

15-Jun-2022

Ford Motor Co. (F)

Deutsche Bank Global Auto Industry Conference

CORPORATE PARTICIPANTS

John T. Lawler

Chief Financial Officer, Ford Motor Co.

OTHER PARTICIPANTS

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

All right. Good morning, everybody, and thank you so much for joining us for this session of our Global Automotive Conference. I'm Emmanuel Rosner, and I'm the lead US autos and automotive technology analyst here at Deutsche Bank. I'm incredibly pleased to be joined by Ford this morning for this first, very first keynote session. And specifically, John Lawler, the company's CFO, has agreed to come and take some of our tough short-term question as well as a lot of the longer-term questions. And so, we will absolutely go through that.

As you all know, Ford is a leading global vehicle automaker. It has recently outlined plans to go through an internal reorganization to separate its ICE and its EV business to provide more transparency into its future endeavors, and we will absolutely perform a deep dive into this.

But before all that, Ford has prepared a video for us and so we will start with this.

[Video Presentation] (00:01:07-00:05:03)

Beautiful. What a great start. So, John, first of all, thank you so much for being here.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Glad to be here.

QUESTION AND ANSWER SECTION

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

[ph] Thanks for being (00:05:07) here in person in New York at Deutsche Bank Center. A real treat. So, I did promise that I would [indiscernible] (00:05:15) short-term consideration as well as deeper dive into your strategy. So, we have about 40 minutes or so, so maybe we're going to start with a shorter term, if that's okay; and I promise, Lynn, that there will be also a lot of time focus on that strategy, which is obviously very interesting.

So, let's start with the just setting of the stage about industry conditions that you're seeing. Can you provide an update on latest industry operating condition you've seen so far in the second quarter? What's the latest out of Europe, out of China disruptions? Is the supply chain improving sequentially and does that leave you [ph] sort of like (00:05:50) on track for the solid unit growth?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, as everybody knows, it's been very dynamic. [Technical Difficulty] (00:06:00) Can you hear me?

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. It's good.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Okay. Yeah, it continues to be a very dynamic...

[Technical Difficulty] (00:06:10)

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

I think we've lost you again.

[Technical Difficulty] (00:06:15-00:06:38)

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Is that better?

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Okay. So, it continues to be an extremely dynamic environment. One thing I will say is when you look at Ford, demand continues to be very robust. Our new lineup, our new products, they're sold out for the most part. Mach-E, Lightning, E-Transit, the order bank is very large. We got Bronco, Bronco Sport, Maverick, so demand remains long to supply.

Now, we have seen changes this quarter with the disruptions that have occurred in China, with the lockdowns and supply chains, so that's put stress into the system with – everybody has seen that. So, we're managing through that. We're focusing very much on improving the production stability, which is one of the things, as we've worked with the supply base, that's very important for them, because as we take our schedules down, that impacts their production, et cetera, so we've been working on that.

And we're seeing increased transparency and cooperation through the supply chain all the way down to the [indiscernible] (00:07:50). So, it continues to be a dynamic environment. We continue to work through the issues that we've seen from supply chain, chips, COVID, et cetera. And we continue to manage it.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

[indiscernible] (00:08:03) So, we move to the question [Technical Difficulty] (00:08:10) with this.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Here we go.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

All right. We're going to try like this.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Okay.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Have you seen any signs of weakening in consumer demand so far in the markets? Are order books holding? More importantly, are they continuing to build up?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. So, consumer demand continues to be strong for us in our lineup. So, we're not seeing weakening there. Our order bank is still very robust. We have over 300,000 orders [indiscernible] (00:08:54) across many of our vehicles. And so, we're continuing to see strength there. And as I've said, for us, we're seeing demand still [indiscernible] (00:09:03) of the supply that we've been [indiscernible] (00:09:06-00:09:12). It doesn't seem that the mic [ph] is going to (00:09:14) work.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

I think we've tried three now. And I'm starting to wonder if it's your voice.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

[indiscernible] (00:09:22).

