



Ford Motor Company

Second Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator:

Good day everyone. My name is Leila, and I'll be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company Second Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's 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 star nine 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, and welcome everyone to Ford Motor Company's Second Quarter 2025 Earnings Call. With me today are Jim Farley, president and CEO; Sherry House, CFO; Andrew Frick, president Ford Blue and Model e and interim head of Ford Pro; and Kumar Galhotra, chief operating officer. Joining us for Q&A will be Cathy O'Callaghan, CEO of Ford Credit, and Steve Croley, chief policy officer and general counsel.

Today, Jim will provide a high-level overview of our performance and touch on the policy environment. Andrew will then cover market dynamics, followed by Kumar on our industrial progress. Sherry will conclude with a detailed financial review and our updated guidance before we turn to Q&A. We'll be referencing non-GAAP measures today. These are reconciled to the most comparable US GAAP measures in the appendix of our earnings deck. You can find the deck at shareholder.ford.com.

Our discussion also includes forward-looking statements. Our actual results may differ. The most significant risk factors are included on page 20 of our deck. 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 highlight a key near-term public IR engagement. On August 13th, Navin Kumar, CFO of Ford Pro will participate in a fireside chat with Ryan Brinkman at the JPMorgan Auto Conference in New York. Now, I'll turn the call over to Jim.

Jim Farley:

Thank you, Lynn. Hi everyone. The Ford team delivered a solid second quarter, including a record 50 billion in revenue that underscores the strength of our incredible products and services. Overall, we earned \$2.1 billion dollars in adjusted EBIT and delivered another quarter of year-over-year improvement in cost excluding the impact of tariffs.

For the full year, we now expect adjusted EBIT to be between \$6.5 and \$7.5 billion net of tariffs. I want to recognize our team as well as our dealers and our suppliers for working together effectively to drive our business forward around the world. Thank you.



Jim Farley (cont'd):

Ford Pro, our growth engine, best exemplifies our strength this quarter. We've transformed this business by diversifying our revenue streams. Over the past 12 months, aftermarket, which includes parts and software and services, contributed 17% of Pro's EBIT closing in on that 20% target for next year. These high-margin reoccurring revenues make Ford Pro a less cyclical and more durable business.

To accelerate that progress over our multi-year business plan, we are shifting capital towards Pro, funded by reallocating the resources on future EV programs. As I hope you saw earlier today, we're pleased to announce that Alicia Boler Davis will be joining Ford as the president of Ford Pro, effective October 1st. Alicia is an incredibly talented and experienced business leader and her experience across automotive and technology, logistics and customer experience is exactly the right skill set that we need to accelerate Ford Pro's transformation towards software and services and of course greater profitability. Andrew Frick, who has done an excellent job leading Ford Pro on an interim basis will continue to lead Blue and Model e going forward.

Model e delivered a significant margin improvement in the quarter as the team continued to scale operations as we more than doubled the volume in Model e, while also lowering the material cost and driving other operational efficiencies.

On August 11th, that will be a big day for all of us at Ford. We will be in Kentucky to share more about our plans to design and build a breakthrough electric vehicle and a platform in the U.S. This is a Model T moment for us at Ford, a chance to bring in new family vehicles to the world that offer incredible technology, efficiency, space and features. In Ford Blue, U.S. sales in the quarter were especially strong. We gained share and commanded higher pricing, reflecting the strength of this incredible product lineup we have at Ford.

And as America's largest automotive producer and the best-selling brand in the U.S. in the first half of this year, we support a level playing field globally. We value our ongoing cooperation with the administration on trade policy and CO₂ emission standards. We expect tariffs to be a net headwind of about \$2 billion this year, and we'll continue to monitor the developments closely and engage with policymakers to ensure U.S. auto workers and customers are not disadvantaged by policy change.

We've been working hard with administration. We believe our cycle plan is right for this tariff environment for the coming years. The latest round of tariff policies, especially the deals in Japan and Europe and potentially South Korea, makes our strategy even more compelling at Ford. Our bet is not to compete in high-volume generic segments that typically require overseas production for cost competitiveness. Instead, we are doubling down on what we do best: trucks, iconic passion products, Ford Pro, and breakthrough technology that you will soon see on our forthcoming EV platform.

Now, on emissions, America's top brand, we further are investing in giving our customers choice along their low CO₂ journey, new investments in ICE, more efficient in performance hybrids and full electric vehicles are all on tap at Ford. We support a single durable national emission standard to ensure sound industry planning. Proposed reforms that are on the table now give us greater powertrain optionality and reduce our need to buy CO₂ credits. In fact, our commitments



Jim Farley (cont'd):

to purchase CO₂ credits have already been reduced by nearly \$1.5 billion. Further changes will balance standards and customer choice and has the potential to unlock a multi-billion dollar opportunity over the next two years, primarily in Ford Blue, which has carried a lot of the compliance burden. EPA's announcement this week will give us more flexibility with respect to our product mix and volume. Once finalized, this will provide further opportunities to improve profits next year and beyond.

