



Rod Lache

Ford has been going through a transformation of sorts over the past few years. If concentrated their portfolio on brands and models that resonate emotionally with consumers and that have competitive moats. So think about the F-150, the Bronco, the Maverick, the Mustang. They're also doing phenomenally well with their Ford Pro business, focusing on commercial customers. So Super Duty, Transit. That business alone this year is going to do \$8 billion to \$9 billion of EBIT. The whole company is going to do \$10 billion to \$12 billion. That one division is doing \$8 billion to \$9 billion of EBIT. And under the surface, excluding that, the company also disrupted their organization with a team that is world renowned for developing some of the best software and some of the best EVs in the world. So they've got the expertise.

So is the strategy working? Clearly, parts of it are. If you add it together, the earnings of Blue and Pro, you have a company – and Ford Credit – you have a company that today is already generating over \$3 of earnings per share. And if that third engine, Model e, fires up, it would be pretty impressive. So we're really excited to talk to you about all this today. We're very pleased to welcome Jim Farley, the company's CEO; and John Lawler, CFO, is in the audience. So thanks, guys.

James D. Farley

Much smarter talking to him.

Rod Lache

Hopefully, we'll be talking to both of you.

James D. Farley

Sure.

Rod Lache

So let me kick things off with a question. So you've made a big impact on Ford over the past couple years. You've – looking – and a lot has changed strategically...



James D. Farley

Yeah.

Rod Lache

...for the company. When you look back at all the changes that you've made – and we're familiar about the big change in structural change. When you look back over the past couple of years, is there anything that you would say looking back, you might do differently or might have done differently if you can reverse the clock – strategically?

James D. Farley

Yes. I think in line with my answer, we tackled shrinking the company around our profitable business quickly. We restructured the company quickly in overseas operations. Within two years, basically, we went from losing \$6 billion overseas to making \$2 billion the last couple of years. It was not reported. It's not been covered a lot, but it has transformed our cash flow.

Ranger, when I joined the company, was 14th in the globe of pickups outside of the US. Now, we're number two. We're constantly beating Toyota now with Ranger in Australia and South Africa. We're now the number one pickup truck in Europe and the UK, and it's a big market there and it's very profitable.

So, in line with that, I wished I had had the same laser focus on transforming our industrial system. The capability atrophy in engineering, supply chain and manufacturing in Ford, John and I talk about this every day was much more – needed a much more fundamental reset than I had realized.

And if I had – if we had approached same vigor that we restructured and got out of India, restructured South America, restructured China, restructured Europe, if we had approached, as a management team, tackling the industrial system at Ford the same vigor, and is actually a quite different execution, would have required a quite different execution. It's not just getting rid of people – we've got rid of 20,000 people – it wasn't that. It's a totally different muscle.

I think you would have a much stronger Ford. We would have a much stronger base. The irony of that, though, is that if we had done that quicker, would we have really trusted that organization to disrupt itself like we have? I think one of the biggest gifts, turns out one of the biggest gifts the management team has given ourselves, is the small skunkworks team, who



really came up with a way of executing an affordable platform with a completely different orientation that my industrial team would have never been able to do.

So it's not perfect, but, yes, I think we all have regrets. And that's a big one for me. So a humbling thing.

Rod Lache

It sounds like – and I'm going to get into that in a minute – but it sounds like that's an indication of where the strategy is changing now and where the focus of the management team is now.

James D. Farley

Yeah, I mean I'll give you example. Three years ago, to be very precise, three years ago, when we – it was the first year we had kind of record recalls in the US. I had just become a CEO and I looked at the performance management of the middle and entry managers – supply chain, manufacturing and engineering. And 91% of them had 100% or more in their cash bonus. Okay?

So, now, that's not the case. You have to set up a culture shift, performance reward system, where every engineering manager, purchasing component manager, every plant manager is fully accountable for the quality and cost of their work. I could give you 20 examples like that. Things that have changed now and we're starting to see the results.

Yes, we committed to \$2 billion of cost savings across the industrial system. But to me, much more important than that, last year was the first year we turned around initial quality, 10% better. Yes, we lost – you talked about Pro. We lost a lot of launch volume in Super Duty because we protected the launch for quality because the vehicles were engineered through that same system. We have to put belt and suspenders when we come to launch and that launch spike was the best we've ever seen at Ford.