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

I hear your answer. So, all good. Hopefully, we can fix the audio though. It would be great. I was just killing time while we do hopefully. All right. What do you – there's also an echo. What are you seeing in terms of vehicle pricing for you and the industry? Are ATPs holding?

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

ATPs are holding. And I think part of that is, as I've said, demand continues to be [indiscernible] (00:09:49) to supply. Coming back, getting back to the question that you asked earlier and I'll combine it with this. So, we are seeing the pricing [ph] stack (00:09:57) and we've been able to see the pricing offset, the headwinds we've seen from commodities and other inflationary pressures as we talked about with Q1. So, that's continuing to hold. Going back to what we're seeing as far as the consumer, one lens that we have into the consumer that I think is an advantage is through our credit company.

A

So, we're looking at all kinds of data. But one thing we are seeing, Emmanuel, is we are seeing delinquency start to increase. It's not yet a concern for us because it's, as you know, coming out of last year and through the first part of this year, they were very low. It seems like we're reverting back more towards the mean. [ph] Severity (00:10:32) is still an issue because residuals are so high but we think those have peaked. But, we're looking at it and we're looking for every indication and every data point we can to get a read on where the consumer is, where they're headed, given everything that we see out there, the inflationary pressures, the economic issues, et cetera. So, we are seeing some headwinds there a little bit when it comes to delinquencies as maybe a leading indicator.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Understood. All right. So, just to be completely clear on this specific topic, the sort of leap, you have full economic themes, you have a lot of – you're tracking a whole lot of early indicator. You see demand quite literally in real-time.

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Yes.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

You're not worried about demand.

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

We are not seeing any issues with demand at this point. Correct.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Right.

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

We've also looked at – just one thing there. We're actually looking at used cars as a leading indicator. With gas prices being so high back in 2008, we saw a significant mix shift. We haven't seen that. So, we started looking at used car prices for large vehicles, trucks and large SUVs. We're not seeing prices collapse there either or reduce there at all. So, we're not seeing those impacts that we would traditionally see at this point in time where we are in the cycle.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Okay, great. Very clear. And I guess shifting gears a little bit to your outlook, your view of the year. So, your 2022 guidance, which you had left unchanged when you reported in the first quarter, was going for EBIT of \$12 billion, or is going for \$12 billion of EBIT at midpoint, which would be up a solid \$2 billion versus last year despite much higher raw material costs. My understanding is it now assumes like \$8 billion or \$9 billion or so of year-over-year tailwind from market factors. Can you break down for us what will drive this earnings performance?

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

So, market factors are offsetting both pricing and what we see from volume on a year-over-year basis are offsetting the inflationary pressures, both the commodities and inflationary pressures we're seeing outside of commodities. So, pressures from the supply base, pressures from freight and logistics costs. And of course, we're working on additional cost reductions to help offset them as well. And so, that's pretty much it, we're seeing the commodity increases, we're seeing other inflationary cost pressures. We're working on additional efficiencies throughout the system, every line item on the income statement. And we're seeing the strength and market factors we talked about in Q1.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

And how confident are you in the ability to drive further pricing gains, even as volumes recover and with rising pressure on the consumer? Can you still talk about – as part of the pricing especially, if you can talk a little bit about the adjustments you've made in the financing dealer inventory?

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Yes. So, there's a couple of things there. Right now, dealers are transacting at or above MSRP. And I see that as the first area, if we see pricing pull back that it needs to pull back. One of the things that we did is we looked at how we were transacting with our dealers and we were providing them floor plan as a percentage of MSRP. And so, we changed that policy with our dealers. We worked with them proactively, and now we'll finance up to 75 days of true floor plan costs, and that was worth about \$575 of increased pricing for us, increased revenue for us. So, that's one of the actions that we've taken.

