

Ford Motor Company  
2023 Fourth Quarter Financial Results  
February 6, 2024, at 5:00 p.m. Eastern

**CORPORATE PARTICIPANTS**

**Lynn Antipas Tyson** - *Head of Investor Relations*

**Jim Farley** - *President and Chief Executive Officer*

**John Lawler** - *Chief Financial Officer*

**Marin Gjaja** - *Chief Operating Officer, Model e*

**Kumar Galhotra** - *Chief Operating Officer*



## **PRESENTATION**

### **Operator**

Good afternoon and welcome to the Ford Motor Company 2023 Fourth Quarter Financial Results Conference call.

I'd now like to turn the conference over to Lynn Antipas Tyson, Head of Investor Relations. Please go ahead.

### **Lynn Antipas Tyson**

Thank you, Gary, and welcome to Ford Motor Company's Fourth Quarter 2023 Earnings call. With me today are Jim Farley, President and CEO and John Lawler, Chief Financial Officer. Also joining us for Q&A is Marion Harris, CEO of Ford Credit; Kumar Galhotra, COO of Ford; and Marin Gjaja, COO of Model e.

Today's discussion includes some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck. You can find the deck along with the rest of our earning materials and other important content at [shareholder.ford.com](http://shareholder.ford.com). Our discussion also includes forward-looking statements about our expectations. Actual results may differ from those stated. The most significant factors that could cause actual results to differ are included on page 25. Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS, and free cash flow are on an adjusted basis.

Included on our earnings deck this quarter is a table of our global wholesales for 2023 with name, flight detail by segment and major geography. This is a roll forward of the detail we shared with you last March at our teach-in in our new segmentation.

Lastly, I want to call out a few near-term IR engagements. Next week, February 15, Jim Farley and John Lawler will participate in a fireside-chat in New York with Rod Lash at the Wolf Global Auto, Auto Tech and Mobility Conference. February 22, Naveen Kumar, CFO of Ford Pro, will participate in a fireside chat in Miami with Dan Levy at the Barclays Industrial Conference. We do plan to run this call about 15 minutes longer, so that'll take us to 15 minutes after the hour. We want to leave ample time for your questions.

Jim, I'll turn the call over to you.

### **Jim Farley**

Thank you, Lynn. And hi, everyone. Thanks for joining us. I want to just highlight how important last year was not only financially but a foundational year for our team. Our power choice and our powertrains really came through, and you can really see that on the F-Series, which I'll talk about in a second.

Our global hybrid sales were up 20% last year and we expect them to be up 40% this year. We're now the number one and number two best-selling hybrid trucks in the U.S. Maverick is number one and we're the number three hybrid brand in the U.S. behind Toyota and Honda. But unlike them, our hybrids really sell best on trucks for our side.



**Jim Farley (cont'd)**

We launched some awesome tech. BlueCruise just passed 150 million miles of hand-free use, but more importantly, the growth is up 25% quarter-over-quarter and the gross margins for BlueCruise are at 70%-plus, the same for Ford Pro Intelligence.

And boy, can Ford do work vehicles. The new Super Duty and Transit are off to great starts as is the new Ranger. We are really focused as a team on the segmentation. You can see the speed, the accountability for results and focus within the company.

And our underlying business is getting better, as John will show. Despite the UAW strike, our auto profits were up year-over-year. We returned to investment grade, we have higher ROIC, and we have really solid conversion from profits to cash. We're returning capital to shareholders, we're declaring a regular and a special dividend, and we're getting much more disciplined on capital not just where we allocate, but more importantly, how much we spend and when.

Our Integrated Services are really accelerating under Peter Stern. These are high-growth, high margin, as I said, and much less cyclical profits for us. We have one single leader, Kumar Galhotra, on our industrial system and he is laser focused on quality and cost. And our international operations have made a remarkable turnaround after a lot of difficult restructuring. It's the second year we made profit. It's about a \$3 billion turnaround compared to just three or four years ago.

And what would surprise people is what a juggernaut Ranger has become. It's a global franchise and it's our second best-selling nameplate globally, just behind F-Series and ahead of Super Duty.

Now John is going to go into last year's results. It was a solid year, but I want to be really clear, we are nowhere near our earnings potential for Ford Motor Company. And we are really positioned well this year for growth and profitability, for revenues as well.

I'm going to cover four key areas. The first area is Ford Pro. It's nearly a \$60 billion high-margin, hardware, software and physical services business and most of that revenue is reoccurring. I believe Ford Pro is where the industry is going, an integrated business between all three of those factors. And we're seeing it first there because the customers use the vehicle more intensely and are more willing to pay for software. And we believe the attributes of Ford Pro are undervalued, but the performance will reveal that over time and look at the performance last year. Ford Pro doubled its EBIT to \$7 billion despite a significant slowdown on Super Duty during the launch in the name of quality. And we're now on track for mid-teen EBIT margins at Pro.

And you're going to see top and bottom line growth this year in Pro. We have the freshest product lineup in Ford's work history in two decades. Our order banks are exceeding our supply. And the reason why that order bank is so strong is fundamentally different economic factors than our retail business.

What I mean by that is, look at North America where we're really dominant. We do really well on state and local government Pro sales. These are very profitable. And last year, state and local governments increased their spending by \$75 billion or 16%, and a sizable portion of that is in infrastructure and people need Super Duties and Transits. Look at the build-out of telecom and 5G, it directly correlates to our robust revenues. And the same is happening in the manufacturing sector in the U.S. with reshoring or on shoring manufacturing.



### **Jim Farley (cont'd)**

Dealers are clamoring for more Pro allocation. They normally get only 50% to 75% of the volume they want. And in Europe, it's the ninth straight year of Ford being the best-selling CV brand, and we're just in the middle of launching the Super Duty of Europe, the Transit Custom and the new Ranger is now ramping up.

Why do we think we're undervalued in Pro? Well, there's a couple of reasons. The first is our market leadership is a little bit opaque. We don't just lead in Pro, we dominate. We're 40% of the market share of Class 1 through 7 full-sized trucks and vans. In fact, in many months, our second-place competitor isn't even half our size. Now commanding that share means that we are dominant in vocations like service, construction, utility and, as I said, government. But our biggest success is in TAMs where the market is biggest; small and medium-sized businesses and tradespeople. That's the backbone of the U.S. economy, and boy, does Ford have a reputation with those customers.

