



New Financial Reporting Teach-In

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Ford Participants

John Lawler, Chief Financial Officer

Cathy O'Callaghan, Vice President and Controller

Lynn Tyson, Executive Director, Investor Relations

Presentation

Lynn Antipas Tyson:

Thank you and welcome. And welcome to all of you who are joining us on the webcast, especially our team members at Ford.

Today we're going to be talking about our new financial reporting. And before we begin, I've just got a few housekeeping things to cover with you. For those of you who are joining on the webcast and have the dial-in number, after some prepared remarks from John Lawler, our CFO, and Cathy O'Callaghan Callahan, our controller, we will go to Q&A. And so you'll just go ahead and queue yourself up in that tool.

So before we start, I'll read the safe harbor. Today's discussion includes forward-looking statements about our expectations. Actual results may differ from those stated. And the most significant factors that could cause results to differ are included on page 27 of the presentation that we've posted at shareholder.com. So John, I'd like to welcome you up.

John Lawler:

Thanks Lynn and hello everyone. We're really pleased that you're joining us here today and online. So as you saw in the video, Ford is fundamentally changing how we think, how we make decisions and how we run the company. Now these are vital to fulfilling the promise of the Ford+ plan, and are helping us speed up our delivery. Now, just over 12 months ago, we announced that starting on January 1st this year, we'd have three auto business segments organized around distinct customer groups. Ford Blue, for iconic gas and hybrid vehicles like Mustang, Bronco, and F-150. Ford Model e for breakthrough connected electric vehicles, and of course Ford Pro for products and services that help our commercial customers transform and grow their organizations.

Now moving to this new organizational structure has important implications not only for how we run our company, but also for accounting and financial reporting. So this is how we're powering the investment thesis that we shared at our last Capital Markets Day, in 2021. It's how we are embracing the disruption in our industry to grow and create value for all of our stakeholders that rely on Ford. So we're harnessing digitization and connectivity to realize a new vision of our customer's experience, delivering them on top of our bedrock of iconic ice nameplates, and innovative new, exciting electric vehicles, an engineering. And manufacturing those vehicles with capabilities in scale that few can match.



So today's Teach-In is focused on explaining the change to our financial reporting. I will walk you through the recast of 2021 and 2022 financial results for the three segments, and Cathy will go into more detail about the new reporting structure, how our earnings and SEC documents will change. Now, the first time that we report this new format will be on May 2nd when we release our Q1 2023 results.

And then later in May we'll have our next Capital Markets Day at our headquarters in Dearborn, Michigan. And this will be a full day immersion where we'll update you on the Ford+ strategy with deep dives into the business plans and KPIs for each segment, as well as our rapidly expanding capabilities and software and services.

So before we get into the details, let me first offer a little perspective. Now, our industry, as all of you know, is rife with disruption, from changing customer expectations to emerging technologies, connectivity and software, electrification, automation. Organizing and running our business around these three distinct customer groups isn't simply about surviving the industry upheaval. It's really about embracing what's possible for our customers, innovating for the future, and winning. It allows us to get much closer to our customers to deliver even better products, services, and experiences that meet their changing needs.

Ford Blue is focusing on passion products and building on its strong brands with new derivatives. Ford Pro is creating an ecosystem of integrated offerings that add value to our commercial customers, bottom line. And Model e is functioning like a startup with incredible speed untethered from legacy approaches. And all three are growth businesses.

Before Cathy takes you through reporting changes, I want to share our recast financials for '21 and '22, under the new segmentation, you'll see that Ford Blue and Ford Pro are profitable and as you'd expect for any EV startup model, e is currently operating at a loss. And I'll come back to that in a moment.

There's no change to Ford Next, formerly our mobility segment, or to Ford Credit. There is a key change to Corporate Other, and that reflects past service pensions and other post-employment benefit income and expense. This modification was about 2.3 billion in '21 and 1.7 billion in 2022. Now we've made that change because the business segments can't control or influence it. It's based on past service.

Now, with this new format, you will now have visibility into the growth, profit and return trajectory across the new segments, and you'll see how each one contributes to Ford's overall performance. It will help you better value each part of our business and value Ford based on the sum of the parts. You'll get new insights into our plan to scale EVs and we'll be able to talk about the auto industry, about our customers, and about technology and value in a unique and different way.

Now I'd like to spend a minute on the margin walk for our 8% EBIT target for Model e by the end of 2026. Again, you should think of this as an EV startup that's embedded in Ford. And like all EV startups, model E is initially operating at a loss as we invest to build scale. We were intentional in being early to market with our first generation EVs to develop knowledge, volume and share, and it's working.

Ford was the number two EV brand in the U.S. last year. We're bringing lots of new customers to the Ford brand now so that they stay with us over time. There's a great amount of value in that. And as the velocity of this business accelerates, we have a flywheel effect. As we incorporate what we're learning from our first generation of products into the cost design and manufacturing of our second generation of products and even our third generation of vehicles. Now, this puts us ahead of competitors who are only just coming to market with their portfolio of first generation vehicles. We're already seeing green shoots of the improvements in the profitability of Model e. From a contribution margin perspective, we expect Model e to approach breakeven at the end of this year. And in 2024, we believe our first generation products can be EBIT margin positive.



These and other levers give us the confidence in our 8%, late-2026 EBIT margin target for Model e. For example, the combined benefits of scale as we approach 2 million vehicles a year by the end of 2026, which will be in just four years after we launched the Mustang Mach-E, and a more optimized manufacturing footprint, we estimate this alone, could be worth about 20 points of improvement in EBIT margin.

The second largest lever is design and engineering, which we believe will account for about 15 points of improvement. We are obsessing over energy-efficient designs because they will allow us to significantly reduce the battery size and cost. We are also focused on ultra-high simplicity of manufacturing and platforms that maximize commonality and reuse.

The third largest lever, which represents about 10 points of margin improvement is batteries. We are building out our vertical integration strategy with new battery plants and insourcing of key components. We're also diversifying chemistries by adding LFP technology to our existing NCM battery lineup, announcing last month that will be one of the first OEMs in the US to manufacture LFP batteries. And the last lever includes improvements in distribution, benefits of software and services, the incentives associated with the U.S. Inflation Reduction Act and raw material costs, all of which we expect to be partially offset by competitive pricing headwinds.

