



Ford Motor Company

Third Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jim Farley - *President, Chief Executive Officer*

John Lawler - *Vice Chair, Chief Financial Officer*

Cathy O'Callaghan - *Chief Executive Officer, Ford Credit*

Lynn Antipas Tyson - *Executive Director of Investor Relations*



PRESENTATION

Operator:

Good day everyone. My name is Leila, and I will be our conference operator today. At this time, I would like to welcome you to the Ford Motor Company 3rd Quarter 2024 Earnings Conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, and if you have joined via the webinar, please use the raise hand icon, which can be found at the bottom of your webinar application. If you have joined by phone, please dial *5 on your keypad to raise your hand. At this time, I would like to turn the call over to Lynn Antipas Tyson, executive director of Investor Relations.

Lynn Antipas Tyson:

Thank you, Leila. Welcome to Ford Motor Company's 3rd Quarter 2024 Earnings call. With me today are Jim Farley, president and CEO, and John Lawler, vice chair and CFO. Also, joining us today is Cathy O'Callaghan, CEO of Ford Credit.

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.

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 20. Unless otherwise noted, all comparisons are year over year. Company EBIT, EPS, and free cash flow are on an adjusted basis.

Lastly, I'd like to call out a key near-term IR engagement. On November 20th, John Lawler, vice chair and CFO and Sherry House, VP Finance, will participate in a fireside chat with Dan Levy at the Barclays Global Automotive and Mobility Tech Conference in New York. Now I'll turn the call over to Jim.

Jim Farley:

Thanks, Lynn. Hi everyone and thank you for joining us today. I wanted to start by thanking our global team for the commitment to Ford+ and to adding and creating value for all of our shareholders. I'd like to touch on an overview of our strategy and why we believe we're so well positioned versus the competitors in key areas, and John will take you through the Q3 results and full year outlook.

Several years ago, we restructured our overseas operations, and our global footprint is a key strength for Ford. We restructured in Europe, South America, India, and China. Collectively, in 2018, those regions were losing \$2.2 billion and burned 3.4 billion in cash. Now, all of those regions are collectively profitable. We're going to continue to stay laser-focused on cost and getting leaner company, but our team won't be distracted by major international restructuring facing other OEMs, especially in China.

And speaking of China, we've gone to asset light for a couple of years as we've told you. We have strong JV partners and we have a growing export business. In fact, China and its exports are now contributing over \$600 million to the company's EBIT this year.



Jim Farley (cont'd):

Another area of strength is our EV strategy, which I wouldn't trade for any of our competitors. We moved early. We've learned a lot on gen 1 from our customers, the global market dynamics and what it requires to be fit to compete. No doubt there's a global price war and it's fueled by over capacity, a flood of new EV nameplates, and massive compliance pressure. In our home market in the U.S., no OEM is immune. Since Q1 of last year, EV volumes have grown 35% while revenues in total are flat at \$14 billion. That means the progress on volume has been fully offset by prices. We're expecting roughly 150 new EV nameplates to hit North America by the end of 2026. And some of our competitors are already resorting to very aggressive lease tactics, even on the brand new products, which creates huge residual risk and overhang and brand damage.

What we're doing about these market dynamics, well, we're focused on cost. We've already reduced \$1 billion in our EV costs this year. We remade our battery footprint. We trimmed our capacity by 35% in line with where we think the market will be in a few years. We accelerated the mix of our batteries, emphasizing LFP, we'll be the first one to manufacture in the U.S., and that battery will leverage the IRA production tax credit.

We're shifting new launches focused on getting the products we do have in our EV portfolio, profitable within the first 12 months. And we're deep into the design and engineering of our next generation vehicles. Boy, are we excited about these coming out in the next few years.

In 40 years in the industry, I've seen a lot of game changer products, but the midsize electric pickup designed by our California team has got to be one of the most exciting. It's incredible package and consumer technology for a segment we know well. It matches the cost structure of any Chinese auto manufacturer building in Mexico in the future. How do we know that? Because 60% of the bomb has already been quoted.

Another advantage for us, obviously, is Ford Pro. It's unique because we're combining product strength with software and repair services all linked together. Don't be confused by other press releases on the ground game in the commercial market, because what our customers see is that we have reached a leading product portfolio, an incredible software portfolio, as well as gaining strength in our repair services. All of that driving sticky, reoccurring high margin revenues.

It turns out in Pro, our dealer network is one of our key advantages. In the U.S., we have the largest commercial vehicle network, and that's essential to drive those attached rates to services. And our software is also a competitive advantage. Our paid subscriptions delivered a growth of 50% in revenue, 30% just this quarter. And our gross margins are over 50%. There's incredible upside of Ford for our software to grow our install base, attach rates in ARPU.

Another strength is our diverse powertrain lineup. For example, in the U.S., the hybrid pickup sales at Ford have more than doubled in the past two years. We now have a nearly 80% market share of hybrid pickups. A lot of our companies shunned hybrids, and now they're scrambling, but it's going to take them years to catch up. Interestingly, in our home market, Ford is the number one ICE brand, the number two EV brand, and the number three hybrid brand. Taking a step back, clearly our strategic advantages are not falling to the bottom line the way they should. Costs, especially warranty has held back our earnings power, but as we bend that curve, there is significant financial upside for investors. By design, 70% of the bonuses for our managers is tied to cost and quality, and more than half of our long-term incentives as leaders is tied to TSR.

