



Ford Motor Company

Scotiabank 24<sup>th</sup> Annual Transportation &  
Industrials Conference Fireside Chat with  
Jonathan Goldman

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**CORPORATE PARTICIPANTS**

**Daniel Justo** - *VP, Ford Customer Service Division*



**Jonathan Goldman:**

Good morning, everybody. Welcome back to the Scotiabank Transportation and Industrials Conference. If we haven't met, my name is Jonathan Goldman, Diversified Industrials Analyst at Scotiabank. We're going to get started this morning welcoming Ford on stage and pleased to welcome Daniel Justo, VP, Ford Customer Service Division. Welcome, Daniel.

**Daniel Justo:**

Thanks. OK.

Where do you want to sit?

**Jonathan Goldman:**

I'll take the end.

**Daniel Justo:**

Let's do this.

**Jonathan Goldman:**

Good morning, Daniel. So, I guess I'm not sure how many people are familiar with the Ford story. I cover Magna here in Linamar, formerly Martin Raya in Canada. So, we're more familiar with the supplier base. But obviously, you can't look at the suppliers without knowing all the OEMs. There's a lot of industry headwinds and tailwinds going on right now, but it seems to be always the case. I'm not sure if there's ever one day where you can just sleep peacefully, but maybe just to familiarize everybody with your background, and Ford as well. Maybe you can just start off introduction about yourself, your role at Ford, background there.

**Daniel Justo:**

Sure, of course. Great to be here. Thanks for having me, having us, and glad we're doing this in the morning. I hear later today would be competing with a Taylor Swift concert, plane was full. So, I've been with the company for more than 20 years in multiple capacities, mostly finance, business development most recently.

Since 2018, I've been leading the transformation of our South America operations as the CFO and President. And I think so it's good to open, just apprentices in these and expand a little bit more because I think it's one of the value creation areas of Ford when we started restructuring our international operations and as international you think about South America, Europe, China, India and the other Asian countries were burning more than \$3 billion in cash, high capital intensity and we move those operations through a very disciplined approach about selecting what are the right products for us to play in those markets, to being asset light and consistently profitable. So, you look about the de-risking the company went through and I was glad to be leading the South America portion of that restructuring.

Earlier this year I moved here into the U.S., so John asked me to join the Ford Blue team as their CFO.



**Daniel Justo (cont'd):**

We've been working with that team on the portfolio strategies and how we make Ford Blue a sustainable gas and hybrid business. And as of October, I took over the lead for our customer service division globally.

**Jonathan Goldman:**

Interesting. I'm sure there's several questions in there and we'll work our way through them. But maybe just starting I guess a little more in terms, with the Q3, maybe you can give us a recap of the quarter and also the full year guidance.

**Daniel Justo:**

Yeah, so we we've started the year with the guidance of \$10 to \$12 billion EBIT.

What, during our Q3 earnings, we've narrowed that to about \$10 billion. Behind that what we're seeing is we saw strength in our product portfolio and our top line. So, the refresh portfolio we have is being positively holding well in terms of the volume and revenue capabilities.

We did see some headwinds around warranty and one specific item that's the cost of our vehicles produced in Turkey, so, let me double click on that one. We talked a lot about warranty and the challenge the company has been facing with warranty costs, that is specific item on Turkey. We produce the Transit for Ford of Europe out of our joint venture, Ford Otosan in Turkey. And what we're seeing is an unbalance between inflation and exchange rate. So as inflation has been impacting and raising lower costs, exchange rate has not caught up with that. So that's resulting in higher material costs and production costs for those units. That's about a billion dollars of headwinds for this year. So, we reinforce that companies committed to continue pursuing our most efficient cost basis. A lot of focus on turning around our warranty and reinforce the \$10 billion guidance that that's I think the summary of our Q3 earnings.

**Jonathan Goldman:**

I think it was well received by the market if I recall.

**Daniel Justo:**

Yeah, I think, look we, we've been very diligent in creating value and being very transparent.

The fact that we segmented the company, I think it gives great visibility. We know exactly how each of the segments are performing. We have very clarity about our EV business, our Pro business and our Ford Blue business.

We're not transacting credits between segments. So, there's a lot of transparency how we were running the business internally and how we present the company externally.



**Jonathan Goldman:**

You kind of front run my next question is if you can give us an overview of the segments Ford Blue, the Model e, and Ford Pro and you did just touch upon it there, re-segmentation, what maybe you can compare it to the previous segmentation and the benefits?

