Ford Motor Company

Moderator: Ford Executives
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OPERATOR: This is Conference #1360173

Operator: Good day, ladies and gentlemen. My name is (Holly), and I'll be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company Fourth Quarter and Full Year 2020 Earnings Conference Call. (Operator Instructions) At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please go ahead.

James Farley: Lynn, you're on mute, if you can unmute. Thanks.

Lynn Tyson: Thank you. Presenting today are Jim Farley, our President and CEO; and John Lawler, our Chief Financial Officer. Also joining us for Q&A is Marion Harris, CEO of Ford Credit. Jim will make opening comments. John will talk about our fourth quarter and full year results, and then we'll turn to Q&A.

Today's discussion will include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck, which can be found along with the rest of our earnings materials@shareholder.ford.com.

Today's discussion includes forward-looking statements about our expectations. Actual results may differ from those stated. The most significant factors that could cause actual results to differ are included on Slide 30. Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS and free cash flow are on an adjusted basis, and product mix is volume weighted.

A quick update on our upcoming IR events. On Tuesday, February 9, JPMorgan will host our post earnings fireside chat, featuring Chief Product Platform and Operations Officer; and John Lawler. On February 24, Jim Farley will keynote at the Wolf Global Autotech and Mobility Conference.

On February 25, Bob Holy Cross, Vice President of Sustainability, Environment and Safety Engineering, will speak at RBC's inaugural ESG Conference, highlighting how our achievements in sustainability will benefit our customers, the planet and create a competitive advantage.

On March 10, Stuart Rowley, President of Ford Europe General Manager, Commercial Vehicles for Ford Europe, will participate in the Jefferies Auto Conference. And on March 23, Bob (Holly) will speak about Clean Technology at JPMorgan's Global ESG Conference. Lastly, we continue to target late spring for our Capital Markets Day, and we'll provide more details on that later. Now I'd like to turn the call over to Jim Farley. Jim?

James Farley: Thank you, Lynn. And thanks, everyone, for joining us today. Last year was like no other, with COVID dramatically and tragically affecting all of us. But tough times can bring out the best in people, and boy was that true at Ford.

I'm really proud of how our people mobilized with speed and resolve to respond to this crisis. We harnessed our capabilities, and we developed a lot of new ones. Our team members put others above themselves in both returning to work, but also to make life-saving equipment.

And I'd like to share just a few highlights of our pandemic response, including our new finished strong initiative, to help limit the spread of the virus and save as many lives as possible until this pandemic is under control.

To date, Ford has manufactured 55 million medical-grade masks. And by midyear, we will have donated 100 million masks. In partnership with the UAW, we've also produced 20 million face shields, 50,000 patient ventilators, more than 32,000 powered respirators in collaboration with and 1.4 million washable isolation gowns.

More to the point of today's call, we relied on the same grid and resourcefulness to deliver a very strong year financially under difficult circumstances. We improved our execution while putting in place a specific and compelling plan, while backed by some important early actions that are transforming forward into a far stronger company.

A company that competes and wins on behalf of our customers and other stakeholders in this exciting new landscape, which will be defined by electrification and connected customer experiences.

After safely and smoothly restarting our manufacturing production in May, following last year's shutdown, we sharply rebounded in the second half of the year as we rebuild our inventories to meet strong pent-up demand. In fact, we more than doubled our second half adjusted EBIT from the year before, yielding a 7.3% adjusted EBIT margin. In the fourth quarter, we successfully launched 3 incredibly important vehicles that exemplify our new Ford and our direction.

Our first all-electric Mustang Mach-E, which we and more importantly, others believe is the first credible mass market competitor to Tesla. And the F-150, the 2021 F-150, America's favorite vehicle, it's now connected. You can sleep in it, you can work in it. It's incredibly capable, and it is such a fantastic product.

And the Banco Sport. The first member of our reimagined legend dairy Bronco brand, which has generated as much excitement as anything to come out of Detroit in my career. Now as we recap last year's results and discuss expectations for this year and beyond, I want to underscore that everything we do is in service of our plan. Simply put, we're seeing real improvements in our core automotive business, and we are laser-focused on further progress this year.

Now this includes growing the company, generating consistently strong free cash flow for our core automotive business as well as Ford Credit. We will allocate that capital to its best and highest uses for creating sustained value to achieve that we are competing like a challenger now, earning customers and must have products and services and rewarding customer experiences.