A

Overall, when you look at the pricing, we have been able to see it stick. We've taken the pricing so far this year. It's in the marketplace. There's flow through from last year and then there's pricing that we took this year.

As far as going forward, I think that given the environment that we're in, you're not going to see, I think, much incremental pricing. If there's one area where I do think we have some capability to price left is on our electric vehicles, but we'll be very thoughtful about that. And then, again, when we look at pricing, we're always comparing ourselves to where we sit in the marketplace versus competition. And that has to be the number one thing that we look at before anything else when we look at pricing and then what the consumer can afford. So, we're very thoughtful about it. But so far, the pricing is sticky.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

And I guess, looking ahead, how do you think about the balance between price and volumes as production normalizes? And it's an industry question as well.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. It's going to remain dynamic. But as volumes come back, we do expect there is going to be some incentive increase. And we have that built into our plan as we go through the second half of the year. So you're still going to have that – as volumes grow, you're still going to have some incentive level changes and we fully expect that to happen as we move forward.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Understood. Now, you had like \$4 billion in commodity cost increase embedded in your full-year guidance. Does that include also helped your suppliers? Throughout the conference, we're hearing auto suppliers telling us they're in discussion with OEMs. It's very tough for recovery of inflation of gross materials and non-materials cost, but cautiously optimistic. Does that – would that – is that included in your \$4 billion?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Not in the \$4 billion. \$4 billion is commodities themselves. We are seeing other inflationary pressures partly from supplier base, others and logistics costs like – and things like that. Partially that's been offset through the top line for the market factors. But we're also offsetting that with additional efficiencies elsewhere on the income statement. So, yeah, that is all factored into what we guided at Q1.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

And so you have overall this target of getting global margins to 8% and also [indiscernible] (00:16:11) margin to 10%. What are the largest levers to get through there? And can this be maintained sustainably even when industry price mix normalizes?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. We think so. If you look at the pricing that we've taken overall, to get back – to give it all back, we'd have to go to something like 16% of revenue. And that's not going to happen. We're not going to go back to the high inventories that we had in the past. We've targeted 45 to 50, 55 days, and we're going to stick to that.

I would say that walking through the 8% and the 10%, there's several levers there, and you have to think about that across each of the different businesses. And so, overall, we're going to have volume growth, and that's part of the market factors that we see as the chip crisis abates and as we get back to more normal rates of production. Now, of course, we'll have to balance that within what happens with demand and what happens in the overall economic environment, and we will do that.

But then, when you look at Ford Blue, we're working towards \$3 billion of cost reductions, structural cost reductions by 2026. Part of that's going to come through simplification, complexity reductions, best parts to design to engineer to put together. That's going to drive efficiencies. Through manufacturing, it's going to drive efficiencies. Through product developments, it's going to drive efficiencies and CapEx. Those are three areas.

Advertising and promotions, that's an area where we think there's a significant ability for efficiencies which we're driving through, given the amount we spend. We're going to have selling expenses going to come down as you don't have the inventories out there, that relationship is going to be different, it won't need this big of effort there from that standpoint, admin costs are going to come down. So we're looking at driving efficiencies through every element of the income statement of Ford Blue to get out that \$3 billion of cost and then to drive overall efficiency through complexity reduction and simplification.

That will also then, as we simplify the vehicle, allow us to reduce warranty costs. So it all builds on each other. It comes across every line item in the statement. When you look at Model e, it's really about the growth we're going to have there. And it's about efficiencies, it's about battery efficiencies, it's about battery chemistries, it's about vertical integration and scaling, it's about the way we designed the vehicle for optimization. One of the things we are insanely focused on is the kilowatt required to move the vehicle, and we're designing to minimize the number of kilowatts to get the range and the performance that we need. And as we do that, we can reduce the size of the battery and we can take significant costs out. So, that's the focus there.

