



Ford Motor Company

Fourth Quarter 2025 Earnings Conference Call

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**CORPORATE PARTICIPANTS**

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

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**Andrew Frick** - *President, Ford Blue and Model e*

**Alicia Boler Davis** - *President, Ford Pro*

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

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**Steve Croley** - *Chief Policy Officer and General Counsel*

**Lynn Antipas Tyson** - *Chief Investor Relations Officer*



## **PRESENTATION**

### **Operator:**

Good day, everyone. My name is Leila, and I will be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company Fourth 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 \*9 on your keypad to raise your hand. At this time, I would like to turn the call over to Lynn Antipas Tyson, Chief Investor Relations Officer.

### **Lynn Antipas Tyson:**

Thank you, Leila, and welcome to Ford Motor Company's Fourth Quarter 2025 earnings call. With me today are Jim Farley, President and CEO, and Sherry House, CFO. Joining us for Q&A is Andrew Frick, President of Ford Blue and Model e, Alicia Boler Davis, President of Ford Pro, Kumar Galhotra, Chief Operating Officer, and Cathy O'Callaghan, CEO of Ford Credit.

Jim will give a high level overview of the business, and Sherry will provide added texture on the financials and our guidance for 2026. We'll be referencing non-GAAP measures today. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck. You can find the deck at [shareholder.ford.com](http://shareholder.ford.com).

Our discussion also includes forward-looking statements. Our actual results may differ. The most significant risk factors are included on page 21 of our deck. Unless otherwise noted, all comparisons are year over year, company EBIT, EPS, and free cash flow are on an adjusted basis.

Upcoming IR engagements include Sherry House at the Wolfe Research Auto, Auto Tech and Semiconductor Conference in New York City tomorrow, February 11th. Now, I'll turn the call over to Jim.

### **Jim Farley:**

Thank you, Lynn. Thank you to the Ford team, all of our dealers, to our suppliers, and all of our partners. We executed very well last year. We managed through numerous challenges that came our way, from multiple tariffs to supply chain disruptions, and delivered good results in all areas within our control at Ford. We continue to grow \$187 billion of revenue. We also lowered material and warranty costs and made significant progress on quality. Our U.S. market share climbed to 13.2%, our best performance in six years. I'm pleased to say we delivered TSR of 42%.



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

On the bottom line, we generated \$6.8 billion of adjusted EBIT for the full year. This includes \$2 billion headwind for Novelis fires and the net tariff impact of \$2 billion. That's a \$1 billion higher tariff impact than we communicated just in October due to the unexpected and late year change in tariff credits for auto parts. Without that, our full year EBIT without that one timer, would've been \$7.7 billion of EBIT.

The takeaway from my perspective is we closed last year a much stronger business with a solid foundation to achieve our target of 8% adjusted EBIT target by 2029. Let's talk about that foundation. We dealt decisively with the reality of the market and shifted our focus of our EV business to a high volume, affordable end of the market. We'll hear more in a second. We made big strides in cost and quality. And yes, that means we recalled many of our old vehicles to take care of our customers.

We quietly, but very thoughtfully modernized the company, upgrading our talent, all of our IT tools and enterprise tools, the culture of the company, and the facilities to unleash the performance and efficiency of our team. We're now locked in a more vibrant and profitable product and technology roadmap. No boring products is what we like to say. And boy, we can't wait for you to see our next generation. We have another wave of sophisticated and passionate vehicles for work, adventure, fun, and off-road with a tech suite that will change the experience of owning a Ford and drive our IS business.

Bottom line, the earnings power of our business is accelerating, and our Ford+ strategy distinguishes us from the competition in clear ways. First is the revenue power of Ford Pro. It's a durable commercial business our competitors cannot match. Global demand for Super Duty and transit franchise is extremely healthy. In the U.S., Ford Pro's Class 1 through 7 market share is over 42%, roughly the size of our two largest competitors combined. In Europe, we're the number one commercial brand for the 11<sup>th</sup> straight year.

But crucially, we're diversifying that revenue. Software and physical services grew 10%, and now contributes 19% for Ford's Pro's EBIT, rapidly approaching our 20% target. And we continue to deepen our competitive moat thanks to our dealers who are specializing and investing in more and forming new partnerships like ServiceTitan to broaden our reach and integrate directly with the trades.

Second is our strength of our diverse truck and off-road lineup in Ford Blue. We have a powerful position in pickup trucks, from the affordable Maverick all the way through the F-series, including, globally, the Ranger. And Ford just won the North America Truck of the Year for the sixth year in a row, an unprecedented industry feat. We also have the highest share of revenue in the U.S. pickup market, growing almost two full share points of revenue last year.

Furthermore, we are translating our off-road dominance directly into the profitability of the company. Raptor, and importantly, our off-road performance trims now account for more than 20% of the U.S. sales mix. This gives us massive earning power. And with pending EPA changes, puts us in a strong position to satisfy those unfulfilled demands in the market. You see this all coming to life in improving customer loyalty and advocacy, as evidenced by our higher Net Promoter Scores.