We're moving with urgency to deliver leading quality, reducing our costs and restructuring underperforming businesses.

We will start to grow again, but most importantly, in the right areas. Allocating more capital, resources and talent to take advantage of our strength in pickups, commercial vehicles and utilities, being a leader in the electric vehicle revolution around the world, where we have strength, but also where we have scale; expanding our leading commercial vehicle business with a suite of software services that earns loyalty and generates reoccurring revenue; and incubating, then scaling than integrating new businesses, some of them enabled by Argo AI's world-class self-driving system.

Today, I'll touch on a few of our plan highlights with emphasis on capital allocation, electrification and connectivity. Back in 2017, vehicle lines that accounted for just 60% of our company's revenue generated 150% of our EBIT, and most of the vehicles generating that EBIT earned a multiple of the cost of capital.

This imbalances simply not sustainable. And we immediately began reshaping and rebalancing our business. We allocated capital to our strengths. We underperforming assets. We created a more focused portfolio and built the financial flexibility to unleash significant untapped value at Ford.

We've already made a tremendous progress. Through last year, we've invested $7.1 billion in EBIT and $1.6 billion in cash in our global redesign, reshaping our portfolio, our geographic footprint and our industry footprint.

In the first phase of a redesign in Europe, for example, we prioritized profitable growth in commercial vehicles, where Ford is the #1 vehicle brand in the region, but also a smaller, more targeted portfolio of passenger cars in the strongest segments and exciting imports like Mustang and Edge that built our brand and make a solid return.

We shrunk our manufacturing footprint in Europe. We reduced regional headcount by 20%. We lowered our annual structure cost by $1.1 billion through last year. And in the fourth quarter, Europe delivered its strongest quarterly profit in more than 4 years, achieving an EBIT margin of 5.8%. Let's turn to South America.

We've lost more than $4.5 billion over the last decade in South America, not acceptable. In 2020, we exited our non-core heavy truck business in the region. We discontinued focus on Fiesta. And we further reduced headcount, in fact by more than 40% through the end of last year.

And with these actions, last year, we posted the smallest loss in South America since 2013. And then in early January, we went further. As Ford Brazil announced it would end production and close 3 facilities, that decision will derisk our business by concentrating it on a more profitable asset-light model on our industry-leading Ranger pickup trucks. our transit commercial vehicles and key imports.

We remain committed to serving our customers in Brazil and South America, but now with the portfolio of exciting connected and increasingly electrified pickups, including this amazing new Ranger and commercial vehicles, sourced in Argentina and Uruguay and other markets.

Now we didn't take these actions lightly. And Ford is working with all of our stakeholders in Brazil to mitigate the impacts of these decisions. At the same time, we know they were right and necessary. And we're optimistic about our new business model for South America. Now before John walks through the last year's results and how we see 2021, I want to update you on Ford's connectivity and electrification plans.

2021 is a strategic inflection point forward. We have hundreds of thousands of fully network vehicles now in the field. And now we're seeing the evolving institutional capability inside Ford to leverage that data, streaming off those vehicles and also use our over there updates to improve quality and revolutionize the for customer experience.

And importantly, that means commercial vehicles too, and customers. We have more than 100,000 subscribers to our telematics and commercial vehicle software business, we call Ford Commercial Services, and we are just starting.

Ford's development and delivery of connected vehicles will be enhanced by a new 6-year partnership with Google that we announced earlier this week. The 2 companies are establishing a collaborative group that we call team upshift to not only unlock personal consumer experiences but to create and make the most of data-driven opportunities in our industrial system.

The partnership will greatly enhance the Ford team's ability to innovate and deliver a consistent world-class consumer experience and as well provide forward with a powerful technology and tools to modernize our manufacturing, our supply chain management and speed our implementation of the data-driven business models and innovation across our whole company.

Now as I said a few minutes ago and many times before, Ford will be a leader in electric vehicle revolution around the world. We will do this in areas where we have strength and great scale. It's early in the transition, but the trend is clear.

We watched 1 out of 10 vehicles sold in Europe in December, be pure electric. EV sales in China continue to grow, and the reality is that customers including in the U.S., are increasingly giving e-mobility greater consideration. We have no intention to see ground to other in vehicle segments where Ford is the established leader.

We are rapidly building on our electric vehicle plans and building out our manufacturing and our R&D capabilities. We're also increasing financial flexibility so we can accelerate and flex to keep pace with the evolving EV needs of our customers.

