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MANAGEMENT DISCUSSION SECTION

Ryan Brinkman

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Hi good morning. I'm Ryan Brinkman, the US autos analyst at JPMorgan. Thanks for joining us for our 2021 JPMorgan Automotive Conference. We're very excited to get going here with one of our first presentations, which is Hau Thai-Tang from Ford Motor Company. He is their Chief Product Platform and Operations Officer. I'm going to turn it over to Hau. He's got some slides to run us through and we'll launch into a fireside chat. Thanks so much, Hau, for joining us.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

Good morning, Ryan. Thanks so much for having me and good morning, everyone. Appreciate you guys tuning in and your interest and support for Ford. As Ryan mentioned, what I want to do is just spend a little bit of time recapping our Ford+ plan and then giving you an update on where we are. All of us at Ford are really laser focused on executing against this plan. And even despite some of the headwinds we've seen this year, I think we're making really good progress and it's my honor to represent the men and women of Ford and share that with you.

Why don't we go ahead and go to the next slide. Just as a recap for everyone, this is a slide that we shared during our Capital Markets Day event earlier this year and it really talks about how we want to execute and deliver on this plan that we're referring to as Ford+.

And for us it's really the recognition that as we look at these disruptive changes that are really a once-in-a-lifetime opportunity for us or at least a once-in-a-career opportunity as the company and the industry shifts towards embracing electric vehicles, deploying ubiquitous connectivity across all of our vehicles, how do we really leverage our foundational strengths that we have coupled with these new enhanced capabilities to really drive growth, and target larger opportunity in terms of addressable market but also most importantly, creating always-on experience for our customers that will delight them and that's really what this plan is all about.

When I talk about always-on, it's a paradigm shift for us, right? It moves from a traditional transaction model where we've been trained to think of start of production. At Ford we refer to it as the job 1 day as the finish line, now it's the starting line. It's an opportunity for us to create this ongoing continuous always-on relationship with our customers. We can leverage connectivity and over-the-air update capabilities to make our products and services better over the life of ownership and by doing that, we create value for the customers as well as for Ford. Okay? Next slide, please.

A big part of this transformation is we want to lead in electrification and we're glad to see that with the recent announcement by President Biden that there is very strong support and Ford has always led the way for us to lead. We really want to execute on five key pillars that you see represented on this chart. First is, we want to play to our strengths. Initially during this transition phase, as customers are transitioning from ICE products to BEV products, leaning into segments and nameplates where we have very strong dominant brand positions, very high favorable opinion, a high market share, gives us the best opportunity to leverage electrification that really underscore the attributes that customers really love and value. It also gives us the best opportunities to price and create profitable products and high margins.

The second element goes beyond just electrification. For us, this is much more than a change in propulsion from ICE to electric vehicles. It's really delivering a digital product, a digital solution. So, we're coupling that with what we're referring to as a technology stack. It's the embedded hardware and software in the vehicle as well as the electrical architecture and then how that works with our cloud to basically deliver these enhanced always-on experiences for our customers. We're able to get a lot of data from the customers to understand how they're using our products and services, and we can use that to make the experience better. And I'll talk more about that in a second.

We've announced that our ambition is to achieve equal to – a greater market share with our BEV products than with our ICE products today, and we'll share some of the early proof points on that later on. And to do that, we really want to deliver unique architectures that takes advantage to the opportunity that we have to start with a clean sheet of paper and design architectures that are optimized for the BEV architecture. By doing that as well as coupling that with different battery technologies, both NCM as well as LFP, depending on the use case, and then planning for a transition over time to solid-state batteries gives us the best opportunity to lead in this space and deliver optimal solutions for our customers.

We also want to leverage our scale, not only across our battery electric vehicle architectures, but also on the shared products with our ICE products, right, especially as you look at the components in the upper body or the top hat of the vehicle. We think we can get a lot of reuse on things like instrument panel, seats, HVAC. And by doing that, and when we look at the shared components across the electric architecture, the BEV value chain, as well as the top hat, we can get upwards, sort of, 80% commonality across our products which delivers significant scale, savings from material cost as well as engineering.