So there's real progress now after making those changes, but as investors, it took some time.

Rod Lache

The high-level structure, so I really like how you described that. We had to focus this company...



James D. Farley

Yeah.

Rod Lache

...shrink to the areas where we have competitive moats, build off of that base, those are the basics of any long- term successful industrial turnaround. In terms of the disruptive element of this and separating out Model e, that was also a part of that. You wanted to change the culture.

James D. Farley

Yes.

Rod Lache

Do you see anything coming out of that effort now that in terms of product that you can share and just convey this is different, this is something that we couldn't have done before and it's going to be different versus what you see in the rest of the industry?

James D. Farley

I think the best example, Rod, of that at Ford, and I think people are just starting to get their heads around it, is the transformation of our Pro business. We always had a super successful Pro business. It was embedded in Ford. It was pretty much invisible to everyone, but there was no focus on it. We had like the sales team doing the fleet negotiations with the government. We had the engineering team working with upfitters. It was all distributed through the company.

When we changed the segmentation, even before that, when we started to – and I was as the head of Ford of Europe turning around Europe – I saw this first in Europe as the leader of Ford of Europe. It was a mess, right? We were losing \$1.8 billion when I got there. And I was at Toyota for 25 years. I failed with Tundra to compete against F-150. I knew what Ford was good at.

So fast forward to become the CEO, John and I talked about it, I was like, what would happen if we just completely in a way, student body left, double down on this work business? And it has been a transformation. And that I think people are just starting to see. We have 0.5 million



subscribers for software at Pro. The gross margin is 50%. If you want a company in the OEM space that has already have evidence, you're going to have to look at FSD at Tesla. Look at Ford Pro. We make 50% margin on the software. The average fleet customer spends 21 minutes a day with the Pro fleet software. And these are not UPS. Plumbers, electricians, HVAC people in the city. So that's one.

Second thing is our service retention for this business, which is 35% margin, parts business is really profitable. Look at Cat., look at Deere, ours is just as profitable. Our service retention when we started the Pro journey is tiny. It's like 10% of the people after warranty do business with Ford.

So two years ago, we got really serious about building dedicated 24-hour, seven days a week repair facilities, putting live centers up, tracking the number of vehicles that are off the road, managing part shipment to dealers to get the vehicles off the road. And then, the ultimate integration of this is going to be prognostics on the vehicle.

When we get our new electric architecture for Pro, ICE and EV, we're going to be able to do predictive failure of all components. And 20% of our Pro customers are using vehicle health data as the number one thing they buy from us.

So that's a indication of how important vehicles not being off the road are. And then, getting serious about our parts business, having exclusive recruitment of technicians, building more stalls. We now have almost 2,000 remote Super Duties and Transits racked out to do service for our Pro customers on the road. We found out 80%, like Tesla, 80% of the things that we can do in a shop, we can do on the road with the Super Duty, outfitted. And we've grown in one year almost 10% of our capacity installs without building any brick and mortar.

So I would say yes. The answer to your question is the Pro business is literally doubling in profitability every year. Yes, we have a maybe once-in-a-lifetime infrastructure buildout in the US, onshoring semiconductors. We have 5G being built out with one of the biggest government spends infrastructure on roadworks. All those people buy Super Duties and Transits.

Rod Lache

Yes.



James D. Farley

So we have this huge pent-up demand. Literally, dealers can only get about half of what they want Super Duties and Transits now. And then, we think in a couple years 20% of the whole profit of Pro won't come from vehicles. They'll come from data and parts. And whether the economy is good or bad, those people still work.

So to me, that's the – and it's maybe distinctive part of Ford that people didn't really see.

Rod Lache

Yeah.

James D. Farley

Even inside the company.

Rod Lache

Yes. Let me ask you about the EV part of the business.

James D. Farley

Yes.

Rod Lache

So taking a step back, this debate is super-hot right now.

James D. Farley

For sure.

Rod Lache

Right. We've had a shallower adoption curve. Prices have come down. There's some questions about government policy and whether things like the IRA, what's the support for EVs going forward? So, what's your view on what's happening to EV demand? Did the industry totally miscalculate what the demand is going to be? Or is it that the EVs that are on the market are just not hitting the mark yet?