Our second big moat is upfitters. Again, very difficult for investors to see but this is really significant. Every one of our landscapers, plumbers, electricians, they all upfit their Transits and Super Duties and Rangers specific to their vocation. So, these upfitters wind up being really important. We now have already developed a digital upfit integration system, and we share engineering specs with all those upfitters. We've been working with them for decades and they really trust Ford. They're even able to move their upfit equipment from old Fords to new Fords.

The third big moat is a growing one. It's software and our physical repair business. Example of that is last year, we already have 0.5 million active software paid subscriptions at Pro. It's up 46% and the margins are over 50%. In two years, we expect software and services to drive 20% of the Pro EBIT. And that's supported by two things: getting to 60% mix on our connected vehicles and a threefold increase in our attach rates for those paid subscriptions that I mentioned, which are only at about 12% today.

One of the biggest advantages we have in Pro that's hard for people to see is our physical repair network. It costs a lot of money to create, costs decades of time and there's a lot of expertise. In the U.S., we have 23,000 service bays that are busy seven days a week, 24 hours a day, and we're pressing on that advantage. Every day, we have new, very large service elite repair centers launching in the U.S. We haven't waited for brick-and-mortar. We now have 1,200 vans and Super Duties that are outfitted for remote service to our fleet customers.

The Net Promoter Score is 10 points higher because they don't have to come to the dealership. And this has effectively added 10% more capacity for our service.

The bottom line is, we have these amazing vehicles. We have a leading market share position. We're now adding long-term durability of those products. We have a highly profitable alternative revenue stream in repair and software now. Ford Pro is really a magical breakthrough for our customers and our company and, I believe, the industry.

Quality, we don't have to go into the negative effects about quality, but we've been addressing it for three years now and we're starting to see progress. Our vision is that we want to give customers who buy our trucks and vans and our passion products, off-road, Bronco, all of it, the long-term durability from companies like Toyota and Honda, but in the segments we compete in. We already have world-class quality in many parts of our company, and now we're seeing green shoots in North America.



**Jim Farley (cont'd)**

Kumar is leading this and he's here for Q&A to answer any questions. But there are two aspects of quality I want to highlight. The first is launch quality.

That Super Duty launch I mentioned, it was a line in the sand for this management team. We intensified all of our testing, our real-world problem-solving on the plant floor with our suppliers and engineers. We slowed down the launch and boy, did it cost us. A billion dollars of EBIT we forego last year, but it was the right trade-off for our company and our customers.

The result is the launch spike that every launch has we think on Super Duty is now similar to best-in-class in our industry, and we're seeing the benefits in the F-150 launch. That launch is underway right now and it's a really important one for our company.

The second area of quality we're seeing progress on is initial quality. Now we measure that in three months in service. And that is highly correlated to long-term quality, and yes, warranty costs, and we saw last year a 10% increase. That is the largest improvement in the similar quality that we saw last time in 2016. It's the best in a long time, and we are committing to a similar improvement this year.

Quality now factors into 70% of the short-term incentives for our management at Ford. In the long term, it's even more important, because we're measuring total shareholder return. We will share those KPIs on quality with you every quarter.

Next thing I'd like to highlight is EVs. Now someone portrayed the change in the EV market as Darwinian. That could be a slow evolutionary change, but we think this has been a seismic change in the last six months of last year. That will rapidly sort out winners and losers in our industry.

Now the catalyst for that seismic change is a combination of EV manufacturers cutting their price by 20% across all major geographies and a tremendous amount of capital flowing and a ton of new capacity into one single segment, two-row crossovers. Our overall EV strategy has never been more relevant as the seismic change happens, and we want to share with you our targets.

Our next Gen 2 products will be profitable in the first 12 months of their launch. That will mean that we'll get to mid to high single-digit EBIT profit margins over their life cycle, and that's going to deliver profits above Model e's cost of capital. And here are our big bets and adjustments. We're going to spend less capital on larger EVs. And as we've always said, we'll have a very small number of those. We're going to focus those large EVs on geographies and product segments where we have a dominant advantage, like trucks and vans. And those products will have breakthrough efficiency compared to our Gen 1 products, and they're going to be packed with innovations that customers are going to be excited to pay for.

We're also adjusting our capital switching more focused on to smaller EV products. Now this is important because we made a bet in silence two years ago. We developed a super-talented skunkworks team to create a low-cost EV platform. It was a small group, small team, some of the best EV engineers in the world, and it was separate from the Ford mothership. It was a startup, and they've developed a flexible platform that will not only deploy to several types of vehicles, but will be a large installed base for software and services that we're now seeing at Pro.



### **Jim Farley (cont'd)**

All of our EV teams are ruthlessly focused on cost and efficiency in our EV products because the ultimate competition is going to be the affordable Tesla and the Chinese OEMs. And that bet, and all of the rightsizing of capital, and even delays to some of our products, given the market realities, better balance growth, profits and returns for us. But one of the things we're taking advantage of and taking some timing delays is rationalizing the level and timing of our battery capacity to match demand and actually reassessing the vertical integration that we're relying on and betting on new chemistries and capacities.

Our overall EV business will grow this year because we have the Explorer launching in Europe and really exciting, many of our commercial vehicles launched with electric this year as we refreshed the lineup. We will also align production and inventory for customer demand. EV customers are also helping us in a very critical area of software quality. They really, really are teaching us a lot, and this is a critical place where I think we're ahead as a company.

Why are we making these changes in our EV business and capital allocation? Well, because we learned as an early leader as we scale the EVs and hybrids simultaneously, the demand curve turns out to be for EV is very different than ICE. We've seen an explosive growth in EVs in 2021 and 2022, and we realized very quickly that our first three Gen 1 products, we didn't have enough capacity.

With EV growth, but as well importantly the COVID supply shocks and the chip crisis itself and Tesla's ability to make vehicles despite the chip crisis in '21 and '22 and the zero cost of capital gave us too optimistic of a demand signal at that time, and it drove a temporary spike in supply. As the COVID shock retreated, we learned that as you scale EVs to 5,000 to 7,000 units a month, and you move into the early majority customer, they are not willing to pay a significant premium for EVs. This was a huge moment for us.