And then, last but certainly not least, is delivering optimized manufacturing processes as we put in and install new BEV-only builds, process in terms of manufacturing. We think we can make significant gains in terms of reducing the fixed costs as well as the variable labor hours. So, all of these things will help us lead this transition to electric vehicles.

Okay. Next slide, please. A big part of our announcement earlier this year is this idea of launching our technology stack what we were referring to as Blue Oval Intelligence. And I just want to show you some of the capabilities that we're able to do and again reinforce that this is not a future aspirations, it's happening right now. Almost 100% of our vehicles in North America are connected. They come standard with modems. Our recently launched

F-150, the Mustang Mach-E, the Bronco that we're launching, as well as the Edge and the Nautilus all have over-the-air update capabilities. And you can see some of the key metrics here.

So, 150,000 over-the-air software updates have been transacted already this year. So, it just shows you the level of penetration. We expect the number of connected vehicles to grow to 33 million vehicles globally by 2028, so in a couple of years. And then, one of the things we're trying to do is really leverage this capability with we refer to it as power-ups to continuously improve our vehicles so that they get better over time. So, the products, the F-150s and the Mach-Es that are in the customer hands are better than when they drove them off the dealer lot which is a really game-changing opportunity for us. Okay? Next slide.

So, beyond just the penetration and the capabilities, I want to talk a little bit about engagement because ultimately this is the measure of the opportunity that's in front of us and why we're so bullish about the total addressable market.

So, one of the things I want to highlight for you is, beyond those vehicles with this modern Blue Oval Intelligence technology stack, we also have customers on all of our products using our FordPass and Lincoln Way apps. This allows them to remotely control their vehicles and we're seeing 2.7 million monthly active users on those two applications, on our Ford and Lincoln products.

Activation has been really high on our recently launched products that I referenced. We're seeing 97% of the customers activating this connectivity platform, and then we're getting a lot of data, right?

So, I mentioned the ability to understand how our customers are using our products and services. 80 to 100 terabytes of data exchange monthly across these products just in North America, and our engineers are pouring over that data to really understand how to make the products better for our customers, enhancing value for them, but also delivering on the back-end enterprise efficiencies.

And, in fact, just on F-150 and Mach-E, year-to-date since we've launched them, we've been able to realize \$50 million of efficiency gains in terms of reduced warranty expenses and costs on the back-end for us.

So, tremendous scale, you see that last metric there at the bottom, 271 million commands sent by Ford customers using FordPass and the Lincoln Way to their vehicles. So, this is everything from remote start to unlocking to trying to understand where their vehicle's parked when they leave it. So, great engagement, just shows the level of capabilities that we have and how this allows us to have a direct customer relationship with our customers over the life of ownership.

And then, Ryan, I'll just wrap up with the next slide and just reinforce, in our business, delivering new products is really the lifeblood of our business. And we have arguably the freshest and a lineup – strongest product lineup that I've seen in my 33-plus years at Ford. And what's great about these products that we recently launched is not only are they new and refreshed, but many of them are incremental, right? By that, I mean, they're new products entering segments that we didn't participate in previously. So, when you look at over the past couple of years, products like Puma, Bronco Sport, Bronco, Mach-E, Maverick, they're all new products that we didn't have a year or two ago. So, this is great for us. It's great for our customers and certainly great for the other stakeholders, our suppliers as well as our dealers.

And if you can see the receptions, Bronco, 190,000 deposits, we've converted 125,000 of those into firm orders. 70% of the customers are new to Ford, 70%, so a tremendous conquest. Maverick, very excited about this product. That's completely whitespace for us, bringing the [ph] build (11:44) for a tough truck inventory down to an

affordable price point that starting at \$20,000 MSRP, fantastic fuel efficiency with the standard hybrid. We have almost 80,000 reservations to-date and again much younger customers, more diverse, more female customers. And then F-150 Lightning, \$120,000 reservations to-date, 77% of the customers are new to Ford.