And then, of course, there's Ford Pro, and we have a lot of growth opportunity there; not only in hardware growth, but parts growth from the service penetration that we have. We have fleet management, we have telematics, we have charging software, and then we also have productivity software that we're starting to provide through our joint venture with Salesforce, in the JV we form with VIIZR. So, those are all the areas that are going to allow us to grow the businesses and drive towards that 8% and 10% margin.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Right. And just to be clear, those targets are fairly short-term as well, right? It's not...

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

8% to 10% by 2026. Absolutely.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Then, one last one and then we'll shift to a deeper dive into strategy. But curious, obviously a lot of concerns from investors on the current environment and current market is impact of a downturn or if there is any sort of weakening in consumer, what's the impact would be on autos? Like, how should we think about a downturn sensitivity for you? I'm sure you think about it – I'm sure you should – you think about it a lot. What could earnings power or free cash flow look like in the sort of potential in recession that we could be looking at?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

Couple things there. One, as you'd expect, we are modeling. Moderate recession or severe recession, what does it mean from the income statement? What are the actions we need to take? What does it mean to the balance sheet, free cash flow?

Well, one of the things that's different now versus any other time in my experience over the past 30 years, heading into an economic environment like this where there's a potential recession, now, if you look at where we're set up, typically we would be heavy stock, high incentives, increasing incentives to try to move vehicles, large inventories. We don't have that today. We're very lean on inventories. We have an order bank that's significant at over 300,000 units. We don't have incentives there in the low-single digits, right?

And so, it's a completely different environment heading into what could be a potential recession than anything I've seen in the past. And so, we've modeled it through. We know what we need to do. We're working on that as a leadership team and managing that. But as an industry and as a company, we're heading into this in a much different position than we've ever been in before. And so, I think that that says that this is going to unfold for us as a company and for the industry a bit differently than it has in the past.

Emmanuel Rosner*Analyst, Deutsche Bank Securities, Inc.*

Q

All right. I appreciate all the color. I guess, then shifting to the strategy, you're planning to split combustion engine versus electric vehicle. Can you please explain the opportunity you see this provides the company? I guess, what will you achieve operationally and financially as a result of doing that?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

So, when you look at the split, there's – as we've been working through this since March, there's a lot of momentum that's building. You can't see that because you're not there. But I'm getting really excited about the clarity of purpose and the focus each of the teams has between the Model e team, Ford Blue, Ford Pro, and then, of course, Credit was always there and then we have Ford Next.

And so, the talent that they're attracting, the purpose, the mission, and the focus is there; and that is driving a much quicker clock speed decision making. It's allowing us to move much quicker on what – where we're headed with our battery electric vehicles relative to fully networked architecture, EVs, the second generation of EVs that we're building out and driving to a more efficient design and cost structure. And that's what it's about on the EVs.

And then, on Ford Blue, we know that the mission for Ford Blue is different. It's to leverage these incredible iconic nameplates we have. It's to drive efficiencies, optimize for cash flow, and focus on becoming a fitter company, and we're seeing that come true and the team is completely focused on that. And then, of course, Pro, it's about growth and servicing those commercial customers. There isn't any confusion amongst those teams about what the other team is doing. They're focused on their own individual piece of the business and driving their

deliverables. And then, you see that in the leadership team as we go through that. There's clarity of purpose and there's focus and it's a huge opportunity.

Now, financially, I think it's going to be a very interesting shift when we move next year in Q1 to reporting for those segments. You'll be able to see exactly our margins on our EVs, our margins on our ICE vehicles, the margins in Pro. What are the assets that are deployed? How are they performing? What are the key growth metrics for each of those that we'll have out there?