Now this is our core bridge to an 8% EBIT margin for Model e. And we look forward to sharing more details with you at our Capital Markets Day in May. So it should be clear, we are laser focused on building an industry leading portfolio of highly differentiated EVs that inspire our customers and play to Ford's strengths in pickup trucks, vans, and SUVs. Now we expect to have a smaller number of common platforms and fewer top hats than many competitors, while maximizing the customer experience - what's possible on their behalf and truly matters to them. We'll calibrate our volume and investment decisions accordingly to generate substantial growth, profitability, and returns above the cost of capital. Importantly, investors now have full unmatched transparency to those goals and our progress, and you can hold us accountable for achieving them.

Now that you've seen a snapshot of where these business segments would've stood in 2021 and 2022, let's look at the operating metrics we are targeting as we exit 2026, and we shared these with you last March. The 8% EBIT margin target for Model e I just talked about, which is tied to our global EV production run rate target of 600,000 units by the end of this year and 2 million units by late 2026. 10% adjusted EBIT margin for the total company. And to hit this, we need to grow and reduce our costs. We are still focused on taking out billions of dollars of cost, primarily in Blue from reducing vehicle complexity, which flows through our manufacturing and engineering systems. And this savings will help fund the growth in Pro and Model e. We've established additional KPIs for each business segment, which we'll share with you at our Capital Markets Day. And this will give you a clearer picture of how each business is progressing towards achieving its long-term targets.

The segmentation captures the strategic opportunity we see for our businesses in a market and an industry that's quickly evolving, and will help us generate a broad range of value for all of our stakeholders. Our top priority is to satisfy our customers and build stronger relationships with them, and this will allow us to anticipate customers' needs, show them what's possible, and bring extraordinary products and services to market - vehicles and experiences that make their lives even better.

For investors, the enhanced transparency brings new insight across our business segments. And within our businesses, we're already starting to stack up clear benefits, enhanced focus, agility, and accountability, value unlocked through disciplined capital allocation decisions, and a company that offers the opportunity for extraordinary people to do the best work of their careers. We have high



expectations for Ford Blue, Model e and Ford Pro, and will hold each of them accountable to deliver sustainable, profitable growth and improved returns above our cost of capital.

Cathy, over to you.

Cathy O'Callaghan:

Thank you, John. Good morning, everybody. Now, before I take you through the inside the details on your reporting structure, I just want to highlight again what a fundamental change this business segmentation is for Ford. It was not a simple pro forma spreadsheet exercise. It took us almost a year of focus, work and discipline process to redesign everything, from assets to how we report revenue and costs. Now, these new segments, will be part of our audited financials and our SEC reporting. And more importantly, they're part of how we are staying accountable to you. So as always, we take the integrity of our process and output very seriously. It's also important to note there are no changes to our consolidated gap reporting and our new segment results are not considered auditable and investible.

Now, to ground our decision making on new segmentation, we established some guiding principles. Firstly, we wanted to build a financial reporting system that fairly represents the business models of each of the segments. We also wanted to empower the people running the businesses and hold them accountable. So we've applied a best fit method to reflect the responsibility and profitability of each business segment. Finally, had to be as simple as to execute as possible without detracting from the fairness principle.

Now there are five things that are critically important for you to know about our new segment reporting. Firstly, total auto is now reported under the three customer-focused business segments, we are no longer reporting our results by region. Secondly, we are splitting revenue and costs by business segment. Effectively, what we are doing is now reporting EBIT by customer group following our guiding principles. I want to emphasize here, it has not been an exercise to move cost and profit around arbitrarily. Thirdly, we've assigned segment ownership to assets. Fourth, we've established inter segment revenue and markup guidelines where one business is building on behalf of another. This is especially important for Ford Pro who's going to acquire all its vehicles from Ford Blue and Model e. And lastly, Corporate Other, as John mentioned, now includes past service pension and other post-employment benefit income and expense, versus being embedded in the segments.

The major change is that the previous Auto segment with regions will be replaced by Ford Blue, Model e and Ford Pro. And their metrics are going to reflect global results. There will be no combined view of the three segments. Our regional teams will support one or more of the business segments. Of course, we'll still have teams located in the regions to serve their unique markets and gather customer insights. And we will share regional highlights where appropriate.

With that said, let's take a look at what goes into each business in more detail. Ford Blue will operate globally in every market where we have a presence. It designs and manufacturers Ford and Lincoln and hybrid vehicles for our retail customers. Now, Ford Blue's Center of Excellence is supporting the enterprise with global scale engineering, supply chain and manufacturing capability.

Model e is focused on the design and manufacturing of Ford and Lincoln electric vehicles for retail customers. Right now it's business operates in North America, Europe, and China.

Model e's Center of Excellence is developing the digital platform and software for all of our customers, as well as designing our second and third generation electric vehicles. It's also going to provide direction and global sourcing of EV-specific components, vertical integration of things like batteries, motors, and inverters, as well as raw material sourcing.



Ford Pro operates in North America and Europe today and is leveraging our commercial leadership position and scale in those markets. Importantly, it's been set up as an asset light services and distribution business. It sells vehicles produced by Ford Blue and Model e for commercial customers, including government and rental companies. Ford Pro also provides a full suite of software, service and charging solutions that improve productivity, enhance uptime, and lower the total cost of ownership for businesses of all sizes.

Now let's take a look at the vehicles and services within these segments. Firstly, Ford Blue includes our popular lineup of iconic gas powered vehicles that are geared towards customer passions and lifestyles, as well as all vehicles sold outside of North America, Europe, and China.

Model e includes our first generation EVs, F-150 Lightning, and the Mustang Mach-E. As it launches new vehicles including our second generation EVs, you'll see that list grow.