**Daniel Justo:**

Yeah, so previously we were regionally organized. So, you had your European division, your South American division and the company decided to reorganize around our main customers and you can look at the auto industry as you have a very clear commercial part of your business. That's our Ford Pro that sells gas, diesel, hybrids and EV products for commercial customers.

And then you have your passenger vehicles. We think passenger vehicles, you have a clear transformation going on between the power trains, between gas, diesel and hybrids and EV. So, as we've separated, we have teams that are dedicated inside the company to really driving those as individual businesses. So, it gives a lot of accountability, it gives a lot of expertise around understanding the segment, understanding the customer.

We look at across this segment to decide how we most efficiently allocate capital. I think it was a very positive move for us to really define those segments and organize our teams around those segments.

So going deeper into the segments, so we have Ford Blue, it's our gas and hybrid and diesel products. Ford Blue has a very strong product portfolio and nameplates, have F-150, Explorer, Ranger, Maverick, Bronco. You have a combination of a very strong truck portfolio, SUVs, very iconic nameplates. We've been investing heavily to refresh that portfolio. So, this year, we've launched a new Ranger, we brought to market a new F-150. We've updated our Explorer and Aviator. This year we were still working to launch updated versions and freshened versions of the Maverick and the Bronco Sport and early next year we have the Navigator and the Expedition are all new coming to market, so you look at the Blue portfolio it's very fresh. It is driving pricing power. The powertrain options have worked pretty well for us because years ago we've decided we needed hybrid powertrains to help through the transition to electrification and we're seeing increasing demand to those hybrid powertrains. So, this year we're going to grow our hybrid volume by about 30%.

With that, it's not only that the customers are looking at the fuel efficiency of the hybrids, but we can offer features, we can offer Pro Power Onboard for commercial customers that are buying pickup trucks. Alternative power supply. So, we're seeing interest for those features that we can bundle in higher trim series. So, it is a good business and also help us with compliance.

So, Ford Blue, the main focus and what's been gating Ford Blue from the delivering higher result, it has been the cost and warranty issues that we faced. We're seeing great progress in the physical aspect of our quality efforts. Our three months in service, the way we measure early quality, has improved by 30%. Since model year 21 to 24.



**Daniel Justo (cont'd):**

We've launched major projects this year and in the past, we would have a series of quality spikes and that's an industry fact that normally occurs. We've avoided all that. We didn't lose production. The fact is your warranty costs and your income statement, they're based on historical trends, and it will take some time for us to see those results to turn around as we improve quality.

But a lot of effort has been going into improving the cost strain. Make sure we have the right capital allocation mindset as we invest in the ICE and hybrid business. So, it was a very interesting year for me working close to that team.

Then you have Model e, our EV business, and I think the company is very glad we've started early, and we brought EV products in our main segments with the F150 Lightning, with the Transit, Mach E and now just launched two new products in Europe. It allowed us to learn a lot as a company about the EV business, about the challenge of the EV business, understand how we serve those customers better, how we go to market. So, right now the focus on the EV business going to next year is really cost. We took about a billion out of the cost of that business this year and with the present portfolio will continue maximizing cost initiatives. Now most exciting is what's coming next as we're looking at the next generation of our EV business and products. And we're seeing a lot of early indications that our product portfolio that's coming will be very competitive, so, that's the Model e business.

And then finally Ford Pro, who has been our leading profit engine. This year we're about 14 – 14.5% EBIT margin on that business. It's very resilient. We have a great product portfolio to support these commercial customers. A very strong service within the biggest dealer network and dedicated service centers for those customers, it's all about uptime.

The customer base is very wide. We have from major corporations to medium and smaller businesses, governments, municipalities, so very wide customer base that we know very well, very strong product portfolio that has been consistently delivering growth. We have the ability to attach services to that business and that has been growing substantially, both software services and physical services, and at great margins. We grew our software attachment by about 30%. That piece of the business has a 50% margin. We've been penetrating more in terms of physical services to these customers and that has margins above 30%, so, as we increase both our top line from vehicle sales on the Pro side, but also our service, there's a lot of potential in that business and companies extremely happy with how we're progressing. On top of that, there's more knowledge and deeper knowledge that is allowing us to understand how we help customize those vehicles for those customers and attach upfits and accessories and so on.

So, think about the company, overall business, restructured international operations, de-risked, combined profitability. This is no longer a distraction for our management team.

