Ford Motor Company
Deutsche Bank Global Auto Industry Conference
Fireside Chat with John Lawler and Emmanuel Rosner

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Emmanuel Rosner: All right. Good morning, everybody. Thank you so, much for joining us for this third and final day of our Deutsche Bank's Global Automotive Conference. My name is Emmanuel Rosner, and I'm the lead U.S. autos and autotech analyst here at Deutsche Bank.

I'm extremely pleased to be welcoming with us this morning, the Ford Motor Company. Ford Motor Company is obviously an iconic American automaker and global automaker that needs no introduction. The company held its Capital Markets Day, was it just last week, a couple of weeks ago during which the leadership team provided a comprehensive overview of the Ford Plus transformation plan, highlighting key initiatives around growth and cost reductions and outlining the company's path to its midterm and long-term targets for the three new vehicle segments, which are Ford Blue, Model e and Ford Pro.

And so, we're extremely pleased to be joined this morning to discuss all this by John Lawler, who is the CFO of the company. John, thanks for being here.

John Lawler: Thanks for having me.

Emmanuel Rosner: So maybe just to kick things off and before we dive a little bit later into the strategy. Let's speak a little bit about the industry conditions you're operating in. Can you provide us an update on latest industry operating conditions you've seen so, far? Are you still experiencing any disruptions because of part shortages? How is the production environment going?

John Lawler: Yes. So, we are seeing disruptions due to supply availability, but it's much less than it was in the past. There's still hiccups in chips, high demand chips that's happening. And the other thing that we're seeing is that as the water level overall is rising and production is coming back, we're seeing some of the suppliers that are not chip related having issues keeping up, ramping up to average per week volumes, Max per week volumes. And so, we're working through some of those issues. And I think that's still part of the overhang from COVID and the fact that factories weren't running at that rate, maintenance wasn't necessarily where it should be, labor shortages, etc. But we're working through that, and it's getting much better.

Emmanuel Rosner: That's great to hear. Now let's shift maybe to the demand side of the equation. Have you seen any signs of weakening consumer demand so, far in the market, the order book is holding and more importantly, are they continuing to build up?

John Lawler: So, we are seeing demand. It's still robust. We're seeing great demand for our vehicles, especially our new vehicles that we have in the marketplace. So, that's been strong. The other thing is we're seeing is pricing has held up pretty well through Q2. I think there's still the potential as we go through the year that we could see some price coming off in the second half. But so far this year through second quarter, it's remained relatively robust and we're hanging in there.

Emmanuel Rosner: So, that was my next question in terms of vehicle pricing for you but also for the industry. So, you're saying average transaction prices holding for now. We've heard for a while, I guess, as part of the strategy from you and other automakers that maybe dealer margins would be the first ones to moderate. How much of this has played out so, far? And has that been a cushion to industry pricing?

John Lawler: Yes. So, we are seeing prices come down a bit, which we expected, but it's marginal. It's not a big reduction. We are seeing dealer margins come in as well. And you're seeing incentives go up a bit from the OEMs. So, right now, inventories are still, I think, in a good spot. Demand is increasing in some sectors, in some places, new products, etc., we're seeing that on our Super Duty. We've got a great order bank on our new transit, etc. So, what I would say is that the consumer is hanging in there pretty well. Industry is hanging in there through --

Emmanuel Rosner: Great to hear. So, let's shift maybe to then to your Ford Plus strategy, which was given a great detail. You recently hosted your Capital Markets Day in Detroit. You laid out plans for growth and cost reduction for each of the segments. First, just to better understand, what are the volume assumptions embedded in your 2026 target and the plans for Ford Blue, Model e and Ford Pro?

John Lawler: So, when you look at that, our volume projections for Ford, they're in the low five, [city or something is] 5.6. You'd say to yourself, well, how are you going to do that from where your run rate is today? I think there's something that we need to understand there to go back to 2019 and you look at the $17 million industry, we were running at about 5.2. So, that growth rate is largely going to be in BEVs -- it's not a significant step function higher. You'll see a different mix. But you have to go back to the normalized run rate. We've been in a depressed industry lately.