Ford Pro doesn't manufacture vehicles. It sells ICE, hybrid and electric vehicles produced by Ford Blue Model E and our JVs. In North America, this segment includes any vehicle that is sold to a commercial customer, such as an F-150 Lightning Pro. And effectively, all sales of vehicles that are core to Ford Pro in North America and Europe, such as the Super Duty and the Transit family of vans. We have provided for you in our toolkit a full list of the vehicles in each segment. All three segments report part sales from repairs and software services and subscriptions like Blue Cruise and telematics for Ford Pro.

Now let's turn to look at revenues and costs. These will largely be split according to the segment that reports the vehicle sale. In general, we have three categories of data we use to determine the revenues and costs assigned to the new segments.

Firstly, we have elements of the income statement which are specific to a particular vehicle or vehicle identification number or VIN for short. We provided some examples of this on the slide, including external revenues and sale of the vehicle, the production bill of material. Warranty expense and revenue associated with digital services and subscriptions. These revenues and costs are granular and typically known and accounted for at the individual VIN level of detail.

The second group contains costs that aren't quite as detailed as VIN specific but are identifiable by product line. So included in this category is labor and overhead and depreciation and amortization expense. Now these costs are specific to a particular production facility and reported based on share of production volume. So for example, a Mustang Mach-E produced in our Cuautitlán facility in Mexico will incur labor and overhead cost based on actual production volume. If it's sold by Model e or by Ford Pro, it'll be reflected in those segments respectively.

The third type of costs are more general and shared in nature like SG&A. Then when you double click on this and break out administrative costs, they're general and shared based on vehicle volume. But other costs with an SG&A such as your selling expenses and advertising and sales promotion are a mixture of both specific and shared.

Let's take a look at segment asset ownership. Generally speaking, assets are assigned to each business segment based on the best fit and single segment ownership balance sheet principle. The goal is to align returns with segment asset ownership. Now, manufacturing assets consist of our assembly stamping and powertrain plants. For dedicated ICE hybrid plants or EV plants, the segment ownership structure is clear. It'll be reported in Ford Blue or Model e. Model e plants includes Cuautitlán and soon the Cologne electric vehicle center in Europe, as well as BlueOval City and BlueOval Battery Park in the U.S.

When it comes to co-mingled assets, like our Dearborn Truck Plant, which produces all our F-150s, both ICE and electric, they will initially be in Ford Blue until a vast majority of the facility volume is EV. And then they will move over to Model e assets. We do plan to make disclosures to highlight any EV capital



spending in Ford Blue. Our Ford Pro segment is an asset-light business and doesn't include any manufacturing plants.

Now, our non-manufacturing assets consists of things like building for our employees, cloud computing, land and software. Ford Blue takes the bulk of these assets today for things that are specific to Model e and Ford Pro, as you can see on the slide. In a similar way, JVs are reported by the segment whose business it primarily supports. So in China, for example, our joint ventures with CAF and JMC fall within Ford Blue. The BlueOval SK JV in the US is in Model e. And the Ford Otosan JV in Turkey is in Ford Pro, as it focuses on commercial vehicles for Europe. For all three asset categories, we're going to go through an annual process of assessing segment ownership to ensure best fit. Now, when one segment produces a vehicle that is sold by another segment, an intersegment transaction occurs. The producing segment will report intersegment revenue to recoup the cost associated with the unit produced. It's also going to report a competitive markup or return risk manufacturing, logistics and distribution service. This is to reflect the value add of the assets deployed in making and distributing the vehicle. Now, on a total basis, these transactions have no impact on company revenue, adjusted EBIT or EBIT margin. Intersegment markup percentages in the range are one to 2% of annual inter segment revenue.

Where it falls within the range depends on the region and powertrain typed involved and where the vehicle is built by Ford, or one of our JV partners. The markup amount itself was informed by external benchmarks of similar contract manufacturing relationships. Considering both the business model and the risk profile. Ford Pro will report an intersegment markup expense and all units, given it doesn't produce any vehicles. And Model e will report a markup expense on any unit that is acquired from Ford Blue. An example of this is the F-150 Lightning, built at the Ford Blue Dearborn Truck Plant. Now, we do intend to review the marker percentages annually and adjust them as needed to ensure that they do remain appropriate.

The fifth thing to note is the expanded scope of Corporate Other that John mentioned. This includes activities related to past service pension and OPEB. This does allow for better transparency of the underlying operating performance of the segments and reflects the concept of accountability. And the fact that the business leaders or the business segments can't influence these results. As you'd expect, the current service benefits earned by active employees will continue to be reported in the business segment EBIT calculation. Corporate other will continue to be the home of centers of excellence for teams like treasury, tax and policy, which are all of course shared functions which benefit the whole enterprise.

Now let me turn to what you'll see in our SEC filings. The first thing to note is that our balance sheet and cash flow statement will continue to be reported at a total company level, so there's no change there. In our quarterly earnings deck and 10-Q and K, where we used to provide regional texture, we will now provide information for the three segments, including wholesale units, revenue, EBIT, and EBIT margin. You can see an example of this in our appendix. Our 10-K will be updated to explain the revenue cost, products and assets. How are they assigned to each segment? In line with what I just covered. In the 10-K footnote table, intersegment revenue associated with finished vehicles produced by Ford Blue or Model e and sold by another segment will be disclosed and eliminated before total company. It will not reflect any other intersegment transactions.

We will provide a breakdown of assets and CapEx by segment. Ford Blue will include capital spending attributable to be EVs at shared manufacturing plants. And this amount will be disclosed in a note to the table in our segment footnote. We'll also disclose our total EV capital spending. And provide D&A by segment. Please keep in mind that D&A is allocated in the basis of production volume and is reported in the segment that reports the external sale. An example of this is the D&A expense associated with our F-150 produced by Blue and sold by Pro. This will be included in the intersegment transaction and



reported by Pro. On an annual basis. We'll share wholesale markets with annual sales of more than a 100,000 units or more. In 2022, six markets met this criteria, US, China, UK, Canada, Germany, and Italy. Additionally, we'll share sales and market share information for these same markets. It's worth noting that market share will not be provided by Segment, as there's no industry equivalent to them.