I just want to maybe underscore Lightning. So, I started by saying our goal is to achieve the same market share with BEV products as we have in ICE. If you look at F-150, historically we've had about a third of the market, right? So, I think last year, our market share was about 32%, slightly over 30% with our ICE products. With the Lightning, if you translate that 120,000 reservations, and you look at third-party projections in 2023 calendar year timeframe of how many BEV pickup trucks are going to be out there and that's all the competitive intelligence on the traditional OEMs as well as the startups, that 120,000 reservations translates to greater than 50% of that BEV pickup truck market share. So, already we're over achieving against our goal of market share equivalent to the ICE products.

But here's the most interesting thing that I think this is so powerful. If you look at our performance today with the ICE F-150, we actually go to market with 55 different variants. By that I mean different cab styles. We have regular cabs, super cab, crew cab. We have different box lengths and different wheel bases and then we have different powertrain combinations. If you look at all those variants, we're getting 30-plus percent market share with 55 different variants. With the Lightning, based on these projections you were seeing, those deposits translate to 50% plus market share with essentially one body style, one box length, one wheelbase, and two different batteries. So much simpler in terms of go-to-market and significantly high conquest with 77% of the customers being new to Ford, customers that have never considered Ford, and frankly never considered buying a pickup truck because of the innovation and the capabilities as well as that great price point.

So with that, Ryan, love to take your questions. And let's get into the chat.

QUESTION AND ANSWER SECTION

Ryan Brinkman

Analyst, JPMorgan Securities LLC



Great. Thanks. And, yes, well, I have a number of questions for you, Hau. I did just want to remind the investors that they can ask their questions as well by submitting them through the conference website, and I'd be happy to ask them on their behalf. So maybe starting with my first question, definitely wanted to be sure to ask on the Pro business, right? So it's a new business that's been talked about. You're by far the market leader in commercial trucks in the US, I think about, like, a 43% market share currently. And you've been the leader for the last 36 years, so. In Europe, you've been the leader in commercial vehicles for the past 6 years.

And amidst this backdrop, you've created now this new business unit Pro with some pretty aggressive growth targets. So can you walk us through how you intend to build upon your current success in commercial vehicles by adding new products or services? And what role do you see electrification and autonomous playing in commercial vehicles?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.



Yeah. Thank you, Ryan. As you stated, we're starting from a very strong foundation with our dominant market positioning in both North American and Europe. So let me help dimension sort of the opportunity that we see for all of the folks tuning in. In 2019, if you look at our total sort of commercial vehicle business around the world, the

revenue was about \$27 billion. Our plan is to grow that by 2025 to \$45 billion. That's a 60%, 65%-plus growth level. And we're doing that by leveraging a couple of key elements. So, Ted Cannis is now the CEO of that Pro business. We're really giving them the autonomy to go very fast and be nimble.

A big part of that bridge to that new revenue is going to be on new products, the back of new products including electrified products as you've mentioned. With the electrified products comes in incremental opportunities on charging. We know commercial vehicles have different needs than retail vehicles in terms of their duty cycle as well as their charging needs. So, our recent acquisition of Electrify is going to enable us to tap into that as a revenue stream. And while we're charging the vehicles also leverage that time to create servicing opportunities and fleet management opportunities for those commercial fleets. So, that's a second element of that growth.

We have something we call Ford Pro Intelligence which is our telematics and digital services platform. It's taking advantage of that connectivity and data to really enhance and unlock productivity for our commercial customers, using that to allow them to better understand how they can make more money. And then financing would be the last element. So, servicing, charging, telematics and digital services and then financing as well as the incremental products.