So, when you look at where the run rate was last year and you look up to that walk up in 2016, you say, wow, that's a significant increase. You got to go back and normalize it to what the run rate was before COVID productions come back as we talked about, and you get up to an industry of about 17 million. It's a much more balanced increase in the overall total volume for Ford. And that's going to come through our BEVs where we have growth. We said about 2026, we'll be at two million. But when you think about that, we're going to have products beyond what we have today. We have the Lightning, we have the Mach-E and we have the electric Transit van. Now, look at the 2026, we'll have the new pickup truck. We'll have the three-row BEV, we'll have the Explorer in Europe and other nameplates that we haven't announced yet. So, you see that growth coming in BEVs, see that balance you see the overall growth for the --

Emmanuel Rosner: I guess just a little bit more specific because I understand the EV and essentially, a lot of it is the white space and the models you mentioned. But you also basically speak about returning to historical volume on the combustion engine. But I think since then, Europe, South America, China have shrunk (inaudible). So, it's really -- you don't have the footprint or the aspirations that you used to have. And so, you might need some meaningful share gains in the U.S. basically. Is that a fair statement? Or how do I think about your volume aspirations, I guess, by segment?

John Lawler: Yes. So, when you look at the Blue segment, we still think there's growth there. We think there's growth in the near term in Blue. We've got great iconic vehicles. 60% of our volumes will be new in 2024. So, that's going to carry us through. We've got tremendous strength in Bronco, F-Series, Super Duty is new. Now Super Duty is part of Pro, but it's a gas vehicle that continues to have strength. So, there will be strength there for the Pro business. So, we see that there's growth in ICE for the next few years before we get to the tipping point, and we now know that at some point, ICE is going to start coming down. But we don't see it in the next couple of years. We see strength there. Mustang continues to be strong. We have an all new Mustang coming out. Escape and Corsair are new. So, I think the combination of our fresh product lineup, the iconic brands we have and high demand in those segments; we see growth in the Blue business over the next couple of years.

Emmanuel Rosner: Understood. The last thing on blue, which is your, I guess, combustion engine business for consumers. You're targeting 10% margins by 2026, which is fairly, I guess, unprecedented, I guess, in Ford's history. Can you point to specific actions that are in the plans to accomplish the -- to accomplish this. And in particular, I think your walk had eight points of margin improvement in contribution cost and structural cost. So, what will account for this?

John Lawler: Well, you talked about -- first, let me start with the margin being unprecedented. But if you look at the -- what we've done over the last few years to restructure that business here in North America and overseas, you start to see how we can do that. I think when we got out of sedans, everybody was asking, what are you doing? And we said, look, this is a good business decision, and that's played out. We're in the vehicles right now that have pricing power. They have high demand. It's our iconic brands, and there's margins in there. Now when you look at the cost structure, it was. It's an eight-point walk in cost to 2026. So, you look at that, we think about three points of that is going to come out of material costs. And about half of that is going to be the work we're doing to improve our processes, improve the flow through the supply base, etc. And we think the other half of that, so, about 1.5 points of the three points is going to come through design changes, spec changes, complexity reduction, more efficient operations overall with the design and the cost of the vehicle.

Warranty is about a point. There's four points which will be in that contribution cost area. Then we’ve got four points of structural costs. And that's because we're really focused on being very efficient with our capital, being very careful as we take out complexity that,

that actually yields lower investment costs, not only CapEx but the engineering we need to put in and so, forth. And then, of course, as we start to see the growth in the EVs and the growth in Pro that will take up a larger part of the structural cost. So, that's how you're going to get to the eight points improvement in cost structure in Blue.

And then, again, it's about just relentlessly setting the objectives, executing plan, do, check, act; really driving and being focused in on that cost production, quality and cost are the number one and number two objectives in the company, and that's what the management team is focused on.

Emmanuel Rosner: Let me ask you, I guess, still on this topic. I think many times, you and Jim Farley have sort of spoken about these potential $7 billion cost gap versus what could be if run well. Who are you benchmarking yourself against to get to this kind of opportunity? Because I mean just on the face of it, GM probably maybe earns a couple of billion dollars more in North America, maybe. So, I guess who is the player where you can get to $7 billion more in this existing business?

John Lawler: You can't look at it just at the bottom line. I think you need to look at highest revenue of Ford, lowest margin in the last few years. It means we have the highest cost. You have to adjust for the mix, you have to adjust for what your revenue base is, and we've done that. And so, we've benchmarked everyone in detail to understand how competitive we are across all the elements of the business. And it's really allowed us to focus the management team on the fact that this is a real opportunity for the company and delivering that is foundational to us moving forward and getting to the types of returns that we expect to deliver for our investors.