James D. Farley

A little bit of both. Ford's in an interesting spot here because unlike the other domestic competitors, we have always bet on hybrid. So we have a choice. Now, our hybrids are very different. Toyota – when I worked at Toyota, we had light-duty hybrid systems for efficiency. We have that on Maverick. But Ford's equal been on hybrid is F-150 hybrid, which has Pro power onboard Honda generator that does the same work is \$5,000.

So hybrids are very important to answer this question. So I think the whole – in the EU – the situation is different in all three regions. So, if we wanted to spend time on that, I think we should. But let's just take the US, for example. I think that's origin of your question.

I think Ford is number two in EV sales in the US, a long way behind Tesla, most people don't realize that, for the last two years, actually. And we totally misinterpreted the 2021 and 2022 spike in sales. Why? Because we had not realized – sorry, we should have put two and two together, but we didn't.

When we had the chip crisis, there was a bonanza of supply-driven demand. Like, there was nothing to buy. Shelves were completely empty. And Tesla, because of the way they did the Model 3 and Y electric architecture, they could build as many as they could build. They had no chip issues.

So in that moment, when Y was relatively new, they could scale very quickly with Model Y and the prices exploded for them. It went from \$50,000 to \$70,000 and it stayed there for about 18 months. And everyone looked at that, including Ford, and said, that's the new norm. It wasn't a new norm.

As soon as we all had capacity, like Mach-E, because we had under called Mach-E and Lightning by a lot, like by a third – by two-thirds. As soon as that capacity started coming on, we started to hit those 5,000 to 7,000 a month production numbers, Tesla had already figured out. They were bringing their prices down. We had to bring our prices down. And at first I thought, oh, this is Tesla being predatory. Turned out that wasn't the case. It turns out, actually, we all had the same situation.

To get to that kind of level of scale, we had to go to mainstream customers, and the mainstream customers can do the math on hybrid. We see that every day at Ford. We're now number three and probably number two this year on hybrid in the US. And the customers don't have to change their habit on hybrid and they can immediately do the math on the efficiency of the fuel economy. The math on EVs is more complicated. How much risk do I have on a



resale value? What is the energy cost savings I'm going to have versus gasoline? It's opaque for a person who's never driven an electric car.

And so I think we're just running into the reality. And as far as our future business plan, we have now, since the middle of last year, have assumed that we have to basically sell a EV at a hybrid premium. There is no more money for customers than that. \$3000 to \$5000, that's it. And I think that is the right way to approach it.

So that turns out that in this next cycle of EVs, some of our competitors don't have the advantage of changing their next generation. We do, thankfully, got a little bit lucky on the timing. When we made that decision last year, it forced a lot of pivots. For our bigger vehicles that are in generic segments like a Mach-E or a three-row crossover, we're like, whoa, hybrid premium only. We got to think about this. I'm not going to launch any vehicle if I can't make money on it, in the first 12 months. That required a lot of change.

We got a delay, but a lot of opportunities came up. The battery companies have a lot of excess capacity. [indiscernible] (00:17:11) are starting to commoditize. We don't need to spend as much money on vertical integration. We can start having a competitive battery situation. We can go to common cylindrical cells. That could add a lot of leverage to our purchasing capability. Maybe we should do with another OEM. But the no regrets moves on our EV strategy, we put the foot down on the floor. Go small.

Rod Lache

Do you have the latitude to actually comply with – maybe I'll back up a second. So when we look at the industry, a lot of people say, well, the government's prescribing...

James D. Farley

Yeah.

Rod Lache

...what the industry needs to be, right?

James D. Farley

Yeah.



Rod Lache

California's ZEV, yeah, requires 30% by 2026.

James D. Farley

Yeah. Even if the government – federal government eases off, the states may not.

Rod Lache

Right. So you got 14 states that copy California.

James D. Farley

Yes.

Rod Lache

Can you actually – when you look at what's ahead of you and what you have in your toolkit with hybrids and plug- in hybrids, can you meet that without going to 20% or 30% EV in the next couple years?

James D. Farley

No.

Rod Lache

Okay. So how do you – so...

James D. Farley

That's the reality. The reality is that regulators around the world, including the US, have put their foot firmly on the scale and there is no amount of hybrid mix or PHEV mix in the world that is going to get you to be compliant. And even if the federal government eases off with administration change, many of the states, large states that have lots of revenue in them are probably not going to do that.