The last element that you've asked about is autonomy. We think of it very differently in this space than we do for the retail customers. For most of our commercial fleets, that driver forms other values beyond just driving the vehicle. So, the focus for us is not so much about eliminating the driver, but it's about improving safety, enhancing productivity, freeing them up so they can add other value. And it's also about automating [ph] tasks (17:48) that are tedious and redundant. So, that's the way we're looking at it and we see that as an incremental revenue stream as well.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Great. Thanks. That could be a good segue into what you see as the potential for after-sales and subscription services for retail customers. I think there was some discussion at the Capital Markets Day that your next-generation electrical architecture or Blue Oval Intelligence could enable potential new subscription or pay to activate or other services, opening up new addressable markets. How should investors think about this potential? Is it more about the Lightning customers and [ph] ADAS could (18:25) help market share, et cetera? Or is it more about enhancing margin and reducing cyclicalities with a recurring revenue stream or sort of all the above, what do you think?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

I think it's exactly as you stated, Ryan, all of the above. This is a huge opportunity for us. I was delighted with the coverage coming out of Capital Markets Day and people were really focused on leading the electric revolution, which is a big part of it. But I think I'm not sure enough people are valuing the benefit we have with this Blue Oval Intelligence technology stack.

So, we think of it as basically four pillars of value creation for us. The first one is just by having access to that data and understanding how our customers are using our products and services to improve quality and productivity for both the customers as well as on the back-end for us, right?

So, I'll give you an example. We know that historically warranty expense has been a huge drag for us. When you look at that and you sort of deep dive the warranty expense, a big chunk of that is just on coverages. It's basically warranty coverage on vehicles that are in the field. And when I look at that, we have very large volumes, right?

So, when we do a field service action or when we do a customer satisfaction action, it's on hundreds of thousands of vehicles, in some cases approaching a million vehicle.

The reason for that is we're getting the data very slowly back from the customers, right? You basically have people coming in for repairs, their warranty system from our dealers comes back to us, it takes us time to diagnose it. And then by the time we figure out we have to act on it, we have tremendous exposure. With the connected data, we are able to do prognostics. We can anticipate problems. So, in many times, we can fix to address the problem via a software update so the customer never sees the downside impact. That's an ideal state. Other times even if we have to do a physical hardware upgrade, we're able to cut this off at the tens of vehicles, hundreds of vehicles rather than hundreds of thousands or a million units. That's a huge enabler and that's underpinning that \$50 million of savings that I highlighted earlier already that we're seeing on F-150 and Mach-E.

Second pillar is around improved customer satisfaction and loyalty. And this translates into Net Promoter Score, higher retention, so there's value there. The third one is connected services and subscription. So, we're about to launch our BlueCruise driver-assisted technology, a true hands-free system later on this year. Customers have already paid for the hardware on the F-150 and on the Mach-E to activate this, \$600 for them to turn this on. After three years, there is an ongoing \$300 subscription rate to access the latest enhanced high-definition maps and enhanced zones. So, that's an example of creating value over-the-air and then capturing that with subscription recurring revenue.

And then, the last one is as we do a better job of understanding how our customers consume our products and services, we're better able to tailor the product offering to them and upsell them into something that's better suited for their needs. In some cases, it's telling them you're overbuying. You're not using these features, and we can walk them down to something that's better suited for their needs. In some cases, it's saying, hey, if you upgrade to this package, you can get even better productivity or greater usage. So, that's the way we dimension the value. It's around those four pillars.

Ryan Brinkman

Analyst, JPMorgan Securities LLC



Thank you. And it would be great to get an update on Argo AI. Firstly, what is the planned business model at this point? Because I think, in the past, you're more interested in exploring autonomous for commercial vehicles, for example, transporting materials to work sites right up the alley of the Pro business, but as opposed to taking on Cruise or Waymo head-on in the robotaxi market.

Very recently, though, there was what, to me, I thought was a surprise announcement about testing out autonomous vehicles in a commercial setting with the Lyft ridesharing network as soon as this year, seemingly leapfrogging some of the more high-profile peers in a market I wasn't even sure you were going to be competing in. So, what is the strategy with regard to commercializing Argo and is there any update you can provide also on the ownership or capital structure of Argo going forward?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.