Emmanuel Rosner: Now the Ford Blue walk also assumes six points of price moderation through 2026, which would really only be a couple of thousand dollars price decline on average. Is this conservative or realistic enough in light of how much prices have risen in the last few years?

John Lawler: Sure. We think it's realistic. If you look at the consumer, and you think about where they were pre-COVID. So, 2019, look at their monthly payment as a percent of disposable household income, it was about 13% of their disposable income on average. Fast forward it to today, we've seen inflation in cost and our prices, but wages have also increased. Today, it costs the consumer about 15% of the disposable monthly income. So, if you think about it and you say, well, it's going to revert back to that 13%. That's about $3,000 transaction price or about $50 a month. So, that's why we see that within Blue. We see right now, over that period of time, Pro having some pricing power this year. We see our BEV business, EV business being about flat this year, and then we see prices coming down in Blue as we go through the second half of the year.

Emmanuel Rosner: Now shifting to Model e, which is your EV business. There are several margin targets you've laid out, including getting to contribution margin breakeven on the current generation EV by year-end this year and then positive EBIT margin for the first generation EV by the end of next year. And then 8% EV margin overall by late 2026 on the second-generation product. So, let's unpack this a little bit more. Can you walk through the first piece, which is getting to contribution margin breakeven by year-end on literally the existing products that you are manufacturing today. How will you accomplish that?

John Lawler: So, when you look at our vehicles today, we thought it was very important to be a first mover and it's proving out to be what we expected it to be. Sixty-plus percent of those consumers are new to the brand. And what we found is that prepurchase of an EV, the consumer is not loyal to the brand. Post purchase of the EV, there's a high loyalty rate. So, it's really important to bring those customers in because we're building a lifetime relationship with them. But to be amongst the first movers and to now have three iconic products in the marketplace with e, Lightning and electric van, we had to move quickly. So, we basically converted the ICE vehicles into electric vehicles. And we moved very fast. And to be honest, the designs weren't cost effective, as cost-effective as they needed to be.

Now, can we get all the way there? No. That's why we're doing our second generation of vehicles as a clean sheet. And we brought talent in from the outside that's done it and knows how to do that with BEVs. So, we're optimizing based on that talent we brought in and what they know about how to build very competitive, cost-effective electric vehicles we’re optimizing on the vehicles we have today. And a lot of that's going to be around cost reduction. So, we're expecting to have about $5,000 of contribution costs out of the Mach-E by the end of the year.

Now you have to remember that pricing is about flat with where we launched. It went up and now it's come back down. So, that's all going to roll through to the margin. So, it's really about optimizing the cost where we can on the current model vehicles and putting those design changes in to get to that lower cost base to drive towards that approaching that contribution margin breakeven by the end of this year.

Emmanuel Rosner: Like as an example, so, somebody buying a Mach-E later this year versus someone who would have bought it earlier in the year or last year, where will the $5,000 in savings will come from?

John Lawler: It's -- for the most part on Mach-E, it's not going to be areas that the consumer isn’t going to see, cooling system. Specs that we had in the cooling system where -- specs for an internal combustion engine where the pressure is much higher. And so, the thickness of the tubes, the spec on the tubes was much higher. We can take that down. You can make that type of a design change. There's hundreds and hundreds and hundreds of opportunities like that in the vehicle. There's also the fact that if you take -- and Lightning is a good example of this one for you, there's the connected data coming off the vehicle. So, we can understand what the consumer is valuing and what the consumer is using. And if the consumer is not using it, we can pull it off. So, we're taking some actions like that with the second charge port on the vehicle. Very low usage rate. We pulled that off. And that's a very expensive, hundreds of dollars cost to the vehicle that's not adding value to the customers. So, we take that off. So, we're doing a combination of taking the data off the vehicle to understand what's valuable to the consumer, plus doing design optimization and trying to reduce the cost that way.

Emmanuel Rosner: And is this the main driver also of the bridge to end 2024 was positive EBIT margin?

John Lawler: Yes. Because what we need to do is as we do those design changes, we need to group them together, and we need to have mini launches per se. So, we do it in an orderly fashion as we go about it. And so, then you'll see that continue to happen as we go through this year into next year.

Emmanuel Rosner: On the late 2026 EV target is, how much volume do you forecast in order to reach the scale cost savings that you need to get there?