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

Our corporate reputation is also getting stronger, important to dealing with policymakers, our partners, and of course our communities. In fact, Time Magazine named Ford the Most Iconic Company in America based on its very large survey base of its readers. We also expect to achieve the seventh straight year as America's number one auto producer, and we produce more than five vehicles in America for every one that we import.

This year, we anticipate a more stable policy environment for our partnership with the administration this year, especially given a reset in the emission standards. We also expect year-over-year profit improvements driven by richer Ford Blue mix, Ford Pro growth, and reduced Model e losses. We are also targeting another \$1 billion of industrial cost improvements. And to drive strong execution, the management's compensation is directly tied to hitting key milestones for cost and quality and software for the vehicles that will come out in the next few years.

Our Ford+ plan is not just focused on short-term profitability. Let me be specific about some of the most important drivers for our long-term value creation. First, affordable EVs. We aren't just building compliance vehicles at Ford. We're launching a cost-efficient, universal EV platform that will drive profitable growth in the lower price segments where the EVs have continued to thrive in America. We will launch multiple vehicles off that same platform, starting with a mid-size pickup, bringing younger and more diverse customers into our brand. The Universal platform also gives us a scalable hedge against a potential regulation snapback in the future.

Second is Ford Energy. This is a very strategic business. Our startup with a short payback period that uses our manufacturing muscle and cost advantage with our LFP batteries to diversify our revenue and derisk the core automotive business.

Third, we're controlling the electrical architecture at Ford. By bringing this in-house, we lower cost, cut our supply chain risk, and build the brain needed to enhance the user experience to differentiate and expand our integrated services profit pool.

Fourth, smart partnerships. We continue to build on our partnership platform. We're looking for ways to help us move faster, to get access to IP that will eventually become commoditized, and to lower our capital expenditures and improve our scale. Our recent agreements with CATL and Renault are different, but good examples.

And finally, our product roadmap. We're doubling down on our icons, making the next generation F-150 and Super Duty absolutely breakthroughs in terms of cost, technology, powertrain choice, and functional features.

We're also expanding our off-road and performance lineups across our most important and popular franchises. At the same time, we also plan to expand our market coverage with more affordable trucks and SUVs, and we'll do it with a broad mix of powertrains - gas, different kinds of hybrids, and fully electric. Customers want choice. Overall, we enter this year with the right portfolio, the right strategy, and the discipline to execute. Sherry...



## **Sherry House:**

Thank you, Jim. Looking back at 2025, our performance clearly demonstrated two things, capital discipline and improved cost performance. Our top line remains healthy. Revenue grew for the fifth consecutive year as we continue to expand our share of revenue, including non-traditional segments like hybrid trucks, while accelerating the growth of our higher margin paid software subscriptions.

We also stayed disciplined on inventory, cutting US growth stocks by 16% and ending the year at 56 retail day supply, the low end of our target range. We generated \$3.5 billion of free cash flow, and ended the year with close to \$29 billion in cash and nearly \$50 billion in liquidity. We continue to prioritize our balance sheet, a significant competitive advantage that provides flexibility to accelerate investments into accretive opportunities like Ford Energy and both software and physical services. These are high margin, high growth opportunities, grounded in disciplined capital allocation that will drive a higher returning, more resilient business model over time. We remain committed to our investment grade rating while also delivering top quartile shareholder returns through both share price appreciation and dividends, including the declaration of our first quarter regular dividend of 15 cents per share last week.

Now, turning to segment highlights. Ford Pro, once again, demonstrated its importance and persistence as a key profit pillar for Ford by delivering more than \$66 billion of revenue and EBIT to \$6.8 billion with a double-digit margin. Pro achieved this in the face of tariffs, production losses due to Novelis, normalization in U.S. industry pricing in more commoditized areas like government and delivery vans in the challenging macroeconomic and regulatory landscape in Europe, where we achieved market share growth. In the U.S., Transit had record sales, up 6% and Super Duty had its best sales in over 20 years, up 10%. Pro continues to evolve its business by diversifying revenue streams and building out its high margin service infrastructure. Paid software subscriptions grew by 30% last year.

In 2025, we made meaningful progress in Ford Model E, improving structural cost, our mix of higher margin products, and driving adoption of affordable high volume vehicles. Model E delivered revenue and volume growth of 73% and 69%, respectively, driven by new product introductions in Europe. EBIT losses for the year improved to a \$4.8 billion loss, reflecting fewer losses on Gen 1 products, partially offset by increased investment in our Gen 2 products as we prepare for the launch of our UEV platform in 2027. The lower Gen 1 losses were driven by cost reductions and higher volume in Europe, where margins are stronger. Lastly, in December, we rationalized the role of pure EVs in our near-term product portfolio based on changing market realities in the U.S.. Our disciplined approach to capital allocation will significantly improve the run rate of the business going forward.