Solid Blue and Pro business that we do need to continue work on our quality and cost and an evolving EV business. And then you have those 3 segments and under this and I'll get a little bit on my piece because I need to do a little marketing. You have the customer service and that's a very resilient part of that business with maintenance, parts, accessories that go across every



**Daniel Justo (cont'd):**

segment and then you add to that our financial arm with Ford credit. So that's the frame of the Ford business and how we looking to create value.

**Jonathan Goldman:**

And I would like to give you a little more time to speak about your division, maybe some of the priorities and goals that you're thinking about there.

**Daniel Justo:**

OK, I love the job. Restructuring South America, it was all about really cutting really fast. Redesigning the product but making sure our mindset was focused on customer and loyalty. So doing this job feels like home for me.

There are three things I'm looking for the team to really evolve in customer service. The first is uptime. So, everyone in the organization if you ask about their priority, is going to be customer success and uptime.

The more we can get our vehicles running primarily on the commercial space, the more loyalty you're driving, the higher long-term revenue and there's obviously a tail to that. So how do you achieve that? When we think about uptime, we have capacity actions. It is a challenge for the industry to ensure there's physical service capacity, but also technicians, retention rates in techs within the industry, it's about 70%. So, you have lots of rotations. You need lots of training. So, between the capacity aspect and the technical aspect.

Really identify how to fix vehicle issues faster is something that our new portfolio is helping us to evolve. Our vehicles are all now connected. We have been evolving year over year involved, on our remote diagnostics capacity, and that's really powerful because today with the connected vehicle with the electrical architecture evolving, we can identify situations at the vehicle that would require service before the customer actually sees or perceives an issue. The more we evolve those tools, the faster we can attack those issues both if there are issues we need to attack in our own production process or if it's a fix, we can make sure parts are available. So, when the customer goes to our dealer, we're ready to be really fast. So, there's very strong focus on uptime we have specifically for commercial customers, FORDLiive, it's a centralized team that every day they're looking at every vehicle off road, why that vehicle is not working, what are the reasons, why do we need to do to resolve, and this has been a very powerful tool for our Pro business. So, uptime and customer success.

The second is really our part in quality and repair cost, so every failure will go through a service shop. The more efficient we get in resolving those service issues, the lower our quality costs and the more capacity it allows me to go after new businesses in the parts business. So, if you double click about our ability to improve some actions, for example, we just stood up a software hotline. What we felt is our techs were having difficulties with quickly resolving software issues. And they were replacing modules. We managed to put the central team together that took the response rate from days to hours and the replacement rate on some of those modules from double digits, almost single digits. So, there's a lot of power for us to get much better and how fast we service vehicles, how we use our connected data to allow us to be very efficient.



**Daniel Justo (cont'd):**

So, this is the second piece of our priorities and then you go into pure growth, it's a 30% plus margin business, the parts and accessories. We have a global presence in every market we play. We not only have our maintenance and service parts for our customers, but we have a wholesale business for parts, we have extended service business. So, both for our retail customers, our Pro customers will have a series of products with extended coverages that really aims to give peace of mind, but it also attached a higher revenue per unit as we sell these new vehicles.

And then finally, we have our vehicle personalization and accessories. Customers want to make their vehicles unique, and you look at how aspiration our portfolio is with the Broncos, the Bronco Raptors, the pickup trucks, there's a big tail of accessory revenue for us to grow.

Really focus on those 3 fronts. We can continue creating true value for the company.

**Jonathan Goldman:**

Interesting. That's actually a good segue. I want to squeeze in a couple of macro questions. So, I don't want to let you get off that easy, but you did mention the platform refresh. So, we just step back for a second. We look at SAAR in the U.S., it's kind of been trending sideways, right? And there's various, you know, reasons for that and you know, the last few years have been volatile to say the least. One of the things or one of the views out there rather is a lack of new models or platforms on the market to entice consumers.

You mentioned some new platforms and refresh that you're doing. I guess firstly, is that a view that you share there's kind of a lack of refresh industry wide and then the new models that you're bringing to market, how does that position you to gain share in a flat or let's just say, you know, slowly increasing SAAR?

**Daniel Justo:**

OK, you look this year and as I was mentioned with all the investment in freshening.