So the reality – but there's a bigger thing, there's a bigger thing here than the government. It's



called China. It's called the BYD Seagull. It's called a market that likely will sell 110 million EVs this year in China.

Rod Lache

Yeah.

James D. Farley

So if you were in our business, even if you have Pro, if you cannot compete fair and square with the Chinese around the world, then 20% or 30% of your revenue is at risk, maybe 30%. So in the end of the day, I kind of look at it from – as a CEO, a company that had trouble competing with the Japanese and South Koreans, that we have to fix this problem. We have to address this. And that's one of the reasons why John and I decided to create a skunkworks team of new talent. And it turns out, I think the biggest, smartest decision we made as a team, is changing our talent game a lot at Ford.

Rod Lache

I'm still struggling with trying to square it because you've got companies in the industry, including Ford, that are being told you've got to get to 20% or 30%. I'm looking at battery capacity last year in the US or North America was 89 gigawatt hours, will be 500-gigawatt next year. It's like 5 million vehicles worth of battery capacity next year.

James D. Farley

Yeah.

Rod Lache

And I'm not sure how to square that against where the consumer is and how that actually works out well for Ford. So, is there something...

James D. Farley

Yeah.

Rod Lache

...like, do you think, ultimately, regulators look at the reality of the consumer or do you think that there's like a non- linear change in costs that we should be thinking about?



James D. Farley

Both, both.

Rod Lache

Okay.

James D. Farley

California ZEV states – Toyota, I've been in Ford, the ZEV requirement in California has been around for like, I don't know, 30, 40 years.

Rod Lache

Yeah.

James D. Farley

They've changed it every year.

Rod Lache

Okay.

James D. Farley

And there are subtle changes that make a material difference. So I think regulators can't be completely at odds with labor and consumers. And I would expect, as we work our way through this, that we'll get there, but that's not the most important thing. Most important thing is that as the consumer premiums come down to hybrid, or that battery capacity, you have to realize that there is tremendous new risk across different OEMs. It didn't exist a year ago.

In Ford's case, we have decided pretty quickly to bet on smaller EV platforms because when you do the economics, including IRA, especially with IRA, the profitability, what the customer has now said to us is if you have anything larger than Escape, it better be really functional or a work vehicle as an EV.

Now, it turns out, which has not been reported, and I'm a bit disappointed, maybe it's part of



our fault is, the EV adoption on Pro is actually going much better than we thought. It's not a huge market, but they use the vehicles more intensely, so the operating cost advantages on the energy side are much better, much better than they thought. So we can't make enough E-Transits or Pro versions of Lightning, but the base cost of Lightning is too expensive.

So the bigger vehicles, they better be work. But if you do the economics and all that battery capacity for a vehicle that's, let's say, the Escape or smaller, it's totally different. It completely works. In fact, it's dramatically better operating cost than a Corolla or a Civic or even a Maverick. And that is what's really exciting for us. And that's a pivot that isn't entirely obvious that Ford has made, but we have made it

Rod Lache

I would speculate that -

James D. Farley

And I have the figures. If I were to go over figures on a Maverick-sized vehicle or – that it's pretty remarkable. It's like a – over the course of the life of vehicles, it's like a 10% advantage because of the IRA.

Rod Lache

So the smaller vehicles, you've got a plan for that?

James D. Farley

Yes.

Rod Lache

And I would think that when you – with the talent that you have in-house, you've got a vehicle platform, a structure, software, electronic architecture that's really competitive.

James D. Farley

Yeah. Bingo.



Rod Lache

The one part of it that I haven't heard from you is the battery.

James D. Farley

Yeah.

Rod Lache

Is that a fair kind of conclusion that we haven't seen Ford solve that yet?

James D. Farley

No, we have. It's just I don't want to give it up. It's competitive.

Rod Lache

Okay.

James D. Farley

I mean we were the first company in the US to commit to building LFP technology in the US. What will Tesla do, right? Tesla Model 2, I mean, that's the future. That's what we're talking about right now. Is it going to be a cylindrical NCM cell? Is it going to be an integrated LFP cell? Dramatic cost advantage, either one of those choices, actually. And NCM is coming down quickly because of overcapacity. And if you're going to pick a cell format that's kind of standard now, which you've been talking about for years, now it's happening, there's a big competition between LFP and NCM now, cylindrical. And – but I haven't talked about it because I don't want my competitors to know what I'm doing. But we think that's one of the biggest unlocks for us.