Let me double-click on the EV business. We applied lessons really early that we learned on Mustang Mach-E across our lineup. In the last 24 months, we've reduced the Mustang Mach-E's cost by \$5,000 per unit. As you know, Mach-E is second to Model Y in the segment for



Jim Farley (cont'd):

sales and transaction prices despite being in the market now for several years. And we continue to break down the friction or barriers to adoption from mainstream ICE customers. We are the first to join Tesla's Supercharger network and we'll be shipping about a hundred thousand adapters by the end of this year. We're the first to offer complementary home charging and installation. We call it the Ford Power Promise, and we've seen a huge uptick in interest on our website from the Power Promise.

But our dealers are also becoming a competitive advantage for mainstream customers. Take for example, Tim Hovick and his team at San Tan Ford in Arizona. In the quarter one of the months they sold 137 electric vehicles and Arizona's not a ZEV state. These were incremental sales with solid gross profits for the dealers and we are building on that know-how for the last couple years in scaling and being number two across our whole U.S. dealer network. All of our 3,000 dealers are primed to sell EVs now we have 7,000 trained EV specialists and 14,000 dealership hours have been spent on EVs. Now our dealer network has already installed 800 Fast chargers across the US and Canada and many more are on the way. Next year we expect to improve the trajectory of Model E's business through cost scaling and we're not trading wooden nickels inside the company for emissions credits. That won't change the economics of our EV vehicles and the company as a whole.

Turning to Pro, we're the first OEM to segment our customers between retail and commercial, and it starts by having a great product lineup and leaning into the future. About 9% of Transit sales are now electric vehicles in the quarter. That's up 1.5 percentage points from a year ago. Our Super Duty has more variance than any other OEM and we're bundling vehicles and services to provide unique value for our customers. What I mean by that is about 13% of our EBIT for Pro now comes from repair services or software. We think that will grow to about 20% by 2026.

We have the largest service network in North America. We're on track this year to add over 4,000 commercial service bays and 2,500 Pro mobile service units. That, by the way, is up 50% year over year. Our mobile repair orders are up 60% year over year, and now almost 1 out of 10 Pro repair orders is done by a mobile service truck. Globally Ford Pro Intelligence subscriptions rose 30% in the quarter. We now have about 630,000 subscriptions. As I said, that's at revenue growth of 50%. We're adding more and more product functionality features that third party software companies can't offer because it's tied to the product, including remote vehicle lock and unlock, limits to our top speed and acceleration. Yes, we are seeing more pricing pressure on Pro in the second half, but that was consistent with our original guidance for the year.

Demand is also in line with our expectations. We're seeing pent up demand for Super Duty cabin chassis and Transit wagons. And then Ford Blue, let me double click for a second on that business. First, we have an incredibly fresh lineup across the globe and we're going to add to that. We have four key U.S. launches on deck. The Maverick and Bronco will be launching in the fourth quarter with new derivatives and a freshened product, and we have an all-new Expedition Navigator launching early next year. In Q3 in the US, our share was up 40 basis points to 12.6%. Our ATPs in September were in line with the industry and the Ford brand continues to transact higher than the average non-premium brand.

Now let me unpack the inventory. We ended the quarter with 91 days of gross stock and 68 days dealer stock. That's a little higher than our target range of 50 to 60 days, but the mix is really good. Now we're intentionally holding extra inventory through the year end to protect sales during the Q1 launch. Activities that I mentioned and adjusting for that we're right in the target range for us as we start 2025 from an inventory standpoint. The biggest opportunity of the company clearly is cost and warranty. We're attacking both of these, and we will realize the



Jim Farley (cont'd):

upside. The biggest opportunity is warranty, and here's some evidence of things on the input metric side that are really improving. Our 3MIS, or three months in service, quality is getting a lot better, a 31% increase in the last three years. This year, the high-volume vehicle lines like F-150 and Escape had huge launches and really had no virtually no warranty spike. J.D. Power's typically sees a 92% increase in defects during a launch. Our launch production losses have also been cut in half from the last year, and these are very large-scale launches like F-150 and Explorer.

Another key improvement that we're seeing is our ability to OTA and improve our vehicles in the field. We've updated 4 million vehicles at Ford this year and 20 million total since we started doing OTAs. We can now update 30 different vehicle modules well beyond the sync and infotainment modules. The OTAs on average save our customers five to six days waiting for repairs, and of course it lowers our cost of warranty. All improvements to warranty will take time to reduce our warranty expense, maybe up to 18 months, but we're moving the needle on all the inputs. Taking a step back, I believe we're in a very strong competitive position. We have a lean and profitable international business with no distractions. We have a fresh and appealing lineup, which will get even fresher. We have a strong and diversified powertrain strategy that gives customers choice and gives us a flexibility and reach. We're already on our second generation of electric vehicles, they'll be launching in the next couple years. We'll reduce the losses short-term on our gen-one products and set us up to be a global competitor in the long term.