Our performance in Ford Blue was supported by our industry leading power of choice and strength of our truck and SUV franchises. Revenue was roughly flat as higher net pricing and the strength of our product lineup offset most of the 5% decline in wholesales, which includes disruption from Novelis. In the U.S., Blue had the two best-



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

selling hybrid trucks, Bronco had record sales and Explorer was the number one three-row SUV. Our higher margin Raptor franchise also had record sales. Blue delivered \$3 billion in EBIT as lower warranty, other cost improvements, and growth in software and physical services were more than offset by planned and unplanned loss production and adverse exchange.

Ford Credit delivered full year EBT of \$2.6 billion and distributions of \$1.7 billion. EBT was up 55% for the year, reflecting improved financing margin. Ford Credit continues to originate a high quality book with U.S. retail and lease FICO scores exceeding 750. We are excited about the recent approval of our industrial bank application. This long-term initiative will expand our capabilities, enabling us to offer additional savings options to customers, further diversify, and lower our cost of funding over time.

So, let me turn to our 2026 outlook. For the full year, we expect company adjusted EBIT of \$8 billion to \$10 billion, adjusted free cash flow of \$5 billion to \$6 billion, and capital expenditures of \$9.5 billion to \$10.5 billion as we shift capital to higher return growth opportunities across our portfolio, including roughly \$1.5 billion for Ford Energy. Our full year outlook for the industry assumes a U.S. SAAR of 16 million to 16.5 million and flat industry pricing.

Excluding Novelis, tailwinds and headwinds for Ford include positive market factors, including favorable mix associated with the sunset of low margin nameplates and benefits from changes in the U.S. regulatory environment. Flat cost, which I would like to unpack further. We expect lower tariff costs of about \$1 billion, reflecting a full year's worth of credit expansion. We also expect further material and warranty cost reductions building off our momentum in 2025. These combined savings allow us to absorb about \$1 billion of higher commodity prices driven by inflation and pressure on DRAM, as well as incremental investment in support of our UEV platform, the ramp of Ford Energy and cycle plan actions that will drive higher return growth in 2027 and beyond. Additionally, we expect our high margin software and physical services profit to grow by about 6.5%.

Now, let me frame Novelis for you. We expect year-over-year improvement of about \$1 billion, which is back half weighted. This includes \$1.5 billion to \$2 billion of temporary costs, including tariffs, to ensure continuity in aluminum supply. These costs are not expected to be repeated in 2027. From a calendarization perspective, we expect our first quarter EBIT to be roughly flat sequentially as we continue to work through the impact of Novelis. We expect to approach a more normalized EBIT in the second quarter with a plan to hit our underlying EBIT run rate level in the second half as volume stabilizes and our portfolio optimization takes hold. To help you better understand this calendarization, we have included a first half, second half bridge for you in our earnings deck.

Our segment outlook anticipates another robust year at Fort Pro. With EBIT of \$6.5 billion to \$7.5 billion, the fundamentals of Pro's business are strong. In North America, we expect continued share growth in an industry that's roughly flat, enabled by conquest sales and a diversified channel mix, which we believe to be well-balanced at roughly



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

one third large corporations, one third SMB, and one third government and rental fleets. We still see untapped demand for crew cab and diesel Super Duty, and most of our contractual deals for the year have already been agreed to. Ford Pro continues to improve its durability by growing its mix of profitable software and physical services globally through precision customer targeting, demand generation initiatives, and Pro specific solutions. While Pro's underlying business continues to strengthen, we expect 2026 results to be dampened by the near term impact in Novelis, ramping Oakville to bolster Super Duty capacity in Canada and a tougher regulatory climate in Europe.

We expect losses of \$4 billion to \$4.5 billion for Ford Model e. This reflects about \$1.6 billion of improvement in Gen 1 products driven by lower U.S. volume and cost savings from restructuring the business. These savings will be partially offset by around \$600 million in higher Gen 2 costs as we near the launch of LFP batteries in Marshall, Michigan and our UEV platform in Kentucky, along with roughly \$400 million in startup costs for Ford Energy. The team is aggressively working on additional Gen 1 cost reductions and ways to further optimize the market equations in the U.S. and Europe. We continue to target Model e reaching breakeven in 2029.

For Ford Blue, we expect EBIT of \$4 to \$4.5 billion, reflecting improvement in the underlying business as we recover from Novelis, favorable mix as we lean into our revenue and profit pillars, and continued progress on cost. Exciting new products like Bronco RTR and Mustang Dark Horse SC will help us expand our off-road leadership and grow our performance business. Furthermore, like Pro, we expect continued growth in our software and physical service offerings for retail customers through increased convenience and engagement.

Lastly, Ford Credit's EBT will be about \$2.5 billion.

Relative to special items for 2026, in December, we announced actions to rebalance our EV portfolio and assets and launch more multi-energy platforms. In 2026 and 2027, we expect to record about \$7 billion in charges related to our updated EV strategy and the expected disposition of our BOSK investment. Cash expenditures are expected to be up to about \$5.5 billion with most of this weighted in 2026.