Rod Lache

It sounds like you're optimistic...

James D. Farley

I am. I am.



Rod Lache

... about the Model e. Well, this business lost \$5 billion to \$5.5 billion or it will this year.

James D. Farley

I know. I know. So did our overseas operations. We make \$2.5 billion now.

Rod Lache

Well, I guess, I mean, to me, there's all this debate around, are these companies over earning? You're under earning because you've got this big drag on the company. And if that...

James D. Farley

And we haven't gotten to the top of Pro yet, to be honest.

Rod Lache

Well, I guess – but I asked you a question on your earnings call about when do you breakeven or can you just give us a sense of what happens from here. Are you able to say at this point, based on how things are playing out in terms of variable cost in the product that the losses are how things are kind of peaking this year, is it going to get better from here?

James D. Farley

I don't want to give a lot of new guidance about our electric losses. I will say that our gross margins will improve during the year. We'll get close to breakeven, which will be a big accomplishment for our company. But until we launch those new models and the market mixes them out...

Rod Lache

Yeah.

James D. Farley

...I don't want to make predictions. I've been in the prediction business in the EV business. It hasn't really been a great journey.



Rod Lache

Yeah. That's why asked you.

James D. Farley

And it feels great in the moment to say it's 2027 or whatever it is.

Rod Lache

Yeah. Yeah.

James D. Farley

But it's not reality anymore. What reality is, is I have to run the company by saying to my team, it's not negotiable that we're going to allocate capital to a new affordable electric vehicle with this skunkworks team or whatever, and you have to make money in the first 12 months. And I don't want a bullsh*t roadmap. I want like a real plan. And if you can't be in that plan, we ain't launching the car. And the backup plan to that is a little bit scary because of compliance, because we have really profitable company now. Everywhere we make money, except for Model e.

So, I don't want to give you a date because I don't know how the market will change. I don't know how our bet on battery for the small vehicle is going to play out versus – so I don't know how quickly the Chinese will come. Most of us get in a car and drive to Mexico today, be a long drive, but we could get there. Last year, 25% of all vehicles sold in Mexico were sourced in China.

Rod Lache

Yeah.

James D. Farley

Okay? The world is changing. And the Seagull, these kind of vehicles, \$9,000 material costs, \$8,500 material costs, yeah, they have to make crash, probably another \$2,000 on top of that, \$11,000 raw material cost. Yeah. 40-kilowatt battery, maybe in the real world on a cold day here in New York City, 140-mile range, 150-mile range, I mean, not a fantastic vehicle, but pretty damn good.



Rod Lache

\$11,000.

James D. Farley

Yeah. So, I'm saying, like, I got to handicap the Chinese here. Why? Well, I watch Europe fast quickly. I was there to help build Toyota Europe from nothing and then I ran Ford of Europe, and the Chinese are 10% of the EV market in Europe. And they were zero two years ago. So, don't take anything for granted. This CEO doesn't.

So, I'd love to give you a date, but that date is going to be influenced by a lot of – a few things, not many, a few things that are variable that I just don't feel like it's smart right now.

Rod Lache

Yeah.

James D. Farley

But to run the company, the only deal my team gets is you're not going to get any capital or we're not going to launch any vehicles until we make money on it. And that is driving a lot of change.

And frankly, if we had not done Model e separately, that would not have happened. And I don't know about other companies like Volkswagen and other competitors. Are they run the company that way? I don't know.

Rod Lache

Probably not. And then what's the timing of the next-gen vehicles? It's 2025, 2026?

James D. Farley

Yeah, 2025, 2026 to 2027. That's when people will – that's when we will know was this management team right or not.



Rod Lache

I want to back up to what you said earlier about if you can go back in time, what things you could have change. (00:29:30)

James D. Farley

Yeah.

Rod Lache

And look, I'd say it's impressive that the company is generating \$10 billion to \$12 billion of profit when you're – you've got a \$5 billion drag from Model e and probably an even bigger drag on cash flow, just given the capital that's required there. What's – and the other thing that I'll bring up again is, actually, this time last year at this conference, you mentioned that Blue and maybe a little bit of Pro, there's a \$7 billion cost disadvantage.

James D. Farley

Yes.