We have a vibrant growing software and repair business for Pro and Pro is clearly a strategic advantage for the company. We're going to keep doing the hard yards to capture the tremendous upside and cost and warranty defects present to us, and we're going to bring in home for our valued investors. John.

John Lawler:

Thanks, Jim. In the third quarter, wholesales were flat while revenue grew by 5% to over 46 billion. That's our 10th consecutive quarter of year-over-year revenue growth. And this is supported by our compelling product lineup offering, freedom of choice to both our retail and commercial customers. The quarter benefited from strong truck sales, including hybrids, as well as the launch of the all-new Ford Explorer and Lincoln Aviator. We delivered 2.6 billion in adjusted EBIT with a margin of 5.5%, up 50 basis points from a year ago. The profit improvement was driven by higher volume and favorable mix, partially offset by expected EV pricing pressures and adverse exchange. Overall costs were lower in the quarter.

I have great confidence in today's business and the changes that are underway. Several years ago we proactively restructured our global product lineup and tailored it to focus on customer segments we know best and lead in, which has driven consistent top line growth. We're also slowly but surely improving our industrial system and shedding behaviors that have held us back in the past. And our free cash flow is stronger and more consistent than just a few years ago. All evidence that our Ford+ plan is working.

Adjusted free cash flow was 3.2 billion in the quarter and 5.9 billion year to date, with cash conversion of 74%, well above our targeted range of 50 to 60%. Our balance sheet remains strong with almost 28 billion in cash and 46 billion in liquidity. We continue to believe that it is prudent to have extra cash on hand during this unprecedented time in this industry. It provides us flexibility to invest in accretive growth, execute strategic build partner, buy opportunities, and maintain financial flexibility during the next economic cycle. I'm also pleased to announce that we declared our fourth quarter regular dividend of 15 cents per share, payable on December 2nd to shareholders of record on November 7th. We target to return 40 to 50% of adjusted free



John Lawler (cont'd):

cash flow to shareholders. Annually and including today's announcement, have paid out over 10 billion to shareholders since the beginning of 2022.

Now let me turn to our segments. Ford Pro delivered close to 16 billion of revenue in the quarter, up 13%. Another quarter of growth. Wholesales were up 9% aided by the launch of the all new one ton Transit custom in Europe and robust demand for Super Duty and two ton Transit vans. EBIT of 1.8 billion was up year over year with a healthy margin of 11.6%. Ford Pro continues to be our prototype for sticky high margin, non-cyclical revenue, paid subscriptions, attach rate, and monthly ARPU were up in the quarter. Pro's results continued to demonstrate the consistency and resiliency of this higher margin growth business underscored by their year to date EBIT margin performance of 14.6% in line with our long-term target.

Ford Model E generated a loss of 1.2 billion. We delivered 500 million of year over year cost improvement, which was offset by industry pricing pressures. Global wholesale were down 11%, reflecting our focus on yield management and balancing deal inventory in North America offset partially by the launch of the all new Explorer EV in Europe. Our team is focused on delivering further cost, optimizing the gen-one market equation and driving capital efficiencies, helping to improve our profit outlook as we head into 2025.

Ford Blue revenue was up 3% in the quarter while wholesales were down 2% driven by discontinued low margin ICE passenger vehicles. Although overall volume was down North America volume was up 8% driven by key nameplates like F-150 and Ranger. EBIT of 1.6 billion and margin of 6.2% were both down year over year due to adverse exchange and higher manufacturing costs offset partially by lower warranty expense and higher net pricing. Hybrid sales up 30% in the quarter continue to shine and our global hybrid mix is still on pace to approach 9% by year end up over two points year over year with more products on the way.

Ford Credit generated EBT of 544 million up 186 million year over year driven by an improvement in financing margin and higher receivables. Auction values declined 1% and lease return rates continue to normalize from historic lows. We continue to originate a high-quality book with US retail and lease FICO score again exceeding 750 for the quarter. Our exposure to EV residual risk is low with EVs representing less than 10% of our lease portfolio in the U.S.

So, let's turn to our outlook. When we began the year we expected full year company adjusted EBIT of 10 to 12 billion. Since then, our product portfolio has exceeded our expectations, delivering favorable market factors including mix through the first nine months of the year and we expect this trend to continue in the fourth quarter. This speaks to the strength of our key nameplates and the resilience of our commercial business at Ford Pro. We are also on track to deliver 2 billion of cost efficiencies within our industrial platform, offsetting expected higher labor and product refresh costs for the year.

However, two gating factors keep us from a record adjusted EBIT this year. Higher than expected warranty costs and the impact of inflation at our JV Ford Otosan in Turkey, which increases the material cost of Transit vans sold in Europe. While inflationary pressures in Turkey is outside of our control, increased warranty costs are within our control. We now expect full year company adjusted EBIT of about 10 billion, which includes lower than plan volume in the second half for Ford Pro and Ford Blue due to supplier disruptions.