And finally, reaching world-class vehicle quality remains our top priority as a team. Although we face challenges with our older vehicles, the quality improvements on recent model years shows we are on a favorable trajectory. As Kumar explains, we are on track for our best initial quality metrics in over a decade at Ford. Ford is now the most awarded brand in the JD Power's 2025 IQS study, and Lincoln has improved two years in a row. We're proud of the progress and we expect our warranty costs to decline in the years ahead. Andrew?

Andrew Frick:

Great. Thank you, Jim. I will start with Ford Pro where our disciplined customer-led investment strategy is paying off. Year to date, Ford Pro's share increased one point in the U.S. and 3.2 points in Europe. This performance is driven by a diverse vehicle lineup and continued investment in the Pro portfolio. Delivering on uptime, the most important KPI for our customers is a shared mission that we have with our dealers.

Over the past year, Ford Pro solutions have boosted customers' uptime by reducing repair time by 20%. As Jim mentioned, we have increased our capital spend on Ford Pro and our dealer network has done the same, investing \$2 billion of their own capital since 2022, primarily to expand service capacity. And we have grown our global mobile service network by 18% to more than 4,700 units, enabling growth and service parts penetration. All of this translates to higher quality earnings and connected vehicle data fuels that growth. Paid software subscriptions climbed 24% to 757,000 with average monthly revenue per unit, or ARPU, also growing 24%, driven by roughly a doubling of the telematics and fleet management subscriptions.

Now, let us look at our global business. In the U.S., our sales were exceptionally strong this quarter, growing seven times faster than the industry, with market share up 1.7 points, sequentially. In addition to the share gains, our transaction prices increased more than the industry average. We had our best quarter in 20 years for total trucks driven by F-Series, Ranger and Maverick. Full-size Bronco posted a record quarter, and the all-new Expedition and Navigator are off to a hot start with sales up 44% and 115%, respectively. We also sold more electrified vehicles than our two main domestic rivals combined, with EVs and hybrids at close to 14% of our U.S. mix. The success of our From America, For America campaign allowed us to reduce our U.S. gross stocks by four-day supply. Building off that momentum, we entered the second phase of our From America, For America campaign earlier this month and our sales pace remains strong. Our dealer stocks are healthy, our product portfolio is fresh, and we have new entrants like Explorer Tremor and F-150 Lobo hitting showrooms soon.

We are confident our product lineup and US footprint will continue to drive profitable growth opportunities. Outside of the U.S., our global portfolio has made year to date share gains in key markets such as Canada, Europe, South America, and the Middle East. China remains a



Andrew Frick (cont'd):

strategic export hub, especially for growth nameplates like Territory, and the new Ranger PHEV, built in South Africa, has been well-received in Europe and is now shipping to Australia. Lastly, Blue's international operations were profitable in all regions including China during the second quarter. Now I'll turn it over to Kumar.

Kumar Galhotra:

Thanks, Andrew. Our industrial platform is delivering tangible progress on our core priorities, cost and quality. We're making this progress by establishing key enablers, leading indicators and output KPIs. Enablers are the most important factor. For example, we have roughly doubled the number of our safety and technical experts. We have significantly increased testing to failure on critical systems like powertrain steering and braking.

We're also monitoring more vehicles in the field through connectivity. Insights from these initiatives are also being incorporated into current production. This has contributed to some more recalls in the near term, but it is the right thing to do for our customers. Let's start with cost. We are still targeting to deliver a net improvement of \$1 billion this year, excluding the impact of tariffs. A significant driver of these savings is material cost improvement actions, which will also flow through into 2026.

It is important to note that in the second quarter, our costs would still have been down even if the special field service action, or the FSA, was included. Turning to quality, warranty is the largest component of our competitive cost gap. This is a major cost opportunity for us. There are two warranty costs investors should focus on. The first is warranty coverage. This is the expected cost to cover our bumper-to-bumper and powertrain warranties. Coverages make up about 60% of our total warranty costs. As the quality of our vehicles improves, the cost of coverage per vehicle should come down. In fact, we are already seeing this improvement.

Our latest zero- and three-months in-service metrics are tracking towards our strongest performance in over 10 years. The second part of warranty cost are FSAs, cost associated with recalls and customer satisfaction items. We are not satisfied with the current level of recalls or the number of vehicles impacted. We are working to reduce the cost of these recalls. For example, we're leveraging AI solutions to improve parts' traceability to help minimize the scope of recall units.

Roughly, a third of our recalls over the past three years have been software-related, and we are addressing this head on. We are using over the air, or OTA updates, to reduce customer inconvenience of having to take the recall units in for service. OTAs are a game changer. OTAs cost over 95% less than physical repairs. While OTAs and other process improvements are helping us make meaningful cost improvement, most of our recent FSA costs are tied to vehicles engineered several years ago before we made all the robust process changes across our industrial system.

As a result, the expected FSA cost improvement will not impact the bottom line as quickly as improvement in coverage costs. There is a lag effect until the majority of our car park reflects vehicles designed and built under the strengthened processes, but there are early indicators



Kumar Galhotra (cont'd):

that are encouraging. For example, the FSA costs for '24 and '25 model year vehicles are at least 50% better than '20 and '22 model year at similar time in service. Now I'll turn it over to Sherry.