In January, we'll get together with you and the other analysts and we'll do a teach-in on how that transition is going to happen, what we're going to provide, and how to think about it as your model. Then with fourth quarter, we'll provide a retro look into 2022 with that segment reporting. And then in Q1, we'll start going forward with those segmentation reports. And you'll be able to see. And I think it's going to be really interesting to see how everyone reacts to having the clarity in each of those divisions as you look at it and you start to think about the [ph] sum of the (00:24:25) parts for our business.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Understood. So, I guess, how far will you take it for these? How many segments will you be reporting? Is it three or five?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Five.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Five?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, e, Blue, Pro, Credit, Next.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And these will all have income statements?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Not full income statement. Full income statement and balance sheet will remain with Ford Credit. We'll have EBIT, we'll have margins, we'll have assets on the others. So it's not a – it's not fully [ph] auditable and investable (00:24:51), and we're not creating balance sheets or full income statements.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

And the primary goal based on your first answer was – is really operational and mindset.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Operational efficiencies, it's driving purpose, it's clarity. Yeah.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Yeah. The visibility to investors and I guess analyst, what – would you think that it would help value the stock higher or more fairly?

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Yeah. I think so, because you'll have transparency around what each of those divisions is delivering and how it's performing, and what the strategy is for that division, and where are we taking it, where are we, what are the puts and takes.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Right.

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

And understanding how those businesses are being run.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Right, right. Okay. What will be the key drivers to reaching that? I think you answered some of that before. But...

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Yeah.

A

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

... reaching the 10% global margin by 2026, can you – in particular, let's start maybe with Ford Blue, can you break down the levers to take up \$3 billion in costs over the next three years?

Q

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Sure. So it's every line item on the income statement and it starts with simplicity and reducing the amount of waste in the system, right? Our lineup is very complex. If you look at the number of clicks it takes the consumer to order a vehicle, it's – to the point where if they're online, it just becomes frustrating. That needs to come down to 5, 7, 10 clicks. That's it. As you take down that complexity, that goes all the way back up through the system. You have fewer parts, you have less to manufacture, you have less spending, et cetera. So, it's really going to start with driving that efficiency.

A

If you start to look at the things we're doing around that, we could reduce the number of consumer options by 80% to 90% in many of our vehicles without sacrificing sales. That's the key part. It's just too complex and it's just been the mindset that has been around the industry for way too long that you need that complexity to actually satisfy the consumer. Now, there's a smarter way to do it.

And then, when that happens is that complexity comes out, then we drive for efficiencies across every incremental line item of the income statement, like I said earlier. And that's how we're going to get the \$3 billion up. With the transparency of reporting and you're seeing Ford Blue, you'll see that come out, you'll see that \$3 billion, and that's what's important. Now, you'll be able to see that whereas before, you wouldn't have seen that because we would have been reporting by region and/or with everything together.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

And the plan to reduce advertising, is that part of the \$3 billion or that's a separate effort?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So that's a separate effort with Model e, overall. Now, that said, that's where the focus is. There is opportunity in Ford Blue to reduce advertising as well, and it's around productivity and efficiency in advertising and how we go about that spend and what's actually effective and not. What's our relationship with all of our agencies? How are we managing that? And thinking about it, as we move into more of a connected vehicle, that lifecycle ownership and that touch point with the customers will allow us to reduce the touch points for advertising up front to gain new customers because we plan on retaining the customers we have and thinking about them from a total lifetime value.

And again, with that, we should be able to reduce advertising, and we may increase some expense on post-purchase touch points and considerations with our consumers. So there's options everywhere, there's efficiencies to be had on every line item with the income statement in Blue.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

What's the role of the dealer in your new model?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. That's interesting. There's been a lot of discussion around the dealers. We've been working with the dealers very closely, setting standards around our Model e approach. We see the dealers as an asset. You have to think about it between retail and commercial. Our commercial dealers are phenomenal, 24/7 service options, a remote service that is hand-and-glove. And that's really important and we're really pleased with where that's developing with Ford Pro.