What we've seen, because we offer everything, is pricing quickly converged to hybrids after any benefit from subsidies. Now Tesla found out this first, but we were right behind that, and they were very exposed to early majority, but we learned very quickly. And I want to say that no one will be immune to this reality.

The most obvious indicator of this reality is looking at total revenue, not units for EVs. Look at the U.S. market. EV total revenue was down in the second half of last year versus Q2. If you look at unit volumes, they were up. That is a really important insight we learned in being a first mover. The same thing happened in China, same thing happened in Europe. Our data shows that EVs are a clear destination for many customers based on their unique duty cycle. It's going to take time more than we expected 18 months ago, but we are seeing big adoption variances by geography, and that's why the power of choice at Ford is so important and a big advantage for us. We're betting that choice and flexible manufacturing is going to get us successfully through this transition.

Look at the best-selling vehicle in the United States, the F-150. We have a lightning, we have a hybrid and high volume and an ICE choice. In Q4, in California, our mix was 50% hybrid and EV F-150 and 50% ICE. 1,000 miles away in Dallas, it was only 15% hybrid and EV, 85% ICE. You go around the world, you'll see same variations. Hybrids will play an increasingly important role in our industry's transition and will be here for the long run.



### **Jim Farley (cont'd)**

Hybrid just fits specific customer use cases. On a Maverick pickup truck, our hybrid is focused on mileage and efficiency, and they do the math very clearly, and they don't have to change their behaviors. On F-150 Hybrid, they get the same benefits even when they're toying on fuel efficiency, but we throw in Pro Power on board on top of that to displace a very expensive generator cost. And margins on hybrids are closer to ICE, much higher than EV margins. The journey on EVs is inevitable in our eyes and we have a bright future of EVs. We're adjusting our capital and we're giving customers choice.

Last thing I want to mention is talent. None of these breakthroughs in our company, operationally or financially or in technical excellence and innovation, are going to happen without the right talent. And we've learned that the right talent is not sufficient. Over the last two years, it's been imperative that we go to a right performance management system. It's a fundamental change in the way we're running the company. We now truly differentiate and reward excellence at Ford, and that matches our operation and our business delivery. It's a massive culture change.

Evolving to a compensation and benefit structure weighed more towards variable compensation that is tied to our delivery business results is fantastic. You can't bring in and retain the best talent without making this change. And now our long-term incentives and our short-term incentives are tied specifically to shareholder value creation.

Over to you, John.

### **John Lawler**

Thanks, Jim, and good afternoon, everyone. We appreciate you joining us today.

So, 2023 was an important year as we continued to execute our Ford+ plan. Our strong global product line up, which is clearly resonating with our customers, delivered revenue of \$176 billion, which was up 11%, marking our second consecutive year of double-digit growth. We delivered \$10.4 billion in adjusted EBIT, at the high end of our guidance, driven by continued strength in both Blue and Pro.

Now to provide some perspective, compared to last year collectively, our core business units, Pro, Model e, and Blue grew, improved EBIT by \$2 billion or 26%, and this is after fully absorbing the roughly \$1.7 billion impact of the UAW strike. Free cash flow was \$6.8 billion, generating a free cash flow conversion rate of 65%. And this is above the top end of our target range and was driven by underlying strength in both Pro and Blue. Now both of these metrics provide a good litmus test for the effectiveness of our Ford+ strategy.

Our balance sheet remains strong with nearly \$29 billion in cash and more than \$46 billion in liquidity. And this provides considerable flexibility to manage our business as the industry continues to transform.

With the improving trajectory of our business and strong free cash flow, we announced a quarterly dividend of \$0.15 per share plus a supplemental dividend of \$0.18 per share. This brings our payout ratio to 50% for the year, in line with our target to consistently return 40% to 50% of our free cash flow to shareholders.



### **John Lawler (cont'd)**

Now let's take a closer look at our performance. Revenue for the quarter was \$46 billion, up 4% despite the impact of the strike, which cost us roughly 90,000 units of production. Adjusted EBIT came in at \$1.1 billion with an EBIT margin of 2.3%, which again included the impact of the strike.

Now let's look at our segments. Ford Pro delivered another strong quarter with revenue up 11%, EBIT of \$1.8 billion was up 25% with a margin of 11.8%. Full year results clearly demonstrated the potential earnings power of this growth business. Revenue jumped 19% and EBIT more than doubled year-over-year to \$7.2 billion, an improvement of \$4 billion. And with a margin of 12.4%, we're just shy of our mid-teen target. The strengths Jim highlighted for Ford Pro are differentiated and drove strong results this year and have Pro poised for another strong year in 2024.

Ford Model E drove a 14% increase in wholesales in the quarter, a 2% increase in revenue and EBIT loss of \$1.6 billion. For the year, wholesales were up 20%, revenue was up 12% and EBIT was a loss of \$4.7 billion. Both the quarter and year were impacted by challenging market dynamics and investments in next-generation vehicles, both of which Jim addressed in his remarks.

In the quarter, Ford Blue revenue was flat despite the loss of roughly 60,000 units due to the strike. EBIT was \$113 million with a margin of 3.1%. For the year, Ford Blue grew again with revenue up 8%. All of our regions are now profitable and contributing significantly to Blue's bottom line results. EBIT of \$7.5 billion was up year-over-year with a margin of 7.3%. The improvement in EBIT reflects the underlying strength of our product portfolio, dampened by higher warranty and the UAW-related costs.

Turning to Ford Credit. Ford Credit generated EBT of \$280 million in the quarter and \$1.3 billion for the year. As expected, full-year results were down year-over-year. Credit loss performance continues to normalize but remains below our historical average.

Now before I turn to guidance, I wanted to touch briefly on capital allocation. One of the benefits of our segmentation, in addition to increased transparency and accountability, is that we are now allocating capital based on the growth opportunities in different risk and return profiles of our segments. This allows us to assign specific risk-adjusted hurdle rates for each of our businesses, driving greater accountability to returns on the capital we invest.