Yeah, Ryan. So, I think everyone in the industry is realizing that this is a really difficult problem for us to solve. Argo, I would say they're certainly among the leaders in terms of progressing the self-driving system. And given how capital intensive this is going to be, we want to make sure we are designing our solutions to maximize the potential value. So, for that, the first part of your question is, are you guys targeting goods movement or people moving, and we're saying we want to be able to do both, right? Certainly, we wouldn't want to exclude anything.

To do that – so I introduced this idea of a technology stack and I think of this very much the same way. So if you think about the multiple layers and the role that the different players play, you have the vehicle, right? So designing a vehicle that's really optimized for autonomy is something that is right up Ford's alley in terms of our core competency. So we're going to deliver that part of the technology stack.

There's the self-driving system which Argo is leading, right? So that part of the technology stack are – that's clearly Argo's lead. Then there's the fleet management, right? Once you have this fleet of autonomous vehicles, you have to manage them, you have to charge them, you have to maintain them and keep them running. That's now part of our Ford Pro business as we talked about earlier. They're going to provide that capability.

The real missing link for us was really the customer-facing demand aggregation side. And that was not something that we had expertise in nor Argo. We can certainly build it by partnering with Lyft who have that capability and add expertise. It really was the missing link for us in terms of how we think about that technology stack.

So our plan is to basically leverage now that we've filled in that missing link, leverage that entire technology stack, and the value that all of the partners bring to the party starting with our pilots in Washington D.C. or Miami first in 2021 and then Austin in 2022 with Ford, Argo and Lyft to really understand how we can commercialize this and pilot it. And from this learning, we can apply that to maximize the payoff.

In terms of the capitalization, look, Argo has taken a lead on that. We have no update at this time. But certainly we've said previously that it's within the realm of possibility that they will pursue an IPO at some point in the future. But there's no updates at this time.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Very interesting. Thank you. Next up, I'd like to ask about your strategy when it comes to sourcing the components needed to manufacture battery electric vehicles. So, for example could you please discuss the strategy behind the venture Blue Oval SK with SK Innovation to manufacture battery cells?

And is that a North American agreement or a global one? And then what is your approach to deciding whether to insource or outsource different other components such as electric motors, inverters, converters, gearboxes, et cetera, for battery electric vehicles?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Yeah. So, as a reminder during our Capital Markets Day, my colleague Lisa Drake shared that for us to deliver our objective of, at the time we said 40% battery electric vehicle in terms of mix and volume by 2030. To do that we would need about 240 gigawatt hours of battery supply by the end of the decade. That's a global number. Within North America of that 240 gigawatt hours, we think about 140 gigawatt hours is going to be in North America. So, to do that we really – we need to secure the capacity. So, that was underpinning our motivation to do this partnership with SKI.

Look, in the initial phase, when we were working with Lightning and F-150, as well as Mach-E, we had the opportunity to work with all of the suppliers, battery suppliers, and we have a really good understanding of what the state-of-the-art is. They've all shared with us their technology and cost roadmaps, and we picked SKI, frankly because we think they are the best in terms of technology as well as cost. And we're very excited about this joint venture and it's going to be beyond just North America. We will certainly extend into Europe.

In terms of how I think about vertical integration, at a very high level, the first thing we look at is, is it strategic? And, by that, I mean, we look at things like, is this particular commodity or system that we're considering to vertically integrate brand-differentiating? Do we need to secure a supply, having gone through what we've gone through as an industry with semiconductors? So, that's a very important consideration. Is cost and quality key considerations? So, in the case of batteries, check, check, check, right? It's definitely brand-differentiating, we have to secure supply and cost and quality. They're very important.

Next question we ask, is it a good use of our capital? Are we going to get the returns we want? And then, the final question and a very important one is, can we do it better? Can we actually do it better than the supply base? And all of those things are the way we think through it. So, beyond just batteries and battery pack assembly, we have already insourced gearboxes for electrification, we've insourced motors.

And probably the only thing we haven't done right now would be the power electronics, the inverters, but pretty much everything else we've insourced. Beyond that, we're looking at things like software, silicon as brand-differentiating things going forward that we want us to consider vertically integrating.