On the retail side, when you think about it, there has to be both a digital and a physical approach. And that's what the dealers bring for us. Net Promoter Score, it's important to have long-term Net Promoter Scores remain positive because customers need a place to get their vehicle serviced. If they have a fender bender, they have a cracked windshield, whatever it is, they need an outlet. So we're starting to look at other proxies practices and think about it. I remember that when Amazon came out, Walmart and Target were dead because everything was going digital, everything was going to be online and they didn't have a chance.

And then, remember when Walmart went out and started to acquire assets on the digital side, it wasn't received very positively. They've done a nice job. We think there is a better option in there with both the physical presence as well as a strong digital online presence to satisfy our customers and give them the best optionality and the best experience. And that's what we're working towards with our dealers.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Will the same dealers be selling both e as well as Blue?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

We're going to be very selective with our model EDRs. Very selective.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Understood. And I guess there are like on the e side then, how will you achieve this step function in both EV performance, but profitability moving into the next generation of e products. But I guess that's – that's the part that you sometimes struggle to understand. You want to improve profitability of the entire organization, yet you will be selling many, many EVs by then.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

No. So, second generation of EVs, it should be a step function improve profitability, good start with our first generation, great customer response, learning a lot. But the design of the platforms, the full battery electric platform, standalone platforms is really about the efficiency, simplicity, and optimization around minimizing the number of what it takes to move the product. And we have the experts to do that. They've done it before and they're doing it with us now. We're learning a ton. All right. We've done teardowns of competition. We've done teardowns of the electric vehicles we have and it's a whole different approach. You just can't ICE and progress an ICE vehicle to an EV if you're going to get the types of margins we're talking about. All new, ground-up, simplified, obsession around minimizing kilowatts that it takes to move the vehicle.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Now, turning is to consideration around the supply chain that's unique to lineup in order to support this EV growth. I think Ford's annual battery demand is said to reach 140-gigawatt hours in North America and 240 gigawatt hours globally by 2030. What's already in the works to help you meet some of these targets? And how much will you need to still set up?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, it's actually moved to 400-gigawatt hours that we need by 2030. So, it's growing. When you look at it, we'd look at it in two steps. First, to 600,000 run rate by the end of 2023, stepping up to 2 million by the end of 2026. We have the battery capacity in place to meet the 600,000 units by the end of 2023. We're not all the way there for the 2 million units, but we have time through to 2026. We're a long way towards it, but we still have some ways to go. One of the things we're doing now is with our battery partnerships in the supply. We're now auditing all the

way up through the mines to make sure that we actually have capacity for the raw materials. So, we have the battery capacity in place. Now, we're working with our partners to audit the supply inputs to make sure that that's robust as well.

And then, the other thing is we're doing is we are working through vertical integration. We are working with mines around lithium offtake agreements, nickel offtake agreements, potential equity investments in mines to make sure that we have access to the commodities we need to build the batteries to meet the volumes.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

So, I guess I was going to ask you that, how deep into the supply chain you need to make...

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

We'll go all the way up.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

...the direct investment?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yes. We'll go all the way back up, up to the mines.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

[indiscernible] (00:33:19) processing, mines, just, okay.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. We're working through what it will take to get a lock-in on that that supply.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Where do some of the current agreements or existing agreements look like? Do they secure you through how many years, like is it volume commitment? How does it work?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, right now, we're fully sourced through 2023, the 600,000 units. And we're verifying and auditing to the commodities. And then, we'll work through the 2 million units. They will be a combination of offtake agreements, equity investments that guarantee us the supply. We haven't had a lot of announcements around those. We've announced a couple more years. You'll start to see more coming from us throughout this year of those types of agreements and how they're structured.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