So, here's how we're thinking about 2024 guidance. For the full year, we expect to earn between \$10 billion to \$12 billion in adjusted EBIT. The high end of the range would be a record for Ford. Adjusted free cash flow of \$6 billion to \$7 billion and capital expenditures of \$8 billion to \$9.5 billion, flat to moderately up year-over-year.

So let me double click on capital expenditures. We expect EVs to be about 40% of the total, and this reflects products already in flight, including investments in EV powertrain supporting our next generation of products and our LFP battery plant here in Michigan. As we continue to adjust to market dynamics, we are scrutinizing every dollar and will continue to drive efficiencies, targeting to land at the lower end of our capex range.

For example, in 2023, we already started to take action. We delayed our second JV battery plant in Kentucky, we reduced the size of our new LFP plant in Michigan, and we did not proceed with our JV battery plant in Turkey. And now, we are further adjusting installed capacity to match demand,



**John Lawler (cont'd)**

reassessing vertical integration in new battery chemistries, adjusting Gen 2 products and potentially their launch timing to ensure they meet our criteria for profitability, given the new market reality.

Our 2024 outlook also assumes a flat to slightly higher SAAR in both the U.S. and Europe, and our planning assumption for the U.S. is 16 million to 16.5 million units; nonrecurrence of the UAW strike, full year of our all-new Super Duty driving both positive pricing and mix in Ford Pro; industry supply and demand normalizing. Now from a planning perspective, we are assuming lower industry pricing of roughly 2%, driven by higher incentive spending as we move through the year. We expect this to be partially offset by top line growth from the launch of our new products.

In addition, we're assuming a \$2 billion benefit from cost reduction initiatives that offset higher labor and product refresh costs. Within the segments, we expect Ford Pro's strength will continue unabated. With continued strong demand for our leading products, we are targeting EBIT between \$8 billion to \$9 billion, driven by continued growth and favorable mix, partially offset by moderated pricing. For Model E, we expect losses to widen to a range of \$5 billion to \$5.5 billion, driven by continued pricing pressure and investments in our next-generation vehicles. We expect our first-generation vehicles to improve their profits throughout the year.

Ford Blue, EBIT to be about equal to last year at \$7 billion to \$7.5 billion, reflecting a balanced market equation, including the impact of our all-new F-150. We also expect costs to be flat as we offset higher labor and product cost with efficiencies.

And we expect Ford Credit's EBT to be up slightly year-over-year to about \$1.5 billion.

Now taking a step back, our performance last year reflects the positive momentum of our Ford+ plan. Capital discipline is driving the right global footprint, portfolio of products and consistent cash generation. We continue to see growth opportunities and remain focused on delivering improvements in both quality and cost.

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

**QUESTIONS AND ANSWERS**

**Operator**

We will now begin the question-and-answer session. To ask a question, you may press star one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Our first question today is from Adam Jonas with Morgan Stanley. Please go ahead.

**Adam Jonas**

Hi, everybody. Jim, I want to talk to you about Ford versus Ferrari, which is a great movie, by the way, and I think the good guys won. I remember a time when Fiat owned Ferrari, and I had a valuation of about \$4 billion on it. Now Ferrari is worth \$80 billion today, and the business was totally ignored by investors when it was part of Fiat.



**Adam Jonas (cont'd)**

Now Ford is a Ferrari, it's called Ford Pro. And I think we agree, people are ignoring the cash cow, but I disagree with you, Jim. You said it's because of opaque kind of transparency or opaque kind of metrics. I don't agree. I think it's because almost all the profits are funding this EV science project. Am I being unfair, Jim, with that kind of assessment or what can your team do about this? Then I have a follow-up.

**Jim Farley**

[audio drop] enthusiasm towards it. But relative to EVs, there's a lot we can do, and there's a lot we're doing. I think you're going to see a lot of seismic changes in the industry because of this pricing power reality that we've all faced. More OEM relationships, different shifting to a buy versus a build or vertical integration, shifting in capital and generally more focus on smaller vehicles.

The EV customers are very robust. They really like the vehicles. They do not repurchase ICE or hybrid vehicles. They're very loyal and they love the vehicles, so it's on us to get the cost right. That is the issue with the transition.

The good news is Ford has a high-volume hybrid business, and the timing of our second cycle product gives us a chance to make a lot of adjustments in capital, bringing it down including, and it allows us to execute them with a cost approach that's very different than our first generation. And I think all of our commitments to make money in the first 12 months of all of our launches, to have that kind of profitability in Model e, to return its cost of capital, I wouldn't be saying it if I didn't believe it.

It's also got a lot of other benefits, which I want the team to explain, that are really important to understand. Marin, do you want to go over those, or John?

**Marin Gjaja**

Sure. Thanks, Jim. If we just think about what the Gen 1 vehicles can do for us, we're building the EV business and, at the same time, we need the compliance value. We mentioned before the value of the credits it generated allow us to sell these high-margin ICE vehicles. Each EV sold allows us to sell multiple high-margin vehicles. A Lightning can offset roughly—

**Jim Farley**

Including Pro.

**Marin Gjaja**

Including Pro.

We're also building new customer-facing capabilities. We are satisfying demand that is out there where there's high levels of adoption. We've got new dealer standards, changing experience for the customer for shop and buy ownership and service so that we're learning what's required to serve these customers, both us and our dealers. We're developing a charging network through our dealers and together with Tesla.

Now the adoption varies tremendously by geography. As Jim mentioned, across the West Coast, we're seeing 30% of the market in F-150 being in EVs. That volume is giving us a feedback loop for engineering. We're developing these electric powertrains. We've got better handle on thermal propagation, and the software and services that these customers demand, much more intensely than a



**Marin Gjaja (cont'd)**

typical ICE customer, we're learning how to deliver those much better, much more efficiently and with higher quality.

I would be remiss if we ignored the lifetime value of both the customer and the vehicle. We've got a 60% conquest rate on Gen 1 and the integrated services like BlueCruise that we can sell in these vehicles goes through the whole life of the vehicle.

**Jim Farley**

Anything else, John?

**John Lawler**

Yes. I mean, the only thing I would say is, Adam, one of the important things, just on top of that, is that the segmentation is really important here. We know that the EV business needs to stand on its own. We're very clear about that. And it needs to generate a profit and a return on the capital we're investing. Now we're not there yet, but that's what we're working towards.