Now the Mustang Mach-E, our first dedicated BEV platform, which last month was named North America Utility of the Year, embodies how we lead in electric vehicles. It's on sale now. It has stunning design. It is a fully connected and ready for the updates with a tremendous technology experience.

It's delivering high-quality, exceptional performance at a price in the mid-30s. It's a fantastic vehicle, which also happens to be a full battery electric. And there are many more dedicated BEVs like this one that are coming in. As you know, Ford is a global leader in commercial vehicles.

And we're on the leading edge of the electric revolution there too. We are the first company to announce plans for an all-electric van and an all-electric pickup truck. With the E-Transit coming later this year, it has 3 different lengths, 3 different heights. We have a van, a strip chassis and a cutaway, and there's more coming on E-Transit. And then we're going to launch the BEV F-150 in the middle part of next year.

In a recent study by Cox Automotive, they showed that the all-electric F-150 was the highest consideration rate and is the most appealing among major EV pickups are coming to the market. Our successful Ford Transit franchise is a critical pillar of our electrification plan.

We understand the needs of these customers. We're going to offer a wide variety of configurations that I mentioned, and we are developing not just the vehicles. But a whole suite of connected vehicles to serve them, connect -- to services. For instance, we know from our leadership position that the average daily route driven in a Transit is 74 miles. And they do not overbuy batteries.

We validated that with over 30 million miles of telemetry data from our Ford customers. Now with that data, we can forecast and optimize the battery life and provide over the alerts. So when the vehicle needs service before anything fails for 100% uptime, we can do that.

That stays on the road, working, where it belongs. Those are just 2 of dozens of examples of how we're employing and using data to help our commercial customers be safe and more efficient and to make more money, while at the same time, creating an incredibly competitive advantage for Ford.

The value proposition for our customers extends to customizing vehicles interiors, digital experiences, ease service networks to maximize uptime and lower their operating cost. These are very sticky annuity-like capabilities that remove pain points and create opportunities for our customers.

No commercial vehicle provider is better positioned than Ford to innovate and introduce services like these at scale. We are accelerating our plans right now, breaking constraints, increasing battery capacity, improving our costs and getting more battery electrics into our cycle plan.

We are now planned to invest at least $22 billion in electrification in the next few years through 2025, and that's just electrification. When you include the spending on autonomous driving, our total commitment is at least $29 billion.

The majority of our investment in electrification supports a widening portfolio of BEVs on platforms from both Ford and alliance partners. This electrification number does not even include the potential, of course, for vertical integration of battery production, whether alone or in a JV.

As the size of our ICE manufacturing footprint decreases, the scope of our dedicated global BEV manufacturing capacity is now growing. So far, we're busy, and we're included a whole new facility in Dearborn at the Rouge to make the electric F-150. We're building the Kansas City facility for the E-Transit. Oakville, Canada for several battery electric SUVs.

And in China and Quatela, Mexico for the Mach-E, and there's a lot more to come. Our team is busy. Thanks for your time and attention. And as you can hear, I'm very excited about our future. John will now talk about our results in more detail and outlook for the year. Over to you, John.

John Lawler: Thanks, Jim. So when you analyze our fourth quarter results or even our second half performance last year, it's important to key in on the durable changes we've made to our underlying earnings power, including an automotive business increasingly positioned to sustainably generate strong free cash flow.

Right now, our year-end liquidity of nearly $47 billion, provides the financial flexibility to opportunistically invest in growth and even accelerate investments if we choose to in key areas like electrification and connected services.

And at our 8% company adjusted EBIT margin, the target that we're aiming for, we believe we can generate healthy annual free cash flow to fuel our growth. And when we initially set our 8% target, the secular forces accelerating today were still in their infancy.

EV penetration at scale was years out. Connectivity and digital services were still nascent And autonomous vehicles will -- they were still largely in labs. So you fast forward to 2021, and the landscape is vastly different and so are the calls on our capital. Our goal remains to hit the 8% margin and in doing so, to reallocate profit and capital from a far healthier core business to exciting growth opportunities that will unlock long-term value.

So let's take a look at the fourth quarter performance. In automotive, both wholesales and revenue declined by 9%. While a lower industry influence both of these metrics, so did the plane changeover in North America to launch our all-new 2021 F-150. Our initial estimate was for a decline of 100,000 units, and we came in right on that number.