Sherry House:

Thank you, Kumar. Ford's transformation journey is well underway and our objective to build a higher growth, higher margin, more capital-efficient and durable business is evident in our ongoing performance. Our global revenue grew 5% in the second quarter, outpacing wholesale growth of 4%.

We achieved our fourth consecutive quarter of year-over-year cost improvement, excluding the impact of tariffs. And we delivered \$2.1 billion in adjusted EBIT despite a net tariff impact of about \$800 million. The durability of our business has also strengthened. The consistent positive performance across our industrial system helped us close roughly \$1.5 billion of our competitive cost gap in material costs last year, and we have delivered year-over-year improvement through the first half of 2025, excluding tariffs.

Now for some segment highlights. Ford Pro continues to demonstrate its structural advantages, a large growing share of U.S. and European vehicle volume, complemented by the largest and growing service operations network. This fast network is helping us rapidly grow our high margin software and physical services businesses. Pro's revenue grew 11% to nearly \$19 billion. Its 12.3% EBIT margin is driven by a strong product lineup, disciplined pricing, and the increase in mix from our high margin, capital efficient services business. We feel confident about Pro demand in the second half, supported by policy changes that should drive a recovery in small business activity. Ford Model e delivered solid top line growth with revenue more than doubling to \$2.4 billion. Our margins improved nearly 44 points, largely related to mix driven by the full year launch effect that the European Explorer and Capri models and the newly launched Puma. Mach-E and Lightning also improved their material costs in 2025.

From a capital perspective, Model e continues to make targeted investments where we have breakthrough innovation such as our next generation EVs and where we have a distinct advantage such as our LFP battery technology launching in our new plant in Marshall, Michigan.

Consistent with our goal to improve capital efficiency, we are actively pursuing options to maximize the utilization of all of our assets. You will hear more from us on this in the future.

Ford Blue earned nearly 700 million in a quarter, reflecting profitable market share gains, higher net pricing, and cost improvement. This was overshadowed by the non-recurrence of last year's F-150 stock build, following the new model launch and tariff headwinds, which drove lower EBIT in margin in the quarter.

Ford credit is a source of strength and a strategic asset for the company. In the second quarter, Ford Credit delivered \$645 million of EBT, up \$300 million reflecting improved financing margin and receivables growth, coupled with continued strong portfolio performance. Ford Credit also

**Sherry House (cont'd):**

paid a \$500 million distribution in the quarter, bringing total year-to-date distributions to \$700 million. Total company adjusted free cash flow was solid at \$2.8 billion.

Our balance sheet is a competitive advantage. It's strong and getting stronger. We ended the quarter with more than \$28 billion in cash and \$46 billion in liquidity. And over the last week, we bolstered our liquidity with two incremental actions, a new \$3 billion delayed draw term loan and a £1 billion Sterling U.K. export financing arrangement. These transactions were proactive, providing flexibility to refinance the roughly \$5 billion of debt we have maturing in 2025 and 2026, and at a cost that's significantly below a traditional unsecured offering. With these actions, our liquidity is historically strong, providing us with invaluable flexibility including the ability to invest through an economic downturn and continue to fund growth in areas like Ford Pro, while some competitors may be forced to pull back. This strength combined with the consistent free cash flow generation is the foundation that allows us to consistently return capital to our shareholders. In accordance with our commitment to return 40 to 50% of trailing adjusted free cash flow, today we announced a declaration of our third quarter regular dividend of 15 cents per share, payable on September 2nd to shareholders of record on August 11th.

So let us turn to our 2025 outlook. For the full year, we expect company adjusted EBIT of \$6.5 to \$7.5 billion, adjusted free cash flow of \$3.5 to \$4.5 billion dollars in capital expenditures of about \$9 billion. Our updated guidance reflects a strong underlying first half performance across our three automotive segments and Ford Credit, including our continued improvement in cost.

Our full year outlook assumes the net tariff headwind of about \$2 billion, reflecting approximately \$3 billion of adverse gross adjusted EBIT impact offset partially by \$1 billion of recovery actions, primarily market factors, U.S. industry sales of 16 to 16 and a half million units, industry pricing to be about flat, and lastly, a net cost improvement target of \$1 billion, excluding the impacted tariffs. Given the potential range of outcomes related to how the net tariff headwind will play out by segment, we're only providing a total company outlook for the remainder of the year.

In summary, our business transformation is well underway. We are laser focused on capital efficiency and cost improvement, and our strong balance sheet gives us the power to invest through the cycle and act opportunistically. I'll now turn the call over to the operator for Q&A.

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 nine 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 Emmanuel Rosener with Wolf Research. Please unmute and ask your question.



Emmanuel Rosener:

All right, thank you so much. First question is... Was hoping you could give us a little more color on the drivers of guidance change and improvement in particular. You're obviously absorbing larger tariffs, \$2 billion of tariffs that were not in the initial guidance. And so, what are the drivers by bucket of improvement versus your previous outlook? And if at all possible, I'm curious about the EBIT but also the free cash flow.