Our goal today was to orientate you on the business rationale and scope of our new reporting structure. And to the key changes in our financial materials and SEC documents. As I hope we've made clear this reporting change is about winning on behalf of our customers and everyone who relies on Ford. It's about accountability, transparency, and fairly representing the performance of each business. We recognize there's a lot for you to digest here and we appreciate your patience as you get accustomed to the new structure and adjust your models. And to help you, we posted videos and a toolkit on our IR website with additional information. And of course you can reach out to our IR team anytime for help.

John, back to you.

John Lawler:

Thanks, Cathy. Okay. So before we conclude, I want to give you some additional color on the three new segments in the context of our overall 2023 guidance for the company. For the year, our full year adjusted EBIT guidance is unchanged at 9 to 11 billion. On a year-over-year basis, we expect a modest improvement in Ford Blue EBIT to around 7 billion. With cost improvements and higher industry volumes, partially offset by headwinds on pricing and exchange. In Model e, we expect to be down about 1 billion to a loss of 3 billion. And this includes an improvement in contribution margins to about breakeven, more than offset by higher investments in our new products and capacity expansions on our F-150 Lightning and our Mustang Mach-E. We expect Ford Pro EBIT to almost double this year, approaching \$6 billion, driven by improved pricing and the launch of the all-new Super Duty in North America and the one-ton Transit custom in Europe. Our prior guidance for Ford Credit remains unchanged. With that, we're now happy to take questions.

Cathy and Lynn, please come back up on stage.

Lynn Antipas Tyson:

Okay. So what we'll do is we'll start with a few questions from the audience. We've got some mic wranglers. Before you ask a question, if you could first say your name and your firm for the benefit of the transcript, and then we'll move to questions online. We got Adam up here.

Adam Jonas:

Thank you. Hi, Adam Jonas with Morgan Stanley. First, just to clarify something, because there's a inconsistency between what you're saying, John, in terms of Ford Model e approaching break breakeven contribution by the end of the year. And in the press release where it specifically says Ford Model e, first generation of EVs approaching breakeven. So I didn't know if you want to clarify that first and I have a couple follow ups.

John Lawler:

Okay, so it's the contribution margin for Model e approaching breakeven by the end of this year. We expect the EBIT of our first generation of EV vehicles to be positive next year. So it's gen one, so it's the Lightning and Mach-E EBIT positive. But overall, we still are making the investments in our second and third generation.



Adam Jonas:

Just so we're clear, your press release, the press release does say something different.

Lynn Antipas Tyson:

The release we said approaching breakeven for first gen.

John Lawler:

Yeah.

Lynn Antipas Tyson:

Contribution margin.

John Lawler:

Yeah.

Lynn Antipas Tyson:

So, the press release, the way you read the press release is correct.

Cathy O'Callaghan:

But Adam, we are only selling first generation vehicles this year, so it is consistent.

John Lawler:

Right.

Adam Jonas:

Well, I was just wondering if there were any other costs. You're obviously spending. Well, so then the question would be is Model e shouldering some burden of gen two, gen three expenses this year?

John Lawler:

Overall, in our Model e business, yes, you have all those expenses coming in. So, when you look at, what we're trying to show is that when you look at the first generation, they're improving. Now you're not going to see that in total Model e because we're continuing to invest on our path to the 8% margin by 2026.

Adam Jonas:

Okay. And just my follow up question would be on the slide eight where you showed the bridge.

John Lawler:

Yes.

Adam Jonas:



From Model e, you had an assumption of price with a negative sign, you had an assumption of IRA with a positive sign and presumably there's some assumption of utilization of your 2 million unit capacity run rate, exit 2026. So is there any way you could help dynamic what you were assuming in price and or IRA and the utilization of that 2 million units to get to that 8% margin? Thank you.

John Lawler:

So, the 2 million units, I think if I understand your question correctly, that's the scale and that's going to drive significant improvement. When you look at that last column, the other, it's three points of that improvement walk from where we were in '22 to '26. And so what we have in there is there's a little bit of IRA in there. But quite honestly, it's too early to understand how much of that IRA is going to flow through to the manufacturers versus the consumers. And in fact, IRA was put in place to build out the growth of the industry. We also have in there, another important thing, raw materials. As we see raw material prices improve, we also expect that we're going to see price reductions. So over time, as the EV business builds out, we expect some price compression. That's all contained in that three points.

Lynn Antipas Tyson:

We'll do the first row first. Go to Rod.

Rod Lache:

Thank you. Rod Lache from Wolf Research. Just first a point of clarification, the 8% margin target and it corresponds with getting to that run rate of volume, it sounds like that is by the end of 2026, that is not a full year 2026 number.

John Lawler:

Correct.

Rod Lache:

So that would be sort of the run rate entering 2027 if I understand that correctly

John Lawler:

Correct.

Rod Lache:

I have two questions, first, if we can maybe clarify the operating leverage at Ford Pro, just because it seems like that's an asset light business and probably has lower structural costs. So any kind of color that you can provide for us on as that business grows, how should we be thinking about the incremental margins for that business?

And then secondly, on the Model e business, looks like back of the envelope, your structural costs may be going up to something like \$16 billion from \$3 billion right now. If the business doesn't scale up to that one and a half to 2 million, or if it doesn't scale up to that volume, what are the levers that you're more inclined to take? Would it be more on the pricing side? Or would you have some latitude on the structural cost side?

John Lawler:



I'll start with the second question first. As we go through the path to 2026, as we see how demand is developing and the ability to scale, we would make adjustments on the rate and flow of that, as well as looking at what we would do on the top line. So I think Rod, we would be looking at all the levers to get to that 8%, depending on how the market evolves.

Rod Lache:

Okay.

Cathy O'Callaghan:

I can take a question on the cost side. The way we have developed the model, is that each business segment will fully reflect in their absorption the full income statement cost and their share of it. So we think about the leverage that we showed on the page for Pro. There's quite a lot of leverage between '22 and '23. And what is driving that leverage? Well, as John mentioned, we're launching the new Transit Custom in Europe and we're launching a brand new Super Duty. So we're going to get increased volume, and we should also get price in this year as well. So Ford Pro has not been an advantage from a cost side because it's asset light, in fact it's taken a charge because it doesn't own any assets.