Fourth quarter revenue benefited from broad-based gains in net pricing and product and series mix, especially in North America and Europe. Let's take a look at our individual regions in a bit more detail, starting with North America. The North American business offset some of its decline in top line metrics with continued growth and an increase in mix of commercial vehicles.

Together, volume and revenue of Transit and super duty vehicles were up 14% and 24%, respectively. With the launch of the new F-150 now complete, we're building every vehicle we can. EBIT was $1.1 billion, up 53% with a margin of 4.9%.

This growth was driven by excellent yield management and the non-reoccurrence of the UAW contract cost in the fourth quarter of last year, all of which was partially offset by the lower F-150 volume I mentioned. In South America, wholesale and revenue declined 15% and 10%, respectively, reflecting industry softness and forward share losses as we refocused our portfolio on strengths and arranger pickups, Transit van and key imports.

On a full year basis, Ranger gained 1.8 points of share to 15.6%. Revenue performance in South America was better than wholesale, as we took aggressive price actions to offset inflation and currency pressures. As Jim mentioned, in 2020, we exited our non-core heavy truck business in the region, discontinued the focus in Fiesta and further reduced headcount in total by more than 40% through the end of 2020.

These actions and other actions that we've been taking contributed to the fifth consecutive quarter of year-over-year improvement in regional EBIT. We posted the smallest loss in South America since 2013.

With our recent announcement to exit manufacturing in Brazil, we have fundamentally derisked this portion of our business and delivered another significant milestone in our global redesign. Shifting to Europe. Europe wholesales and revenues were both negatively affected by lower industry volumes.

However, Ford's revenue in the region was up modestly aided by higher net pricing and improved mix. Our commercial business in Europe strengthened its #1 position to a 14.3% share, which is a gain of 70 basis points. Ford has the broadest network of commercial vehicle dealers in Europe, including close to 800 dedicated Transit centers.

And during the quarter, the commercial passenger and in-part vehicle businesses were all profitable. And the reduced manufacturing footprint that Jim had referenced, along with the $1 billion decline in structural costs over the last 2 years, allowed Europe to deliver its strongest quarterly profit in 4 years with an EBIT of $400 million and achieving an EBIT margin of 5.8%.

Now turning to China. China delivered a 27% increase in wholesale. Retail sales grew 30%, outpacing the overall industry sales growth of 12%. Ford share in China grew by 4 basis points to 2.4%, with a 12-point increase in the mix of utilities to 36%. The mix of commercial vehicles reached 45% in the quarter, supported by strength in light trucks, pickups and other vehicles.

Importantly, our dealer network return on sales remains positive. Now while it's still a modest EBIT loss, this was China's third consecutive quarter of year-over-year profit improvement, aided by an enhanced mix of vehicles, including locally built Lincoln products.

The China specific Lincoln models accounted for 76% of the brands in-country retail sales. That's up from just 2% last year. Wholesales and revenue results for the International Market Group varied, but a retail sales increase of 1.8%, countered an industry decline of 3%.

IMG continues to capitalize on its strength in Ranger pickups and SUVs, and Ranger was the best-selling 4x4 pickup in Australia.

Now just this week, we announced a $1 billion investment to modernize and upgrade our Ranger pickup plant in South Africa, an important low-cost export hub that supplies 100 markets, including Europe. This paves the way to significantly expand production for the next-generation Ranger starting in 2022 and profitably grow this important business for us.

Excluding the impact of India, IMG was profitable in the quarter, led by Australia and Vietnam. In December, Ford and Mahindra jointly decided not to complete a previously announced joint venture.

This outcome was driven by the fundamental changes in global economic and business conditions caused in part by the global pandemic. While we continue our independent operations in India, we are actively evaluating alternatives and reassessing capital allocation for India.

Turning to Mobility. We now plan to invest at least $7 billion in autonomous vehicles through 2025, including the $2 billion we spent through 2020. Our plans include standing up a commercial AV business by 2022 to move both people and goods. And we also believe that Argo AI self-driving system remains on a short list of leaders in the autonomous technology.

With improving unit economics, we continue to grow our Spin scooter network, which has become more relevant in a COVID world as people explore alternative loads of transportation.

In fact, indicative of the strength of our city relationships, Spin won the overwhelming majority of all scooter permits that applied for in the U.S. in municipalities last year.

Now let's turn to Ford Credit. Ford Credit delivered another strong quarter, with EBIT up almost $300 million to $900 million, a record fourth quarter. Improved auction values drove the performance, and we continue to experience strong credit performance with a low loss to receivables ratio.