Sherry House:

Sure. So let me just first commentate on the guidance. So, our net tariff was estimated at \$2 billion, and our guidance came down a billion. So, our guidance illustrates the strong improvement in our business. We also kept our free cash flow the same versus the outset of the year at three and a half billion to four and a half billion. And the \$9 billion for CapEx is approximately... It's the high end of our prior guidance. The guidance is underpinned by the strong performance in the business, which is primarily in the cost area. And as you know, we have a target of \$1 billion of net improvement on a year-over-year basis. We're making terrific progress on that as you're seeing in our numbers. And we're really focused on sustainable improvement in warranty and material cost that will make its way into 2026 and beyond. And currently, we have a very fulsome pipeline of opportunities to support that.

Emmanuel Rosener:

Okay, I appreciate that. Because that was already your target, this cost improvement \$1 billion ex. tariff. So, are you targeting a larger number now? I'm just generally trying to understand why the underlying performance better. I guess, where do you expect that underlying performance better to materialize on a full year basis?

Jim Farley:

We've seen it in manufacturing efficiency and our negotiated costs for parts. Those are two areas where we've accelerated past our own targets. There've been some ins and outs on the billion dollars, but those are the real strong parts of the business that we see. And also, obviously, the market equation for Pro is very strong.

Emmanuel Rosener:

Okay, understood. And then separately, Jim, I was curious on the back of some of the recent changes in U.S. regulations and the more relaxed environment, curious about Ford's appetite to potentially be more strategic about some of the spending on the EV side and whether there's actually room to potentially cut this back in any material amount in the future once you get a chance to essentially assess the impact of these softer regulations.

Jim Farley:

Well, you're absolutely right. The EPA's decision and their posture has really changed a lot in the U.S. And being number two to Tesla in EVs, we've learned a lot the last three years. And having a full range of truck hybrids, we've learned a lot. And there's no doubt about it that we've had to change our EV spending and capital allocation pretty massively. You and a lot of investors hopefully will get a chance to come to Kentucky, and you're going to see the future of our EV platform shift. From where our first generation products are to now, we've definitely moved out launches, we've canceled some products. We've made the right choices in terms of



Jim Farley (cont'd):

battery chemistry change like LFP in Michigan. I think we're very well positioned for the reality of the EV market with the customers today. I'm equally excited about the changes we're making on our powertrain choice.

We are moving from being the dominant player in truck hybrids in the U.S. to offering EREVS, PHEVS, and a full range of hybrids across our lineup, especially our bigger vehicles. We think that's a much better move than a \$60 to \$70,000 all electric crossover. We think that that's really what customers are going to want long term. And we're investing a lot in more durable ICE powertrains. The good news is that we've always built our business around flexibility of the powertrain, so our manufacturing operations can adjust to these. And a lot of the EV spending that's come down has been reallocated to Pro, including Pro services. I think that's going to be great for our investors and great for the employees. We think the rule making will be finalized by December, and in the short term we've already made mix changes. We've descaled our CO₂ credits by a billion and a half already. There may be more opportunities on the mix side for next year, as you said, as we fully evaluate these opportunities. Not much is happening in Europe and the rest of the world. This is really just a big shift in the U.S. and a big opportunity for Ford.

Emmanuel Rosener:

Great, thank you.

Operator:

Your next question comes from Dan Levy at Barclays. Please unmute your line and ask your question.

Dan Levy:

Hi, good evening. Thank you for taking the questions. First question maybe is for Jim and Kumar. One of you can opine on this. There was a blog post, Kumar, about two weeks ago on the back of your recall. And there's a comment in there that you're applying higher standards, but with that you're now going to potentially find issues that on previous model year vehicles that maybe hadn't been reported yet. So, appreciate that the warranty coverage is getting better, but it seems like the recall piece is remaining a headwind. So what confidence is there that the recall piece is going to improve, especially as there may be now with higher quality standards additional recalls now that you'll need to report?

Kumar Galhotra:

Yeah, thanks for the question, Dan. As I mentioned, two big components, 60% coverage is getting better. Solid evidence there. FSAs have a much longer arc, but not all FSAs are directly tied to higher cost. For example, we've had a lot of software FSAs that are a lot cheaper to fix. And there's some early indicators that the vehicles, for example, '23 to '25 model year are substantially lower in FSA cost than the previous '22 to '24 model year window. But I think it's way too early to really draw any conclusions on FSAs yet, because the longer arc is driven by our need to turn over the entire car park before you can clear out all the older issues. So, I would say good improvement on the coverages side. For example, '25 second quarter was better year-over-year if we exclude that special FSA. And coverage costs are significantly down



Kumar Galhotra (cont'd):

versus second half of last year. So mixed. Strong progress and more coverages. FSAs are still a bit opaque.

Dan Levy:

Great, thank you. Maybe if I could just as a second question ask about your recent market share performance, which has been quite strong. And maybe you could just talk to A, the \$1 billion offset on the tariffs, on the market factors, how you're thinking about that between share and price. And B, Do you believe that your share is sustainable given we are now seeing some tariff relief? How committed are you to the current market share that you've gained?