John Lawler: Yes. So, we've said that we're going to get to the 8%, we'll be at about two million units in 2026. And when you think about that and the manufacturing footprint we're putting in place, so, we'll have, of course, the new plant in Tennessee. We have the REV-C today. We have -- the Mach-e down in Mexico. We'll also have Cologne, which will be a new plant, which will be the three-row crossover -- I'm sorry, Canada. Cologne, we have with the Explorer. I saw you look at me like, ah. So, we'll have those manufacturing facilities as well. So, we'll scale the business, and that helps us get to the 8%. As we showed in Capital Markets Day, that scale was the biggest walk on the bridge as we bring that in.

Now the thing to understand in that scale bucket, it's also the new vehicles coming in, the second-generation vehicles coming in because they bring the volume in at a much higher margin because of it being a clean sheet design, so, it has a much lower cost as that comes in, plus the efficiency of the way we're laying down the footprint for the new plant. We expect 50% less manufacturing, 50% less engineering, etc. So, that all comes into play there, and that's in all included in that 54 point reduction margin improvement.

Emmanuel Rosner: Now how much of achieving this target is dependent on your ability to protect or secure cost on the supply side with your partnerships? And what visibility do you have? And are you able to comment on the key battery cell cost assumptions you're baking into this to get there?

John Lawler: Sure. So, we just brought in a new leader for our supply chain, Liz Door, and she has a phenomenal domain expertise in this space to help us work with the supply base to bring out and get the most efficient strategic supply base that we can. The best footprint, the lowest cost and work collaborating with them to optimize their cost structure as well. So, that's a positive step forward for us. And having led supply chain for the last six months, it's really great to have somebody come into the company that has deep automotive domain expertise, but has also been outside of the industry, where they've gone into [TiTech], and they've digitized all of their products. So, that's a great benefit for us as we move forward. And so, when you think about the cost structure and moving that forward, that's going to be a big part of it. What was the second half of the question?

Emmanuel Rosner: Battery costs.

John Lawler: Yes. So, battery costs. This is an interesting one. And I have to tell you, I've been educated a lot, especially with the likes of Alan Clark and Doug coming to the business that have spent years developing battery electric vehicles and battery technologies. And I was always pounding on them, it’s kilowatt per hour, kilowatt per hour, kilowatt per hour, get that down. They're like, yes, that's important. But it's much broader than that. You have to get the right chemistries. You have to get the right chemistries for the right usage case. You need to optimize your inverters, your converters and the software and the technology relative to the motors and the battery. But the most important thing is the size of the battery because that's where the cost is. And so, we're not just focused on kilowatt per hour. Of course, we're bringing that down. Of course, the LFP plant that's going to be localized here in the U.S., that is going to be a much lower cost than an NCM battery. But it's really about getting the smallest battery in the vehicle to give you the attributes you want for that vehicle, be it a range, performance, etc.

I think we did a good job at the Capital Markets Day explaining how we're doing that with the three-row BEV. That's where you'll take out most of the cost. So, it's a combination of all three things. Kilowatt hour is important, and we're working on bringing that down. I think we'll be competitive. I'm not going to give you a number because I could cherry pick a number and give it to you and it would be the lowest cost in a specific vehicle at this specific usage, etc., etc., but it doesn't reflect the overall structure of the company and the mix, etc. And that's why I really like what we've done with our battery electric business with Model e, as you can see it. We break it out. We're going to show you every quarter where we're at and how we're performing and what's happening with that.

Emmanuel Rosner: Now I guess another way to ask this is the cost trajectory or the inputs that go into it to achieve your target by late 2026. Are those largely secured? Or are we -- do you still have to sort of like make a guess or a bet on the direction of those costs?

John Lawler: So, the input costs are going to move. They're market-based in many ways. We have secured the raw material inputs for the batteries. We had Capital Markets Day. We announced a big partnership with probably the three largest, most established mines that are out there, Albemarle, SQM and Nemaska. And we think that supply of commodities is pretty secure. And then we have relationships with other mines that are just starting up shovels going in the ground, that's less secure. So, we think we're in a really good place where we have the right balance of established, new, the balance of what we have real confidence it's going to be online and how that's going to come through versus having upside potential of some of the new mines coming on. So, we're balancing the risk there and making sure we have the right mix of miners established new, etc., etc. So, we're being very thoughtful about how we're going about it. But we have 90% of the raw input materials that we need to secure before 2026.

Emmanuel Rosner: Okay. Now it seems like a large piece of the model e margin improvements will be on the Gen 2 EVs where you're planning essentially meaningfully smaller battery packs, which may require very different vehicle designs.