Rod Lache

...within those businesses? So could you talk about what operational changes you're putting in place now to really address this? What structurally has changed? And what gives you confidence that we're going to start to see that turning around?

James D. Farley

Okay. I'm really glad you brought this up because it is literally the central – When you look at Ford and what are like the top three things we're going to do to transform the company, one is this issue. This is a foundation for everything. Yes. Profitable EVs are really important. Getting pro to where it really needs to be and building out services, and all the attach rates for parts are great. But the foundation of our transformation as a company, far beyond when I'm gone, would be the culture that we leave in the industrial system for excellence. And I respect deeply competition because they have done a great job.

What changes we've made are – I mean, they're pretty remarkable. I think. John would be a better person because he's been at Ford his whole career. He's seen it before. He's seen Alan Mulally make an effort. I was – I'm the only surviving team member on Alan's leadership team.



And – but coming from Toyota, the biggest change is talent in the industrial system. I have found the right group of people who have a lean – a lean approach to their work, who aren't – who know what good looks like in the discipline, the technical discipline of purchasing, manufacturing and engineering. And they are starting to get traction with rewiring the company, rewiring how we work, restoring disciplines we used to have that we didn't do. COVID was an incredibly destructive force at Ford, the industrial system. We stopped visiting suppliers. I mean, I can give you a long list of stuff that stopped doing that I think others didn't, where Ford gotten much unhealthier than our competition during COVID.

But the changes that Liz is making in supply chain now is restoring supply chain to a professional discipline where we follow best-in-class processes and we have the right talent at the company that we haven't had. In manufacturing, our plants are starting to be run professionally with a lean mentality. Inventory coming out every month, workstation work going out. Every year, there's labor savings. This year, I think the manufacturing team will fully offset the UAW incremental cost. We used the downtime during the strike to completely come up with all the list of cost reductions in our plants. The variability of our quality delivery and cost delivery for the plants is shrinking now.

And then the big change in the company, the huge change is engineering, and that will take time. And the pressure we're putting on these launches slow them down. To launch them without the launch spikes that Ford has gotten and cutting production during the ramp-up is putting pressure in the company that I don't think the team's ever seen before.

I wish I had done all those things three years ago. But as the CEO, with my background, would I handicap my whole team and blow it all up? Would have been heck of a thing. Would I cause chaos? Maybe. But now I know what I know and we're making progress.

It's probably the hardest question to answer for investors because the only way you can see it is to come with me to a plant and to talk to our supply chain team. See the talent. You see how they work. See how they manage risk. You see the relationship with the suppliers. You see how we negotiate inflation-related requests from the suppliers, but you can't.

So it's a hard thing to communicate. And I think actually what only matters is do I get the \$2 billion out? And does my quality get better? Does the warranty start going down? Do the reserves start to come down? That's the proof in the whole damn thing.

Rod Lache

The biggest part of that \$7 billion is variable cost, right? It's material costs and warranty...



James D. Farley

Yes.

Rod Lache

...which will take a couple years...

James D. Farley

It will.

Rod Lache

...because you have to reengineer and go through purchasing and things like that. But you're already putting up \$2 billion – \$1 billion manufacturing and \$1 billion in [indiscernible] (00:34:48).

James D. Farley

We started the year with like a list that is realistic, that all we have to do is go execute the part change, negotiate with the suppliers and put it in production. I did not have that last year. I had a great idea list and now I got no list.

Rod Lache

Is this the kind of thing where that level of momentum, and that's kind of the speed limit of improvement do you think we can sort of extrapolate from that and say, you know what, we don't know the number for next year, but there's another long list next year and we're going to start to see-

James D. Farley

Yeah, it's a cultural change. This is a culture change at the company. It's not going to slow down. We're betting on lean. I'm a Toyota person. I don't want to do [ph] what wrote (00:35:28) with Toyota, but I'm hiring lean people. They are leading the company in lean practices. And I expect this to get better every year. And eventually, we're going to wake up and go, can you go any further? But the first rotation is what we're seeing now, and let's deliver that first.



Rod Lache

Yes. The UAW thing was obviously huge last year. And you're coming out with \$500 per vehicle higher labor costs immediately and \$900 by the end of the contract. Does that have business implications for you in terms of competitiveness? Like, how do you think about that and the competitive benchmarks that you have to hit in the industry?