I think we had a very healthy percentage of our portfolio being fresh with new features and honestly, we've been caring a lot about making sure we make the right investments for the product freshness. The industry volumes to your point that have been stable. This year, we started the year expecting primarily the U.S. pricing to be a downward pressure. And we're seeing that. But the freshness of that portfolio is, as I mentioned, one of our upsides this year has been our top line and that's highly related with the freshness of the portfolio. So, you think about how we're thinking about our business is the right product at the right time to market with the right technologies, looking forward as we're talking about all these capabilities there will be lots of development into items you might not see updated electrical architectures that will enable us to update over the air our vehicles, deeper. Today, actually we're in a leading position with, we can update up to 13 modules of the vehicles remotely. So, the customer we can resolve issues with all the customer having to go to a dealer that's really powerful for customer success and we did just this year over 20 million updates. So, you think about the capacity that has, as



**Daniel Justo (cont'd):**

the vehicle evolves, as the electrical architecture evolves, as our internal capability evolves, I think we'll see that trend continuing.

You look at the industry this year, really our power has been not only on pricing, but there's good growth. So, you look at our overseas markets, oh, even Canada, here in Canada, our business is growing more than 20% this year. We have very strong growth in multiple overseas markets. We're growing South America, we're growing here in Canada. We have very strong growth in the Asian markets, and we now international markets group and even the U.S. So, I think we were well positioned with the freshness of the products to drive the right volume, and the pricing we've seen.

**Jonathan Goldman:**

That's very good color. And if we can segue to another, I guess maybe topical concern for investors, at least on an industry level is inventory levels. You can probably give me better numbers that I can give you, but I think inventories were about 65 days industry-wide pre-COVID. We're getting to 60 now. It keeps creeping up. I had read that OEMs wanted not to go back to pre-COVID practices. We were thinking 50. And obviously it varies, right? by model and OEM, but if you can share some high-level thoughts on the current inventory levels is there risk to production cuts or how do you manage supply-demand volume wise in the industry?

**Daniel Justo:**

Look, we have been very disciplined, very thoughtful about our inventory levels within Ford and if you unpack wherever...if you look at our total inventory levels today, there are both 60 days, but when you unpack, we're being very thoughtful to understand where do we need inventory as we go into new launches. So, as I said, we have the Maverick and the Bronco launch coming up. We have the Navigator, the Expeditions, through these launches you're normally slowing down your line speeds. So, getting into the launch with a healthy level of stock prevents you from losing. So that was something that happened during the COVID times that any, any production disruption you would face it would immediately flow to your bottom line because you're losing retail sales. So, we feel we were in a good spot today. We're keeping very good internal discipline. I know there are exceptions in the industry, but in our end, there's a very, very diligent approach. We go through monthly to look inventory levels, by vehicle, what's coming in the next 12 months, make sure we have the right stock on the ground. You look at gross numbers, but what we're looking is and we have vehicles that are in transit, vehicles that are in upfitters with our Pro business and so on when we look at our stock at the dealers, we feel good where we are today, and the plan is to be very disciplined about keeping inventory. We think that 50 to 60 days when you isolate temporary needs for us to stock some unit more or less.

**Jonathan Goldman:**

We won't ask you to name who those exceptions in the industry are, but I've left the least contentious question to the end. Political dynamics in the U.S. I mean, obviously your limit on what you can say or I mean, things are still early, but how is the current environment impacting OEMs?



**Daniel Justo:**

Look, we're 100 year-plus, it's 100-plus year company that worked with multiple governments. I think we congratulate the incoming government, and the company has a long story of working together with every government to first achieve regulations that are in place and work to make sure there's a strong manufacturing industry and strong business that creates value so, I don't think there's more to comment. I think we'll just work closely and see how we address every development that comes our way.

**Jonathan Goldman:**

That's well said and definitely Ford is a heritage American brand. So, we're getting close to time. I was wondering if you wanted to share any closing remarks or highlights you wanted to leave us with on the Ford story today?

**Daniel Justo:**

Look, I think it was great. First, thanks for having us here.

There's a there's a very strong team that's very driven to create value. They are taking the necessary actions.

As evidenced by restructuring overseas business and every investment we're making, we have a lot of clarity around our segments and what we need to progress them. I think that's what you continue to see year over year is a lot of focus on growing every segment of the business.

And great customer success, which depends on me, the team will be extremely dedicated to make our sure customers have the most uptime.

**Jonathan Goldman:**

That's fantastic. We're at time so we'll end it there, Daniel. Thank you very much for joining us.

**Daniel Justo:**

Thank you, my pleasure, thank you.