yeah, so the lower CapEx, that reflects no change in our intended investment in electrification or our fully networked architecture, et cetera. It's just timing differences in this year relative to what we saw at the beginning of the year. So you can still expect us to continually invest. We have the capital to do that. We're balance sheet strong. So it doesn't reflect anything on where we see the business heading. It's just timing differences for the most part.

A

**Joseph Spak**

*Analyst, RBC Capital Markets LLC*

Q

And then just the free cash flow remained the same is a little bit more of a working capital drag then?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

Yeah, it's more of a working capital. Yeah, absolutely.

**Joseph Spak**

*Analyst, RBC Capital Markets LLC*

Q

Okay. And then I think you made it quite clear that the primary driver here of covering some of the higher cost is more advantageous pricing. Can you just parse some of the Ford Credit commentary a little bit? Because I think before you said it was going to be about \$1.5 billion lower, and now there's some language that says strong but lower. So is some of that also coming from some of that makeup, if you will, also coming from Ford Credit?

**Marion B. Harris**

*President and Chief Executive Officer, Ford Motor Credit Company, Ford Motor Co.*

A

Yeah, Joe, it's Marion. I'll just cover the guidance piece on Ford Credit. We said that profits will be strong but lower, and that's reflecting the fact that we had larger reserve releases in 2021 than we would expect in 2022. In addition to that, we had a lot more supplemental depreciation releases in 2021 than we would in 2022 related to the lease portfolio.

**Joseph Spak**

*Analyst, RBC Capital Markets LLC*

Q

Okay. Did your expectation change versus what you communicated three months ago there for this year?

**Marion B. Harris**

*President and Chief Executive Officer, Ford Motor Credit Company, Ford Motor Co.*

A

No.

**Joseph Spak**

*Analyst, RBC Capital Markets LLC*

Q

Okay, thank you.

**Operator:** The next question comes from Emmanuel Rosner of Deutsche Bank. Please go ahead.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Thank you very much. So, John, last quarter you provided a very helpful walk towards the 2022 adjusted EBIT with some of the largest puts and takes, and so I was hoping you could maybe base some of the buckets here. So obviously commodities was expected to be \$1.5 billion to \$2 billion drag, now it's \$4 billion. What is now the market factors versus the \$6 billion from last time? Ford Credit was going to be \$1.5 billion drag. I seem to understand from the last question that this hasn't changed. Any other changes besides market factors, and can you just quantify them?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

Yeah, so I think what you see there is exactly that. There's no change to Ford Credit. We are seeing higher inflationary pressures. We are seeing higher top line pricing that's coming through, but we're also working on cost offsets as well. So I think it largely remains what we had talked about last time. We're just seeing higher inflationary pressures and higher pricing flow through.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. So versus the \$5.5 billion to \$6.5 billion in volume/mix price benefit from last time, we could basically add \$2 billion to \$2.5 billion to that which is the pricing offset – the cost offset?

**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

No, I don't think that it's as high as \$2.5 billion, Emmanuel. There's growth in there, but it's not as high as that. I think that when you look at the walk relative to what we had provided last time, most of the inflationary pressures that we're seeing are being offset by a combination of additional cost reductions, pricing, and mix that's flowing through, but it's not as large as that, as what you had just indicated.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. On the cost piece of it, are you dialing back or sort of prioritizing some of the modernization investments, or is that largely left as is for this year?

**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

No, absolutely not. I tried to make that. I'll say it twice. We are really excited about our growth opportunity in EVs. We have electric architectures to invest in, software OS. We have partial autonomy to invest in, full autonomy to invest in. That's all part of our Ford+ plan. It's essential to our move to always-on. We obviously have lots of investments in building out our service portfolio for Ford Pro. We're not holding back on any of that.

The cost drivers that we see are things like obviously manufacturing as we simplify our ICE lineup and, as Doug said, really completely redesign our manufacturing process for EV. We have opportunities in marketing and sales, opportunity in engineering as we simplify our lineup, and of course warranty and other areas. So I think we know exactly what we need to do.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Understood, thank you.

**Operator:** Our last question comes from Itay Michaeli of Citi. Please go ahead.

**Itay Michaeli**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great, thanks. Good evening, everybody. Just two quick ones for me, and thanks for squeezing me in. First, you didn't talk about the cadence of earnings before, but I was hoping we could revisit it in terms of how to think about the adjusted EBIT for the rest of the year and whether there is any bias at this point towards the low end or high end of your full-year guidance range.

And a second more housekeeping question is whether you can provide what you anticipate the Ford Motor Credit dividends to be back up to the parent.

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**John T. Lawler**

*Chief Financial Officer, Ford Motor Co.*

A

We're not going to parse out the guidance. It's \$11.5 billion to \$12.5 billion. It's a dynamic environment. We're working to offset all the headwinds and maintain the guidance. But as far as parsing out where we sit within the guidance, it's \$11.5 billion to \$12.5 billion.

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**Marion B. Harris**

*President and Chief Executive Officer, Ford Motor Credit Company, Ford Motor Co.*

A

And then on the dividends, the dividends are a function of overall profits and balance sheet size and leverage. And in this case, you heard the guidance on profits and the balance sheet. We don't expect much growth this year just given where we are on vehicle constraints. So the majority of profits, we don't have a specific number.

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**James D. Farley**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Just to make it really clear on the overall company's automotive performance, financial performance, the second half is very critical for us. It's just a very critical time for the company. We have the opportunity to build in volumes we haven't for a while, and we have a lot of great fresh products, a lot of costs coming into the business. But second half is really critical for the company.

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**Itay Michaeli**

*Analyst, Citigroup Global Markets, Inc.*

Q

That's all very helpful. Thank you.

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**Operator:** This concludes the Ford Motor Company first quarter 2022 earnings conference call. Thank you for your participation, you may now disconnect.

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