James D. Farley

...question. This could be a very newsworthy question. I'd just say a few things. I was very proud – it was an extremely difficult moment for the company. Ford had always prided itself on not having a strike since the 70s, which we didn't. Have the best relationship and we have 57,000 UAW workers, far beyond the other competitors. We make 100% of our trucks with UAW workers in the US. Our competitors do not do that. They went through bankruptcy and they moved production to Mexico and other places.

And so it's always been cost for us and we always thought it was the right kind of cost. And our reliance on the UAW turned out to be, we were the first truck plant they shut down. And that was a moment for us. Clearly, our relationship has changed, been a watershed moment for the company. Does it have business impact? Yes.

I would say I'm extremely proud because this has not been really seen about our negotiation around the battery plants. It's materially different than our competitors. And as far as – Ford had a lot of waste in this industrial system. So we do have a lot of runway to improve in manufacturing. We're committing to that as part of the \$2 billion. But as we look at this EV transition and ICE lasting longer and our truck business being more profitable, we have to think carefully about our footprint.

Rod Lache

Yeah, makes sense. Let me just ask a couple summary questions and if there's any in the audience. So, if you were to list the three most important targets for Ford this year, if you're successful, what are we going to see?

James D. Farley

\$2 billion out of the cost, one. Contribution margin improvements in our e business and that Pro guidance. Those are the three things.



Rod Lache

What are the biggest challenges aside from macro?

James D. Farley

The three biggest – yeah.

Rod Lache

Well, not the three biggest. But what are the – what is the thing that execution-wise that you've got to pay the most attention to because there's a challenge there?

James D. Farley

\$2 billion.

Rod Lache

Okay. Actually delivering on that.

James D. Farley

And subset of that, another 10% improvement in our initial quality because we are now going from the middle of the pack in initial quality to the top quartile. And that is a different game. And we're launching 60% of our revenue is new. So, we have to improve the initial quality when literally 60% of our vehicles have a launch spike.

Rod Lache

Yes.

James D. Farley

And that will put us in the top quartile of every segment we're competing in. That is a degree of difficulty. That's like a Olympic dive with a high degree of difficulty because we have so much new exciting, fantastic, great revenue power, but new content product.

Rod Lache

Yeah.



James D. Farley

And so to me, that's the one I watch the most. I'm calling Kumar twice a day. How's – what's going – right now, we're in the middle of the F-150 launch. It's a major upgrade, the F-150, including the interior, far superior to any of our competitors. They're still literally a generation behind on the inside of the vehicle and we are already in the best revenue. Now, we're about to step on the gas. But that product has to launch with very little launch spike and we have to get close to Tundra. 55 problems per 1,000, three months in service. We've never done it. That's the kind of challenge it is to get to. But the top quartile is a different deal. So I would say that that's the one we're focusing on and landing the material cost reductions.

Rod Lache

What do you think surprises – what would be the biggest surprise for investors that you think we're going to see?

James D. Farley

Pro.

Rod Lache

So is this the upside from that business?

James D. Farley

It is, like, if you're looking for the future of the automotive industry, stop looking at FSD and Tesla. Look at Ford Pro. It's got 0.5 million subscribers with 50% gross margin. They spend 20 minutes looking at the data every day and they're in the plumbing business. They're not in the car business. They – only 10% that do business with us or after sales, and we make 35% margin when we sell a part. And we're about to go to full prognostics in all of our vehicles. It's like John Deere seven years ago. Yeah. And we have multiyear order banks and we're at excess – we're at max capacity in all the vehicle lines. And it's happening here and Europe. And in Europe, we're launching a brand new one-ton Transit, which is equivalent to Super Duty in the US. And the vehicle that was doing great before was 10 years old and now we doubled our scale – purchasing scale, manufacturing scale – all of that, we doubled it by doing all of Volkswagen's vans in Europe. So, we basically took our Turkey site and made it twice as big and now we can negotiate twice as much scale with the suppliers. That's all coming online



now. So, yeah, I mean, it's Pro. Look at all the other stuff. Let's say it nets out. Pro, you have a lot of upside.

Rod Lache

Interesting. Anybody in the audience, Julia has got a mic. Raise your hand if anyone's got a question. Well, I've got one or two more. So the big debate on pricing and where that's headed.