Ryan Brinkman

Analyst, JPMorgan Securities LLC



Very helpful. Thank you. And maybe specific to one of those battery electric vehicles, the F-150 Lightning, you recently updated that Ford has received, I believe, 120,000 reservations, which is a really huge number over a short period of time. So, can you say if the amount of reservations exceeded your expectations? Have you stated or can you state the planned annual capacity to build this vehicle in the Rouge facility? And beyond the manufacturing capacity, how do you feel you are positioned with regards to securing the components, for example, the motors, et cetera that are necessary to meet what seems to be very strong demand given I presume the reservation number will only grow ahead of the launch?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.



Yeah. So, as I touched on in the briefing, we're delighted with the reservations. And if those reservations, even if they don't grow and they translate into firm orders, our projection is that's probably greater than 50% of the BEV pickup truck market share in 2023. So, very encouraged, significantly higher than our initial projections.

I think for me the most pleasant surprise has been when we did the market research initially, Ryan, we were really focused on, will this truck appeal to traditional full-sized pickup truck buyers, right? So, we would go out and talk to people who were buying not only F-150s today but also some of the competitive products. And we would just sort of track the appeal of BEV products because we're seeing such high conquests. And I mentioned 77% new to Ford. Many of them, as I referenced earlier, never considered a pickup truck before. And they're just delighted with the innovation, the ability to have things like exportable power, the Pro Power Onboard, as well as the capability and the functionality. So, much higher than our initial capacity planning, but we know how to do this, right? We're working with our suppliers all the way through the value chain, and we've already have put in plans to increase our ability to build this at our electric center at the Rouge site, and we're working with the supply base to increase the capacity. So, it's a great problem to have stronger demand than your ability to build. And we'll work overtime to close that gap, but super strong start for us.

Ryan Brinkman

Analyst, JPMorgan Securities LLC



Okay. Speaking of which, more demand than supply, wanted to ask about inventory levels, both from a near-term perspective as it relates to semiconductor availability and the prospect of replenishing those currently depleted stocks, but also would be great to get your thoughts too on the strategy for managing inventory longer term once we have cycled past the current industry disruptions. There was a lot of discussion on the last earnings call about a fundamental rethink of the ordering process, about maybe relying more on order banks, more on customer pull of models going forward as opposed to pushing to the dealers, maybe building on the previously discussed 120,000 orders for the F-150 Lightning, the orders for the Bronco and the Maverick, et cetera. So, what are the benefits of the new strategy, and just how big of an impact do you think it could have?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Yeah. So, great question. There's an old adage in business that says something along the lines as never waste a crisis. And when we started seeing the semiconductor sort of cross-industry impact earlier in the year, Jim Farley really challenged us as a team to use the opportunity to not only tactically sort of optimize around the constraints but use it to modernize the company. And this is -modernization is part of our plan under Ford+. And a big part of that was challenging us to use the opportunity to really reduce the inventory and go from historically, what, we were running close to the 75 days to a range of 50 to 60 days, so about a 25% reduction.

And one of the big enablers for this was we started doing these online reservations starting with the Mach-E launched and we did it with Bronco, Lightning, now Maverick. So, having the ability now to get a much better understanding of the initial demand especially during the ramp-up launch phase and using that to basically link it to our industrialization capabilities, not only within Ford in our manufacturing facilities, but also all the way through the supply chain.

And we see a lot of value in that, right? So, certainly you guys would understand the improvements in working capital, floor planning costs, and the benefits for Ford Credit as well as for our dealers. But the customers benefit because they have the ability to get the exact vehicle they want faster. We see higher quality to the customers because vehicles aren't sitting in transit or on dealer lots and you have a lot of quality risk associated with that.

We have – one of the traditional reasons why we have so much complexity is frankly, our system was not very resilient and agile to be able to accommodate differences, changes in customer demand. So, our marketing teams tend to take a hedge your best strategy. We don't know what customers want. So, we want to protect for all different configurations by now having that order bank and better transparency. We can really optimize the product offering and reduce the complexity. There's a lot of value in that in terms of scale for us and for our supply base. And then certainly lower incentives, right? You don't have to incentivize customers to take less desirable inventory because they can pretty much custom order what they want.

