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# Ford Motor Co. (F)

Deutsche Bank Global Auto Industry Conference

## CORPORATE PARTICIPANTS

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

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**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

All right. Good afternoon, everybody, and thank you so much for joining us for this keynote session with Ford Motor Company as part of Deutsche Bank's Global Automotive Conference. My name is Emmanuel Rosner, and I'm the senior US autos and auto technology analyst at Deutsche Bank. Ford Motor just hosted its Capital Markets Day last month in which the company confirmed it is on track for much improved profitability in the relatively near term and presented its plan to operate a successful transition to a digital, smart EV world. And then, just this morning Ford announced that results for the second quarter are shaping up significantly better than expected and also released impressive reservation numbers for its electric vehicles and for the Ford Bronco.

So with all that backdrop, I'm extremely pleased to be joined by Jim Farley this afternoon to discuss both the takeaways from recent Capital Markets Day, some of the updates from today, the progress Ford is making and obviously where it's heading for the future.

Jim, thank you so much for being with us.

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**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Thank you, Emmanuel. It's great to be here, an important part, important timing for Ford, and an important conference for the industry.

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**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Absolutely. So looking forward to this conversation. The format for this session will be a fireside chat around some of my prepared questions, but also questions from all of you in the audience. If you have a question, just type in on the left side of your screen and I will weave it into the conversation.

## QUESTION AND ANSWER SECTION

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

But maybe to kick it off before we dive in my question, Jim, you hosted recently a Capital Markets Day. I think it was very positively received by investors in the markets. What do you see as the most important takeaways for investors?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Sure. Well, first, we have a plan called Ford Plus. It's very clear and explicit. We're going to lean into our strengths. But the most important part of the plan is that we're moving to an always-on relationship with the customer from this episodic relationship. And that's a really different place to be as an OEM. It will take a lot of new capability.

The second thing is we're coming from a position of strength. So we're going to lean into our iconic vehicles, whole family of them in many cases. And as you said, we have great demand for our new lineup, almost 200,000 orders for Bronco. We're over 100,000 orders of Lightning now. We have more than 30,000 orders for Lightning and E-Transit commercial BEV. And as well, we have almost 40,000 orders for Maverick. So these are really great products and we have a very profitable Ford Credit. We're also on track for the 8% as you mentioned. That was a big deal for our investors. They want to know when is Ford going to get to that 8%, we were specific in 2023. I'm sure we'll talk about that.

The third big takeaway to me is the most important, new capabilities. It's not just vertically integrating our BEV and spending enough on BEV. The most important transition for the company is in embedded hardware and software system, a commitment to data, software and connectivity, all combined for that always-on experience. I think those are the major takeaways.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Definitely. And I would definitely like to come back and discuss these in more detail. If you don't mind, though, I wouldn't be doing my job if I wasn't asking you first around how things are going currently, the environment you're facing, and obviously, a little more detail to better understand the announcements you made this morning. So this morning you announced second quarter is shaping up much better than expected or than feared. And I think Ford mentioned three drivers, improved costs, market factors, and then Ford Credit. Can you unpack this a little bit for us in terms of what exactly is playing out better for Ford than you had thought a few months back?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Sure. Two things, lower cost, just all the work we've done on overseas operations and in North America, costs are coming in better. And number two, our pricing. It's just strengthening every day. Pretty breathtaking actually, not just at the Credit Company but actually in the Motor Company. Things are still fluid. I would remind all investors a few things that make Ford a little bit different. Our Q2 is a bit different than our competitors because we had a lot more exposure to Renesas, the Naka 3 facility that had the fire in March and they're still getting up to speed.

I think the second thing is we are not going to redesign our product to take features out. We're taking a very different approach to managing through the crisis. We don't want our brand to change during the crisis and even in the name of short-term profits. I think the second thing is, related to that is we're really committed to our short-term commitment to California. So we're not going to take our start-stop. We're not going to do things like that. We want to make sure our fleet performance is improving every year.