Andrew Frick:

Yeah. Thanks, Dan. It's Andrew. On the sustainability of our share, we do believe we'll be able to carry that performance into the second half. From an industry perspective, we saw a very strong first half of the year. We did start to see some pullback in demand, which we now expect to see a softer second half with a full year industry of around 16 to 16-five. In the world of pricing around that, we expect, as Sherry said, to see net pricing around flat full year. What we've seen in the retail side of the business is pricing has been a little bit higher, so we expect to see pricing up about a percent. On the commercial side, we've seen a little bit more pricing pressure. But our super duty pricing has remained really strong. So overall, we see flat net pricing, but our stock positions are in good shape as we look at the second half of the market. The industry where it is strong is in segments we do well in, and so we think we'll be able to carry that into the second half of the year.

Dan Levy:

Great. Thank you.

Operator:

As a reminder, please limit yourself to one question and one follow-up today. Our next question will come from Mark Delaney with Goldman Sachs. Please go ahead.

Mark Delaney:

Yes, thank you very much for taking the question. I also had a question around the changing emissions policy environment. I'm hoping you can help investors better understand how Ford is balancing the opportunity to see improved mix and lower costs as a result of the changing emission policies in the U.S., while also remaining competitive with your EV technology, including relative to the Chinese domestic OEMs that are increasingly selling their vehicles on a more global basis.

Jim Farley:

Thanks. Yeah, we're already reducing our credit buys. We are changing our mix towards the fourth quarter this year, and we see a pretty big opportunity next year, as I said, multi-billion dollar opportunity over the next couple of years. On the EV side, I'm really excited to show



Jim Farley (cont'd):

everyone where we're going on our EV. We've been busy the last three years behind the curtain. No one could really see how we're allocating our capital and what our new EV strategy. We are out of sync in a good way with our competitors who are now fully loaded with all their EVs, and they'll have to commit to them full cycle of product.

Ours is coming out in the next year or two, starting, so you're going to see a lot of news from Ford on our EVs, and our strategy is very simple. We believe the only way to really compete effectively with the Chinese over the globe on EVs is to go and really push ourselves to radically re-engineer and transform our engineering supply chain and manufacturing process. And that will come to life soon, and I'm excited to show everyone. This is a Model T moment for the company, as I said, and that would become clear for us.

We really see not the global OEMs as the competitive set for our next generation of EVs. We see the Chinese. Companies like Geely and BYD, and that's how we built our vehicle, how we've engineered what kind of supply chain we've used, and the kind of low content in our manufacturing. And a key part of that is our LFP battery built in Marshall, Michigan, and it's a big advantage for the company. We're the first one to build it at scale. It also has the PTC. We're thankful that Congress upheld that. That's a key part of our profitability roadmap to transitioning these lower-cost batteries. Can't wait to show you the product and the platform, so stay tuned.

Mark Delaney:

Looking forward to it. My other question was on autonomy. The company made the decision to shut down Argo about three years ago, given the time to market and returns considerations for robotaxi, but today there's a number of robotaxis now on the road, partial and fully autonomous technologies improving. So I'm hoping to better understand where Ford stands on level three and level four technology. And how important do you think partial or fully autonomous technology may be in driving the kind of recurring and more durable profits that the company is targeting? Thanks.

Jim Farley:

I see. BlueCruise has done really well for us. The margins have held up. The pricing for level two and level two plus plus looks a lot more robust than a lot of the other ADAS features. So, I think we're off to the races, and we will continue to over-the-air update improvements to BlueCruise. Lane change, ramp to ramp. We have a lot of opportunities to increase the ODD, and I think that profit and those margins will stay strong for a few years until it starts to commoditize. We are making a lot of progress on a level three system, and that will be a major moment for the company. We really believe this is the key opportunity for retail customers, and we have the right team. All those Argo engineers who stayed at Ford, they've been really busy enhancing level two and building out a level three. So, stay tuned. I can't wait to show everyone.

We are not going to be the first with a level three system at low speed, for example, that are out there today. We want a fully functioning level three high-speed highway application with a really decent ODD where a lot, thousands, millions of customers would be able to use the system. On



Jim Farley (cont'd):

L4, we've been thinking a lot about our strategy after Argo. What looks very interesting to me is the service side of that. These are large fleets. They're going to need someone to adjust the instrumentation and repair those vehicles, and Ford Pro is a fantastic partner for fleet management of those large fleets, and they're no different than our transit vans. There are some differences, but we think we're really well-positioned to take advantage of the very profitable parts and service as well as offering level four to some of our commercial customers in a van format, and we'll have more news coming on that, but I suspect, but that's where we're really focusing on level four.

Mark Delaney:

Thank you.

Operator:

Our next question will come from Joseph Spak with UBS.

Joe Spak:

Thanks so much. Jim, I wanted to get your pulse on, I guess, A, what you're hearing, but maybe more importantly, B, what Ford wants in light of some of the tariff discussions that have been happening and what might happen with Mexico as Japan and Europe now got reduced tariffs because, on the one hand, obviously, lower tariffs are going to help you absolutely. On the other hand, it's a relative disadvantage for you versus maybe some of your competitors, given your U.S. footprint. So maybe you could help us understand the range of outcomes on the USMCA negotiations that you're planning for. Should we think about a 15% rate or lower, or is it more nuanced than that given the U.S. content requirements? So, I guess, basically, what is Ford really lobbying for in the conversations with the administration?