So, those are all of the benefits. But it's a great example of how we've used the crisis to modernize the company. We'll see ongoing benefits beyond once we get through the constraint from the semiconductors. And that's really what Jim was pushing us to do.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Yeah, that does sound promising. Maybe moving to some of the international operations. Is there an update you can provide on the redesign of the product portfolio in Europe and the increased focus on commercial vehicles and electrified products over there? How should we be thinking about the alliance with Volkswagen playing into your product portfolio and electrification strategy in Europe?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Yes. So, Stuart and the team have done a great job. They basically have prioritized three cost – businesses if you will, commercial vehicles as you mentioned is cornerstone. Clearly, the crown jewels in Europe and you talked about the fact that we're the number one brand again through the first half of the year and it's the seventh consecutive year. So, that's going to be a big priority. Electrification, leading the electric revolution. By mid-2026, 100% of our vehicles in Europe will be a zero emissions capable. And then by 2030 all electric, full electric. So, they're really accelerating that shift. So, beyond commercial vehicles, the second sort of business cornerstone for them would be around very emotional products and playing to our strengths and leveraging some of our iconic brands with passenger vehicles.

We know Europe is unique in that the infrastructure dates back to the Roman era in many of the large cities. And because of that, the heart of the market is around sea size in vehicles. So, we found that it was much more efficient for us especially initially to leverage the tremendous scale that VW has with their MEB architecture and that's not only with the vehicles but extends into the supply base. So, it was the most efficient way for us to go-to-market and leverage that scale to benefit us and our customers. So, we will – we've announced that we'll use that architecture for two new passenger vehicles. The execution will be very different than how VW will go to market. And again, it's going to play to our strengths and leverage our iconic nameplates.

And then, the third element is very selective imports of some of our global products that really do well in that market where we can be profitable. So, that's the way we're looking at in Europe.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Very helpful. Thanks. Maybe, China, too, same sort of question, how would you rate the progress over there? Is there an update you can provide on the localization of the Lincoln products, the strategy for that brand in China? And then, I think a few years back, you'd also identified a need to develop products that are more tailored to the Chinese market, the Territory is one successful example, management has cited, are there any others you could point to?

And as new products and the Lincoln brand gain traction in China, what might that mean for the profit contribution to the total company? With North America and Europe, you've been really clear about 10% and 6% EBIT margin targets. I'm curious what kind of financial performance you might be looking out of the China operations over the longer term.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Yeah. So, Anning and the team have done a great job. We've really tried to increase the makeup of local nationals in the leadership team because they have a much better understanding of the market and the customer requirements. We've had, with our Q2 recent announcement, five consecutive quarters of year-over-year EBIT improvements in China, so they're making good progress on that plan.

And as you mentioned, Ryan, a big part of that is buoyed by the localization of products, especially with Lincoln. So, we now have localized to Corsair, the Nautilus, and the Aviator. Those three products account for over 85%. I think it's 86% of the Lincoln sales volume in China. Later on this year, we're going to launch a Corsair with the plug-in hybrid. It's going to be our first locally built electrified product for Lincoln in China.

And on top of that, they've done a fantastic job of building on the sales experience. This is always – when we started with Lincoln in China, we had the opportunity to basically design from scratch our dealership network and create a really differentiated experience, and it's been validated by J.D. Power. In fact, our sales satisfaction, Lincoln was the number one rated brand in China. We unseat Audi, which historically has held that top spot for years. So, just shows you not only the product, but the entire experience has been fantastic.