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

Q

So I guess, you addressed maybe my third question as well in there, which is with a lot of investors asking why such a difference in the chip impact versus GM. So I think – I guess that exposure is probably what we would have guessed and obviously you're not delivering vehicles with less features. But I guess, in terms of the factors that you're mentioning for the second quarter strength, it doesn't sound like less volume disruption is necessarily one of the main drivers here. And so can you just describe that chip situation for us? Have you seen some improvement in the chip supply based on your own exposure and any better sense of when you can get back to normal level of supply or production?

**James D. Farley, Jr.***President, Chief Executive Officer & Director, Ford Motor Co.*

A

Well, given our low day supply and the order bank we have, I don't know when we'll get to normal. We have like two years of order bank for Bronco and Mach-E is months and months and months around the world, same for Lightning. So I think it's going to be a while.

Look, in the short term, we've talked to all the foundries, we've talked to all of the semi manufacturers, we've talked to our whole tier system. We have learned a lot that we at Ford and our industry are going to have to hand our supply differently for these key electronic components or digital components, given that they're probably going to be more than 50% or 60% of our BOM. So this is a huge opportunity to learn how to manage the supply chain differently than a black swan weather event that the industry had protected against or managed the supply chain against.

I would say, we're getting couple of weeks visibility. The discussions with all the entities I mentioned have been very insightful. And I would say, in the second half of the year, things are definitely going to get better for us as the Naka facility comes up to 100%. Relative to the Taiwanese, more feature-rich nodes, that's a very fluid situation. I think we'll get into it in second – when we report second quarter and our earnings, and I'd love to tell you more there. But we are learning that this is a scramble to get the modules in the vehicles in the second half even.

So from my standpoint, you're looking at 2022, sometime during 2022 before we'll get to a normal level of availability. The issue is the demand is so high right now globally for Ford, we're going to run our inventories lower historically. In 2019, we were up to 100-day supply with the F-Series. We're not going to do that again. And so it's tough to answer the question because our normal has changed.

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

Q

That makes sense. One last one maybe on today's update and then we'll go back to longer-term questions. But so you disclosed strong reservation numbers across three electric vehicles and across your Bronco, but the BEVs in particular, and obviously, you've outlined plans to have 40% of your global volume from BEVs by 2030. But can

you provide any more details about what that cadence can look like when you sort of see the early demand for BEV, how big can BEVs be for you by 2025, let's say?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

We gave the guidance of 40%. But to be frank, the response to F-150 to me is something I've watched very carefully, because if the full-sized truck industry changes their mind about electric, then the demand side profile is looking a little different than we all thought. Look, for Ford, we're on par with anyone.

We're not going to cede the future of battery electrics to anyone. So our spending is on par with anyone and it's going to go up. The key is how you spend it. And we need to get our transition away from – it's necessary to spend the right amount of resources and necessary to vertically integrate batteries and electrical components. But this efficiency part is where you go to market and how successful you are with this digital transformation.

All I know is we have the number one pickup truck globally that's going electric. We have the number one van globally that's going electric, and in North America globally for both, and we have the number one sports car in the world going global and going BEV in the next six months. And so far, Mustang Mach-E is the only one out. And it's completely sold out.

So all I can tell you is that we have to – we're going to be working hard on the flexibility for manufacturing and our battery supply, because we have the demand. And so far early indications are that when you look at F-150, the adoption or the interest from customers is going faster maybe than even Ford expected.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That's great to hear. And maybe I'll weave in one investor question here, which relates to demand for EVs. Do you expect the shift to electrification and the increasing availability of a wide range of EVs to increase overall vehicle demand? For example, do you think the USR could run at a substantially higher level for the next several years based on that interest or excitement, or is it mostly a mix shift within the powertrain?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

It's hard to say because everything is so frothy here on the demand side. It's difficult to say, but I would say, when you look at Ford – I can't answer for the industry. But if you look at Ford right now, 70% to 80% of the people ordering these new vehicles from us, we've never seen. So for us, it looks partially additive. A very big chunk of these customers wouldn't have bought an ICE from Ford.