Jim Farley:

I think to put it simply, Ford, as the leading auto producer in the U.S. and the leading exporter with the most UAW workers, we're very clear with the administration. We want to simplify the tariffs so that we can make up for that gap between the bilateral import tariff rates and what we're paying in our tariff bill. Our tariff bill is \$2 billion, and that's a net number. We see there's a lot of upside depending on how the negotiation goes with the administration. We're in daily contacts with them, and at this point, I would say they're very productive conversations.

We'll give you more news when we get it, but we have a lot of opportunity, even as the most American company with a \$2 billion liability. We have a lot of opportunities simplify especially parts tariffs, and we reduce that liability considerably, which would be upside for the company. The reality is our competitors now all have to pay 15% import and higher for Mexico. They can't change the footprint anytime soon. Those tariffs were not around a year ago. This is an opportunity for Ford. Yeah, it may be less than 25%, but I think we found with administration, they're really committed to companies like Ford, and they are going to work hard to reduce that liability.



Joe Spak:

Thanks for that. I guess just maybe sticking on policy. I heard you mention, I think you said you're going to scale back compliance cards by a billion, a billion and a half. Did you mean purchases, or is that what you are... Were you planning to expense this year in the guidance, and what are you planning to expense now? I know you did about \$200 million last year. I'm just trying to think about how much of a profit tail on that could be in '26 and beyond.

Sherry House:

Yeah, we've expensed about \$200 million thus far, and I think you could think about that being a reasonable quarterly rate going forward, so not significant.

Jim Farley:

And on the credit side, it's very clear to us that the California situation's changed a lot. So, we can descale our credit contracts and our purchases. That will be material for the company. The most material for Ford in the end is going to be changing our mix. We have high demand for our Pro and larger SUVs right now. We have high demand for some of our non-electrified powertrains, and changing that mix is a multi-billion-dollar opportunity in the next couple of years. So that's what's going to come through for the business. We just have to finalize the rulemaking, which probably won't happen until the end of the year.

Joe Spak:

Thanks so much.

Jim Farley:

Sure.

Operator:

Your next question comes from Federico Merendi with Bank of America. Please go ahead. Federico, your line is now open, and you were able to unmute on your side.

Federico Merendi:

Good evening, guys. Sorry about that. Just wanted to touch upon the electrification initiatives, and I understand that now the regulation has changed and the overall environment in the U.S. has shifted, but I was wondering how does Ford balance the different commitments in the regions where it operates, like the U.S., Europe, and even China, in terms of capital investments on the electrification portion of the business?

Jim Farley:

Yeah, thank you. We really see the pure EV market in the U.S. seems to us very clear. Small vehicles used for commuting and around town, so to speak. And we've been working really hard with our Skunkworks project and can't wait to show everyone where that lands. And commercial. We've been the dominant player in commercial EV in the U.S., and we think that's going to be a robust business, but we want to shrink the number of top hats. We've always focused and told investors we want to have a very simple lineup with not a lot of complexity and top hats. We



Jim Farley (cont'd):

have some of our competitors that have 10 or 15 top hats. That's not our strategy. We're going to have just a few. And we've made the adjustments in timing, we think, and to be in segments where we can actually make money on EVs.

Globally, we're focused heavily on partnerships. Partnerships for EV, we think, is the right strategy. We believe that the supply chain and the platforms are quickly commoditizing. You cannot differentiate yourself on that aspect, especially for a vehicle. Now, it is a little complicated with the electric architecture. You got to work through that, but we know how to do that now. We've been partnering with JMC and other brands globally for a while.

We think we know how to do the electric architecture with a partner, and you should expect from Ford in these other regions where electrification is very important to partner where we need to, and we will use PHEVs and other solutions for commercial customers that make sense for them based on the local legislation requirements. I think we have a good strategy. It's been, I have to say, I'm very thankful that we move fast because we learned about the market changing maybe before our competitors, and we can reload our capital and have the right planning for this new reality of pure EVs.

Federico Merendi:

Thank you, Jim. And my second question would be on the mitigating factors for tariffs. From what we've heard, basically, you, Ford, and even other OEMs are kind of moving some, redesigning their vehicles and putting some content that was standard into optional with a new model here. From your internal analysis, how do you expect customer to react from these changes?

Jim Farley:

Do you mean re-contenting, or could you be more specific? I just want to answer your question the right way.

Federico Merendi:

Yeah, sure. With that, I mean that, let's say model year 2025, you had a certain vehicle with a certain trim, which it had some standard content. From what we have heard is that the same vehicle in model year 2026 has some content that, basically, the customer will have to pay up for that same content that last year was standard.

Jim Farley:

I see. Thank you for your question. Look, in the segments that we compete, a Bronco or an F-150, a Super Duty, an Explorer, we do very well in those segments. So, we watch our competitors really carefully. We'll match them on specification, but we also know what customers want in our trim series. So, Andrew, do you want to say anything about how we're changing our spec?