On the [ph] fourth side (41:08), you mentioned doing more tailored bespoke products. So, Territory was our first attempt. We have an Equator SUV. The Escort is unique to China. And then at the recent Shanghai Auto Show we showed our EVOS, Ford EVOS. This is the first vehicle that was developed by the team in China targeted at the customers in China. And it really is symbolic of the approach that we're taking there, very well received, really differentiated and tailored for that market. So you'll see us do more of that and we'll have more announcements to come, but making really good progress there and optimizing our product line up and experience for those customers in the region.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

And that'll contribute to better financial results I imagine.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Absolutely. So, we expect them to build on this trend of year-over-year improvement for five quarters. It will definitely contribute to our global performance.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Very helpful. Thanks. I see several questions from investors here. One of them, the first one is, are the over-the-air updates mostly regarding infotainment or will they also be able to improve other aspects of the vehicle as well?

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

No, much more than infotainment. Look, a lot of people say they can do over-the-air and it's primarily just infotainment. But as I mention best example is the BlueCruise, right? That's an over-the-air update that activates our hands-free driver assist technology, so that gets into way beyond infotainment. It gets into the sensor fusion, vehicle controls to deliver that functionality.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then here's a question, hard-hitting one I guess. On electric vehicles, there has been some news flow surrounding the market that suggests that we are still in a learning phase. EV batteries combust and require owners to leave their cars outside of their homes. A study on California EV owners show that on their next purchase, 18% returned to internal combustion engine vehicle. What does this mean for the adoption of the category and possible recall implications in the future? Thank you.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

A

Well, I mentioned – when we talked about vertical integration, I mentioned quality was a key consideration for us and the reason why we picked SKI as a partner is they have a fantastic safety record. I'm not aware if they've had any issues with fires in the field. And certainly we're seeing that some of our competitors have really struggled with this and not only is it tarnishing the brand but is a huge financial headwind for many of them. So, very important consideration for us and it was key in why we picked SKI.

That statistics you shared though, if I told you that take the same data but look at it from the flip side, 82% of customers who buy a BEV won't go back to an ICE. That's a pretty staggering statistic. And it shows you why we are so bullish because we have a first mover advantage. While others are talking about how much money they're spending on electrified vehicles, we're delivering them the marketplace, right? So, Mach-E, E-Transit, F-150 Lightning. And we believe that if we do a great job with that first mover advantage, if 82% of those customers are going to buy another one, that's going to have – pay long-term dividends for Ford, right?

So, if you invest in installing a level two charger in your garage, chances are you want to use that with your next vehicle. And if we can delight them with our Blue Oval Intelligence, always-on digital ecosystem, we want to keep them with Ford. So, we look at that as a very positive statistic.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for that response. And our last question here, which comes from an investor is, are the incremental revenue streams on servicing and financing pulling away in any way from the dealer network?

Hau Thai-Tang
Chief Operations & Product Platform Officer, Ford Motor Co.

A

Financing, no. Servicing, what we're targeting is with Ford Pro is on our commercial vehicles which today we – it's not a big part of our dealers' revenue for servicing which they're more centered around the retail passenger vehicle. So we don't see this – we see this as something that's incremental and additive and not substitutional for our dealers.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Okay. Maybe we can squeeze one last one in here. Can you talk about the rationality required in the industry for the low inventory strategy going forward? And do you need your competitors to also go lean in on this strategy in order for you to maintain share with lower inventory levels if peers do have, say, lots of trucks on lots?

Hau Thai-Tang
Chief Operations & Product Platform Officer, Ford Motor Co.

A

We don't think so, Ryan. I think, so for us having smaller inventory, this 25% improvement, we don't see that as translating to fewer vehicles. It's just basically shortening the pipeline.

Now, if our competitors have longer day supply that may be some pricing pressure for them, but we don't see this as a trade we'd share at all. We just look at it as enhanced capability, less working capital, shorter inventory, but the output won't be impacted.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Okay. Great. Thanks so much. Looks like we are out of time, so I really appreciate, Hau, all of the great color that you shared with us here today. Thank you.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

Thank you, Ryan. Thanks, everyone, for tuning in.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Take care.

Hau Thai-Tang

Chief Operations & Product Platform Officer, Ford Motor Co.

Bye.

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