I can't speak about the industry, but I think that's why I'm trying to emphasize, it's not just how much money you're spending, what we're betting on is the execution of the product and the execution of the digital experience. Things like Pro Power Onboard. That's a reason why a lot of people have never owned a full-sized truck, can be interested in the Lightning. And in our case, that's probably one of the reasons why it seems additive.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. No. That makes sense. So I guess, at your Capital Markets Day last month, you articulated the goal to generate better margins from Ford's electric and connected vehicle than what you currently generate in your traditional ICE business. When can this profit parity be achieved? And what needs to happen for you to get there?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Somewhere between – a lot has to do with how the products and how this digital ecosystem lands in the market. But it feels like the controllable part outside of the product creation, somewhere between 2025 and 2030 we expect that the battery cost to go from 100 kilowatts per hour to 80 kilowatts per hour. And we think that's a really big change.

Look, 50% of these vehicles content is non-battery electric components. So scale will really matter. That's why we started with the number one van, the number one sports car, the number one pickup. Not only are we good at those vehicles, but we have huge scale when it comes to the 50% of the BOM that has nothing to do with being a BEV. But that battery cost is a really big driver.

To me, though, Emmanuel, the big driver is going to be the ability to go always on with the customer. The most expensive thing most mature car companies do is put the logo on the car. We all discount way too much. That is a multibillion-dollar budget to invest in always on a front so that people like our brand, want to stay with our brand.

So my standpoint, the real interesting part of this equation of when battery electrics pass ICE on profitability is how fast can we spin up those digital and physical services like we're going to launch on Ford Pro, so that customers don't leave the brand. And we don't have to do as much discount as we do today because that is a huge cost to us.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. So I guess tying this up then, with the services that you're planning to offer, you surprise the market with the attractive pricing on the F-150 Lightning or starting price of just under \$40,000. And I think [indiscernible] (00:16:02), how can you do it profitably when – we've seen obviously the bill of materials much higher than the comparable combustion engine vehicle, is Ford's strategy to potentially earn less on the vehicle hardware itself, but more than make it up with the adjacent services that you're describing?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

I wouldn't portray it that way. Actually, we're putting pressure on ourselves for the vehicle itself to be as profitable. To do that, we need to get those IonBoost cells, which are 30% of the cost to be down at that \$80 level. That's going to be a huge heavy list. That's why we've developed our own battery center of excellence and our own technology. The non-battery EV components, which are 20% of the BOM, the commonality of, for example, in the first inning, we have common motives between the E-Transit and the Lightning. That's super important.

We have to simplify massively the reuse of these non-battery EV components. The third thing is, of course, picking segments where we have huge scale like the F-Series, because 50% of the BOM, as I said still. We do though in that timeframe, 2025-2030, we're going to be investing in a whole new electric architecture, first fully modern, fully connected, fully updatable electric architecture. That would be a big onetime cost to enable ultimately, the connectivity and always on that we want.

And so I don't know how to handicap it, but we're putting pressure on ourselves to really make the product more profitable and those things that we control. And certainly, I believe I would say, I probably wasted more discounting and advertising than almost anyone in the industry with my career. And I know the incredible opportunity is to save money on the always-on relative to the loyalty.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Understood. Question from an investor. What do you see as the largest hurdle towards EV adoption? And I guess, the best opportunity to boost that? Is it the charging infrastructure, range anxiety, something else?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

It's cost. It's cost all the way around. Yes. The charging experience is vitally important. We're learning so much from Mach-E right now. I would say at least half of our OTAs to the vehicle are better charging experience, updating the FordPass app on charges that really don't fit the Ford brand. So I think that's part of it.

But from my standpoint, look at Europe, Europe went from essentially 1% or 2% BEV in the third quarter last year to 12% in one quarter. That is a huge change. In some countries like Netherlands, it's above 50%. And that's because the government changed the math for the customers by introducing incentives, they put their foot on the scale, customers are rationale, they did the math, they want to buy new technology, the products are attractive, there's lots of choice now like Lightning and Mach-E. And so I believe one of the most important factors in adoption is going to be the math. The consumers do the math. When these aspirational products become affordable, more affordable, then a lot more customers are going to want. You just look at Europe as an example.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

And so, I guess, in Europe are – I guess my German autos colleague – analyst colleagues, which probably argued that a decent amount of the ability of automakers there to sell those at similar level, profitability has been government supports at least in the early innings of adoption. Based on your discussion with the current administration, what are your expectations for stimulus and help directly – directed EV? And what did you recommend them as the most effective policy?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Well, the new administration is balancing a lot of needs. But it's very clear they're really committed to the movement of this industry to e-mobility, whether it's the jobs or the family build, that's being considered. It's really clear that the new administration is willing to look at incentives. I think our view is pretty simple, which is we really encourage the administration to put incentives to help customers move to this new technology.