Andrew Frick:

Well, we constantly look at our spec to customer wants, obviously, and that does change by segment, by vehicle line. We're also balancing the cost improvements that we're seeing across the vehicle lines as well. So, we're using a lot of the vehicle off the data, a lot of the customer utilization rates to help us make those informed decisions.

Federico Merendi:

Thank you, guys.

Jim Farley:

Thank you.

Operator:

Your next question comes from Tom Narayan with RBC Capital Markets.

Tom Narayan:

Yeah, thanks for taking the question. So first one, I know you guys didn't give segment guidance, but just curious in terms of how we should think about for modeling. So, if we look at the EV business, we know the consumer credit is going away in September, that probably means some, maybe a stronger Q3, but then Q4 is negatively impacted. Just curious, if that results in lower sales of EVs, the credit going away, is that actually a net positive for the EV EBIT being that each car is still losing money, or is it that there's so much fixed costs associated that it would still be a headwind? Just curious how we should think about that dynamic.

Sherry House:

Yeah, so as you get into that further in Q3 and Q4, if we were to pull back some of our U.S. EV production, most likely you would be moving that into other areas. So maybe you'd be leaning a little bit more heavily into Europe, where the mix and the contribution margin is stronger, or moving into ICE products. So, you could calculate that. You could have some uplift there on a financial basis if that was to play out as you described.

Tom Narayan:

Okay. And then we've been hearing from some of the European OEMs some headwinds in the commercial vehicle side in Europe. I guess it's that the smaller piece of Pro, obviously. But just curious how you guys are managing that dynamic. I know in your prepared comments, you said you're gaining, I think three points of share there at Pro in Europe, but how big of a headwind is that for you guys? Thanks.

Jim Farley:

Well, we are very successful, the one-ton transit business as well as the pickup market in Europe. And we have a brand new vehicle, literally it's brand new. So that's doing really well, as is a brand new Ranger. So, we have this brand new lineup. I don't know about the competitors and where they are in their age of their products, but it seems at Ford, our Pro business in



Jim Farley (cont'd):

Europe is very strong now based on our new V710, the one-ton. And then there's another factor that's important on our financial performance.

This is a first generation where we are building for other people. We have the Volkswagen pickup truck as well as their van off our platform. We're now starting to scale their platform and that is really helping our cost basis. And remember, our cost basis is in South Africa and Turkey, so they're very low. The other reason is we're not only increasing our performance because of the new products, we're also becoming more profitable on the margin basis because of our cost. And that's a good thing for us.

Tom Narayan:

Thank you.

Operator:

Your next question will come from Daniel Roeska with Bernstein SG.

Daniel Roeska:

Hi, thanks for taking my questions. Maybe, Jim, after the discussion on tariffs and the changing in compliance regulations, if we take a step back, imagine tariffs stay in place, but you get a more streamlined emission standard in the U.S. and that, as you explained, enables the lower compliance costs and probably a better mix over time. What do you think, are those two awash traded off against each other or is that actually a meaningful positive tailwind if I kind of sum up the impact of medium-term tariff changes and medium-term emissions changes?

Jim Farley:

Yeah, it's a great question and I think it's a bit tricky at this point in time to handicap the ins and outs on that, but I would say the emissions tailwind is pretty substantial, both on Model E, as Sherry said, but also on our Blue and Pro business, especially Blue, which has taken the brunt of the electrification journey globally. And that is not the reason why we increased our guidance.

Our guidance was, as Sherry said, based on real cost traction. But if you had to handicap the second half of this year and next year and what could go right, depending on how the submissions works out, that's definitely a tailwind for Ford. Look at the mix of our products with Pro and Blue. To be able to build what customers really want is going to be a financial tailwind for us.

Daniel Roeska:

Yeah, great. And maybe as a slight related follow-up, I'm going to ask you to take out the crystal ball to some degree. With each additional tariff deal and trade deal that's coming in, like Japan and Europe, would you agree that this increases the likelihood we will not return to a pre-2025 policy landscape when it comes to global trade?



Jim Farley:

Can you explain a little bit more what you mean on the last part of that, the pre-2025?

Daniel Roeska:

Well, basically, a very low tariff rate for imports into the U.S., basically, because the market has been discussing going back and forth, will tariffs stay in place? Will they not stay in place? And to me, it seems like if we're now cutting deals with Europe and Japan and likely South Korea and then USMCA on top, I'm unsure whether the next administration would see any reason to change that again.

Jim Farley:

That is a really important question to answer. We increasingly see Europe, North America, and Asia becoming regional businesses with tariff rates that are aligned for those three or four regions. And I believe that is a very long-term change because it's happening in multiple things, not just tariff. It's happening with electrification and CO₂ requirements, and it'll happen as well as the Chinese OEMs go global and start to localize outside of China and they'll pick the regions and the regions will pick them.

I believe this is quite a fundamental change. We were just talking before the call started about how fundamental everything seems to be changing in the car business, and this is one of the factors. And I do think USMCA negotiations can be very material for our North America health. And these tariffs, especially the ones in Europe and Asia into the US, feel kind of long-term for us. Are they big enough to radically change the footprint? At this point in time, it doesn't look like it. It's hard to tell. But a lot of that will have to do with the administration's commitment to companies like Ford that committed to the U.S. production and what is their point of view going to be with this \$2 billion liability we have. Again, we're having very constructive conversations with them being the most American company you can imagine, but depending on how that works out, this could actually reverse and we could get a sustained advantage being an American company, so stay tuned.