John Lawler: Correct.

Emmanuel Rosner: And feel. Is there a risk of losing your core F-150 expedition customers because the electric version just looks nothing like what they’re used to?

John Lawler: I don't think so. I don't think so, at all. I think that -- that's part of the benefit of having a CEO like Jim Farley. And I'm not saying this because he's my boss. He decides my fate and my career. etc. But Jim has -- and I've seen a lot of execs in this industry, he has such great instincts on product. And I think that Doug has the same thing. And the industry is changing. And I think they're defining a really good balance between how you minimize the size of the battery and how aero plays with that. What differentiates you and what differentiates for the customer, software and technology that we'll have in the vehicle. And that total package, I think, is going to be a game changer and a winner. And you have to trust in those that really understand the customer, understand this industry. And we have that talent at the company. So, it's going to come down to talent. I'm not the best one to sit back and play in that space. I know my lane. And I'm encouraged by what I see when they're at it and they're working through that.

Emmanuel Rosner: Let's shift to Ford Pro, which is expected to be a large earnings growth driver and software and aftermarket attach rates improve. At the same time, EV penetration is expected to rise within the segment as well. How will Ford offset the lower margin mix from EV to get to the 14% margin target by 2026?

John Lawler: Well, it's about that growth rate. We believe, although we have about 40% of the commercial vehicle industry from a share standpoint, we believe we can grow it. The other thing that you're going to see, as you mentioned, you're going to have attach rates increase on software. You're going to have growth in the number of vehicles that are connected and on the road as well. And what we project is that about 20% of our EBIT will come from software and services. So, right now, we have about 30% pull-through on service parts and service business. We expect to grow that to 50%. That's very profitable. Then as we increase the attach rates in the connected vehicles, fleet management, productivity improvements, vehicle uptime, charging software we're putting out there. All of that is accretive. All of that is positive, all of that goes to the bottom line. And so, that's the balance. Grow our BEVs, continue to grow our ICE business, start to increase our software penetration rates and what we're providing the consumer, subscription rates as well as in the service business.

Emmanuel Rosner: And I guess, specifically, how much -- what is the volume assumption again, embedded in your midterm targets for Ford Pro? And within that, how much is EV?

John Lawler: So, we're going up from about just under 12 million today, we think we'll be at about 13.5 million total volume, and we think that EVs will grow into 600,000-plus between here and Europe, commercial vehicles. So, we've said that we're going to be at two million vehicles. We think about 1.1-1.3M will be in Blue. I'm sorry, Model e, you've got Pro, almost the balance of the rest of it. And then, of course, there will be some electric vehicles around the world that will be distributed through Blue like in emerging markets, etc., very small quantities.

Emmanuel Rosner: Ford and now GM also recently announced that you will leverage Tesla supercharging stations. What is the message you're trying to send with this partnership? Any feedback from customers on this announcement?

John Lawler: I think the message we're sending is that we're going to do what's right for our customers, opening up 12,000 chargers in the Tesla charging network is good for our customers. Yes, when you step back and you think about it and you think about how we're approaching the allocation of our capital, we're going to build things where we think we can be differentiated. And you see that and what we're doing on our L2 ADAS and BlueCruise is Number 1 rated. We talked about getting to L3.

We're going to partner where it's really good for our customers and where we can scale quickly. And that's what you see. This decision that we've made on bringing are opening up the Tesla charger network to our customers. That's about them. And it scales very quickly for them. Their options are much greater. And then we're going to own where we see a competitive advantage like owning the LFP battery plant in Michigan. We see that as a competitive advantage with the lower cost in that technology. We'll have the first LFP plant in North America. So, that's how we're thinking about the capital allocation. And for us, the benefit it brings to the consumers made that decision pretty clear.

Emmanuel Rosner: Can you talk about economic impact? Are you saving some money on the charging investments? Are you --

John Lawler: Yes. So, we're not -- there's no capital expenditure for us going into the Tesla network. And we're still moving forward with our charging business in Ford Pro, primarily with Ford Pro, and that's full speed ahead.

Emmanuel Rosner: Okay. There've been lots of talks in the geopolitics of lithium processing, meaningfully high percentage of that out done out of Asia and China today. Tesla recently broke ground on its in-house lithium refinery in the U.S. and the company has talked extensively about lithium refinery capacity as a -- I guess, hurdle to EV transition. So, they need -- do you see the need to get involved upstream because presumably, there isn't enough refinery capacity in the industry? Is this something that Ford needs to get involved in?