The compliance benefit that we get, that's important. We can sell up to a dozen ICE F-150s or other ICE profitable vehicles for every Lightning we sell. But we don't do anything with wooden nickels. We don't do any credits into Model e or anything like that because eventually this business has to stand on its own, sooner rather than later. And that's a really important point. It's clean.

**Adam Jonas**

Thanks, John.

**Jim Farley**

By the way, Pro includes electric. And although electric is going slower for Pro customers, actually they do the math quicker than retail customers. And so actually, our January EV sales in Pro were higher than December, which would ever make sense. But we're seeing more and more Pro customers go electric if their duty cycle makes sense. So even for Pro, it's important for our success.

**Adam Jonas**

I appreciate that, Jim. I just have just a brief follow-up on China. You guys come across as very sophisticated in terms of having sophisticated insight into China. You've got Ambassador Huntsman on the Board, been there for years. You have a JV partner with Changan that's really kicking ass lately with EVs. So how can Ford potentially work with Chinese partners to help Ford achieve its EV objectives in a more capital-efficient way? Thanks.

**Jim Farley**

Thank you. Well, the person right next to me, John, was the head of Ford at China and knows the Changan leadership really well. John and I went to a Kamba trip last spring and it was really eye-opening for us. I mean, as two leaders, we looked at each other said, "Holy cow."

I think, first of all, China as an export for our very profitable overseas markets is really important now. And actually, we shouldn't overlook the importance of JMC now. We have really profitable export business in China, ICE and EV. We're going to actually have a very different strategy than I think our competitors in China with a very low capital approach to EVs. So, we see the kind of bloodbath reality now in China on EVs, and we're watching that really carefully. We don't think it's a good time to jump in



**Jim Farley (cont'd)**

with both feet in China with EVs, but we're allowing our partners' platforms to lead our electrification. And in doing that, we are learning a lot about their capability and the local IP there in China. And it's pretty breathtaking to see what we're learning.

I think our approach of a very low capital, profitable business is appropriate at this moment in time for this kind of EV explosion, but also bloodbath and profitability. And I think we're also building a global capability team for digital experience, battery and sensing tech, and product conception in China that we'll use globally. I think even though that's not a profit or loss thing, we see that as a real capability globally. So, our strategy is quite different, but I think it works for our company.

**Adam Jonas**

Thanks, Jim.

**Operator**

The next question is from John Murphy with Bank of America. Please go ahead.

**John Murphy**

Good evening, guys. Just a first question here, Jim, on EVs. Obviously, it's a hot topic here. As we look at sort of the slowdown here, we're hearing from dealers, particularly I spent some time in NATO last week, that they're seeing EVs traded in and folks buying ICE and EV. So, they're actually swapping out of EVs and buying ICE and hybrids. And then you're seeing Hertz dumping 20,000 EVs and canceling or postponing orders. So, both on the retail side and the commercial side, you're getting these stories. It's following up with data that folks are really not happy with the product sort of near-term. What do you think is happening because the customers are not happy? I mean, it sounds like on the Pro side, some folks might be with the product that they have right now. And if you think about sort of your planning assumptions maybe near term, I don't just for argument's sake, say you have 100,000 less EVs, do you think if you sell 100,000 less EVs at Ford, that you have the ICE and hybrids to backfill for that so you actually don't lose sales and you actually might be a little bit more profitable in the short-term? It's kind of a lot in that question, but just trying to understand what you're seeing in the market, and why things are failing here both on the retail side and on the commercial side to some degree. And do you have the product to backfill if those volumes are lower?

**Jim Farley**

John, thank you for your question. You can imagine with our choice portfolio being big on scaled hybrids, ICE, of course, and EV, this is a very fundamental question for us because we have to plan our capacity years out. Here's what we found. Customers are doing quick showroom math on hybrids. They can quickly evaluate the breakeven between ICE and a hybrid on the showroom floor. For an F-150, they know how much a Honda generator cost versus Pro Power on board, and they don't have to change their behavior.

A lot of the operating cost efficiencies in EV for a mainstream customer require change like installing a charger at home, or they're uncertain: how much will I save on repair cost? How much will I save on electrons versus gasoline? It's harder to compare. And so, we're just seeing the cost of ownership, which is interesting, because the success of EVs and Pro is a customer that does that math more brutally and they use the vehicle at a higher utilization, so they're looking at cost of ownership in a much clearer lens and, therefore, some of them are doing the math and going to EV.



**Jim Farley (cont'd)**

I think that math has always been there for HEV, but now more customers are interested in doing that. And we believe that customers are smart, and some people would do these cycles for EVs, so going to do that math over time and it's worth investing because it's a really good business. But it's on us to get the cost right.

So, I just think we're seeing the math for an EV customer, mainstream EV customer is a little bit more opaque than what we see on hybrid. Marin, do you want to say anything quickly about dealers?

**Marin Gjaja**

Yes. I think what we're seeing with our dealers is they've been making margins comparable to their ICE vehicles in the last year. And in '21 and '22, we were actually doing better than their ICE vehicles when pricing was really strong. So, we feel really good about making sure our dealers are making money on this and are making investments for the long term. But I think that's something that we monitor closely.

I think just building on Jim's point quickly, I would just say the big difference for consumers is they make that one choice every few years, whereas the Pro customer is changing their fleet, consistently buying lots of vehicles, and they test, and they learn what the TCO difference is, that total cost of operation.

**Jim Farley**

And as far as the manufacturing capacity, we planned that 40% growth in HEVs years ago, so that is our capacity. We may have some pricing room above that. And we've seen actually HEV pricing become more robust as we hit these capacity limits. But 40% growth is a big increase for us. We think we got it about right. That means like on an F-150, America's best-selling vehicle, we think 25% of the sales or America's best-selling vehicles can be hybrid. And I think we're going to get close to some of the all-hybrid nameplates out there that people think of when they think of hybrids with F-150. So, we have a lot of flexibility. I think we're in good shape.