But we don't want to leave labor behind. That's very important in our view that the vehicles built in the US or built in North America but especially in the US are considered differently than those that aren't. And Ford is the number one producer in North America, jobs-wise, units-wise, we're not the biggest company. And we think that's really important transition for e-mobility. Not just the industry and the adoption, but also to have a smooth transition for our labor.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Understandably. And I think investors are following up in the question box in some of these initial price point on the F-150. So that will give me cover to sort of follow up on this as well. Why not set a higher price point for the Lightning, and then allow government incentive to bring it back down to the \$40,000 range, so which would make it both accessible to consumers, but also protecting profitability for Ford. And, I guess, if I had to put it a little bit more broadly, I think that you've given us a lot of the pieces of the pie, which is you're bringing down the cost. The



batteries will come down by mid-decade, but yet the F-150 is coming up super soon at a very attractive price points. How should we think about that?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Well, Ford has been a leader in pickup trucks in the United States for more than four decades. We are not ceding the future to anyone. I've said it before and I'll say it again. We are all in on Lightning and we won't stop there with products, the offer, the value proposition for customers. Look, we're going to have lots of different options. We have a commercial version that we haven't talked about very much, but we want to lead the transition. And that means value. We've seen it around the world, we're still in Europe. It's very easy to see that price matters. And so, that's why. We started – because we have 50% of the content in the vehicle is non-electric and we make 1 million in a normal year, 1.1 million, 1.2 million F-Series, so we have lots of scale, and we want to lead the revo – this change. That's why.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Understood. Now, Ford's annual energy demand is set to reach maybe 140 gigawatt hours in North America and 240 gigawatt globally by 2030. But I think you've only publicly identified about 60 gigawatt hours of capacity in the works through the new joint venture with Samsung starting in 2025. How much of this is eventually going to be in-sourced or made by Ford through joint venture and how much will you need to keep relying on external supply agreements?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

We launched the Battery Center of Excellence inside the company. We're investing in the optionality to not only position ourselves to have the best chemistry, but also to learn and perfect the manufacturing process. Yes, the first – the second inning, I would say. The first inning, we bought. The second inning, we're now a JV, and you can expect this is a core competency for the company. I would say that the key strategic insourcing for the company that we do not want to delegate to others is going to be batteries, automation, silicon, and services. And the services vertical integration is Ford Pro. It's a natural play for us to start to offer direct services to customers.

In the case of batteries, we're in the second inning of a very exciting journey here. I've personally gone to the SKI plant in Atlanta. It's so exciting to see their quality operating system and the real difference they have compared to the other brands out there, the other technology companies. But this is just the first inning. And the creation of our own center of excellence is a very good indication of our intent over time.

I'm not going to give you the percent today of how many we're going to buy off the shelf. Look, we went through the Kuga PHEV situation in Europe. We've had battery cell issues globally. We went through the chip situation. We're smart business people. We know how important this battery capability is, not just from the supply chain, but for the uniqueness of the quality for the brand as well as the cost. This is a huge part of our bill of material. And over time, we have to have the expertise in the company.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That's very clear. How about the rest of the powertrain? It seems like for – you're developing that quite a bit in-house as well. Is that something that's...



**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Yes.

A

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

...critical from a differentiation point of view, from a cost point of view?

Q

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

For, I would say, three different – Emmanuel, there's three key reasons. One is differentiation. We want to have the future in our hands. And so, Van Dyke went from building great transmission, six-speed transmissions to building our motors for the F-150 in the transit. If I can only take all of you to see the pride those people have and the fact that they have a future, it's really something. But we're learning, right? We're going to probably make mistakes by doing it ourselves. There's a lot of other EV non-battery components that are on the table. Inverters, power electronics, that's going to go on and on and on. We'll make our way to the vertical integration process like we always do, like we did in the 1920s and 1930s for powertrain – for ICE powertrains. I think we are ambitious to make the motors ourselves this early in the game. But it's important. And we see this differentiating from the bill of material, the cost and the quality.