As I mentioned at the beginning, our 2025 performance demonstrated progress against our Ford+ plan, not just in growth and profitability, but also quality, capital discipline, the right product portfolio and consistent cash generation. Our underlying business is strong and we are relentlessly working to strengthen it further as we continue to focus on improving both quality and cost, as well as returns and cashflow.

I'll now turn it over to the operator so we can start 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 and when you are called on, please unmute your line and ask your question. Please



**Operator (cont'd):**

limit to one question and one follow-up today. We will now pause a moment to assemble the queue.

Our first question will come from Dan Levy with Barclays. Your line is now open. Please go ahead.

**Dan Levy:**

Hi, good evening and thank you for taking questions. I want to first start with a question on slide 19 and some of the assumptions you have for 2026, and maybe you can help us unpack the pieces on the market factors, which seem to be quite positive in what's driving the year-over-year increase. Now, I know you said that there's a billion dollars of Novelis, but maybe you can help unpack the magnitude of other benefit you're getting on the mix side and how that all of this can, on powertrain, and how all of this can offset maybe some of the declines on volume from Escape/Corsair and also the more competitive environment. And maybe, if you could, just a word on tariff assumptions, as well. Thank you.

**Sherry House:**

Yeah, sure. Thank you so much, Dan, for the question. So, let me just start with the Novelis improvement of \$1 billion year over year, and I'll unpack that slightly for you. That assumes \$2.5 to \$3 billion reflecting the non-reoccurrence of 2025 losses and capacity actions at Dearborn and Kentucky truck plants. So, you'll recall that we had about \$2 billion of losses last year. The expectation is that would be non-recurring as we enter into 2026. Originally, we thought we would make up about a \$1 billion of that. Now we think we'll make up \$0.5 billion to \$1 billion based on the second fire in November. That's going to be offset by a \$1.5 to \$2 billion of temporary costs, and that's to ensure supply continuity. There will be tariffs and premium freight associated with that supply continuity of aluminum until we can get the Novelis hot mill back up and running sometime between May and September.

With respect to the positive market factors, yes, it does include the sunset of low margin nameplates, namely Escape, but there's also benefits that we expect to achieve from changes in the U.S. regulatory environment. And the biggest impact there would be about \$0.5 billion less of credits in the U.S.. You'll note that we had about \$0.7 billion of credits last year, but about \$0.5 billion of that is attributed to the U.S.. Cost, roughly flat, excluding the Novelis impacts. We had industrial cost improvements. We're expecting of maybe around \$1 billion, again, in material and warranty costs. We're expecting tariff costs lower by \$1 billion year over year, but again, that's going to be offset by the Novelis temporary costs in '26. We'll have higher commodity prices, we think. And there's also investment in UEV, Ford Energy, and the cycle plan that we spoke about.

We also expect there to be continued growth in the high margin software and physical services businesses that we talked about in Pro, but across all of retail, including Blue. Other factors are largely balanced exchange, compliance, et cetera.



**Dan Levy:**

Great.

**Sherry House:**

And then did you have a further question on tariffs or did that answer it?

**Dan Levy:**

Oh, no. I think you covered the tariff question. Thank you. As a follow-up, Jim, I'd like to just ask conceptually how you're looking at the investment in EV and AV. And really it's just in the context of if we look at the arc of investment you had the past five years, we know that you and others went through this very heavy push on EV, AV software, had mixed results. And I know you took a big impairment. A lot of companies took big impairment on the back of what happened with the regs, but it seems like you're resetting strategy now. There's a fresh push on EV with UEV, you're making more investments on ADAS and software. So, help us understand, in light of the experience the last few years and how maybe capital inefficient it was for the industry, as a whole, how you're making sure that this new round of investments is being done in a more capital efficient manner.

**Jim Farley:**

Thank you for your question. So I think the customer has spoken. That's the punchline. The customers in their duty cycle have spoken. There's enough choice around the world on electrification for us to cherry-pick customers' choices around the world and come up with the right strategy, not only in the U.S., but around the world. In the U.S., you hit it. Our bet is on the UEV. We believe this platform localized in LAP will hit the majority of profitable EVs sold in the U.S., which are \$35,000 EVs, high volume. Tesla's shown that we can make money in that market even without subsidy from the government at the right cost level. But that's only part of our strategy. In addition to that, we're betting on hybrid across our lineup and EREV where it makes sense for our duty cycle, like large trucks where towing is a real important application and both FHEV and pure electric will definitely not work. So we're looking to make CO<sub>2</sub> reductions across our lineup, but we're doing it in a very efficient way.

Overseas, the story's a bit different. Overseas, we're looking to piggyback in Europe with Renault and Volkswagen on capital efficient, high scale, lower cost solutions like B car EVs in Renault. We think that is a market, depending on how the EU and the UK incentivize them, but that can be profitable. Elsewhere, we'll be opportunistic between PHEVs and hybrids for Ranger, our body on frame and our growing export business from China will be opportunistic based on that customer in Australia or South Africa or Brazil, exactly what they want.

