Ford Motor Company

Second Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good day, everyone. My name is MJ, and I will be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company Second Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, you may press "*" then "1", to withdraw your question you may press "*" then "2."

At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please go ahead.

Lynn Antipas Tyson
Thank you, MJ, and welcome to Ford Motor Company's second quarter 2023 earnings call. With me today are Jim Farley, President and CEO, and John Lawler, Chief Financial Officer. Also joining us for Q&A is Marion Harris, CEO of Ford Credit and Ted Cannis, CEO of Ford Pro.

Today's discussion includes some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of your earnings deck. You can find the deck along with the rest of our earnings materials and other important content at shareholder.ford.com. Our discussion also includes forward-looking statements about our expectations. Actual results may differ from those stated. The most significant factors that could cause actual results to differ are included on Page 26. Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS and free cash flow are on an adjusted basis and product mix is volume weighted.

A quick update on some upcoming IR events before I turn the call over to Jim. On Thursday, August 10, Ford Pro CFO, Naveen Kumar will do a fireside chat at the JP Morgan Automotive Conference in New York with auto analyst, Ryan Brinkman. And on Wednesday, September 27, our Treasurer, Dave Webb, will participate in a green financing panel at the Goldman Sachs Global Sustainability Forum.

Before I turn it over to Jim, I just want to recognize one really important individual investor who is on the call, and that's my mom, who has listened to every single one of our Ford Investor Relations call since I joined. She is a tough cookie and always gives us a good working over after we do the call. So I just want to say Mom, welcome to being on the call.
Jim, I'll turn it over to you.

Jim Farley
Well, first, mom, thank you for Lynn. Thanks to all of you for joining us on the May Capital Markets event, where we shared our vision to re-found our 120 year old American icon and create a Ford that thrives at this exciting intersection between great vehicles and digital experiences.

Now the world is changing fast, but I have never been more confident in our Ford+ plan. As you've heard me say, our intention is to match this exciting long-term vision for Ford with boringly predictable execution quarter after quarter, year after year. And that's the biggest takeaway from our second quarter: Strong growth, strong earnings, cash flow and progress on the fundamentals of our business, including software. We are very bullish on the potential for Ford Pro, which had an outstanding quarter. It's unique to Ford. It's a true powerhouse.

At the same time, Ford Blue is taking advantage of fresh, appealing products to generate healthy revenues, healthy share and profits, while Model E continues to scale with popular, first-generation electric vehicles. We're going to dive more into the electric vehicle market during Q&A. But clearly, this transition to EVs is dynamic and so much more than just a change in propulsion.

The number of global entrants is increasing even at the high end and the pricing pressure has dramatically increased in the past 60 days. Despite these puts and takes, we have confidence in the underlying trajectory of Ford's business. Our portfolio of businesses is strong, thanks to businesses like Pro and Blue, and we are raising our estimated EBIT guidance this year to $11 billion to $12 billion.

Operationally, we continue to be focused on capital discipline, solid returns even as we face uncertainties in the external environment. Supply chain disruptions are persistent, but they're now easing. And we have more work to do to streamline our industrial system, reducing costs and improving quality.

While EV adoption is still growing, the paradigm has shifted. EV price premiums over internal combustion vehicles fell more than $3,000 in the second quarter and nearly $5,000 in the first half. We expect the EV market to remain volatile until the winners and losers shake out, and we are confident from a brand, from our incredible product strategy, our software, our scale and our cost position, we will be one of the winners long term.

Why do I say that? We moved quickly to establish our EV nameplates in the unique segments, not like others, the Lightning, the Mach-E, the E-Transit. We're building EV brand loyalists It's critical. Many of our EV customers are all new to Ford. This is a significant asset to Ford given our new Gen 2 products and profitability that we'll be launching soon.

For Gen 2, we focused on fewer, higher volume models in the right segments to take advantage of our strengths and knowledge of customers, even Conquest customers. For example, work vehicles, pickups for retail customers and spacious seven-passenger SUVs. I am so glad we didn't bet the farm on two row crossovers or ICE-like EV platforms, like so many have.

We moved early on LFP, especially production in the U.S., giving us a diversity of chemistries and a cost advantage. We are now offering Mach-E with LFP technology for sale in the U.S. With the addition of Tesla Superchargers and the Fast Chargers that our dealers are installed, the Blue Oval charging network will be the single largest integrated fast charge network across the U.S. and Canada, and this blanket coverage from tens of thousands of fast chargers is core to our strategy. It helps us with smaller, lower-cost and faster-charging batteries.