Rod Lache:

Okay, so you're reflecting the structural costs-

Cathy O'Callaghan:

Yes.

Rod Lache:

... actually in Ford Pro as well. So that leverage wouldn't be that different from.

Cathy O'Callaghan:

Correct.

Rod Lache:

Thank you.

Lynn Antipas Tyson:

Start on the second row. Colin, Chris.

Colin Langan:

Oh, thanks. Colin Langan from Wells Fargo. If I look at slide eight, and I see you have a negative 20% margin and you take out scale, it's still the... Well, you have negative 40% margin, you take out scale, it'd be at negative 20, that's a \$11,000 loss per vehicle even without scale. So, to get to an 8%, you need something like, roughly at current pricing, \$15,000 of cost savings. What gives you confidence that you could take that much cost on a vehicle? Was any of this based on raw material prices going down? It just seems like quite a big number given how much that is.



John Lawler:

So raw material prices is in the other column. So when you look at those two columns around design and engineering and battery, that's pure, without raw materials. So that's why we did that, we want to show what that is.

Look, it's about the talent we have. We all know there's one profitable EV manufacturer. The folks that design those vehicles are at Ford. It's a whole new way of how we're designing vehicles, very much focused on energy efficiency. Every decision is about optimizing energy efficiency, so that we can get the smallest battery possible to hit the range target that we have for that vehicle. And that's significant. Aero, the integration of all the systems, et cetera, et cetera. We have the people at Ford that know how to do that.

And then you have to talk about simplicity, maximizing commonality and reuse. We're not going to have a plethora of top hats. That's not how we think you can be successful in the electric vehicle business. And simplicity is key. Simplicity of design, simplicity of manufacturing. And we believe that there is at least 10 points, 15 points of margin improvement in that. And that'll come through on our second generation vehicles, and on the third generation vehicle we've already started. And we're not waiting for that, we're applying some of those principles to our first generation vehicles as we improve those this year and next year. So that's how we plan to get there. We've got the right people, we've got the right process. It's a whole new way of designing these vehicles.

Colin Langan:

And then on slide 17, you talked about shared costs. Any way to frame that? Because it actually is pretty important, because I think you're allocating it based on units, and EVs are about 2% of your units this year. So that means as you get to 2 million, a whole ton of those costs will start shifting into Model e, right?

Cathy O'Callaghan:

Yes. The way we think about the cost, first of all, you have the unit economics, so you have the material, the bill of material, you have the warranty expense, you had the freight costs, et cetera. But they're pretty much VIN specific, broadly VIN specific. When you think about our structural costs, we have the labor and overhead, and that is particular to a production facility. So you know pretty much your labor and overhead by the vehicle that you've produced. And then you have the mixture of the other costs, things like direct engineering, that goes with a product program, things like depreciation, amortization expense, it goes with the product programs. You know many of these costs.

So if you look at the total structural costs, about 40% of them are shared, and it's mainly in the SG&A category, like IT, administrative expenses, et cetera.

Lynn Antipas Tyson:

Emmanuel.

Emmanuel Rosner:

Thank you so much. Emmanuel Rosner from Deutsche Bank. So first, just trying to better understand the walk on the contribution margin side. Obviously, it's a pretty bold or impressive statement to be already approaching breakeven. So first a clarification, are you approaching breakeven on the Model e on a full year basis, which I think is what you said when you're talking about the '23 outlook? Or is this an exit rate at the end of 2023?



John Lawler:

Exit rate as we come out of '23.

Emmanuel Rosner:

Okay. Can you give us some sense of what this contribution margin looks like as the starting point, so that we understand how important it is within the walk? I guess what I'm trying to reconcile, I think middle of last year, so Jim Farley was asked about this and essentially saying, "Look, it costs us about \$25,000 more to build a Mach-E than the equivalent ICE SUV." And then basically six months later or so, you would be basically talking about approaching breakeven, which just seems like a very favorable walk for unit economics. Can you give us a starting point? What was the last per unit as of last year? Or what would you expect it to be this year?

John Lawler:

Yeah, so I'm not going to parse out what the contribution margin is and what it's going to improve by. We have a significant amount of effort on identifying cost reductions on our current vehicles. Now, we all know that these vehicles we moved quickly on, because we wanted to be a first to market. They're basically ICE vehicles, ICE designs that were converted to EVs.

And when you look at the tear down, many of you have seen the tear downs, many of you have seen the competitive comparisons. There is a significant amount of opportunity in there to identify efficiencies and drive those home, and that's what the team is working on right now. And so in doing that, what we're saying is taking those costs out will drive us overall from Model e to an exit rate this year of about contribution margin breakeven.

Emmanuel Rosner:

Okay. And then I guess as a follow-up on Ford Pro, so expectations to double the EBIT essentially this year too. But \$6 billion, you spoke about the factors being pricing and then the launch of new vehicles. How would you expect this to progress as the mix shifts more towards EV? Do you start getting some of that pressure since right now, let's say Model e is less profitable than Blue? Or is it sort of like this different dynamics within Pro, either in terms of pricing, or customer relationship, which would make this strong Pro performance more sustainable?

John Lawler:

So when you look at the Pro business, it's a gem that's been hidden within Ford. Many of those vehicles, they're tools, and the ICE and diesel and hybrid versions are going to be around for a while. Yes, the electric versions are going to grow. There's good margin in the electric vehicles on the commercial basis. So we expect that as Ford continues to build out the growth of not only the products, but also the services that we're providing them. And then on top of that, the software service, telematics, fleet management, charging software, et cetera, that we're able to have a growth business within Ford Pro for the foreseeable future.

So I think you have to take all those elements together as you look at Ford Pro and the opportunity there. We have doubled the share of any of our next closest competitor. And remember that 44% of GDP in this country is by small and mid-size companies, and we provide them their most important tool. And so there's a lot of opportunity in there for us to grow our service business, grow our software businesses as well.