**John Murphy**

Jim, just one follow-up. I mean, you reported a rumor to be doing a two-week tour to your dealers, around to your different dealers. I'm just curious, some of them are happy, some of them are annoyed at the EV stuff. What is the general message going to be as you're going around to the all-important channel and trying to get the troops in line and everything moving in the right direction in the distribution channel?

**Jim Farley**

A couple of key messages. First of all, I mentioned Ford Pro and what a profit juggernaut that is. We continue to need our dealers to invest in the brick-and-mortar in those remote service van and accelerate that because that is the upside. If we want to get to 20% of the profit for Pro being attached services, it's going to have to come on the back of capacity in our dealers and vans. So, invest in Pro.

The second thing is we have manufacturing flexibility between ICE and EV and hybrid, so we want to make sure that they understand that we're in probably better shape than any other brand in this transition.

The third message is we want them to understand our progress on quality, and we are going to press to be among the leaders in retailing, efficiency for our customer, remote pickup and service, doing more



**Jim Farley (cont'd)**

repairs for our retail customers remote, and that takes investment in their side. We really want to step on the gas on customer experience, both ownership and purchase. And I think that has to come from the top. Jim Farley has to say to all these dealers who are private investors, we need your partnership right now. That's why I'm going on the tour.

**John Murphy**

Sounds good. Thank you very much.

**Operator**

The next question is from Rod Lache with Wolfe Research. Please go ahead.

**Rod Lache**

Hi, everybody. Jim, you said that you're discovering that the adoption curve for EVs is a bit shallower, but we're still seeing \$5 billion to \$5.5 billion of losses in Model e, which implies that structural costs are probably higher in 2024 than 2023. So, it sounds like you're committed because you see the ultimate benefit and maybe also a little bit because there isn't much choice. So ultimately, the question is, can you control and commit to when that business reaches breakeven, either through stronger demand or lower spending? Because from here, \$5 billion improvement is pretty meaningful. Or do you have to do that because of the trajectory of ZEV and EPA and all the other things possibly exceeding where consumers are?

**Jim Farley**

Well, we're not going to go to market with the vehicle unless we completely convince ourselves that it's going to be profitable. And that takes some adjustments on timing actually. And we see opportunity in the short term to make some adjustments. But yes, I know it's a huge turnaround and it's a big number.

John, maybe you want to go into the actual losses in Model e just to pick them apart a little bit. And then I think you'll see a little bit more about the opportunity we have at Gen 2.

**John Lawler**

Yes, the biggest issue we have in our Gen 1 vehicles, of course, is that the revenue collapsed, and they're not optimized from a cost standpoint. We put them through very quickly to get to market and you're seeing that flow through. But I think part of what you were getting at is that we have no choice. And we will continue to work on improving the cost structure of the Gen 1 vehicles. And as Jim said, our Gen 2 vehicles we won't launch unless we can get to a profit and a return on that capital that we're investing there at the pricing environment that we now understand is reality.

So yes, it is very much the mother of all optimization modeling and work around the balance between how many EVs we sell, because we talked about the compliance benefit of that. For every Lightning, we can sell 12 ICE vehicles. We can sell a number of ICE vehicles with every Mach-E we sell, and so there's that balance. And then there's the balance of what we need to sell from the ICE standpoint and how we can improve with HEVs there, and that's a benefit, too. But there's also, and you'll see that in our K tomorrow, we are buying credits as they're available. So, we have to optimize across all three of those frontiers and that's what we're working on right now.



**John Lawler (cont'd)**

But we know that we have to have this electric vehicle business stand on its own and be profitable, because we know that there are competitors out there. We talked about that the Chinese as well as Tesla that are profitable, and we have to cross that fulcrum and get there. And that's what our goal is. So, it needs to be a benefit of profitable business, return on the capital plus the compliance benefit that we get from those.

**Jim Farley**

And Rod, we have a lot of stakeholders at Ford so we're not going to go in a lot of details, but we have optionality even this year in capital spending. I mean, a lot of that guide is EVs. John, I don't know if you want to be specific but—

**John Lawler**

It's about 40%. It was 40% last year and 40% of our capex this year is EV.

**Jim Farley**

And we're driving as a team to be on the low end of that range.

**John Lawler**

Absolutely.

**Jim Farley**

Because we are working hard on our EV spend. And I just want to make sure we don't want to leave this call with the fact that this is totally baked. We are working really hard to be on the low end of that range because we think it's appropriate to run the business.

**Rod Lache**

Can you commit to breakeven at a certain point that you said before that the Gen 2 vehicles come out in 2026, is that kind of the time line for closing that \$5 billion? And then just as a follow-up, I think you're saying that you've got line of sight on warranty coming down. Will we see the variable cost disadvantage that you've highlighted in warranty and material starting to come down this year?

**Jim Farley**

We have the leader of our EV business here, Marin, so I think that question goes to you on timing and warranty.

**Marin Gjaja**

Yes, I don't think we're prepared right now to commit to a specific timing on when we're going to be positive EBIT. We are going to expect to see improving gross margin quarter-over-quarter over the course of the year. John mentioned some of the levers we're starting to pull, and we will continue to adjust to the market realities. We've changed our production, we have increased C&I as need be to address our inventory issues and we're going to keep working on our cost. We've taken 4,000 to 5,000 out of the BOM on Mustang Mach-E since it was launched and 2,000 to 3,000 out of Lightning and the team continues to work. But the market is turned and it's going to be a challenge. And I don't know that we can commit because we don't know exactly what's going to happen in the market.

In terms of warranty costs, our Generation 1 vehicles, as we mentioned earlier, have been incredibly valuable for us to learn about a set of the issues around EVs, batteries and thermal propagation. And



**Marin Gjaja (cont'd)**

we will continue to work on that to lower our warranty costs dramatically for Generation 2, but we've got to deliver that in partnership with Kumar and the industrial platform.

**John Lawler**

So, Rod, I think the last part of your question was around, are we going to start to see costs turn? I would say that from a warranty standpoint, costs are probably going to be about flat this year. We're starting to see green shoots in the quality improvements. But as you know, the way that works, there's a lag. And Kumar can touch upon this a little bit more, but this year, we expect to see \$2 billion of efficiencies flow through, and those efficiencies are in the material cost in the industrial system, pretty much offsetting the impact of the UAW. But also remember, 60% of our global portfolio this year will be refreshed. And coming with that will be incremental costs that we have for new features, compliance, etc. And so, what we should see this year is the efficiencies of \$2 billion offsetting the UAW labor contract plus the refresh costs of 60% of our products being refreshed this year.