We have the flexibility to offer customers choice of ICE, hybrids and full electrics in the years to come. Our hybrid offerings are extremely popular. F-150 is the best-selling vehicle in the U.S. for 46 years. 10% of all F-150s and 56% of all Mavericks sold in the U.S. are sold as hybrids. We are adding hybrid options across our ICE line-up, and we expect to quadruple our hybrid sales in the next five years, and we're already number two in the market last year.

Starting January 1, we moved to a new retail model for Model e, way ahead of our competition. Again, a differentiated model that will deliver non-negotiated price, a simple shopping and ownership experience and remote services for all of our customers. This is critical to a Conquest digital brand. And finally, with these new models, we are nimble and we can adapt to the market fluctuations real time, and you've seen this with both the Mach-E and the Lightning as we are adding enormous capacity to meet a pent-up demand. We are optimizing for the long-term value creation. More than 60% of Mach-E and half of Lightning customers are new to Ford. These new customers have significant lifetime value potential beyond, because of the shippable software. But we are disciplined as we grow, and we won't bear an unlimited cost to acquire those customers and build our install base.

In line with that, we are now targeting to reach 600,000 annual production units of EVs by next year, and we maintain flexibility on where we reach, when we reach two million total EV global capacity because we are balancing growth, profitability and returns.

At the same time, we believe demand for our internal combustion and our hybrid portfolio will be durable with the window of growth in Ford Blue, potentially longer and richer than most expected. We've proven we can design and develop popular vehicles that stand out from the competition irregardless of their propulsion, and we made sure Ford is profitable as we move through this ICE-to-EV transition.

So let me cover a few highlights for each of our business segments. The appeal and pricing power of Ford Blues, iconic vehicles, those Mustang lineups, the Maverick, the F-150, the Explorers, all those cool new derivatives from Ford, boy, these products remain strong. Ford was America's number one brand in the first half of this year

Also in the first half of this year, our best seller, F-150, by the way, 100% built in the U.S. that our competitors can't say, grew almost three times the rate of the overall pickup truck market. We expect our pricing and revenue power to continue in the second half as we have new launches such at Mustang. And I would add that the pace of new product introductions at Ford will only accelerate from here. We plan to introduce, for example, an all-new F-150 and an F-150 Power Boost hybrid at the Detroit Show in September.

Now outside North America, the Ranger and its sister product, the Everest SUV, are the backbone of a much stronger, more profitable international business. The all-new version of the Ranger and Everest are more popular and profitable than the previous model, and Ranger alone is now the truck leader in 18 separate large pickup truck markets around the globe. Our aftersales business continues to grow, and we are on track to launch over 2,000 mobile service units by the end of this year. That is unique to Ford.

Ford Blues, other top priorities are to improve quality, reduce our cost structure. To do that, we've launched a lean, disciplined operating system that reaches into every one of our plants, every part we buy, every engineering decision we make. We're making progress, but this is just the start of our culture change.

Turning to Pro, which is proving to be a unique strength to Ford, what one of our competitors would give to have Ford Pro? It's a $50 billion commercial business with the potential to become a high-margin, high-multiple hardware, software and service company akin to John Deere.

In the quarter, volume, pricing and paid software subscriptions continue to accelerate as we capture significant pent-up demand across multiple commercial sectors and locations in both North America and in Europe. We are now realizing the full benefits of our new Super Duty. Super Duty sales in Q2 were up 28%, and the strong demand for our flagship work product is going to fuel our earnings growth for years to come.

And our van business also continued to grow in the quarter. And that’s before the launch of the all-new version of Ford Pro’s other key profit pillar, the 1-ton Transit in Europe. Our share of the U.S. Class 1-7 commercial truck and van market is over 40% this year so far. That is twice our nearest competitor and brand. Twice. And it's a similar story in Europe, where the Transit franchises help make Ford the top-selling commercial brand for eight years in a row.

Ford Pro has all the attributes of the business that is difficult to disrupt. Our combination of services, software, dominant product, dominant market share, upfitting and large dealer physical repair network will not be easy to match. Accordingly, we will continue to shift more investment to fuel Ford Pro's growth and press our advantage with full flexibility between EV and ICE.