Lynn Antipas Tyson:

Emmanuel, you still have the mic, or no? Okay. Did you just pass it down? Yep.

Mark Delaney:

Thanks. Mark Delaney from Goldman Sachs. Appreciate you having me and doing this presentation. Question on Ford Blue. The margin in 2022 was 7%. I think the implication to get to 10% exiting 2026 for the company overall, Ford Blue would also be a double-digit margin. Maybe talk a little bit about how to think about the path of margins in for Blue. What gets it to that double-digit EBIT margin?

And maybe also talk about the longer term margins in that segment. As you think about managing mix shift from internal combustion engine and hybrids more towards EVs, how do you keep margins in Ford Blue at an attractive level? Thanks.

John Lawler:

So Ford Blue, when you look at that, we still believe it's a growth business. We see growth in that business. We've pared out the unprofitable vehicles. We now have our core iconic vehicles. We see growth in there through derivative strategies. We've got Raptors, we've got Tremors, et cetera, et cetera. And there's a lot more to come in that space.

Low capital investment, very good margins. Though that's the play for us in Blue. Additionally, we've talked about the fact that we have a significant amount of cost opportunity, and a lot of that is in the Blue business, and that's where you'll see that come through as well, so all of that's going to be accretive to margin.

Lynn Antipas Tyson:

Okay. We'll have John and then... Okay.

John Murphy:

John Murphy, Bank of America. Two quick ones. To follow on to that, you're talking about 2 million EVs on slide nine in 2026. I'm just curious, you've been traveling around 4 million units for the last couple years. Do you think you're going to do 2 million units of ICE vehicles in 2026 and there'll be some cannibalization here? Or do you think these 2 million units of EVs will be additive to that 4 million units? How do you think about where your growth will come, in total or will there be canalization?

John Lawler:

So we see the EV business as a growth business, John. And I wouldn't say that a 100%'s going to flow through. About 60% of those customers are new to Ford today, 60% plus. Now over time, that will start to come down. But we do see the EV business as additive, not at a 100%, but additive to our ICE business.

John Murphy:

Okay. And then just a second question. One of the things, there's kind of a circular reference of learnings between ICE, the Model e and the Blue business. On the Blue side, you're learning that you can produce a lot fewer name plates and make a lot more money. As we go through this transition and grow the EV business, what are the number of nameplates roughly that you think you're going to need? We're not



going to see nameplate proliferation here. Are we going to see something around four or five core platforms? And actually, that's really where the scale just comes through, whether it be EV or ICE?

John Lawler:

Yeah, we're not going to see a proliferation of nameplates, absolutely. Right. We're laser focused on capital efficiency. You're going to see us in segments where we think we can offer a differentiated and unique product. And so we're not going to play deeply in the segments where we believe it's going to be commoditized. We're going to play in the segments where we have strength and where we see that we have the opportunity to offer something unique.

And so I'm not going to give you the number of products that we'll have, but it's much less than what you've seen traditionally from the OEMs. That's a cornerstone of our strategy. A few platforms, a few top hats off of that, large scale, large leverage.

Lynn Antipas Tyson:

Do you want to just talk a minute about derivatives for Blue?

John Lawler:

Yeah.

Lynn Antipas Tyson:

Okay.

John Lawler:

So derivatives for Blue, as we had talked about earlier, that's key. So you look at the platforms we have now, and the derivative strategy is powerful. Raptor, what a great franchise. Tremor, what a great franchise. And there's more to come. Those vehicles, it's low capital investment, high margin, high returns. So we're going to keep that strategy going across all of our segments, where it's appropriate.

Lynn Antipas Tyson:

In front. Here we go.

Jairam Nathan:

Yeah. Jairam Nathan from Daiwa. I just wanted to dig a little deeper on Pro's other services' business. If I look at the intersegment, external revenue of Pro, and then the intersegment revenue of Blue, and assuming most of that goes to Pro, is the difference between that profits, SG&A and service business service?

Cathy O'Callaghan:

That bidding to segment revenue that is recorded in Blue, as you said, is mainly for vehicles that it sells to Pro. What's included in that inter segment revenue is the production bill of material, it's the labor and overhead, including depreciation & amortization expense, the inbound freight in the market. That's what you see in that inter segment revenue. The other costs that I talked about are recorded, they're not part of the inter segment revenue, but they are absorbed by the business.



Jairam Nathan:

Can you talk a little bit about what was the percentage of Pro right now, versus these services and parts of the market?

John Lawler:

We're not breaking that out. But what we will do, is when we get to Capital Markets Day, we'll start to frame up what we see the potential there from a size of the prize, if you will. So there'll be a lot more to come at Capital Markets Day around those opportunities and the strategy around that. Okay.

Jairam Nathan:

Last question is, I think I heard you very early on mention, used the word, "sum of the parts," and that's usually associated with a spinoff. So is the plan ultimately to spinoff, somehow separate these businesses, spin it off?

John Lawler:

So, we are not auditable and investible with the segments. They're not. We think their strengths with the interdependencies of them, the manufacturing capability of Blue, the digital platform and software that's developed one, and then the services type businesses that are developed out of Pro. So, there's no intent here to do auditable and investible. And in fact, to walk there would be a significant lift.

One example of that is that we would have to have separate dealer agreements for all three segments if we were to go to auditable investible, that's a huge lift and there's many more. So we think that by taking that next step, we'd have less efficiency within the company, and we'd have less strength through the interdependencies that they have.

Lynn Antipas Tyson:

We got James. Start the third row.

James Picariello:

All right. James Picariello, BNP Paribas. Thinking about Model e's 8% margin target run rate by the end of '26, and forwards, the 2 million global EV production run rate over the same timeframe. Based on the nameplates, the EV nameplates that'll flow through Model e, on an external basis, excluding all China JV builds and all commercial EVs. Relative to that 2 million target, what would be associated to Model e on an external reported basis? Can you share, help to mention? Because the Model e external revenue, external wholesales will exclude all commercial EVs and the China JVs, right?

John Lawler:

Yeah.