**Rod Lache**

Got it. Okay, thank you very much.

**Operator**

The next question is from Dan Levy with Barclays. Please go ahead.

**Dan Levy**

Hi, good evening. Thank you for taking the questions. I want to go back to Pro and the guide that you have for this year is already in line with the mid-teen margin guide you provided at your CMD last spring. So really the question is, how sustainable is this earnings stream? And specifically, I think you've had something like \$7 billion of price tailwinds last year, I think \$11 billion if you aggregate over a two-year stretch. I know this is partially driven by new product, but what is the sustainability of these very robust price tailwinds you experienced?

**Jim Farley**

Well, first of all, I tried to explain the fundamental factors for our vehicle profitability in Pro that's driving that demand will be here for a while. It's basic infrastructure, government, state, 5G, on shoring, manufacturing, the manufacturing sector. We believe that that's very durable. And by the way, in Europe, we've been the top-selling brand there for nine years and we have very old products. So, we haven't even seen the effect of Transit Custom and Ranger that's all coming our way.

We feel that this is a pretty robust profitability because we've never had the 20% attach rates. We've never had 0.5 million units of software with 50% margins. We've never really focused on Pro aftersales like we are now. We're just getting started with this 20% of the profitability coming from attached services. And I think that totally changes the risk portfolio of our commercial business. And this is a real opportunity for our company that we never had.

I also believe that attach rates are the kind of things that we'll start to see on the retail side of our business. Blue's software is now 70% margin and it's high volume now, and we're just getting started with that optionality. So, what it will be five years from now? I'm not sure the time frame of your question, hard to predict. But for the next couple of years, we're in a really good spot because the shovels are in the ground or about to get in the ground.



**Jim Farley (cont'd)**

The one other thing about Pro that we have to watch really carefully, which would be even more upside is a return to a robust construction housing market, which has been really slow in the last couple of years. If that starts to fire up, we're going to even have more capacity issues on Pro.

**Dan Levy**

Great. And then as a follow-up, John, I want to go back to your comments that you just mentioned a second ago on the industrial costs. And specifically, I think at the CMD, talked about a \$7 billion cost disadvantage versus your competitors in Blue. So how do we contextualize the cost improvements that you're adding now versus the \$7 billion? I mean, is it safe to say that now this journey on sort of narrowing that gap is starting or is there still a lot more work to do? Just help us understand the path to narrowing that cost gap versus your competitors in Blue.

**John Lawler**

Yes. What I would say is that now we're starting to gain the traction and that gap should start to narrow and that's part of the \$2 billion. And so, it's going to be across the industrial system, both in material and in labor. And I think Kumar can share some more details on how he's leading that and driving that.

**Kumar Galhotra**

Yes. Thanks, John. Well, this year, we're starting very differently than '24 than '23, for example. A couple of fundamental different things. Last year, we had a lot of inflationary pressures and claims from our suppliers. Those have eased very substantially and are going to help us deliver the \$2 billion that John talked about.

The second thing is the supply chain is much more stable. That allows us to run our entire system much more smoothly and helps us remove a lot of waste. It also reduces a lot of our freight cost because we've been doing a lot of premium freight the last couple of years so that will help as well.

And in terms of material, we're attacking it in like 3 different ways. One is where our designs are not efficient, so I want to give you a bit of color on what those are, a couple of examples. In one of our vehicle lines, we were using certain aero shields for fuel economy and the fresh eyes Kaizen review internally and some benchmarking, the team came up with a different way of delivering the same aero and saved \$40 per vehicle. So that's equivalent to about \$10 million per year.

Another category is where we are providing certain features to our customers where they're not finding a lot of value. And connected vehicle data here is very important because it helps us see what we're providing, whether the customers are using it or not. So, one example is an auto part feature that lets the customer parallel park automatically, very, very few people are using it. So, we can remove that feature. It's about \$60 per vehicle, another \$10 million per year.

We're doing very extensive benchmarking for our manufacturing, both internally because we have lots of good ideas within our system and externally at a station-by-station level. So just recently, one of the teams completed analysis of about 50 stations and saved about \$8 million. And I already mentioned the freight. So these are the kinds of very robust ideas we have in the hopper, along with less inflationary



**Kumar Galhotra (cont'd)**

claims, along with a stable supply chain that's going to help us close that gap that John mentioned and save \$2 billion this year.

**Dan Levy**

Great. Thank you.

**Operator**

The next question is from Emmanuel Rosner with Deutsche Bank. Please go ahead.

**Emmanuel Rosner**

Thanks so much. I was actually hoping to pick it up just where you left off on all that good color on the cost side. Are there any green shoots that you can sort of point us to, to give us increased conviction around some of these costs? Obviously, in 2023, cost was still a fairly major drag and that includes even in the fourth quarter. So, in your reporting, any of these markets that we should be watching in terms of what will actually provide the tailwind, the \$2 billion-plus in 2024?

**Kumar Galhotra**

It's just fundamentally the things I talked about. We have a very robust hopper of ideas that we're very busy executing: stability in supply chain, removing a lot of waste, and freight cost. So, we spent a lot of money, all of us did, in premium freight. We're starting to see in third quarter and fourth quarter a much more stable supply chain that allows us not to spend that premium and bring those costs down in 2024.

**John Lawler**

Emmanuel, the other thing I would add to that is that when you look at '22 and '23, we were very much behind the curve with the supply base, catching up to where they were and understanding what was driving their inefficiencies and claims. We spent a lot of time in 2023 getting out in front of that. And I would say that we ended '23 with a great work that Liz has done to be at a very different place with our supply base. And now we're working together with them very proactively across industrial system to identify efficiencies, things that we can change to help them and, as Kumar said, design actions, etc., things like that, that will make them more efficient as well. So that's another bit of color to add to that.