So, now let's get to the big change in our industry, and it happens to start including with Ford Pro because Ford Pro is at the forefront of this biggest change, the digital transformation, going to software and services as a differentiator. We already have over or about 550,000 subscribers, paid subscribers and service subscribers, and Ford Pro is 80% of those.

We are already seeing 50% gross margins on today's software services. For example, telematics, where customers are now paying $20 a month, and that's before we even introduced our fully-networked architecture in the new vehicles that launched just in the year or two.

Moving to the next profitable software segment. Since launch, BlueCruise customers have traveled nearly 1.4 million hands-free hours across North America, and that is a 44% increase since the end of Q1, 44% increase in three months. In July, we hit our 100 millionth-mile driven, hands-free with BlueCruise.

Our Version 1.0 was chosen by *Consumer Reports* earlier this year as the number one rated system in the U.S. And since then, we've continued to enhance and accelerate, launching two more versions of BlueCruise over their updates, each significantly improving the driver's experience. And we have now shortened the cycle time between these new versions.

As a company, we're investing significantly in software. But the bigger story is the elite talent we have brought into Ford. They are attracted by the opportunity to revolutionize the experience of owning and driving a vehicle for millions of customers, especially for an iconic brand like Ford.

I really believe we have the industry's best minds working on this incredible digital revolution. And with that talent, we are moving from our supplier-controlled firmware to our own fully-networked electric architecture. And this will reach across all vehicles: ICE, hybrids and EVs.

This is a key point because it allows us to have far higher install base than just EVs alone. Think of the F-150. There are three key applications which sit on top of this new software platform. The first one is safety and security. We haven't launched it yet. But boy, are we working hard to launch it. It will give customers ability to monitor the surroundings in their vehicle on job sites or at home. It will transform the experience of owning a Ford.

The second one, of course, is driver-assist technology. BlueCruise is just the beginning of our ambition. And the third one is productivity. Like the telematics software that we sell at Pro, but we're not going to stop there. Right around the corner, we'll have predictive failure components.

Imagine our productivity gain for our Pro customers who never were off the road because they know something is going to go bad before it does. This is just the beginning, these 3 applications. These services will bring high margin, reoccurring revenue streams that are less capital-intensive and cyclical than our traditional vehicle sales.

To wrap up, there is understandably a lot of interest in the UAW contract discussions that began two weeks ago. We won't negotiate in public, but I would like to share our general approach and our belief system. When it comes to building in America and partnering with UAW, Ford stands apart from all the other automakers and most other major industrial companies. We believe, as Shawn and Chuck do, that Ford should do our part to support the middle class, create vibrant communities and build a strong American industrial base. Everyone knows Ford didn't go bankrupt, and we didn't take a bailout, but they may not know that we added a significant amount of UAW manufacturing jobs, in fact, thousands of jobs in the U.S. since the Great Recession.

We have actually done more than is required by our contract to add jobs, move employees from temporary to full-time, improve benefits, and we're on our way to spending $1 billion to improve our factory working conditions. It comes with some additional costs, but for us, this is not simply a number-crunching exercise. We believe, over time, customers will appreciate and reward our approach and our workforce will be more committed to delivering excellence through our transformation.

So, although these negotiations promise to be challenging, our goal is to build a bridge to the future with our employees based on mutual trust and a spirit of problem-solving with the UAW leadership, and of course, our incredible workforce. Over to you, John.

John Lawler
Thanks, Jim. The power of our three customer-focused segment is really starting to shine through. In the quarter, we delivered an 8% increase in wholesale, adjusted EBIT of $3.8 billion and an 8.4% adjusted EBIT margin. The year-over-year improvement in adjusted EBIT was primarily driven by higher net pricing and volume, partially offset by higher costs as we ramp EVs and expected lower Ford credit profits.

In the quarter, we delivered $2.9 billion of adjusted free cash flow, underscoring the improved performance generated from our industrial footprint. This consistency, combined with disciplined capital allocation, provides significant flexibility to fund our growth while also consistently returning capital to our shareholders. We continue to target returning 40% to 50% of free cash flow to investors, and earlier this month, we declared our third quarter regular dividend of $0.15 per share.

Our balance sheet remains strong. We ended the quarter with nearly $30 billion of cash and over $47 billion of liquidity, and we were recently upgraded by both Moody's and DBRS, again, demonstrating the improving trajectory of the business.