In general, we see supply and demand for vehicles in balance. We continue to expect adjusted free cash flow of seven and a half to eight and a half billion with CapEx between 8 to 8.5 billion. Our outlook for 24 assumes a flat to slightly higher SAR in both the U.S. and Europe. Our planning assumptions for the U.S. is 16 to 16.5 million units. Full year of customer demand for all-new Super Duty contributing to better market factors for Ford Pro, lower industry pricing of



John Lawler (cont'd):

roughly 2% driven by higher incentive spending as we exit the year. For Ford, we expect this to be partly offset by top line growth from the launch of our new products.

Our segment outlook anticipates continued strength in Ford Pro. We now expect EBIT of about 9 billion with an improved market equation, including continued pricing strength on core products. An expected loss of about 5 billion for Model E, which is the positive end of our guidance range, driven by over 1 billion in cost improvements that were partially offset by continued pricing pressure and investments in our new vehicle platforms. And for Ford Blue, we now expect EBIT of 5 billion reflecting a balanced market equation and higher product manufacturing and warranty costs partially offset by cost efficiencies. And lastly, Ford Credits EBT will be about 1.6 billion, a double-digit growth year over year.

Our performance this quarter demonstrates the positive progress on our Ford Plus plan, capital discipline, the right product portfolio and consistent cash generation to reward our shareholders. We are relentlessly working to make our business better and we remain focused on improving both quality and cost.

That wraps up our prepared remarks. We'll use the balance of the time to address your questions.

Operator:

We will now move to our question and answer session. If you have joined via the webinar, please use the raise hand icon, which can be found at the bottom of your webinar application. If you have joined by phone, please dial star five on your keypad to raise your hand when you are called on. Please unmute your line and ask your question. We will now pause a moment to assemble the queue.

Our first question comes from Mark Delaney with Goldman Sachs. Please go ahead.

Mark Delaney:

Yes, good afternoon. Thanks very much for taking the question. Pro EBIT was strong but did fall to 11.6% in the quarter, although still at 14.6% year to date. Maybe you can talk a bit more around what led to the moderation in Pro EBIT during the third quarter and what gives you confidence in that mid-teens EBIT margin in the Pro segment over the intermediate to longer term.

John Lawler:

Yeah, so when you look at it, what we're seeing this year like we saw last year is seasonality in the sector. Now there's transparency around the commercial business that we didn't have in the past. First quarter we see the peak in the rental business that falls off in second quarter. In fact, this quarter, third quarter we had basically zero rental business. The other thing we see in the second half is we see the shutdowns that we see at our plants and as you know, we run these at full capacity, so we lose those units and we can't make them up. And that's the seasonality you're seeing and they see that show up in the EBIT in the second half confidence we have in Ford Pro ongoing is we're continuing to see, as Jim said, strong demand for our Super Duty and Transit, especially the chassis and the wagons.

Our pricing has held up pretty strong so far this year. We are seeing some top line pricing pressure with the '25 model year vehicles as we expected, but we're still continuing to move



John Lawler (cont'd):

forward and it's not something that we're concerned about at this point based on what we're seeing so far with the '25 model years.

So again, the business continues to be strong, and I would tell you that we're really starting to gain traction on our overall process of how we're going to market and we're selling the solution, right? We're selling the vehicle along with the services that come along with that. That's about improving our customer's business and giving them productivity, which helps them improve their profits. So all of that's coming together and it's leading to a continued strength in Ford Pro.

Mark Delaney:

Thanks for that, John. I also had one either for you or for Jim around Model E. I think you said during your prepared remarks you expect improved EBIT trajectory in Model E next year. Maybe you can help us better understand how impactful some of the recent costs and capacity actions the company has taken might be within the Model E segment and within your outlook for an improved EBIT trajectory within the Model E, how much of a risk might the rising CO₂ requirements within Europe and just the broader pricing environment for EVs as you think about that improved trajectory? Thank you.

Jim Farley:

Thanks for your question. Good news is we're starting to scale EBIT business in Europe and those vehicles are contribution margin positive and they're becoming a bigger mix of our business. We are definitely getting traction from our cost down efforts on our first cycle of products and we're really focused on Mustang Mach-E. We've made a lot of progress and we have a lot more to make. So I think this is one of the benefits of having the segmentation broken out and no doubt about it I think we tried to highlight in our prepared comments the growing risk for everyone on pricing and no OEM is immune to that. And as I said, we're seeing some of our competitors have enormous lease mixes, like 70 plus percent. So that will play out, especially in Europe as you said, there's a lot of pressure in Europe. Our products are brand new in Europe, so that's a good thing and that'll help us next year.

Anything else, John?

John Lawler:

No, I just think that we're going to continue to focus on cost improvements in the current generation and the future generation and being in the marketplace as long as we have that's really helped frame up the mandate we have for the California team around cost to be competitive. And what it's all going to hinge on us, as you said, Jim, that top line pricing pressure.

Jim Farley:

Yes. And to be specific on the cost, we really expect next year and the following years a lot of progress in the production tax credit for our first gen products. That's really one of the key levers for us is we've been able to pretty quietly restructure our sourcing of our batteries, where they come from, who makes them to really maximize the PTC and that will drive a lot of costs down for our existing products. And you'll see that come to fruition starting in mid-next year and all the way through 2027.



Operator:

Our next question comes from John Murphy with Bank of America. Please unmute your line and ask your question.