**Emmanuel Rosner**

Thanks so much. Just a quick follow-up on this. Will these things take time to play out? I guess I'm looking at your fourth quarter walk and mid-teen freight was still like a billion dollar headwind. So curious if you would need a number of quarters and then it would be a bit more back-end loaded? Or if we could sort of like turn on the switch and see some of these benefits in 2024?

And then secondly, curious about your thoughts about the volume outlook for this year, especially for Ford Blue. I think some of the inventory days are sort of like towards the higher end of what you've historically been comfortable with it. So, I'm wondering where you see volume growth for this year.

**John Lawler**

Yes, so a lot in there. What I think you should see from a calendarization standpoint on the cost for 2024 is that you'll see, as Kumar said, a lot of these are the design actions we've been working to identify in 2023 that have built up this cadre of actions we call the hopper, and those will start coming through on the model year turnover. So more towards the middle of the year you'll start to see a lot



**John Lawler (cont'd)**

more traction there on those. Some of the manufacturing improvements you'll see throughout the quarters, probably a little bit more of an even flow of those, I would say, right, Kumar? So that's where we're at.

When you look at our day's supply, when you look at our Blue day's supply, retail dealer day's supply is in the low to mid-50s, so it's about the limit of where we expect it to be. So, leaning back then into volume, we expect the industry, for the year, we expect it to be about 16 to 16.5, so maybe up 3% to 4% for us from a wholesale standpoint about that. From a planning perspective, that's where we're at. From a pricing perspective, we're planning to see about a 2% decline, negative pricing.

And then when you step back and you look at that from an affordability standpoint, we think 2024 is the year where affordability is going to get back to pre-pandemic levels, where the monthly disposable income it takes to buy a vehicle should be back to about that 13% to 13.5%, which is what we saw before pandemic. So, we're going to continue to see some top line pressure on Blue. We've got new product coming in Blue, which is going to give us some mix and some tailwind there, so that's going to be a positive for Blue.

And then I think Jim covered off Pro. We're seeing incredible demand on Pro. And as you know, Emmanuel, those commercial orders come in two tranches. Half of them came in last year so they're all set. The other half are coming through now and we're continuing to see strength there.

**Marin Gjaja**

And that portfolio is going to be freshened or new by the year-end.

**Emmanuel Rosner**

Great. I appreciate it.

**Operator**

The next question is from James Picariello with BNP Paribas. Please go ahead.

**James Picariello**

Hey, good evening, everyone. Just wondering if you could help dimension EV volumes for this year associated with the \$5 billion-plus in Model e losses. And then with respect to Ford Pro's mid-teens margins this year, just curious on the impact tied to the fleet demand for EVs beyond companies, of course. Like do you foresee a step-up in Pro EV volumes for the year, no Model e losses get more difficult. So just how are you thinking about the EV dynamic for Pro profitability as well?

**Jim Farley**

On the retail side, I'll ask Marin to answer that. On Pro, absolutely, our EV sales will grow, not only because we're seeing more interest because the cost of ownership is advantageous for some, but we're also expanding in Europe quite a bit our electric offering with our two Transit vans coming online. And there are a lot of city closures and other kind of regulations in Europe that's driving adoption for electric vehicles, especially vans specifically. So yes, we'll have very robust growth in our EVs for Pro.



**Marin Gjaja**

Yes. We expect growth in sales on the retail side as well. Remember, we had times where we were out of production last year on Mustang Mach-E and F-150 Lightning. So, we'll be overlapping those, we'll see growth. And then more importantly, we're launching Explorer in Europe in the second half of this year so that's going to be a new offering that will help us grow. So, we expect to see substantial unit volume growth.

**James Picariello**

And John, I know you touched on this already but are supplier cost reductions a core component of the \$2 billion in savings for the year? Just wondering how commercial negotiations have progressed? And are there any areas that stand out in terms of opportunity?

**John Lawler**

Yes. A lot of the \$2 billion is, again, through the manufacturing system so it's the industrial efficiencies that we've been working on. And then from a design and material standpoint, it's mostly design reductions that are part of the \$2 billion on a year-over-year basis. So, it's those actions that we've been benchmarking and working on similar to the ideas that Kumar had described, pretty much design related.

**Jim Farley**

So, design, labor and freight primarily.

**James Picariello**

Thanks.

**Operator**

And the final question today comes from Ryan Brinkman with JPMorgan. Please go ahead.

**Ryan Brinkman**

Thanks for taking my questions. I mean, obviously, a strong guide in aggregate. Digging into, though, the higher anticipated Model e losses of \$5 billion to \$5.5 billion, what is embedded within that from like a variable contribution margin perspective? How do you expect that to progress throughout '24? And then could we also check in a little bit longer term on how you're feeling about that Model e margin target of, I think it's 8% by the end of '26 annualized. Including after GM recently lowered their '25 EV margin target, and given that I think you rolled out that 8% before Tesla cut their prices and saw their overall margin actually like declined to be basically in line with yours. If you're still targeting 8% with the '24 guide out there now, really only '25 is the mystery. So, it seems like quite a step-up then over the course of '25 to '26. I know you do expect a big boost from those second-generation EVs you discussed earlier in comparison to the mixed fuel models, but is that enough to get you to the 8% or are there other sources of improvement that need to layer in over '25 and '26? I don't know, vertical integration or what are those sources of savings? And how are you feeling about that target?



**John Lawler**

Yes. So, I think it's clear, given the dynamics in the marketplace and the way the top line has come down significantly since we had put that out there that the 8% is not in the 2026 time period. So, I think that's clear. I don't think anybody believes that by '26, we can bridge from here to 8%.

It's going to come down to launching our next generation of vehicles and improving the contribution margin, gross margin, as Marin has said, on the first generation as we go through the year. But Marin, do you want to add more color to that?

**Marin Gjaja**

John, I think that's right. I think it's really the levers we're pulling this year to improve gross margin over time on Gen 1 and then really sticking to the capital discipline and the operating discipline around launching Gen 2 only when they can be profitable and deliver the kind of returns we want. And over time, that will build a stand-alone profitable EV business. Thanks.

**Ryan Brinkman**

Very helpful. Thank you.

**CONCLUSION**

**Operator**

This concludes our question-and-answer session, and the conference has also now concluded. Thank you for attending today's presentation. You may now disconnect.