Now turning to our customer-focused business segments. With revenue growth of 5%, Ford Blue delivered $2.3 billion in EBIT with a margin of over 9%. Despite these strong results, EBIT declined modestly year-over-year, including the non-recurrence of a onetime insurance settlement. That said, costs were flat, and we expect this to continue to improve in the second half of this year.

Now importantly, Ford Blue continues to be profitable in every region, reflecting the disciplined capital allocation that has fundamentally de-risked our global business. We're now really starting to see the results, a fresh, exciting product line-up that is driving both strong demand and pricing in key markets across the globe. And perhaps the strongest example of this is Ranger, an incredible product, which many don't understand, it's effectively our F-150 equivalent outside North America and that drives meaningful bottom line results for both Blue and Pro.

Now turning to Model-E, revenue increased 39% year-over-year and more than doubled significantly as we added capacity for both Mach-E and the F-150 Lightning. Contribution margin and EBIT margin were both negative as pricing and volume pressures intensified, and that's impacting all OEMs. Given the rapid and dynamic changes in the pricing environment, we no longer expect to achieve contribution margin breakeven for our Gen 1 products this year.

One of the primary benefits of Ford's industry-leading reporting transparency, product leadership and customer insight, is that we can quickly react to market reality. We know that once a customer chooses an EV brand, they stick with that brand over time. So, as we make pricing decisions and assess customer acquisition costs, we're not only weighing the immediate impact on profitability but also how this translates to the lifetime value of that customer.

Despite the dynamic environment, we remain committed to delivering our 8% EBIT margin target in 2026, and we have a real strategic benefit. Our second-generation products are being developed now, complete with all new digital architecture. So, while the path to sustainable profitability may not look quite the same as we previously thought, we're confident in our ability to deliver through a more efficient product design, cost efficiencies and growth in software and services, which will continue to accelerate.

Now as we've demonstrated over the last several years, we will continue to be laser-focused on disciplined capital allocation and ultimately delivering a leading and profitable EV footprint that provides us with the flexibility to scale by based on customer demand.

Now Ford Pro. Ford Pro's results, they continue to accelerate, demonstrating the power of our portfolio approach. For this quarter, Ford Pro delivered a 22% increase in revenue driven by transit in our all-new Super Duty. EBIT more than doubled to $2.4 billion, resulting in a healthy margin of over 15%. The significant year-over-year improvement in EBIT reflects higher net pricing and increased volume, both outstanding proof points of the strength of our commercial business.

And we continue to be encouraged by our leading market position in the U.S. and Europe, our strong order banks, the upcoming launch of our new one-ton Transit and the huge opportunity to grow software and services, and I'll talk more about this in a moment. But with over 450,000 customer subscriptions and with significant growth each quarter, this is a key pillar of our Ford Pro business.

Ford Credit generated EBT of $390 million. Results were in line with our expectations, but down $550 million from a year ago, reflecting lower financing margin, the non-recurrence of credit loss reserve releases and residual value performance, all of which was already reflected in our full year outlook. Credit loss performance remains strong and below our historical average but is expected to increase and auction values remain robust, but are down from their peak in the first half of 2022.

Before turning to our outlook, let me provide a little more context regarding software services. In my mind, this is the real opportunity for value creation. We are already seeing sustained double-digit quarter-over-quarter growth in subscriptions across all of our business segments and most importantly, at gross margins of around 50%. And our next-generation digital platform will enable a step-up function change in capability, allowing us to scale and deliver value to both our retail and commercial customers even faster.

Regarding our outlook, we now expect full year total company adjusted EBIT of $11 billion to $12 billion, primarily reflecting stronger net pricing in Ford Pro and Ford Blue with adjusted free cash flow of $6.5 billion to $7 billion and capital expenditures between $8 (billion) and $9 billion.

Our guidance reflects headwinds, which include continued global economic uncertainty and inflationary pressures, higher industry-wide customer incentives and continued EV pricing pressure, increased warranty costs, lower past service pension income, exchange and costs associated with union agreements. And tailwinds include improvement in the supply chain and higher industry volume, our all-new Super Duty and lower commodity costs.

Now turning to the segments. We now expect Ford Blue to deliver full year EBIT of about $8 billion. We expect higher volumes and stronger mix to more than offset any potential pricing headwinds.