And how you think about the role of LFP technology, battery technology as you scale these volumes in the coming years. How flexible is that transition of battery chemistries within your platform?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, we're setting up the platforms to be very flexible. We see a combination of NCM, of course, LFP being important. We're working on manganese rich, a makeup of battery chemistries and that's why we formed the Ion Park. And we believe that we're going to have to continue to work on developing those chemistries and optimizing. LFP is a great option. It's 10% to 15% less expensive. It doesn't have the same thermal properties as NCM, but it doesn't have the same energy density. So, there's different applications that that's appropriate for you. You can think about commercial customers that charge every night. That's not an issue with LFP because that doesn't degrade the battery as much as it does on NCM. So, we're being thoughtful about the applications of those commodities. We're being thoughtful about the chemistries. Again, all towards optimizing the cost structure for those new platforms of electric vehicles that we have coming.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Right. I've asked every supplier this since this morning, the risk of vertical integration, automakers going more vertical. What's – is there any changes in what you view as critical that Ford needs to do versus what you would continue sourcing from suppliers?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, we've talked about the raw materials for batteries. I think the other thing then is as we work towards a fully networked vehicle we need to do more vertical integration to those key and owning the software for those key modules in the vehicle. With that fully networked vehicle, that gives us advantages. Well, we also want to control that software around that with the central computing in each of the modules across all the big key systems within the vehicle. And so, that's what we're developing. And we think that that's going to be an advantage. I don't see many other automakers actually doing a true, fully networked architecture for their vehicles where they're going to control the central compute and the software of all the modules within the vehicle.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

What about the powertrain? Is that something you're looking to do entirely in-house? Are there areas where it makes sense to...

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, different between electric and gas, right? Motors, yeah, we'll do those in-house. And then the other components of the electrical structure that's a TBD yet on what we think is the best way to do that and what would be most efficient.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Then, maybe let's just switch to software then and the opportunity there. Can you size for us the opportunity for Ford from service at Ford Pro? How much of this incremental revenue outlook is from software and services versus basically vehicle sales?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

Yeah. So, when we look at Ford Pro, most of the growth that we've laid out, the \$27 billion to \$45 billion of revenue, most of that is hardware and parts, right, service parts. We see the obtainable market for software by 2030 at about \$20 billion, 70% of that being retail, about 30% of that being on Ford Pro commercial. And so that's the size. And, of course, we see margins in 30-plus percent range for that. So, that's how we're thinking about it. We haven't given out numbers for – specific numbers for penetration rates on software, et cetera, for Ford Pro. But as I said, we see it coming through telematics. We can see it coming through fleet management. We see it coming through productivity software, charging software, and all of that, we see as an opportunity to grow the top line. But most of the growth that we had identified, because it's early days on understanding the software and the penetration rates, most of that growth was hardware and parts.

Emmanuel Rosner*Analyst, Deutsche Bank Securities, Inc.*

Q

Right. So, maybe finally for me and then we'll open it to the audience. Argo, where are we there? I think that at some point they were at top, I guess there are probably comments from Argo around the IPO potentially this year, I think may have been pushed to the right. So, where are we in terms of development, commercial deployment, and in terms of thoughts on capital raising?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

Yeah. So, where Argo is at is we've launched driverless rides in Miami for Argo customers, no safety drivers and that's been kicked off. We have our pilots with Lyft and with Walmart. Lyft with people moving, Walmart with goods in Miami, and we're looking to expand that to Austin. So, we're doing those testing now. Both Lyft to work with lift and the work with Walmart is with safety drivers. Continuing to develop across the six cities, develop the software. And the markets changed a little bit this year, so we'll see what actual possibilities are for them as they continue to pursue towards some type of public offering. But it's – the landscapes changed a little bit over the last few months.

Emmanuel Rosner*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. Absolutely. I agree with that. Let's open it up with five or six minutes for questions. So, do you have an additional mic or do you like to have another one? Perfect. We've got one. I don't know if it works, but we have one.