John Murphy:

Good evening, everybody. Just a first question on warranty for maybe both of you and, Jim, you kind of cited some pretty good positive data around J.D. Power, some other sources, but I'm just curious if you're willing to at this point ring the positive alarm bell that we're now kind all clear on some of the warranty issues we've seen in the past, particularly last quarter or what is the certainty that we're through the worst of this?

John Lawler:

Yeah, John, I wish I could answer that with certainty. We are seeing the leading indicators, the physicals, we're seeing improvement there, especially around our three months in service. '24 model year is over 30% better than what we saw in '21 and '22. As Jim mentioned, our launch spikes basically on Explorer and Kuga, we didn't see one. So those are good indicators that things are going to get better from an overall quality standpoint now it's going to take time for that to flow through from a warranty standpoint.

What I can't tell you is I don't and can't read and we're doing the best we can on this, I know it's not satisfactory for you guys is the FSA is on the older models, what could potentially hit us. And we're out looking at all the data we can. We're looking at everything to try to get out in front of any of those and we're working to increase on our current models, everything we can do to fix things through OTAs, get the repairs out there as fast as possible, cut off any issues that are in the plants. So, I think we're doing all the right things from a physical standpoint, I just can't tell you when that curve is going to bend for sure. And how that's going to start flowing through from a cost standpoint. We're doing everything we can to figure that out and get there and understand the transparency and clarity around that.

John Murphy:

And then just a second question around pricing. Blue, it was still on a net basis, even positive in the third quarter. There's a lot of concern around what's going on with your inventory, although it sounds like you've answered that question, but also inventory at Stellantis and what might happen in the broader market. So I mean as you look at this and you think about pricing, you've got great product coming out now and into next year, that should be a bit of an offset. It seems like you'll have the inventory worked out. How do you think about pricing going forward in the industry? I mean it keeps surprising and being relatively resilient and actually even positive for you guys. So I mean how do you think about that going forward?

John Lawler:

Yeah, so this year top line, both pricing and volume were a tailwind for us relative to what we had thought. The industry is down 2%. We are seeing increasing pressures as we come through the end of the quarter into Q4 from a top line standpoint. Your guess is as good as mine, John, as what's going to happen and how deep some of our competitors are going to go that have an issue with inventories. Yeah, our inventories were higher, but we also gained share in the quarter and our sales pace increased. So we think we've got a plan to manage our inventories. We've got a plan to get back to within the run rate of what we expect. We do have some launches in Q1, so we will carry some higher inventory for those vehicles through the end of the year, but next year we plan to get back to that 50 to 60 days run rate for sure.



John Lawler (cont'd):

As we move into 2025, there's a lot of water that needs to flow into the bridge still between now and the end of the year. One of the things we're looking at is the consumers in Europe, it seems that they're pulling back a bit and spending less. So we've got to watch that and I think many of you guys have written about the fact that are we heading into cyclical pricing headwinds and is that going to show up in 2025? As you said, we've all been pleasantly surprised as how it's held up so far. But I want to see how we run through this quarter, how the year end is coming along, how sales are at the end of the year before I can give you any call on what we think is going to happen with pricing next year.

Jim Farley:

The only thing I would add on the pricing is really the mix. We continue to see customers move into small utility, affordable side of EVs, continue to be really fuel the unit growth and we're even seeing some change in series mix. So those are all uncertainties that we have to handicap for next year. But I just encourage all of us to not just look at the top line or the discounting, but also look at the mix and the segmentation. The good news is the truck segments and the Pro segments are holding up really well.

Operator:

Our next question comes from Adam Jonas with Morgan Stanley. Please unmute your line and ask your question.

Adam Jonas:

Good evening, everybody. So the Chinese have really been growing rapidly in Europe and rest of the world as you've seen. I know you don't break out results geographically, but any color on any impact you might be seeing in Europe competitively or even in rest of world regions that you wanted to highlight. And specifically I was kind of surprised you mentioned that China was contributing 600 million to your results this year. I'm curious how much of that was from the domestic market versus reverse exporting from China?

John Lawler:

Yeah, Adam, I'll start with that and then I think Jim will cover the rest of your question. So, we are profitable in China in and of itself in China. Jim mentioned \$600 million of total profits and that includes our exports primarily to the rest of Asia and South America. So going asset light has allowed us to stay profitable within China. And then the export strategy primarily from our JMC and exporting those vehicles to the rest of Asia as well as South America is driving significant profit in Ford Blue.

Jim Farley:

And Adam, for our revenue globally know Rangers become such a key product for us. We are in so many markets and the reason why we're profitable overseas in so many of those markets is because Ranger. When I came to the company, Ranger was 13th, now we're number two to Toyota Hilux and in many markets like Australia, we outsell them. So that's where the pressure's going to show up. For Ford's revenue. Great Wall is now localizing in Thailand their 60% of the pickup market in China. They're a really sharp company with great products and great value proposition. So we have a great strategy for that, but that's where we'll see it.

As you said, in Europe, the passenger car market has been impacted, but we really don't compete there. We really compete in the commercial pro business in Europe. We don't see the



Jim Farley (cont'd):

Chinese being major movers. Maxis a little bit in the UK, but they haven't really focused on the commercial pro business. The good thing there is that we have a multi-energy strategy for all of our Transits where we can offer customers whatever they want, including electric Transits, as I said, almost 10% of our products. So we're well positioned I think in both locations for Ranger and Transit.