The Model E to report an EBIT loss of around $4.5 billion, largely reflecting the present pricing environment, disciplined investment in new products and capacity and other costs. We also expect Ford Pro's EBIT to approach $8 billion with a significant year-over-year improvement driven by pricing and volume, including the benefit from the launch of the all-new Super Duty. And Ford Credit EBT is anticipated to be about $1.3 billion.

So that wraps our prepared remarks, and we'll use the balance of the time to address what's on your minds. Thank you. And operator, please open the line for questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw from the question queue, please press "*" then "2." At this time, we'll pause momentarily to assemble our roster. In the interest of time, please limit yourself to one question only.

Your first question today comes from Adam Jonas with Morgan Stanley. Please go ahead.

Adam Jonas
Hey everybody. So first to Lynn's mother, Toni. I've actually never met you before, but I feel like I know you and I've heard so many stories from your daughter, not just about your humor and your amazing Puerto Rican cooking, but also for your values and how you've always stood up for what is right. So I just want to say God bless you, Toni.

And just one question, Jim, thank you for showing the losses in Model E when nobody else in this industry has the courage to do so amongst the legacy peers. Losing $40,000 a year on a Model E obviously can't continue. So is this something that you feel you can just grow your way out of? Or does something more radical need to change? And I'm thinking Audi and

Volkswagen are turning to SAIC and XPENG in China. There seems to be something, a pivot going on in the industry where there's a willingness to work with competitors, your stuff with Tesla was your… some of your peers seem to reluctantly follow you and you really showed leadership there. So I'm wondering if you could embrace or more of that collaborative approach to remain relevant in EVs while also being more capital disciplined. Thanks.

Jim Farley
You're absolutely right. I would say, Adam, when Doug came on board and at the same time, we did the Model Y teardowns, especially Texas. And we really understood the BYD teardowns and even Changan, our partner in China. Our eyes were opened more than a year ago, and so we were fortunate that our new platforms that no one has seen yet are coming at a time when our traditional competitors have already designed and made their bet on the EV platforms.

And I could tell you that, that moment was one of the biggest eye-opening moment in my personal career, where I realized we had completely changed our approach to platforms. The inverter technology, the efficiency in the system of the vehicle, the massive complexity reduction and cost competitive reduction that we have to make in the second cycle products was just dramatic. The battery pack design that we see from our competitors is completely uncompetitive from what we saw and what we're now executing against. The gearboxes, the motors, how we thought about investing in braking systems and wiring systems, the diversity of battery chemistry like LFP, it was all just a moment when we all looked at each other and said, "We have to go left and compete with these competitors that make a really good living on EV." And so, we're executing that.

And as John said, Adam, the other epiphany was for us, and thank God we have Pro because it's come to fruition, is the enormous cost but importance of upgrading the electric architecture so we could be a winner in sending software to the vehicle. This decision by Ford in the second cycle products to bundle this new, simpler, more energy-efficient platform, but compete in segments where we have a great reputation but we can still conquest with very simple top hat engineering and add to it an advanced electrical architecture where we can win the war of shipping software to the vehicle was our bet, is our bet. And we like our bet, and we think it's competitive.

In the meantime, we learned about battery scaling, which is not easy in Georgia. We learned about how to build 10,000, 20,000 units a month batteries in one facility in high quality. We learned about the thermal propagation that will protect our brands over time, and I'm very optimistic. However, in a place like China, we may have to use our local JV partners' platforms because they are the best in the world in certain segments. Maybe not for a full-size truck or a large two-row crossover. But for some segments, it may be just perfect for us. So we're not changing strategy at Ford. We've always been on that strategy, including China.

Adam Jonas
Thanks Jim.

Operator
The next question comes from Rod Lache with Wolfe Research. Please go ahead.

Rod Lache
Hi everybody. I wanted to also ask a question about Model E. Just pushing out the EV targets, the volume targets make sense when we see contribution margins from volume being offset by additional price. But I was hoping that you might be able to talk to us about the longer term.

What does it mean with regard to your 2026 targets? I'm glad to hear that you aren't fixated on two million units. What is your ability to adjust investment in structural costs when you have to make commitments to suppliers or to your infrastructure to be capable of hitting that? And are you still committed to the 8% margin target?

John Lawler
Yes. Hi Rod, it's John. So we're not walking away from the 8% margin run rate at the end of 2026. We've got several years to work that. It may look a little bit different than what we shared at Capital Markets Day, but there's levers that we can pull. We don't necessarily have to spend at the same rate. Some of the battery factories to be flexible. The transition from ICE components to electrical components is optional from a timing standpoint, so we can make those changes.