A

The other reason is to transition our team. These vehicles are more efficient to build and vertical integration is very important for our team members to make the transition from making transmissions and ICE engines over to making these components.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Let's shift focus to a Ford Pro. Can you please size for us the opportunity for Ford from Ford Pro. How much of the incremental revenue outlook would be from software and services versus vehicle sales and, obviously, being mindful that you already have a fairly dominant market share in the commercial business on the commercial engine side?

Q

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

All right. So I am so pumped up about Ford Pro. This is a real signature moment for the company to go into the services business and really focus on it. I would say kind of think about it this and the business model. You got to invest in the services and you'll make money in the services. And they're not as dependent on the economic cycle than what we're used to and the margins are great.

A

But the real payoff, I've kind of come full circle on this one. First, I thought, wow, we could just explode our top line revenue by going into the service business. When you really look at that, a \$100 billion addressable market, frankly speaking, we do think that there's revenue opportunity. But I'll be really concrete, that \$27 billion to \$45 billion move between 2019 and 2025, I think the biggest opportunity, we still have a lot of opportunity on vehicle sales as people really love these services and use these services. I really believe that more and more of our customers will go from mixed fleets to Ford fleets.

And the other opportunity, we're only 18% share in Europe. We used to only be like 12%, when I was there. So we marched up to 18%. But there's still a lot of opportunity in Europe, and it's very profitable business there. So

look, yeah 43% is pretty high share in North America of our vehicle. And I think once we get these services going – and Electrifi acquisition today is a big announcement for us. It may not be a company I once familiar with, but for Ford to do energy management and charging for our e-transit customers later this year and e-posts, that's a big deal. It's a chance for us to get up to speed immediately.

So, I think the other opportunity is that really drives this is parts, incremental parts. We get such a small share of the repair orders after warranty. We just are not competitive. And by going remote, integrating with prognostics and going more affordable, which we will launch with Ford Pro, we have a chance to really increase dramatically our parts share. So I would say, vehicles and parts and services will all be in the mix. Parts and services are more reliable. But you can't increase them until you really have a dominant position in the services. So, that's what we're going to launch here. And it will be very different than Ford. It's also very hard to replicate.

Most of the volume that we do in these businesses, Pro businesses are small, medium-sized business. They are not large fleets. Don't let other companies tell you, it's large package delivery company. That's – we're the leader, trust me. That's not the heart and soul of this market. It's plumbers, electricians, police cars, ambulances. And for those customers, they need body builders. And we know body builders, and they need services that work for small, medium-sized business. They're very underserved customers. And we know how to handle them.

We just haven't had the vertical integrated services. So, Emmanuel, I'm sorry I'm so excited about the business. And I'm really glad you asked this question because it's maybe a little different answer than most people would think.

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**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

**Q**

Yeah. The excitement certainly comes across. And so, as you scale these new Ford Pro business, what sort of take rates are you thinking about from on-fleet customers for some of the Ford Pro intelligence features?

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**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

**A**

Sure. So, we expect for the depot charging. Most of our customers that own 5 or 10 vans or trucks around the world, we really expect to have the majority of the energy management relationships. We expect to see our parts business double. We expect the financing share to go up a lot as we really dedicate commercial vehicle service financing. We haven't. Our retail financing is very high share, but not at commercial. We never focused on it, believe or not. Most of our customers finance outside of Ford Credit. So we have a tremendous upside on financing.

Servicing, I think it's completely reasonable to expect us to double our service share as we get really serious about predictive failure, prognostics. All you have to do is talk to the over truck people, the farm and ag team that have already done this. That's why we hired Alex from Deere. Our team knows how to do this. I think our telematics share would go up a lot. Between you and me, we're going to have essential telematics offer to all of our commercial customers free, integrated and bundled to the product later this year. So I think you'll see telematics, our aftersales business, our financing business, our charging and energy management business be roughly two times what it is today.