Adam Jonas:

Thanks, Jim. Just as a follow-up, John, you cut about a billion dollars out of the full year outlook. You provide the detail by your reporting segments, but was wondering if you could break down what compromised that billion shortfall by factor if I gave you your costs versus your expectations. You mentioned warranty costs are down, but not as much as you thought, you're not satisfied. FX and the supplier disruption, you mentioned you missed some units. I wanted to know if you could quantify that or any other factors by causal factor. Thanks.

John Lawler:

Yeah. I think, Adam, when you look at it, you've got to look at it on the full year versus where we're guiding down now relative to what we had in Q2, right? And when we got in Q2, we had the headwinds hit us quite hard from a warranty standpoint, and we are seeing inflationary costs in Turkey. So, if you just step back on the full year, what's gating us from hitting the record profits is the fact that we have those headwinds that are offsetting the positives we had from a top line we just talked about, the volumes and mix and pricing stronger than we expected.

Now, coming out of the second quarter, what we've seen since then, which is gating us now to the lower end of our range, is that we're seeing, particularly in Blue, we're missing some volume and we're seeing some mixed headwinds due to some constraints we have with suppliers and it's hitting our most profitable, highest profitable mixed vehicles. Some of that is we lost some production due to the hurricane, but we also have some issues with a certain supplier on their productivity that we're trying to work through. We believe we'll be through that by the end of the quarter, but that is hitting Ford Blue and that's what's pulling Ford Blue down now from a standpoint versus what we got at Q2. Does that cover it?

Thanks.

Operator:

Our next question comes from Daniel Roeska from AllianceBernstein.

Daniel Roeska:

Hey, good evening, everybody. Thanks for taking my question. Maybe Jim, if you take a step back and think about Ford+ and the targets we've discussed in the past, I'm not going to hold you to 10% in '26, but could you still remind us of the stepping stones here for performance in the medium term and also give us a little bit of your view on how the somewhat slower transition into EV might impact what we've talked about in the past?

Jim Farley:

Thank you. Well, certainly our focus continues to be costs and our biggest costs focus is warranty. Coverages and FSAs. That's always been our work at Ford. I'd say we approached it looking at the most systematic changes that we need to make in the industrial system, and I'm proud of the progress, but we're not satisfied at all and we have a lot of opportunity. And going into maybe what looks like in our home market a little bit of a tougher pricing environment, that's



Jim Farley (cont'd):

upside for us as a company. And the management team is all focused on that and we're rewarded for doing that work. I would say the EV journey has been really interesting because as much as it slowed down, I'm really proud of the team reacting really quickly to it. Many of our competitors still have a lot of models coming out and we made the adjustment really early in those second generation products will be coming out. In addition to that, we really learned the industrial fitness we have to have and the way the vehicle's designed, the design costs, the design for manufacturability, and that's all in our second-generation products. And I think that's a four or five year advantage for Ford.

The other opportunity that emerged maybe that we didn't expect was the popularity of hybrids, especially on trucks. Most of our competitors don't offer hybrid on an F-150 or a Maverick, and this has been a fantastic revenue opportunity for us. We frankly can't keep up with the demand. The reason why we've focused our on truck is because we can innovate for the customer the Pro Power Onboard using hybrid and other advantages than just more efficient propulsion. I think that has encouraged us to put hybrid across our whole lineup, and be more curious about other partial electric solutions, which we'll talk to you about.

I would say the skunkworks team has over delivered, at least in the design and the platform, now we have to make it to high scale production. I am so excited to show everyone their work because it really shows how a company like Ford can compete with a company like BYD. And I would say Pro has been really interesting journey for us because I think it shows the future of the auto industry, with attached services, with more focus on after sales and repair and software that's tied to the vehicle itself, not just generic productivity software but software that actually is tied to the vehicle and to do that we need advanced electric architectures.

But there's been some challenges beyond cost and quality obviously and the slow uptake of EVs. Electric architectures are hard to execute. The software journey and the technology for the company is big know-how. We're already at 20 million OTAs, that's going to be a more and more important capability for the company. So there have been surprises, but I think, as I said, we're really well positioned in the short and midterm.

Daniel Roeska:

Great, thanks for that. And maybe John, to follow up a little bit, if he summarized there's been headwinds in the short term, EVs have been a little delayed, so that ramp up certainly isn't happening maybe quite as fast as you might have been [inaudible] stability on the cash side. But could I push you a bit and ask, what would make you reconsider the strategy on shareholder distribution? Because we've seen a couple of your competitors be a little bit more aggressive on immediate distributions, be it dividends or buybacks, but just as a, what's the balance you're striking and would maybe move you, let's say, to increase the dividend again for example, or to take other distribution actions? What could some of those factors be to tilt the capital allocations towards shareholders?

John Lawler:

We talk about this every quarter as you would expect, and we're consistent in that we're going to pay out 40 to 50% of our free cash flow. We do think it's prudent at this point in time to hang on to the incremental cash. We have \$28 billion and 8 billion higher than our stated cash minimum that we need is 20 billion. I think at this point in time where we're at in the industry, where we're at in the overall economic cycle, the uncertainty around the globe, right now, it's the right thing to hang on to cash.