And as Jim said, we’ve got the team working on that second generation of products, which is critical, and we have some time to work this in understanding whether pricing is settling and coming up with the right value equation. So we’re not walking away from the 8% at this point and we’re going to continue to work on that.

Jim Farley
As far as the volume trade-off with profits, Rod, it’s interesting. The elasticity model that we’re now building because of our high volume, the middle part of the year this year, we built about 120,000 EVs. So we're learning a lot about that elasticity between price and volume. It's actually not as different than ICE than we thought. So we have a lot of information that Ford didn't have a year ago on the volume trade-off, profit optimization, plus all the levers that John talked about on the 8%.

Rod Lache
Thank you.

Operator
The next question comes from Dan Levy with Credit Suisse. Please go ahead.

Dan Levy
Hi! Dan Levy with Barclays. Thank you. I want to ask, Jim, on a comment you made earlier about plans to quadruple your number of hybrids. I don't remember what the base plan is, but just tying into maybe Rod's question, I'm wondering what part of your push to decarbonize where there may be a little more flexibility and where you can lever it. And how do your hybrids factor in? Is the push on hybrids incremental? Was that always part of the plan? How are you looking at interplay between hybrids and EVs?

Jim Farley
Great question. I think in general how we think about it is, a year ago, two years ago, the industry thought of this extreme between a hybrid and an EV. What we now realize and are seeing in markets especially like China, that there's an infinite number of degrees of electrification between both of those. And the customers are very rational about buying an EREV versus a long-range PHEV versus a Sierra hybrid for towing, customers are really acting pre-rationally based on their duty cycle.

So I would say a couple of years ago we decided to continue our hybrid investment in our heavier vehicles. And those hybrid systems are quite different, let's say, to Toyota and the Japanese OEMs. And we have been surprised, frankly, at the popularity of hybrid systems for

F-150. It's now more than 10% mix for us and it's increasing. And what we've learned is that we have to tie, what the customer really likes is when we take a hybrid system that's more efficient for certain duty cycles, and then we add new capabilities because of the batteries like Pro Power on board, we're seeing a lot of customers find that combination of using the batteries for something beyond just moving the vehicle. And that popularity, we never thought we would be at 60% hybrid mix for Maverick. It was far beyond our expectation. And so we're just listening to the market. We believe that ICE customers, Blue customers don't want to be left behind. They want modern powertrains, and decarbonizing with them is just as attractive to us. That's one of the reasons why we separated the business because we want a future Ford Blue and Pro.

On Pro side, we're very lucky. We have a lot of great multi-energy platforms. So we have a lot of choices between electrification, partial electrification and ICE and an infinite number in between. The platforms are designed for that flexibility. So all I am saying is you're going to see a lot more hybrid systems from us, but don't think of them in the traditional sense of an escape hybrid or Prius. They are probably going to come to light differently than most people think, and customers like that.

Dan Levy
Great. And are there other levers in terms of flexibility on the plan where some elements can be deferred, again, just a function of, like you said, listening to the market?

Jim Farley
You mean capital deployment to EVs or can you be more specific?

Dan Levy
Capital deployment to EV and program development reuse. One of your competitors, earlier this week announced that one of their programs, which was expected to cease was being refreshed and with a function of reuse of capital. So are there things you can do?

Jim Farley
I see. So I want to be really clear about this. You…all of you haven't yet seen our second cycle EV strategy or even the third cycle that we're working on, and I am not going to tell our competitors about that right now. But I will tell you that it's very important to know that Ford strategy is not to build compliant vehicles that are very affordable for acquisition cost but lose lots of money. That's not our strategy when it comes to electrification. Our strategy is to make 8% margin irregardless of the price point, and we are going to allocate capital along those lines.

So, the pressure we're putting on ourselves is that we enter segments, we execute the product with brutal efficiency and simplicity, and we upgrade the electric architecture for lots of software revenue and profits with great margins for all of our electric vehicles and our hybrid vehicles. And they all have to stand on their own in the segments that we report, and you will see all those results transparently.

We don't create greenhouse grass credits between our businesses. We used to allocate capital. It was like $5,000 a vehicle. We are done, we are done with that. We don't play games like that. That's why we created these segments. And if we have a low-cost vehicle like some of our competitors have, it's not going to be a compliance vehicle. It's going to be a vehicle that we convince ourselves we can make 8%. Maybe a lot of that is on software because we do need to build this installed base. I hope that's clear what our top-of-the-house strategy is and maybe how it's different than others.