Q

Hello. You talked about the lowest amount of kilowatt hours to move vehicle, but how are you thinking about longevity/warranty on the battery since it's a major investment and sort of equivalent to a powertrain warranty or how are you thinking about that?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah, that's interesting. And that's why we think thinking about the right chemistry for the right use, those that need to charge frequently, the LFP is probably more appropriate for them given the makeup of the battery and the impacts of charging. We see the battery as an opportunity. I don't think anybody has sorted out completely the cycles and the use of the vehicles. These batteries have a long lifetime. And how would we recycle them? How would we think about recycling cars, reusing cars? You could see yourself getting to a model. If we can provide the right type of vehicle for the people-moving business that you could see yourself think about it like an airplane where you come in and refurb the vehicle, the miles – you still have miles left on that battery. So, there's a lot of work to be done there yet and we're starting to think through how to optimize around the residual value of that battery and how we would leverage that not only within the company, but with the credit company.

Emmanuel Rosner

Analyst, Deutsche Bank Securities, Inc.

Q

Any other question, anyone?

Q

Hey, thanks for taking the time. Just wanted to clarify on the \$4 billion in commodity costs, that excludes the – any impact from supplier negotiation recovery. So, just curious in the bridge year-over-year that you provided where that supplier portion would be if it's in the market factors section. Thanks so much.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

So, the bridge is – that we talked about at Q1 was the \$4 billion of commodities up from \$1.5 billion to \$2 billion up to \$4 billion. And then, we had another roughly \$2 billion of other inflationary costs that were coming in around freight and logistics and supplier claims, et cetera, due to the inflationary pressures. And we've offset all the commodities with top line, part of the other \$2 billion with top line, and the rest of the other \$2 billion with the efficiencies that we're driving in other areas of cost.

Q

So, John, it was a couple of weeks ago, I think Jim at another conference talked about some numbers that were pretty shocking in terms of the costs, the added costs to the Mach-E relative to a comparable Ford Edge like \$25,000. And the Mach-E is maybe \$10,000 more expensive than the Edge. So, how do you reconcile that with comments that Ford has made over the past few years that the Mach-E was, I don't know how you phrase that, contribution positive or profitable? How do you reconcile those comments?

John T. Lawler

Chief Financial Officer, Ford Motor Co.

A

Yeah. So, we had talked about when we launched the Mach-E, it being contribution margin positive and we actually had a positive bottom line profit when we launched the Mach-E. Commodity cost has wiped that out so, from a bottom line standpoint. One of the things I would say, [ph] Chris (00:42:54) is that Jim laid out the numbers were rough those net, I think he said \$25,000 of net cost increase. Most of that I think \$18,000 or so he said was the battery as he unpacked that for you guys.

And if you think about it in the near term, right, as we're scaling and we're launching these vehicles, our goal is and you'll see it next year and that's I think one of the good things about the transparency we'll have as you'll see where we're at on a both a contribution margin and an EBIT basis on our vehicles and our electric vehicles. But it's a step-function improvement. And what we've learned about the design of the vehicles, there is a lot of opportunity. If you look at the design of a Mach-E, the design of our next-generation mid-sized SUV and there are significant learnings that we've had around that and how you get to a much more efficient design. And so, you're going to see pressure on the bottom line when we launch our EVs, right? They're not going to be positive, we've said that. We are working back the contribution margin positive across all of our EVs and we'll see that transparency next year when we report.

Q

Have you raised the price on the Mach-E to try to compensate for some of the material cost increase?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

We have taken some pricing this year on Mach-E, yes.

Q

Ballpark, how much?

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

I can't remember off the top of my head across all the series what it's been on average. But we can come back...

Q

Okay.

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

...with that. And what we'll do is I'll make sure we cover that when we do earnings at the end of July.

Q

Thank you.

John T. Lawler*Chief Financial Officer, Ford Motor Co.*

A

Yeah.

Emmanuel Rosner*Analyst, Deutsche Bank Securities, Inc.*

Any final one? In that case, please join me in thanking John and the whole Ford team for joining us this morning for all the insights. Thank you so much.

John T. Lawler

Chief Financial Officer, Ford Motor Co.

Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.