Cathy O'Callaghan:

I'm not sure I can pull that number out of my head right now.

John Lawler:

Yeah. Let us get back to you on that. We'll figure out a way to get that out there. But right now, we can't offer you that.



James Picariello:

Okay. And then any color on the 10 points of margin improvement tied to battery pack or battery costs? What your assumptions are?

John Lawler:

Sure. Vertical integration's key to that, including the JVs that we're forming. But there's also opportunity we see in pack design. Then key to that will be chemistry diversification. When you look at NCM relative to LFP, LFP has a much lower cost structure. Quite honestly, the characteristics of the LFP battery aligns with our commercial vehicle business much better, higher density, you can charge it multiple times, less degradation, those types of things. Then there's other chemistries that we're developing as well.

When you take vertical integration, pack design, chemistries, that's how we get to the 10 points.

Lynn Antipas Tyson:

Now Mike.

Mike Ward:

Thanks very much. Mike Ward at Benchmark. Just as a point of clarification. As we look out, you mentioned about two million units of capacity in Model e. If we follow the same ratio, it's going to be about 30% of those vehicles will be sold to Ford Pro. Is that about right?

John Lawler:

Ballpark, you can think about it like that.

Mike Ward:

Will those wholesale units be included in Ford Pro or in Model e?

Cathy O'Callaghan:

Yes, they'll be in Pro.

John Lawler:

But what we will do is we will show the wholesales for each of the segments, but we will also show, and it's in the appendix, what the total EV sales are.

Mike Ward:

Got it.

John Lawler:

You can see that in the data sheet that's there.

Lynn Antipas Tyson:

You'll be able to foot to the two million.

John Lawler:



Yeah.



Mike Ward:

Okay. Then the second thing is, as it relates to Ford Pro, it looks like last year it was \$36 billion of intersegment or intercompany sales, and then the markup was \$13 billion to get to the revenue number. Are there other services included in that revenue? What other costs will Ford Pro have to absorb? It sounds like most of unit costs are included in the intersegment transaction.

Cathy O'Callaghan:

I'll just go back to what's in the intersegment revenue. It is in the slide. It shows you what's in that intersegment revenue calculation. As I said that Ford Pro will absorb its fair share of all the costs, and then they get charged a fee. That's also in the data sheet. You can see in there it's roughly almost half a billion dollars of fee that it could charge in 2022 associated with vehicles mainly built by Ford Pro.

Mike Ward:

Okay. There's the markup and they still have costs that they have to absorb.

Cathy O'Callaghan:

They do. Exactly.

Mike Ward:

Thank you.

Lynn Antipas Tyson:

Over to Dan.

Dan Levy:

Thank you. Dan Levy, Barclays First. Just wanted to ask about a couple of the intersegment dynamics. You're currently using EVs for compliance purposes, so what's the dynamic of using EVs for GHG compliance? Is there any intersegment transfer?

Then I think we've also heard about in the past the notion of repurposing ultimately some of your engine or transmission capacity to ultimately support drive units, which would be for EVs. To the extent that you pursue that route, again, what is the intersegment dynamics?

Cathy O'Callaghan:

I want to be really clear, there are no intersegment markups for selling a unit between each segment for GHG purposes. This is extremely transparent. What you see is what you get. The only fee is when one vehicle is produced by one segment that'll be sold by somebody else. There's no other transfers associated.

John Lawler:

We're not selling credits.

Cathy O'Callaghan:

We're not selling credits between one segment and another.



Cathy O'Callaghan:

The reason we're not doing that is that then the EBIT and the returns would not be transparent. The whole point of this is this transparency and accountability.

Dan Levy:

And the transmission question?

Cathy O'Callaghan:

What's your transmission question again?

Dan Levy:

The notion that eventually we could see some ICE manufacturing footprint transitioned to sport drive units, EV components, what's the intersegment dynamic around that?

Cathy O'Callaghan:

There isn't one. It's basically at cost.

John Lawler:

When the asset moves over and we convert the plant from what might've been a transmission to, let's say, an e drive, that asset will go over and then that will all be within Model e. There won't be any transfer between the two.

Dan Levy:

Okay. Thank you. Then the second question is, maybe you could just talk about KPIs and incentive structure for employees within the two segments. What are the different metrics that you're going to be managing to within those segments? I guess it just gets to the question of employee morale specifically within Blue, because that's presumably where more of the cost cuts are coming from.

John Lawler:

Yeah. Each of the business units has clearly their income statement, their bottom line targets. They have their quality targets, they have their customer satisfaction targets, and in multiple KPIs that we're tracking across each of the business. Some are common, some are different. But then it all rolls up into corporate level.

For the leadership team, we're moving into where our long-term incentive compensation's going to be all based on relative TSR to an industry peer group. That's for each of us to deliver on in total.

The way we'll do the compensation is they'll have their targets. We have a corporate target, and then there's going to be an individual performance factor that will be there for everybody that is eligible for the annual performance bonus. The targets in there are going to be around EBIT margin, quality, EV retail volume growth. We also have in there growth of our connected services. So those are the types of metrics that will be part of our compensation plan.

Lynn Antipas Tyson:

Brandon right here. Thanks.



Ivan Feinseth:

Hi, Ivan Feinseth, Tigress Financial Partners. Thank you for taking my question. But what about investments in charging infrastructure, and also are there going to be requirements that dealers make investments to be able to sell the EVs and then also invest in their charging infrastructure and capabilities?

John Lawler:

Those decisions will be part of our capital allocation process, and it'll be part of the growth plan for Model e. We would make that decision based on the best use of capital and the highest returns. Each of the businesses will need to come in, because capital will be allocated at a corporate level, which you'd expect, and they will need to come in and give us the business case and the return on that capital that they expect. Then we'll be able to hold them accountable for that. Capital allocation's going to be a key part of how we manage this, highest best use.

Ivan Feinseth:

Okay. Then let's say you made a lot of R&D investments to bring to market the EVs that you have and you're going to continue to make that as you go through the ramp up. Can you give a breakdown in R&D expense so we could kind of understand? As going forward, once you made those investments, that will be a big driver of margin expansion, right?