Daniel Roeska:

Brilliant. Thanks very much.

Jim Farley:

Thank you.

Operator:

Your next question will come from Edison Yu with Deutsche Bank.

Edison Yu:

Hey, thanks for getting me in. First, I wanted to ask about pricing. I think you called out some weakness on the commercial fleet side. I'm curious if you can elaborate a little more on that. And maybe just directionally, is that supposed to stay a headwind through the rest of the year? Is that going to become a smaller headwind? Some color there would be great.



Andrew Frick:

Hi, Edison. It's Andrew. Good to hear from you. Just a little more texture on the commercial side. I think what we're seeing in the pricing is the full-size pickup is remaining relatively strong, which is really good. The weakness that we've seen has actually been across the van business, in the van segments. And there was a lot of competitive pressure that we saw coming out of the second half of last year and into the first part of this year. It seems to have stabilized actually. So, we're actually optimistic around that holding for the rest of the year, but it was mostly in the van segment.

Edison Yu:

Got it. Thanks. And switching gears, I wanted to come back to a comment, Jim, earlier on autonomy. I think you mentioned that you could do something on the Ford Pro side providing service. I'm curious what that would maybe look like. Would you partner up with someone and does that rule out any interest in actually producing some sort of integrated autonomous vehicle?

Jim Farley:

It's early days. We're in the first inning of this rolling out. It is very exciting for me to be in the industry in 40 years and see all these autonomous robotaxis. The technology is fascinating, but as far as making money off the business, which we have to bet on our capitals, leaders of the company, we think that if these robotaxi fleets are large fleets, I'm not sure it's going to be a super profitable business, but someone's going to make money on owning those fleets and maintaining those fleets. And this is a very congruous capability versus our service build out for Pro. We have nothing to announce today, but this is quite intriguing for us as a company.

We really feel like the fleet management opportunity is a big upside for Ford Pro. We're doing it digitally today. Part of those software that we sell that Andrew mentioned that's going at 24% is fleet management software. It's very popular. Going into the physical fleet management is a different thing. It takes capital, it'll require leasing, and a lot of other more capital-intensive investments. So, we have to be thoughtful about that. But we are very intrigued about these robotaxi fleets, what they could mean for Pro and our dealers over time. Again, nothing to announce today, but I think you've heard what we said pretty clearly.

Edison Yu:

Thank you.

Operator:

Your final question will come from Colin Langan with Wells Fargo. Please go ahead.

Colin Langan:

Oh, great. Thanks for taking my questions. I just want to cover, the guide implies an improvement first step into the second half. I think SAAR would imply it's saying about flat tariffs are supposed to be about flat. What would drive that improvement in the second half?



Sherry House:

Well, some of our material cost items are coming in in the second half. Also, a lot of the work that we put into place on warranty, working with the dealers, working on our time to repair, a lot of these things are also looking to be implemented in the back half as well. Also, just some of the volume issues with Kentucky 1 shutting down in the past. So, you had the idled period, so you're getting the now positive impact of not doing that and not having the de-stocking that we did in the first half.

Colin Langan:

Okay. And then you mentioned several times, I guess, the underlying guidance seems to have improved because of cost. It's kind of surprising because you just had record recalls year-to-date. Can you parse that out? What kind of actions are actually driving that cost that's better than what you expected back in January when you initially got it? It feels like recalls, I got to imagine, it's a bit worse, right?

Jim Farley:

Just to be specific, on recalls, we need to make it really clear to everyone that the number of recalls and the costs are not related. Half of our recalls this year are software. When we do a software recall, we can do an OTA. It's literally 10% of repairing something mechanical. It doesn't work like coverages where it's very correlated to the number of actions we have or defects. And we said before, and it's clearly happening, the manufacturing team is finding a lot of efficiencies year-over-year, more than we expected.

Obviously, in the billion dollars, we have all that broken down by function, by group, all the way down by plant in the case of manufacturing. And Bryce's team has been able to accelerate beyond even in the logistics area of savings in our manufacturing. And the second would be, we have been more successful working with our suppliers on either getting a redesigned part or a negotiated part that's better, and that's great to see. Oh, by the way, we have really nice pipelines for next year. Anything else to add, Kumar?

Kumar Galhotra:

The coverages are improving. Warranty coverage.

Jim Farley:

So, the cost of our defects is also decreasing.

Colin Langan:

So, recall costs, even though we've seen a lot of headlines, are actually not worse than you expected starting the year?

Kumar Galhotra:

If you exclude that one big special item.



Jim Farley:

For sure.

Kumar Galhotra:

The answer is yes, but excluding the special item.

Colin Langan:

Okay. All right, thanks for taking my questions.

Jim Farley:

Sure.

Operator:

This concludes the Ford Motor Company second quarter 2025 earnings conference call. Thank you for your participation. You may now disconnect.