James D. Farley

Yeah.

Rod Lache

So, obviously, we saw that 30% increase in average transaction prices. And you've, in fact, already indicated that pricing, you think, for the industry will be down about 2%.

James D. Farley

Yes.

Rod Lache

Is there any reason to believe that it would be more or less impactful than that? And how would Ford do relative to the industry in that kind of an environment?

James D. Farley

Good question. Yes. We said 2%. And what we really look at, John said this during earnings, so I know it's not new to you, but maybe some of the investors it is. What we really look at is because incomes have gone up, too. We look at the ratio between incomes and monthly payment. And that's before the pandemic, it was like 13% and had been for a long time. We think we're going to get back to that level of affordability in monthly payments. And I think that's the right way to run the business.

How could it change? Well, we have a new F-150. How will our competitors react? Because, I mean, we're not the Ford that used – people used to think we are. I mean, we are not in all the segments. Our average price paid is like \$51,000 in the US. We have a different portfolio than we've had in the past. And so you got to look at our pricing bet relative to those segments, but



there's some offsets there. We have 60% of our revenues new. So there's some – that could be some upside. It has been actually the last couple years. We've got new product like Super Duty is way outperforming what we wrote down.

But on the other hand, I can't predict what my competitors are going to do. Truck Month is coming up in Texas this month. Watch that one really carefully. What will Ram and Silverado do in Texas this month with the new F-150 coming around the corner? I don't know. I think that's the one I watch the closest. I don't think there's going to be such an explosion of EVs this year. The two and three-row crossover profit, like Explorer and Expeditions, are going to be under a lot of pressure. We have a brand new Explorer and a brand new Expedition this year. So I think we're very well positioned in two and three-row crossovers, especially three-row where we bet a lot.

Bronco is really solid. We still have order banks on Bronco. We have new versions coming out every – we just finished the heritage. It's going well. The Escape is new. So I don't think there's a lot of risk there. It's like six months new and is going very well. And we have a Escape Hybrid that is super popular. Helps us transition against the Japanese. I don't think my domestic competitors have that.

So it really comes down to the F-150, how the new one is received and what pricing policy my competitors have as they – as we start to scale the F-150. I don't really see a lot of variance from there.

Rod Lache

The old Ford used to talk a lot about the weak Yen and all these other things that were factors...

James D. Farley

I see.

Rod Lache

...when you were at Toyota.

James D. Farley

Yes.



Rod Lache

Yen is down 30% in two years. Yuan is down 10% in two years. But Ford has kind of pivoted the portfolio towards F-150 and Bronco and Mustang and all these other things.

James D. Farley

Yeah.

Rod Lache

Is that less relevant for Ford now?

James D. Farley

What a great question. It is very relevant relative to our – So it's funny, we don't really talk about Ford anymore overseas, but we should because our Pro business is very profitable in Europe now. We have a very small footprint in China. So, we're totally unique among the other OEMs. Not a lot of risk, not a lot of reward, but we have a very profitable Ranger business. People wouldn't realize this. The second highest volume vehicle at Ford is Ranger. Ranger globally outsells Super Duty. We are now number two in pickups outside of the US and pickups are growing big time. We sell 5,000 Raptors in China for \$150,000 each, and we're the best-selling vehicle in Australia. We almost pulled out of Australia. The Ranger is number one in South Africa, huge pick-up market. We're number one in pick-ups in Europe. The Ranger is growing and super profitable in South America. It is our only vehicle in South America. So I would say the yen is very material for Australia in the 15% to 20% of our profitability overseas.

Rod Lache

Okay.

James D. Farley

But as far as the US market, we don't really face off with them. Maverick is our number one conquest vehicle of the company. We get a lot of Civic and Corolla customers, but there is no Maverick at Toyota.

Rod Lache



Right.

James D. Farley

The only competition we have is Hyundai Kia and their position and their vehicle are totally different than us. So, yeah, it's a different company.

Rod Lache

Yeah.

James D. Farley

We don't have Focus. We don't have Fusion. We don't have EcoSport. We changed the company. It's Bronco Sport versus RAV4. That's Ford.

Rod Lache

Yeah. Great. Well, I think we're out of time. This was terrific. Thanks again, Jim, John, Lynn, for coming. Really enjoyed it.

James D. Farley

Thank you.

Rod Lache

Thank you.