Operator
The next question comes from John Murphy with Bank of America.

John Murphy
Just one really quick follow-up there, Jim. When you're talking about hybrids, are you talking about plug-in hybrids or hybrids that will qualify for the $7500 IRA credit just that they have batteries that are large enough? I just wanted to make sure we understand that.

Jim Farley
Yes. I want to make it really clear. The term hybrid is going to…in our industry going to get a lot more complex. Hybrid could be a serial hybrid with just motor powered batteries. It could be a hybrid in the traditional sense that like the F-150 hybrid, and the hybrids I am referring to are not plug-in hybrids. They are vehicles without a plug.

Operator
The next question comes from Ryan Brinkman with JPMorgan. Please go ahead.

Ryan Brinkman
Thank you for taking my question, which is around the outlook for the bigger loss of Model E segment this year. And the changed guidance reflects greater price competition. But as some portion of the outlook for a bigger loss may be driven in part also by a conscious decision to reinvest some of the higher-than-expected profits that Pro and Blue back into the business via accelerating electric vehicle development or other EV-related capabilities. And with regard to that breakeven on a contribution margin target for first-generation EVs, can investors now expect that at some point in 2024?

And then finally here, just given the reiteration of the 8% EV target in '26, could you maybe help us some more with the factors that continue to give you confidence in that target? Is it related at all to Jim's comments at the start of the call for maybe taking some time for the winners in the EV market to be sorted from the losers, reflecting your expectation that by 2026, the number of market participants could be less? And so therefore, pricing competition more rational or is the confidence more, you know, factors under your control that give you that confidence, leaning more on vertical integration and other levers that you might have identified, et cetera? Thank you.

John Lawler
Yes, Ryan. I think that the essence of that question highlights the complexity and all the levers that we have to work with here, and so what I would say is we haven't changed our plan. What's changed is that the adoption we're seeing, now that we've moved into early majority, and the pricing premium of EVs has come off or normalized more quickly than we expected, and so that's impacting the profitability right now. But we're continuing to work through all of those levers as we build out the second generation of vehicles. And that path, that bridge that we had talked about, we had thought that prices would come down. It's sooner than we had thought. And it might be a little bit deeper than we had thought.

But also as we get more and more confidence and gain more and more confidence in the products that Doug is creating and the combination of that product, both the physical hardware and the software and the experience and the ability to execute with a completely optimized system, the entire vehicle, that's giving us confidence in our ability to move towards a sustainably profitable segment in EVs, starting with our second generation. So we're not walking away from that 8% target.

Jim Farley
And I really want to mention something that I am compelled to mention, which is in the U.S. right now, pure EVs I don't know, 7% to 8% depending on the month. The intention to buy EVs is still 30% to 50%. There are plenty of consumers. The issue is the price they are willing to pay has come down, but it's very, very lumpy. It's not consistent across all segments. So one of the most important levers that John is referring to is what segment we compete in with our second-generation products. That's why I said clearly that we are so thankful we did not bet on two-row crossovers.

We have bet on segments that we know deeply, deeply, deeply. And we now know what we know, and we can't unlearn what we learned from the pure EV companies on cost and complexity. And now we have talent in the company like Doug, where we're shipping almost 0.5 million software, that many software subscribers. So there is real demand for these customers based on duty cycles. It's up to us to get those second site products and doing the cost reductions in the meantime. And I think our strategy in the segments we compete, which is not visible to you yet. I think it's going to really differentiate Ford.

John Lawler
All right, one thing, Jim. One of the other things that we are looking at, this is the future and this is about an installed base, and so we're also looking at these customers today in the acquisition cost to them. We know that once you bring them in, they're more loyal. We think about what the retention rates will be over second vehicle or a third vehicle. They come down over time. We also think about it from a modest software attach rate to these vehicles. And we very carefully look at the present value of that. And is it still positive given the acquisition cost we have for these customers as we invest and then grow? And so, we watch that very closely. And we talked about that with the team. I'm not going to give you the specific numbers, but that's how we're thinking about this. And I can tell you, if we get to the point where that lifetime customer value isn't worth the acquisition cost, that's what we said. We won't acquire customers at any cost, and we know where those lines are for us. And so, that's one of the other tools that we're using as we're looking at this, as we invest in our future.