I think the real question that I ask myself is how will the Chinese change the game with all of these in terms of pricing power, given the overly competitive, subsidized reality. And for example, in January, the Chinese market being down 25% year-over-year. If



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

that persists, we will have to future-proof our costs around that pricing reality. That and the regulatory environment, I think are the wild cards in this strategy, but that's the same wildcard every OEM has. But I do believe this is the right allocation of capital. It's a combination of partnerships where it makes sense, efficient, partial electrification investments where we have revenue power and really hitting the EV market in the core of the market in our home market where there's not a lot of competition.

**Dan Levy:**

Great. Thank you.

**Operator:**

Your next question will come from Joseph Spak with UBS. You may now unmute and ask your question.

**Joseph Spak:**

Thanks. Good afternoon, everyone. Sorry to go back to this so quickly, Sherry, but just to make sure I got this Novelis impact right in my head here. So it was a \$2 billion impact in 2025. You're talking about that's lower by a billion in 2026, so a billion, but that's still inclusive of \$1.5 billion to \$2 billion of temporary costs. So the delta to get you back higher, I guess, is the volume portion of it. So I guess put another way, if all that temporary sourcing costs and logistics and higher tariffs is really temporary, you're basically saying that \$9 billion EBIT is more like \$10.5 billion or a little bit above that. Is that the right way of thinking about that?

**Sherry:**

It is a fair way to think about it. Yeah. So basically we'd have non-recurrence of the \$2 billion from last year, so that would start your 2026 better. And then we had planned on being able to make up about a billion of that. Now we think it's probably a half a billion to a billion. So that's how I said top line, two and a half to three, but we have temporary costs and those are going to be one and a half to two. So when you take that off, that gets you with the net positive \$1 billion for the year. And I do agree that you would have some tailwind from that going into 2027.

**Jim Farley:**

Given Novelis is so important. Kumar, do you want to say anything about the variability of those costs and how reliable is our aluminum supply now?

**Kumar Galhotra:**

Okay. So two facts there, Jim. We expect the mill to start back up somewhere in the middle of the year, the range between somewhere May and September. And we have a team working closely with Novelis on the ground there so we know exactly where things



**Kumar Galhotra (cont'd):**

stand. But the more important part is the second part of your question. We have contingency plans to secure sufficient supply for various scenarios, no matter where we end up with the start date between May and September.

**Joseph Spak:**

Okay. Thank you for that. And then just the second question, another one I guess on market factors, and I want to focus, I guess, specifically on two areas. One is you've got some competitors out there that are trying to regain share in North American trucks and European LCVs. So how you think about the market impact there? I know you mentioned in your remarks some affordable trucks in pro. And then even beyond that, is there any more granularity or color you could give us as to what gets you comfortable with the forward-specific market mix factors that can aid profitability to help offset some of these costs?

**Andrew Frick:**

Yeah, Joe, it's Andrew Frick. First of all, let me comment on the first part around full-size pickup. That is always a competitive segment, so this is nothing new for us. And as the leader, we have to be ready for challenges at all times. We have a great pickup lineup right now, a great F-series lineup. We cover the breadth of the entire segment and we've actually been growing. In fact, last year, as Jim mentioned, we grew two points of revenue share and one and a half points of volume share in 2025. And we've actually expanded our truck leadership position over our key competitors each of the last two years and by a sizable margin. But as we enter this year in 2026, we of course always approach it humbly. Our dealer network is really set up and is a real strength for us. They continue to invest in the truck business.

Our stock positions are on the low end of our day supply range right now, and our overall market approach is to remain disciplined in our market equation, balancing the stock share and our incentive spending. And we're going to continue to maximize series and powertrain mix as we approach that segment. And really on the second part around broader market and our portfolio, we're looking to improve our mix based on customer demand across the whole portfolio. And Sherry mentioned some of the product mix impacts. We started making some of those in the second half of last year based on the changing conditions. For example, we're increasing hybrids on Mavericks to address demand while F-150, we're increasing V8s, Lariats, Raptors, both again, tied to customer demand. So part of our ongoing efforts to optimize the market equation, our approach is to balance our mix while also increasing our revenue. And that was evident last year as we increased our share revenue again on pickups and 4 X 4 vehicles.



**Jim Farley:**

Alicia, any comment from you on Pro for our assumptions this year for market equations, what you're seeing given that we're competitively quoting for several months now?

**Alicia Boler Davis:**

To start it off, we've been a leader in Europe from a fleet perspective for the past 11 years, and it was a very competitive market last year. We expect it to continue to be. Right now, we're seeing strong demand from an orders perspective on our light commercial vehicle side. We absolutely have a very competitive environment, but we have very competitive products, and we also have services that we're continuing to invest in and grow, where we're offering our fleet customers solution for uptime and productivity. So we're seeing strong demand for orders coming through the quarter, and we've also seen just solid pricing. And so our initial assumption was that we'd see a small decline in pricing to start the year, and we actually have not seen that yet, but we're very tied into what's happening in the market and making sure that we're responding there for customers.