John Lawler (cont'd):

I'm not saying there's going to be something that happens in the global economy. I'm not saying there's going to be some disruption, but where that to happen, we would be very pleased having this cash in hand. So we look at it every quarter, we understand that if we don't have a use for the cash or if the environment doesn't change and we see that the risks that might be facing us diminish significantly, then we have to make sure that we handle that cash appropriately and either invest it for an accretive growth or pay it back to the shareholders. And we will look at that every quarter and we will adjust appropriately.

Operator:

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

Joseph Spak:

Thanks, Jim. Actually, if we could just pick up right there, I want to talk a little bit about the 40 to 50% payout. Because I hear you and Jim's confidence on the business, but I also hear on this call that warranty is something you still don't quite have a handle on and there's some uncertainty there. The U.S. market, it's hard to see how it becomes stronger. You talked about potentially a pricing cycling downwards. Again, not expecting it maybe or necessarily, but it's possible. And if the industry stalls out, obviously then there's working capital headwinds. We saw how fast pre-cash deteriorates at a competitor. You mentioned higher inflation. There's still some investments to be made, and I know you want to keep cash on hand for optionality. So, when I hear you talk about 40 to 50%, it sounds to me like that's a retrospective view. But I'm actually wondering how much of a prospective view are you considering in that? Why is 40 to 50% even the right number?

John Lawler:

Of course we look at both, prospective and as well what we're going to pay out for the year, so we set the strategy around that payout ratio, 40 to 50%. We think that's a good point to be at right now, and we do look prospectively as to where we see the environment changing, what's in front of us, what the outlook could potentially, be the risks, the potential headwinds, potential tailwinds, et cetera. We do do that. It's just that at this point in time, we don't have anything to announce, but we're always evaluating it and we're always looking at it. We have the conversation every quarter as you would expect. Once we feel that it's the right time, then we will make a prospective change, a change based on a prospective outlook.

Jim Farley:

I would only add to John's comment that we're really excited about the Pro services. We don't have anything to announce, but we're always going to want to have some optionality not just for running the business but for strategic optionality to build our services business.

I mean, when's a car company had a chance to get the profitability of a Pro business to 20 or 30% of its revenue being services. That is such a special moment for our company and frankly for the industry, but that just doesn't come from organic growth all the time. Sometimes it takes investments in new kinds of services. I'm not going to go into that, but I just want you to understand that we're also thinking very carefully, like we have all of our strategy choices, like going asset light in China, like restructuring our businesses, like the way we handled the Rivian investment. We're thinking very carefully about our Pro business and how to nurture those services beyond what we have today.



Joseph Spak:

Maybe just as a second question, I want to go back to Mark's question on European compliance. I know in the last 10Q, you called out 3.8 billion for regulatory compliance, and I reread it this morning and it said for North America and Europe, for current and future model years. In Europe, it's really more of a....there's no credit system is my understanding. It's a bilateral negotiation maybe for a pooling agreement. Is that what's being considered in that number? And between a potential pooling agreement and your new BEV portfolio with the Explorer, the Capri, et cetera, do you expect to be compliant next year?

John Lawler:

Yes.

Jim Farley:

Yes. The other thing to think about in Europe or in North America is we tend to talk about CO2 compliance as one thing. There's actually heavy duty or light duty as well as passenger car and they're very different. And in Europe, that's really important to consider.

Not only are we committed obviously to be compliant, but we also have to think about our heavy-duty compliance in both markets. That's one of the reasons why we're so excited about, we have a whole new line of electric and combustion small vans. We just launched our main van, the one-ton Transit that's available in diesel, gas and fully electric. We're obviously giving ourselves the best chance from an offer standpoint as well. But when it comes to CO₂ compliance, I hope we start to double click and not only look at ZEV states in the U.S. but also look at heavy duty compliant, because it's quite different, actually.

Operator:

Our next question comes from Emmanuel Rosner from Wolfe Research. Please unmute your line and ask your question.

Emmanuel Rosner:

Thank you so much. My first question is on the cost reduction program. This year's outlook still includes \$2 billion in cost reductions for material freight manufacturing. You said you're on track for those. How much is it year to date? How much do we still need to achieve in the fourth quarter? And then if we look forward, I know there's a lot of uncertainty into next year, and you've discussed them in detail both in terms of volume and pricing index, et cetera, but in terms of things you control, what is the size of the cost opportunity as you move into 2025?

John Lawler:

On the efficiencies that we've brought through this year so far, most of it is through the first three quarters. We do have some savings to come through in Q4, but most of it was through the first three quarters. Now you would expect that right, Emmanuel, because there was a large part of that was on the design changes that we made with the launch of the model year. So most of that's come through.

Emmanuel Rosner:

And a go forward basis?