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**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

**Q**

Right. Let me switch gears first to a few margin and financial questions, and then also want to hit Argo hopefully before we end the call. So I guess first on the – some of the profitability targets that were just highlighted at the Capital Markets Day, you have this target to get to North America to 10% margin and, obviously, 8% adjusted margin globally by 2023. What are the largest levers to get you there and can this be maintained sustainably as you ramp up the EV mix as well as the EV spending? So, I guess, beyond 2023, is that still the right way to think about it?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Look, the investment in EVs is factored into that target. And we absolutely are counting on this to be a sustainable performance, not just the cycle of our product. I'll be really clear. Our overseas operations have been a \$2 billion to \$3 billion drag in our business for a long time. In the first quarter, we made \$0.50 billion. So, all the billions we spent on restructuring in South America and the decision we recently took in Brazil and in Europe are really paying off now. We have – as well as China. We lost almost \$1.5 billion a couple of years ago in China. We're now nearly breakeven. So, I think the overseas operation is huge lever.

Now, the real lever going forward is a profitable South America as we go to NewCo. Our China business is solidly profitable. We have a whole new wave of products similar to North America, but launching in China. Lincoln is rocking in China. It's normal for us now to sell more Lincolns to China than the United States of America. And we've localized 90% of the product now, and the profitability is real. The profitability of Lincoln in China is a very important thing for Ford. So, overseas operations is a key lever. We've gotten to breakeven a little more profit. But to get to 8% globally, all those businesses have to get to 6% plus. So that's one lever.

The second lever is North America, and that's simple, that we have to build the products – the new products that we now have all this demand for. That's a huge lever. If you look at the plants that used to make Focuses and Fiestas and Fusions and are now all making Broncos. And we got some really exciting products like Maverick. So the launches are very important and the warranty. There's good progress in the first quarter in warranty. So those are the two levers in North America, new products and warranty.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That makes sense. One more financial and then I'll switch to Argo. What are your normalized free cash flow goals? You've spoken a lot about EBIT margins, but obviously there's a decent amount of spending that you've identified to make EV and AV a reality. So what is free cash flow? And can these goals be achieved, while making this considerable investment in EV or would these be longer term?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

A

Look, on cash flow, we've normally had a cash conversion in the mid-40% range in 2019. And we're targeting 50% to 60%. The improvement is lower interest expense. That's very important for us as we address our debt and also the overseas markets. Obviously, we've spent a lot of money restructuring. Now, that we're – our way – working our way through that, that's going to be a drag that we won't have. So, that's a big leverage on free cash flow.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That's a conversion of your EBIT target?

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Yes.

A

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

Free cash, okay. And then, let's switch focus to Argo. How is Argo progressing towards the commercialization targets in 2022? Will that commercialization be driverless from the beginning?

Q

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Depending on regulations, because we test in like six or seven cities. So, I don't know how that will go in all the locations. Look, I am really excited about the progress Argo is making and maybe some new news today about that. What I mean by that is we have decided to use a different LIDAR system or proprietary LIDAR system for long range, very high resolution, very low light reflectivity capability. This is a real game changer for us in our SDS development.

A

It's a company that Bryan Salesky felt really strongly about buying several years ago. We had a primary path on LIDAR for 2022 with another company we actually invested in. We found that as we got to commercialization with that like manufacturing and high volume, it was very difficult to do. And we switched our primary path to this new in-sourced LIDAR system, which is going really, really well.

And I was at Argo just a couple of weeks ago and I was just blown away at the progress that this – I mean, we pulled that way forward. And the progress we're making in the real world with the new LIDAR system, for instance, lightweight is going really well. We did announce today in Europe our self-driving vehicle research, which is good.

Our ambitions aren't just in the US. We are testing, as I said, in six cities, so very complicated. I don't think anyone else is testing in such a complicated environment [ph] that is Bryan's (40:47). We're going to invest \$7 billion in autonomy and that includes the SDS and the investment in our go-to-market. I would say a couple of things, a couple of other things to mention. This is going to be a long journey. So we can get to commercialized SDS, prefer it to be deployed in high volume in lots of locations. The capability goes into fleet management. Oh, by the way, we're building that out with Ford Pro. It's very intentional that Ford Pro has multiple benefits strategically for the company. But we increasingly think that Argo is going to need more resources, and this will play out in the coming months and years.