**Joe Spak:**

Thank you.

**Operator:**

Your next question will come from Emmanuel Rosner with Wolf Research.

**Emmanuel Rosner:**

Great. Thank you so much. My first question is on capital expenditure. So you're making these investments into higher return products and technology going forward, but I think at the income statement level, it's roughly offset by ongoing cost savings. So you're investing, if I get the numbers right, maybe an extra billion dollars, but then you have a billion dollars in savings. At a CapEx level, it seems like you're actually ticking it up and I was a bit surprised by this. So how should we think about the CapEx needs for these investments over the next few years? Is this a new run rate or is there an initial boost needed because of the energy storage investment?

**Sherry House:**

Yeah, thank you for the question, Emmanuel. So Guidance reflects an increase in capital spending of a little more than \$1 billion, as you noted, so \$9.5 billion to \$10.5 billion. That increase is driven by our investment in Ford Energy, which is the largest portion of it is expected to be in 2026. We had talked about a \$2 billion investment in Ford Energy and \$1.5 billion of that is planned for 2026.

The mix of our capital spending continues to shift. We have a new capital allocation process. It's changed. It's really pushing our capital into more accretive areas of the



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

business, and we've consistently stayed nimble - adjusting to customer demand and a changing regulatory environment as well. So what I would say is that roughly 75% of our capital over the plan period is going into our higher return, larger truck and multi-energy portfolio. And then that balance 25% is your Ford Energy and continued Model e investments like in UEV, EREV and things of that nature.

**Jim Farley:**

And the goal for that capital allocation is very clear. It's to get to 8% EBIT margin for our company. We are investing more in Blue as well, hybrid and new products that will be very profitable. And we are decelerating the investment in Model e, even though it's still at high levels, as Sherry said, we are descaling that investment. So the goal is to set up the company over the next couple of years to be that 8% margin company, and that's the kind of capital we need to invest.

**Emmanuel Rosner:**

Thank you. And then as a follow-up still on the Model e then, I guess to get to this ultimate target, you'll probably also have to execute on bringing back Model e to profitability. Can you talk maybe about some of the levers and cadence between now and 2029? It seems like you're having a lot of savings this year on Gen 1, but investments on the new generation. Is the improvement towards breakeven, is that going to be backend loaded towards 2029 or can we expect some steady improvement throughout the time period?

**Sherry House:**

Yeah, thank you. I think you can expect steady improvement throughout the time period. As the UEV products come on board 2027 and then get even more profitable in 2028 and beyond with additional variants, that's going to improve the profit margin as will the introduction of B vehicles in Europe that also will be coming on board as well. And all of that's going to be happening as some of the Gen 1 becomes lower volume.

**Emmanuel Rosner:**

Thank you.

**Operator:**

Your next question will come from Ryan Brinkman with J.P. Morgan. Your line is now open. Please feel free to unmute.

**Ryan Brinkman:**

Hi, thanks for taking my question. I was intrigued by Jim's comment that full year 2025 tariff cost track \$2 billion versus the \$1 billion that was communicated at the time of the 3Q earnings due to a late year change in tariff credits on auto parts such that full year



**Ryan Brinkman (cont'd):**

EBIT proforma for this would've been \$7.7 billion, which is substantially better than the \$6.0 billion to \$6.5 billion that was guided to on the 3Q call. Firstly, can you help on what exactly was the regulatory change? I'm aware of the change to tariff on the non-USMCA compliant parts. I thought that was a positive though, allowing for a longer phase out to the offsets there. And then secondly, the fact that full year EBIT proforma for the unexpected headwind track, what \$1.2 billion to \$1.7 billion better than expected. Can you talk about what is it that tracked so materially better than at the time of 3Q earnings?

And then finally, as we head into 2026, you characterize the headwind as maybe one time. Is there any headwind relative to the tariff credit change that continues with you or did it only impact the fourth quarter? Thanks.

**Jim Farley:**

Go ahead, Steve. I think we had a great question and a very important question for Ford. Because we're the most American company, we have a very different footprint than our competitors. It's largely related to parts recovery and the timing. Go ahead, Steve.

**Steve Croley:**

Sure, thanks. Yes. The short explanation is a credit that we have against tariff liabilities on parts became effective on November 1st, and we had understood it would become effective instead on May 3rd. And so that delta is about \$1 billion / \$900 million that Sherry referenced. It will mean to your last question that going forward, we can use this credit, and this is a one-time hit, but that was the hiccup that we experienced in December and accounts for about \$1 billion of the difference.

**Ryan Brinkman:**

Okay, great.

**Sherry House:**

[inaudible 00:47:37]. Oh, sorry. You had a follow-up question about just Q4 must have been coming in stronger given that we would've been at \$7.7 billion. You're absolutely right. It was crossed. A lot of that was cost and you might've noted that we said that we ended up with \$1.5 billion of cost improvements on a year-over-year basis versus what we originally were targeting at \$1 billion and its multiple elements of cost, little bit of pricing in there too.