John Lawler: So, we don't plan any meaningful investments in that portion of the supply chain of the chain. So, we're partnering with three of the biggest and we have a plan with them where it doesn't require us to spend significant capital or capital into the refining process. That's not on the plans for us. Now, will we adjust if we need to down the road? Sure. But right now, we don't see it as a requirement.

Emmanuel Rosner: And I guess beyond this second-gen EVs that are coming up, you already hinted on development work starting for the Gen 3 products. Can you tell us more about it? What will be the key differentiator between 3rd Gen and previous generation?

John Lawler: So, when you look at it, like I said earlier, being a first mover advantage was a priority for us, and it's doing exactly what we wanted. As I said, we're bringing new customers in. Second generations clean sheet of paper, a much better cost structure. New features for our consumers and allows us to drive to that 8% margin. So, it's really interesting because we're starting our third generation now. And we'll be working on our third generation when most other OEMs are putting their first generation out there in any meaningful way. And so, I think that's important for us. So, I guess that's a long way of saying, I'm not going to divulge anything about the third generation at this point, sorry.

Emmanuel Rosner: I guess conceptually, what -- are you just so, far down in the second generation that anything you're thinking for the next one can no longer be incorporated?

John Lawler: Exactly. Right. And we're looking at the third generation as taking another step function forward.

Emmanuel Rosner: Okay. And I guess, maybe finally, just on this -- in this topic, as you move more to a direct online order book and under the new organization structure, can you provide the latest view on how our dealers are responding to the changes? Is everything playing out as expected? Or do you see any pushbacks on investments that may need to be done on the EV side?

John Lawler: Yes. That's -- yes, it's a really important part of our strategy and us moving forward. We think having the dealer base is actually a competitive advantage. If you look at others that have significant scale where EVs are larger in Europe, where EVs are a large percent of vehicle park and sales in those countries. Some of the traditional EV makers are going to putting in dealers because customers need to be serviced, they need that convenience. 60% of the dealers through the first wave have signed up. And they're astute business individuals. And what they see is what we see is that if you take the process of purchasing a vehicle down to less than 30 minutes, your Net Promoter Score improves by 57%.

So, it's all about giving a different experience. And so, they know that they're going to need to have significantly lower inventories. They know that they're going to have to have a flexible process where you can either order online or go direct into the dealer. You're going to have to have haggle-free non-negotiated pricing. And then you're going to have to have services like pickup and delivery. They understand what all of that together will do for the customer and the Net Promoter Score and that it's a better model, and we're working with that. We're designing that with them, and we've had a great response.

And then the second wave, it will open up for additional dealers in 2027, and we think there will be dealers that will come onboard at that point in time. So, it's been positive, and it's been a journey with the dealers together in partnership. And I'm really excited about where we're headed with that because the data tells us that the Net Promoter Score for the customers are going to improve as we launch that.

Emmanuel Rosner: Let's talk about your software opportunity. How many software subscriptions does Ford have?

John Lawler: So right now, if you look at it, we have over 500,000 -- this quarter, we'll have over 500,000 paid subscriptions. On top of that, we have another 175,000 BlueCruise users. Now some of that was purchased through the price of the vehicle. We're migrating that BlueCruise model to a subscription model. So, we have over 600,000 subscriptions today. As I said, over 500,000 are paid plus the 175,000 BlueCruise users that are going to migrate to subscription. So, we're seeing a great growth rate there. I think in Pro, our subscriptions were up 60% Q2 over Q1. And when we do earnings for Q2, we'll give an update on that when we give an update on the metrics.

Emmanuel Rosner: I guess side for BlueCruise, which is the ADAS, I guess, semiautonomous software. What other software and services are you offering both to Pro, but also to retail customers?

John Lawler: Yes. So, fleet management is a big one. That's a big attach for us and as well as we've got a lot of connected NAV users as well. And as we increase the offering that will just continue to grow. So, it's primarily those three but we see huge opportunities in safety and security. That's a big one for retail. That's a big one for commercial as well. Predictive diagnostics is another area where we see a big opportunity, especially in the commercial vehicle business. So, all that's coming and all of that's building.

Emmanuel Rosner: And within Ford Pro, you've talked about software and services reaching 20%, the segment EBIT by 2026. Can you elaborate on the opportunities there? And where are you seeing the most interest for these solutions in terms of end markets? And also, more -- just as importantly, where are we today in terms of profit contribution from these solutions? Where is the starting point?