John Lawler:

As you know as well as anybody, and you had identified this morning in your note, we have a tremendous opportunity given our cost competitiveness relative to the competition. The question is the rate and flow and how we've done that curve and pull that cost out. It is our number one opportunity to unlock the potential of our Ford+ strategy. We understand that, and we're not going to give any numbers on '25 at this standpoint right now. We're in our planning cycle. There's a lot of water, as I said earlier, to flow under the bridge before the end of the year. We'll give that guidance, and we'll give you an update in Q4 earnings for '25 and what we're going after on cost from that perspective.

But you know this as well as all of you know this, that our position from a cost competitive standpoint, we have a lot of opportunity there and we understand that and we're aggressively going after it.

Jim Farley:

For the industrial team, what we're really focused on as we finish off this year and next year is another cycle of our material cost reduction. We've made a lot of progress here, but we also added a lot of new product cost as well. That all is opportunity for us on material cost, so this will be kind of the second rotation of that as we enter next year. And of course a double click or special attention on our EV gen one costs.

On warranty, we're really looking at our software warranty costs and the costs of repairing modules as well as power train. That's really where the team is focused on warranty. Obviously, we made good progress on manufacturing, but we have a lot more work to do in North America, and that includes freight and duty. And then we're looking very carefully at our should cost on supply chain with our suppliers, working carefully with them to make sure that we have competitive negotiations and any inflation related requests that we're just positioning those to be fair to both the supplier and Ford. And we have dedicated teams on all those areas, we benchmark our competitors from a process and talent standpoint, and that's where we're spending our time as a team.

Operator:

Our next question comes from Dan Levy from Barclays. Your line is open, Dan. Feel free to unmute.

Dan Levy:

Hi. Sorry about that. Thank you.

Want to follow up on the prior line of questions and just ask something a little different on cost. You mentioned, or you discussed at your capital markets day, I think it was some 15, 18 months ago now, that you had the \$7 billion cost gap against your competitors mostly on the material cost. You mentioned that you're getting the \$2 billion of cost this year, but you've had other costs come into the system. Where do you think you stand now on narrowing that cost gap? Are you just as confident today that you can narrow that cost gap versus when you originally presented that target?

John Lawler:

Dan, I think we're in a different position today versus where we were 18 months ago about really understanding the root cause issue of that, and what it's going to take to make the changes to get that cost out of the system. That's been a very fundamental change for us as a leadership team, honestly.



John Lawler (cont'd):

Our cost gap versus competition versus then has not closed. That's not to say that we haven't taken cost out. We have, we've taken cost out, but we're not doing it at a pace faster than our competition. So we go through every quarter and we update the analysis, we pull apart the financial statements when we get the Qs, and at the end of the year with the K, we look at the progress we've made versus the progress that our competitors have made, and it largely sits.

We've made more progress on material costs, but we've gone backwards on warranty cost. We've made some progress on our structural costs, A&SP, SG&A, relative to competition, but other areas have offset that. We've had more inflationary costs because of our joint venture in Turkey with what they've seen with that business. It's still a very strong business. It's still the lowest cost business. We've just seen this increase this year that we weren't planning for.

We need to move faster. Bottom line. And warranty needs to be a big part of that. We need to continue to make the progress on material cost, on manufacturing costs, overall structural costs, as well as driving down that warranty cost. It's a humbling position to be in, is that, as you said, 18 months later, we haven't closed the gap. Despite taking cost out, our competitors are doing same thing. They're taking cost out. We need to accelerate our pace to outrun what our competitors are doing.

Dan Levy:

Thank you. That's helpful color. Maybe as a follow up, wanted to ask about a comment, Jim, that you mentioned earlier that on the skunkworks EV, you have confidence in the cost because you've already quoted 60% of the bombs. Maybe you could give us a flavor of what pieces you've seen clear achievements on in your quoting or sourcing that are driving these material cost outs versus maybe where the rest of the industry is and that's enabling you to achieve what you think is structurally lower cost on your EVs?

Jim Farley:

Obviously having a competitive LFP battery is really, really important. Competitive is key word. The team took a totally different approach to developing the vehicle. I don't want to get into too much detail, but I'm really proud that we basically verified the design of each part a year or two earlier than we normally do. And we verified it from the supplier standpoint and ours, by looking at a variety of different suppliers, even challenger suppliers. And that has been an eye-opening for us, to see what really should cost is on a lot of these advanced components, especially because we think companies like BYD have an incredible advantage on affordability of batteries. So we have to make that up or our opportunity is on the EV component side, inverters, gearboxes, motors, et cetera. And I think it's a combination of very new approaches to the actual design of the component, as well as leveraging new suppliers, as well as working way up front on the part design itself to get the cost out using the technology roadmap of the supplier. And that's where we're seeing a lot of the progress.

Basically, the answer to your question is, we radically simplified the vehicle. If you look at the number of parts in the vehicle, it is just a completely order of magnitude change. And when you simplify the components to that level, and you really move the design and supplier design phases earlier, you can integrate a simpler design with a better ship cost. That's the high hard won on the skunkworks team.

Look, we've done a lot on manufacturing, we have a whole new kitting strategy for the vehicle, we have a unit casting strategy that massively simplifies the stamping of the vehicle, I think a lot of other companies will do that. But what I'm really seeing is an ethos of simplicity and a higher



Jim Farley (cont'd):

engagement with a broader supply chain earlier in the process than the typical for development cycle.

Operator:

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