**Ryan Brinkman:**

Okay, very helpful, thank you. And then just lastly, while I know you don't report EBIT by region, could you speak to the performance in Europe, including how you would rate the strength and profitability of both your passenger vehicle and commercial vehicle



**Ryan Brinkman (cont'd):**

businesses there, and how the outlook for the two businesses could be impacted by either the EV portfolio changes announced on December 15, or the agreement that was signed with Renault, on December 9, regarding the two incremental Ford branded EVs and cooperation on light commercial vehicles. Thanks.

**Jim Farley:**

Thank you. Well, we've always been very consistent, the core of our European businesses, our Pro strategy, continues to be very profitable. And in fact, this is kind of the first year we've seen the benefits of the VW scale with our one ton van, where it's worth a lot of money to combine our scale. Your question obviously points to the growing concern around the profit pool for profitable passenger cars in Europe, and that's exactly where the conversation should go when it comes to Europe. We obviously are taking steps to address our profitability of our passenger car business, as we have for many years. Jim Baumbick and the team are very focused on using Renault's platform, especially their B-sized EV to dramatically reduce our costs and improve the profitability of our EV business in Europe, and we see that as a very critical moment for us.

We also have plans, exciting plans for Europe, on our passenger cars, but we will play very carefully in specific segments to our strengths, to make sure that not only do we build a profitable passenger car business, but we also support our dealer's profitability so they can invest even more in growth in Pro. Now, the real rub is going to be how the UK and European, the EU, handle the choice between CO<sub>2</sub> reduction and jobs. And this is a place where Ford is quite outspoken because we're not a national champion, we can really speak on behalf of the customers on what the right balance is between CO<sub>2</sub> reduction and where customers really stand, as well as job risk. And I will tell you that most of the variability of that profitable passenger car market is going to come down to the policies with the EU and the UK governments.

**Ryan Brinkman:**

Thank you.

**Operator:**

Your next question will come from Andrew Percoco with Morgan Stanley.

**Andrew Percoco:**

Great. Can you hear me? Hello?

**Sherry:**

Yes, we can.



**Andrew Percoco:**

Okay, great. Thanks for taking the question.

**Jim Farley:**

Hi. We can hear you.

**Andrew Percoco:**

Awesome. Thanks for taking the question. I just wanted to come back to energy storage, and hoping you can just provide a little bit more context around your capital allocation decision there. And along with that, I know you're two years away or so from really ramping up that production, but this is a much longer lead time market than your traditional auto market. So, I'm just curious if you can share any feedback or context around what customers you might be speaking to, and maybe the feedback that you've been receiving, and maybe where you see yourselves really fitting into that market. Thank you.

**Jim Farley:**

Sure. It's early days, but at the strategy level, there is no doubt that the growth for battery storage, for both data center build out and grid stability, places like California, and Texas, and Florida is exploding, both for consumers and business users like data centers. We have been deeply engaged with customers as we develop this business plan, and we continue to engage them in specific contracts for our 20 gigawatt hour capacity in '27 and beyond. I would say this is not at the pace of auto industry. We can build the factories faster than auto, and we can scale our revenue much faster. We also have a significant advantage technology-wise. We have access, working with CATL and licensing new technology, but in our own plants, we have a significant advantage with the LFP technology, compared to our competitors who are either importing with high tariffs, LFP, or trying to run this business with lithium batteries, and much higher costs locally made.

We believe that Ford has the manufacturing expertise to scale this business, we have great partners that can help us, and we're really excited to be a customer-facing business. We don't want to be a contract manufacturer of batteries, we want to have end-to-end solutions for customers, where Ford Energy people will be calling, fulfilling not just the sales contracts, but servicing those customers over the long term. We believe this is a great adjacency for our Pro business, fits right in the wheelhouse of our expertise, and given our advantage technologically, maybe for a period of time before battery costs commoditize, we feel like the customers are very excited.

When we come calling to large grid suppliers, energy companies, they're really excited about Ford being in this business. We're a trusted company, they've been buying our vehicles for a long time, and we've done our homework on this business.



**Andrew Percoco:**

Great. Yeah, that makes a lot of sense. And maybe just to follow up with another question on capital allocation. Jim, I think you've been a pretty big advocate of partnerships in the past where it makes sense. So, when it comes to your autonomy strategy, sounds like you're trying to do a lot of that yourselves in-house. Can you maybe just elaborate on why that's the right decision, why a partnership doesn't make sense in this context? Thank you.