John Lawler: It's low. I'm not going to give a number out today exactly of what the profit contribution is as a percentage today. But we plan to get to 20%. So, when you unpack that, part of that is software services, part of that is the services for the vehicle, chemical services and part of sales. We expect penetration rate to grow to 50%. And when you look at the software, it's all about productivity, enabling the commercial customer to improve their business. So, it's going to be on fleet management, which saves them money. It's going to be on predictive maintenance, so, the vehicle is never down, and they don't have -- for them, a vehicle off the road is money out of their pocket. So, they don't want that to happen.

There's opportunities in charging software, safety and security. So, as all of that builds, that will build into it. And we expect connected vehicle rates to grow from roughly 25%-30% double to 60%. And then attach rates to grow from about 12% today, up to about 36% or roughly in that range. So, all of that builds together and allows us to get to that 20%.

Emmanuel Rosner: Can you talk about your ADAS software strategy? What will Ford potentially outsource versus in-house development? And can you clarify the role of Latitude, which is sort of like this organization within Ford that inherited some of Argos' engineers? I guess what is the strategy here?

John Lawler: So, we pivoted away from L4. We think L4 is a long way off and there are multiple reasons why we think that's the case -- true L4, no steering wheel in the vehicle. So, we see L3 as being the larger opportunity sooner and will take less capital to develop. Again, thinking about being very thoughtful about the amount of capital we're deploying in the business. And so, we're on track with L3 Latitude, which is the group within Ford that's developing that. It has a lot of folks from Argo but other folks from the outside that we brought in. And that's internally developed, as I said earlier, because we think it's going to be differentiating. There's elements that we will partner with certain technologies. I'm not going to share exactly which ones those are, but that will be obvious as we launch and the system comes out, but primarily developed in-house with partnerships with other technology companies for bits that we think they can do better and more efficiently.

Emmanuel Rosner: Looks like Elon Musk is looking to sell FSD to other automakers or at least open to the idea. Are you interested?

John Lawler: We're going to get it on our vehicles first, and then we'll go from there.

Emmanuel Rosner: Okay. Maybe a final one, I guess, in terms of your financials. You've talked about CapEx likely to step up in 2024 to $10 billion to $11 billion. I think it's $8 billion to $9 billion this year. How much total investments will be needed to facilitate the Ford+ growth strategy? And what will free cash flow look like beyond 2024?

John Lawler: Yes. So, you've seen us -- there really was a foundational shift over the last year or so, with our free cash flow generation. Traditionally, a lot of it had come through the credit company. And last year, you saw that a significant portion of our free cash flow came from automotive operations. As we restructured Europe, we restructured South America, we restructured India, and we're focused on the restructurings that we have in China and continuing to restructure Europe. Now we're not running the business by regions per se anymore, we're running it by the three divisions plus the credit company, and we're intently focused on capital efficiency. But $50 billion is -- what we've been saying is we're going to need to build out the BEV plan.

And that hasn't changed. And so, about $50 billion on EVs. And then we'll invest in the rest of the businesses for those growth opportunities that are going to give us a good return. We're targeting a plus 20% return on invested capital. And that's really important to us. And we're very much watching what our CapEx expenditure is relative to EBITDA, what that ratio is and benchmarking that ratio against best industrial companies. We think that's very important, very important metric to watch. And so, capital efficiency is, I think, the key to the path forward in generating the types of returns that we want to generate for our customers. And we're still going to target strong free cash flows 40% to 50% of them were going to be returned to our shareholders through dividends. And as we grow the software and services piece of the business, which is lower capital intensity, higher margins, that's going to be accretive and generate positive cash flows going forward from 2024 and beyond.

Emmanuel Rosner: The $50 billion is not all CapEx, right?

John Lawler: No, no.

Emmanuel Rosner: That's engineering in there and other expenses?

John Lawler: Sixty percent CapEx then you have engineering and direct investment, they're 40%. About 60-20-20.

Emmanuel Rosner: So, what does CapEx look like? I guess, you said $10 billion to $11 billion. Is that the new run rate through that transformation?