John Lawler:

From a standpoint of going forward, a level of breakout on the expense in R&D, we'll provide what's relevant. Right now, we've said we've got \$50 billion of investment going into our EV business. We've broken out how much of that about is for batteries. We talked about BlueOval City. So we'll provide color that we think is relative and important. Of course, if we make a big decision around that, then we would share that as we make those announcements, if we were to make a big decision around charging or something else.

Ivan Feinseth:

Okay. Thank you.

Itay Michaeli:

Great, thank you. Itay Michaeli from Citi. Just one question on Ford Pro. Maybe just talk about what drove the strong 10% Q4 margin. Looks like previously margins were in the mid-single digit in flex to 10%, and that seems like that continues and maybe even grows in 2023. Maybe just kind of what changed there?

Cathy O'Callaghan:

Yeah, we had quite some volume and mix improvement between Q3 and Q4. We were hampered in the first part of the year a little bit with supply constraints of Ford Pro, and we had strong volume and mix in the fourth quarter, as well as some of the favorable pricing that we took early on in the year, many of those commercial contracts are fixed, and at the end of the year, we started renewing some of those contracts. We also saw some improvements come through pricing too.



Itay Michaeli:

Great. Thank you.

Lynn Antipas Tyson:

Okay, I think we'd like to go to the ... Chelsea, if you can open up the line for questions, please.

Chelsea (Operator):

Yes, ma'am. As a reminder, that is star one to get into the queue. Our first question will come from Philippe Houchois with Jefferies. Your line is open.

Philippe, please make sure you're unmuted.

All right, we'll move to our next question from Patrick Hummel with UBS. Your line is open.

Patrick Hummel:

Yes, thank you. Good morning, everybody. I have a accounting-related question. This whole exercise now, is that leading to any asset impairments or write-downs that will be below the adjusted EBIT line as a special item this year? If so, could you just help us quantify what the impact on recurring DNA going forward would be? Thank you.

Cathy O'Callaghan:

Yeah, so let me comment first of all. As we talked about a little while ago, many of these assets which are currently ICE will transfer over to Model e. For example, we are in the process of converting our Cologne production facility, currently Fiestas to producing our new Explorer EV that we announced this week. That plant will go from being a Blue plant to a Model e plant later on this year. We got many examples of that in, for example, Oakville in Canada, for as well as some of our component plants.

What we will do is test for impairment, obviously, in a quarterly basis. We'll be looking at this for Blue specifically. We'll be doing that by region basically for North America, Europe, and the rest of world. So we'll be regularly looking at any impairments, but our expectation is that many of these assets are going to move from Blue into e.

Lynn Antipas Tyson:

Okay. Can we poll and see if there are any other-

Patrick Hummel:

Thank you. Yep.

Lynn Antipas Tyson:

... questions online?

Chelsea (Operator):

As a reminder, that is star one to ask a question. We have no further questions in the queue.

Lynn Antipas Tyson:



Okay. Thank you, Chelsea. Why don't we take one more question from the audience here? I can't believe there isn't one more question. Okay, Adam.

Cathy O'Callaghan:

You started, Adam. Are you're going to close too?

Lynn Antipas Tyson:

Go to Adam.

John Lawler:

You're going to close with Adam.

Lynn Antipas Tyson:

Good. Make it good.

Adam Jonas:

I just want to confirm that on the incentive structure, you're not reporting any changes of management compensation and incentive structure along with the reorg. I understand about the KPIs, but there's been no fundamental change to this?

John Lawler:

No fundamental change.

Adam Jonas:

Okay. Then just finally, just from a unit perspective, I view that the production of EV vehicles at Blue sold the Model e. If I use for example the Lightning, okay, over time that will get transferred. But while there's that transfer price of an EV vehicle made by Blue and sold to Lightning? Assuming that it's at a loss right now, would Ford Blue bear any of that loss or would that loss be entirely at Model e?

Cathy O'Callaghan:

It'll be in Model e. If it's sold to Model e, it'll be in Model e. If it's sold to Pro, it'll be in Pro.

Adam Jonas:

Okay. Even if it loses money like that, the producing company will be as compensated

John Lawler:

Yeah.

Cathy O'Callaghan:

Yeah. We are not going to have one business unit subsidizing others.

John Lawler:



That's right. The cost for that goes, they get a markup for their value add and that's it. The unit that sells it bears the full bottom line impact.



Lynn Antipas Tyson:

Great. Okay. What? Ah, one more question online. Okay, let's go online. Thanks, Christina.

John Lawler:

But we wanted to end with Adam.

Lynn Antipas Tyson:

I know. I know.

Cathy O'Callaghan:

We closed.

Lynn Antipas Tyson:

I know. Okay, last question.

Chelsea:

All right, our next question will come from Philippe Houchois with Jefferies.

Philippe Houchois:

Yes. Good afternoon. Good morning. I hope you hear me this time. Sorry I missed in the webcast. My question was on , as you prepare to launch the Explorer in Europe based on the MEB platform for Volkswagen, I assume this is in your thinking, a second generation EVs. Could you give us an indication of the contribution of this new generation as you launch it will effect it later in the year and compared to the first generation you incurred in the Mach-E and the Lightning? Thank you.

John Lawler:

When we talk about first generation, second generation, third generation EV, that's Ford specific, not EVs that we might have developed with one of our partners. We don't see the MEB as a second generation relative to a first generation. It's a different platform, etc. That's how we're thinking about that. We haven't provided any details on that other than what was provided in the launch. There will be more to come, but we're not going to share anything right now.

Philippe Houchois:

Right. But this will be still consolidated within Ford Model e, in the Cologne plant.

John Lawler:

Yes. Cologne is part of Model e, and the vehicle will be part of Model e.

Philippe Houchois:

Great. Thank you very much.



Lynn Antipas Tyson:

Okay. Well, I think that wraps up the webcast. Appreciate everyone who has joined. As Cathy said, if there are any follow up questions that you have, please don't hesitate to reach out to the IR team, and we really appreciate your participation today. Thank you.