**Jim Farley:**

Good question. BlueCruise is largely a supplier-based system that Ford basically perfected the customer experience, but level three is quite different. It's a very important safety critical system, where people are traveling in high speed on the highways with their eyes off, and we had real expertise coming from Argo. The people that we got out of the Argo team, that are now in Latitude, are very experienced people, and we don't think the technology is exclusive. What we think...why we want to bring this in-house is two reasons. Affordability. These are very expensive hardware solutions and software, by bringing them inside the company, we can save thousands of dollars per vehicle in cost. That's why we're launching L3 with the UEV. Many of our competitors are launching level three with their luxury brands. We're going to be doing it with our \$30,000 to \$35,000 vehicles. That's a big strategy choice by Ford.

We can do that because we did this inside the company, and we had control over the hardware and it wasn't supplier-based, so it was more affordable. The second thing is the experience. When you're driving down the highway with your eyes off the road, it's very important to have safety critical systems, when the vehicle re-engages the customer, how that whole process works, and all the content sharing, and all the other activities the customers can be doing and not driving the car. So, it's very important for us to control and curate the experience on level three. Level four strategy could be quite different, I'm not going to go into that today, but I think we look at level four quite differently than level three autonomy.

**Andrew Percoco:**

That's super helpful. Thanks so much.

**Jim Farley:**

Thank you.

**Operator:**

Your next question will come from Mark Delaney with Goldman Sachs.

**Mark Delaney:**

Yes, good afternoon, thank you very much for taking the questions. I was hoping to talk first on costs. You talked about \$1.5 billion of progress this past year, excluding tariffs,



**Mark Delaney (cont'd):**

and expecting another billion in 2026. If we go back to the '23 investor day, you talked about a \$7 billion relative cost cap with peers, and I'm curious with the progress Ford is seeing, where do you think you are on that journey, and is seven billion still the right number for investors to have in mind over time?

**Kumar Galhotra:**

So, you're absolutely right, billion and a half last year, another billion this year, most of it from material as well as warranty. And obviously we refresh the cost gap scenarios as all the earnings come out, we will redo that, but firmly believe that we're closing that gap quite rapidly.

**Jim Farley:**

I just want to highlight the important work that Kumar and Doug are doing on the next generation product. We're launching high volume, very meaningful products in the next couple years, and embedded in those products is much lower cost. So, not only are we doing it year to year, through BOM adjustments, negotiation with our suppliers, lower freight and duty, lower labor content in our plants, we're also embedding that, all that thinking into our next generation of products. And to me, that is the ultimate work together because that will change the culture of the company.

**Mark Delaney:**

Helpful, thank you for those comments. My other question was around inventory, you mentioned exiting '25 at the low end of your inventory target, obviously facing some challenges around supply chain, but as you think about what's assumed in your '26 guidance, and making up for a degree of the lost volume from this past year, are you assuming you restock dealers as part of your outlook for this year, or are you planning to shift to demand? And I ask in part to try and understand around the extra shift of F-series production, is that something that might be sustainable into 2027? Thanks.

**Andrew Frick:**

Yeah, good question. We ended the year on the low end of our range, we reduced our stocks dramatically year to year, leaving '25. So, we were down 16%. We had about a 66 gross day supply. We expect in '26 to remain within our targeted levels, of the 55 to 65 retail day supply for the year, we will be on the lower end of our F-150s for the first half of the year as we rebuild in the second half of the year, but we'll stay within our overall range. And we have, combined with that as the demand side of the business, that will allow us to do that, especially in our truck business.

**Mark Delaney:**

Thank you.



**Operator:**

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

**Colin Langan:**

Oh, great, thanks for taking my questions. Just to clarify on Novelis, I think you originally said you lost 90,000, you were going to add capacity of 50. Sounds like, is that still the case that we should see about 140,000-ish increase, or I think your comments seem to imply that maybe it's a little lower than that? Any color there on the actual volume recovery we should expect?

**Sherry House:**

Yeah, so we had lost around 100,000 units last year, we're planning to increase by about 50 to 60 this year is the plan.

**Colin Langan:**

Okay. Because I thought you originally said you expected a billion, and now it's a 500 to a billion. So, is that just the added cost to get the... That's what's worse than you originally thought in Q3 is the added cost to get that aluminum over?

**Sherry House:**

Well, the added cost is definitely a factor, and that came after the second fire in November. So, the added cost is different than when we had reported after the first fire.

**Colin Langan:**

Okay. And then, if I look at the free cash flow guide, it's up \$2 billion at the midpoint, adjusted EBIT's up \$2 billion, but CapEx is up over a billion. What's the additional billion help to free cash flow to keep the adjusted up \$2 billion without the CapEx being higher?

**Sherry House:**

Yes. So, you're talking about the cashflow from 3.5 this year to the midpoint, which would be at 5.5 in 2026, right? So, that's going to be driven by higher automotive EBIT, that's going to be driving with your free cashflow conversion. We also had a receivable from the U.S. government for a billion dollars in tariffs, and we do have, as you said, higher capital spending in '26 as we moved into these higher growth opportunities.

**Colin Langan:**

Got it, okay. So, the receivable from the government. Okay. All right, thank you very much for taking my questions.



**Sherry House:**

You're welcome.

**Operator:**

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