John Lawler: So, I think you'll see it go up as we go into launching the second generation of vehicles. And as you know, the CapEx starts before you get to that launch. So, we said that will increase next year. And then we'll get out to a leveling run. The other thing that we have that I really -- we really lean into now is with our iconic brands on the Blue side. We have the opportunity for this derivative strategy where you don't have to completely redesign a new vehicle and platform. You can build derivatives off of that, like Raptors and GATR and things like that, which are much lower capital expenditure, higher margin. So, that's going to drive capital efficiencies as well. And so, I can't think about in the ICE business that it's going to be the same run rate of capital, but we don't need that same run rate of capital as we've had in the past to get that freshness out there to get those new products and drive those margins.

John Lawler: Great. So, I think we have a few minutes left for questions. So, if you have a question, please raise your hand and we will bring you a mic.

Unknown Analyst: Can you comment on how the company is thinking about Giga casting? And if there are any plans to adopt Giga casting and the production process of BEVs in the near term?

John Lawler: So, we're looking at everything that would drive simplicity through the old development design, manufacturing process of the vehicle. And we're looking at that on our second generation of vehicles. And as you know, Giga castings has a significant reduction in the number of parts and processes that are required in your manufacturing process. So, without me saying what we're going to do and giving something away that others may be not happy that I've given away, you can do the math based on what I just said.

Unknown Analyst: John, good to see again, Jim Capital. Could you touch on China, world's largest vehicle market. It seems like you're focusing on the light commercial vehicle opportunity there. You and the other JV, big players, lost dramatic market share in the last four years. So, I just wanted to kind of get your thoughts of is that a market that on the passenger car side, you need to be in? Because if you're not, then three to five years from now, you're going to have some big winners coming out of China who are strong export global players. That’s obviously talked about already, right, in terms of the EV opportunity. And you've already addressed that with your North America strategy. I'm just trying to think about strategically, you need to keep playing in China long term in passenger car vehicles from a global competitive standpoint? Could that be a market that you focus on -- vehicle?

John Lawler: So, we're continuing to restructure in China. We think you need to be there. Of course, our commercial play there, we think, is the majority of what we'll do in China. But from a passenger car standpoint, let's say, it's really important to stay connected because China is moving very fast on that digital interface and what that digital architecture and what you can do in the vehicle. So, it's important to stay close to that. But Jim’s been pretty consistent about the strength we see in the BEV capability of the Chinese OEMs, and they are exporting now to Europe in large numbers. So, I think we're past the point there that you can say, are they going to, are they not? They're formidable BEV players. You look at BYD, etc. So, that's there.

So, we think you need to stay close to it, so, we can understand what's happening there from a technology standpoint, digital technologies, etc. But as we've said, our larger play for China now is going to be on the commercial side. It's to be a player there to understand what's happening but doing it using the playbook that we've made in other parts of the world where your partner asset, more asset light, and have more flexibility.

Unknown Analyst: Just with subscription services that you're currently offering, what is the customer feedback on that because a typical transaction historically has been you buy the car and then you leave. And with EVs, one of the points in the marketing is its low maintenance, but now that cost is effectively being replaced with subscription service. So, how are you working through that? Or is it not even a problem?

John Lawler: So, we don't see subscription services as something that you would do with entertainment or the connectivity in the vehicle. That's not going to be what services are about. Customers are going to want to bring their phone into the vehicle and if they use Apple Music at home when they walk in a vehicle, they want Apple Music to work. That's not the type of subscriptions that we're talking about. That's going to continue to be at the customer's choice because that's convenient for the customer. We're thinking about the customer first.

What we're talking about is subscriptions on the safety, security, turning the vehicle into another ability to monitor what's happening around your house or where your vehicle, if you're a commercial customer, understanding and being able to see that and understanding if it's secure or not in the environment that it's in. So, it's things like that. It's going to be the driver assist technologies on the retail side.

So, when you think about the vehicle, and we get to that fully networked architecture with our next generation of vehicles, and that fully network architecture with a central compute fully distributed, we control all the modules on the vehicle. When we get to there, starting with our second-generation EVs, and then that will migrate to all of vehicles, both internal combustion and battery electric. That allows us then as we have for lack of a better word, global robots to really keep that interface with the customer current, provide them updates on a basis. And quite honestly, once we get to that point, I don't think we've even started to imagine the types of services and experiences that can be provided for that customer that they're willing to pay for. And that just will continue to build and build and build. And there's things that you'll be able to do with that car, that vehicle that you can't do with other connected devices. You just can't do it, especially in the commercial space.

Emmanuel Rosner: Looks like we're at time. So, John, thank you so, much, and best of luck with the transformation.

John Lawler: Thank you. Thanks, everyone.