Operator
The next question comes from Philippe Houchois with Jefferies. Please go ahead.

Philippe Houchois
Yes, good afternoon. Thank you very much for letting me speak on this call. I hear what you're saying, Jim, and it's very interesting. It makes perfect sense. But it seems now like compared to a few weeks ago, we saw you in Detroit, it's not a turnaround. It's not about, but it's quite…it's like you had religion in that. And it seems like the last few weeks, I've shaken their confidence quite a lot, and I'm just trying to understand how much of this is a reaction to a more difficult environment which I completely understand and how much is strategic. And you should have been strategic a while back because I look at competitors, whether it's Toyota or BMW, you have taken a more careful approach about this transition, the complexity and having a bit more flexibility, so just to sense the change of mood. And then, the second part of the question, if I do a simple math, the loss per car in Pro was about $32,000. There were 12,000 EVs, sorry, in E. There were 12,000 EVs in Pro, does it mean that there's a loss of about $250 million

booked in Pro, which means that we've added, the margin will be even higher, something like 18%? Thank you.

John Lawler
Yes. Just one thing, I understand and appreciate the math and doing the math that way. Then you look at it and say "Wow! It's a big number." You have to remember that there's a lot of investment going in to ramp and put the footprint in as well that these vehicles are carrying. And we're…we added quite a bit of capacity through the second quarter, and so we have to think about it that way as well. We have to break it into what's the contribution margin, what's the gross profit, how much are you investing for the future, so that we can scale and grow this business because we know EVs are coming. It's not like it's a question whether or not we are going to have EVs. So we can do the math that way, but I'm not sure it's the right way to think about how we're approaching this business because there is a lot of upfront cost to invest in that footprint so that we can scale and grow. And remember, we're working on our second generation and our third-generation vehicles. That has cost as well. So to attach all of it just to these vehicles, I don't think it's quite the right way to be thinking about that as we move forward, respectfully.

Jim Farley
I'm not sure, but I think you're referring to the F-150 Lightning price decrease, and I want to be really clear. We built about 24,000 electric vehicles at Ford in the first quarter. Our target for the quarter four is 100,000. That's four times. The ramp on F-150 in September is really significant. We always knew that we had to build an order bank that looked nothing like the original F-150 Lightning order bank because our production is tripling. And that's really critical for us strategically because we have a second cycle product coming, and it's going to be really profitable, and so that's really important to understand. We didn't cut the price of the F-150 $100,000 to create an order bank for our current production rate. It's for a tripling. And oh, by the way, the F-150 price after the $10,000 decline is still above its launch price.

Operator
The last question today comes from Jim Picariello with BNP Paribas Exane. Please go ahead.

Jim Picariello
Hi everyone. Just looking at the guidance for Blue, now at $8 billion for the year, there's almost a $2 billion step-down, right? First half to second half. Can you just unpack what the key bridge items there, are there to the sequential step-down? I know there's obvious sensitivity around what could be baked in for the UAW contract impact. But beyond this, how should we be thinking about for Blue volumes, pricing any other factors that stand out for the second half? Thanks.

John Lawler
Yes. Thanks. So when you look at that for Blue on a half-over-half basis, pricing held up much better than we thought through the second quarter, but we do have planned in the second half that as we continue to increase volumes in Blue that we will see some pricing pressure there. So we see that happening as we walk through. We do have in the second half the ratification, which we see when we get to a new contract. And remember, for us, all of that is in our quarter, in our fourth quarter. We don't amortize that. We take it as a full charge in the quarter. And then we're also seeing some inflationary pressures. And we saw that in the quarter as well, we see that going through the second half, primarily around warranty, and that's with the costs that we're seeing come through the dealers. So they're increasing their costs and warranty for the repairs, their labor rates, et cetera have gone up with inflation.

And then, the other thing we're seeing across the board, we saw it in the second quarter, but we see it through the second half as well, is the cost we're seeing on freight. Freight costs, although some of the rates are coming down, we're seeing constraints overseas. We're seeing rail constraints. So we're generally seeing some constraints around freight, and that's driving up costs as well there. So that's the combination of the puts and takes for Blue as we go our half-over-half.

CONCLUSION

Operator
This concludes the Ford Motor Company Second Quarter 2023 Earnings Conference Call. Thank you for your participation. You may now disconnect.