**Emmanuel Rosner**

*Analyst, Deutsche Bank Securities, Inc.*

So, yes. Obviously, Bryan has been quoted as saying there's a potential IPO within the next year or so. How do you think about the convergence between what Argo will be offering and I guess Ford in terms of business model?

Q

**James D. Farley, Jr.**

*President, Chief Executive Officer & Director, Ford Motor Co.*

Well, that's a good question. I think Argo has proven to be very adept at business, not just the technology. My personal opinion is that I think they deserve the opportunity to be a one-stop-shop company, and that they will take on more of the go-to market responsibilities for our AVF. Now, we have a dominant position in moving goods.

A

And I think the most interesting part of your question is, is there overlap between L4 system and the L3 system. We're just about to OTA our Level 2 system, so BlueCruise – Ford BlueCruise. We'll see how it goes. It comes out in the F-150 and the Mach-E soon. We think it's a superior system.

And until we unlock the customers' time where they can do other things in the cabin of the vehicle, especially for our commercial customers who can run their business, autonomy for them is a game-changer. For retail customer, yeah, you can do work. For a commercial customer, you can bid on new jobs, find more labor. It's a game-changer, partial autonomy. But the real interesting question for me, Emmanuel, is what we're learning from Argo, and the Level 2-plus or Level 3 system, is there a overlap there. That's a really interesting opportunity here that I see.

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

Q

I'm getting a couple of quick follow-up questions from investors on your Argo response. Any thoughts on the long-term market structure of that robo-taxi business? I know it's not a Ford specific question and what do you think the long journey, you did mean that for commercialization – I guess, back to my earlier question, there's commercialization market is still there.

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**James D. Farley, Jr.***President, Chief Executive Officer & Director, Ford Motor Co.*

A

Yeah. The scaling of the business. So we're totally on target for 2022. We have a very exciting product we're targeting there. All the development is on track. What I meant is the scaling of hundreds and hundreds of thousands of AVs. That's what I mean. That's going to be a long journey. That shouldn't be a surprise to anyone. I think the question is use case. I think we're increasingly interested in moving towards middle mile area for Ford and for Argo. So, this is not just a rob-taxi kind of deployment for AV. We have a lot of customers who break down bulk from distribution centers to distribution center right outside of urban areas. They dominantly use Ford vehicles, transits especially, and cab a chassis pickup trucks. And we're getting more and more inbound interest in whether autonomy is possible in that kind of scenario. I think this market is going to continue to evolve.

Now, by the way, we love what Lyft and Uber are doing. I stay really close to both companies. They're very important for Ford and for Argo, both companies. And we think that once we get past this COVID environment, both of their demands are really going to surge. And they've really managed the cost well. They've gotten into delivery businesses. So, those are very strong network partners.

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

Q

Great. Look, we're – I think we're at the end of our allocated slots, but I am in awe of your enthusiasm, so, maybe I'm going to give you the final word, I guess. What do you to leave investors with?

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**James D. Farley, Jr.***President, Chief Executive Officer & Director, Ford Motor Co.*

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Well, a couple things. On electrification, it's not just how much money you spend or how vertically integrated you are. It's your – it's where you want to play. If I've learned one thing over the last two months about electrification is, play to your strengths, choose your market wisely and execute the product beyond propulsion. That's the lesson of F-150 Lightning so far.

The second thing I would say is the real transformation of Ford is not just our base profitability getting to 8%. It's not just the modernization of the company to e-mobility. To me, the biggest change of Ford is going from an episodic relationship with the customer to everyday surprising them with physical and digital-connected services. And to do that we need to build a completely new set of capabilities in the company. I spend 50% of my day on that.

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## Emmanuel Rosner

*Analyst, Deutsche Bank Securities, Inc.*

Right. Great way to conclude. Listen, Jim, I really appreciate you joining our conference. Thank you for your time. Thank you for the insights. I appreciate also all the investors' participation and great questions. So, very much looking forward to keep following the progress at Ford. Thank you, everybody. Thank you very much, Jim. Bye-bye.

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