All told, we delivered $1.7 billion in adjusted EBIT in the quarter, up $1.2 billion with an adjusted EBIT margin of 4.8%, which was up 3.6 points. Considering how the first half of 2020 unfolded, I'm incredibly proud of how the Ford team came together to finish the year with such strength. Setting a firm foundation for this year.

So let's turn to 2021. The global semiconductor shortage situation is fluid, and we're evaluating and updating the potential effects on our business in real time. We want to be transparent and also prudent.

Therefore, we think it's premature to size what the ultimate impact will be on our full year results. That said, we ended 2020 having achieved positive lasting change and the underlying trajectory of our earnings power, including the ability of our automotive business to generate consistent levels of strong free cash flow over time.

For 2021, we were on a course to earn between $8 billion and $9 billion in adjusted EBIT, including a $900 million noncash gain on our investment in Rivian. That scenario anticipated continued EBIT improvement in each of our regional businesses, except for South America, which we expect to be flat through their transition this year.

We anticipate ability to be flat and forward credit EBT to improve. We also expect to generate between $3.5 million and $4.5 billion in adjusted free cash flow.

However, the global semiconductor shortage is creating uncertainty across multiple industries and will influence our operating results this year. The situation is changing constantly. So it's premature to size what the shortage will mean for our full year results. However, right now, our current estimates from suppliers support a scenario where we could lose 10% to 20% of our planned first quarter production.

If that scenario is extended through the first half, this could adversely impact our full year adjusted EBIT by between $1 billion and $2.5 billion. Net of reasonable cost recoveries and some production makeup in the second half of the year. So we should expect full year cash and EBIT effects to be about equal with quarterly cash implications more volatile, given the mechanics of the company's working capital.

So our team is working with our suppliers around the clock to optimize the constrained supply, minimize the profit impact while also prioritizing customer orders, new vehicle launches and compliance with our CO2 emissions regulations.

For example, similar to other actions we've already taken, we are adjusting shifts next week at our Dearborn truck plant in Kansas City assembly plant. These actions are contemplated in the 10% to 20% scenario for the first quarter volume that I just mentioned.

We will provide you with an update on the semiconductor issue when we report our first quarter 2021 financial results, and that's on April 28. So before we open the call to Q&A., I will end where Jim began.

It cannot be overstated. 2020 was a year like no other. No other in our lifetimes. The Ford team responded exceptionally, both personally and professionally. We're exceedingly proud of all of our colleagues around the world.

We made tough, strategically sound decisions in 2020 that have created durable beneficial changes to our underlying earnings power, including an automotive business that is increasingly positioned to sustainably generate strong free cash flows. And that financial flexibility will allow us to make the right investments for long-term profitable growth and value creation.

Operator: (Operator Instructions) And our first question is going to come from the line of Ryan Brinkman with JPMorgan.

Ryan Brinkman: It looks like even after adjusting for the Rivian gain, you're guiding to 2021 profits well above consensus, presumably helped by the volume, pricing and the benefits of a number of highly anticipated new products, including the new F-150, the Bronco, Bronco Sport and Mustang Mach-E.

I know you have a lot of confidence in these vehicles. But are there any objective measures that you can share with investors as to why they should also be confident in the profit contribution of these models?

So I know it's early days. But do you have any anecdotes about how quickly the vehicles are turning on dealer lots? How the pricing has been trending for the new F-150, with the earlier customer reaction has been to the Mach-E? or you're doing a lot of test drives? And I realize the Bronco still has yet to even launch.

So maybe there are fewer metrics there. But maybe you could tell us a bit more about the weight list, for example, whether it continues to grow or how trim levels or options have been tracking relative to expectation or what the general community response has been?

James Farley: Thanks for your question. Just really quick on the F-150, some of the metrics -- objective metrics, we see it give us encouragement is, obviously, we're starting the year at a day supply level that we haven't seen for a long time. That's one thing.

So a lot of opportunity to build wholesale and dealer inventory into the year. We're starting the year with 53 days supply. The mix of high series, which is always a big indicator of demand for the vehicle, is about 20 points higher than we normally see in the outgoing model.

So plus mix is extremely strong. You also look at the super duty demand. Super duty was up 14%. It had a great improved vehicle, but I think the F-150 improvement is even bigger. And even during the sell-down and the start-up of the new truck, that demand is -- we're turning vehicles in 6 days, the F-150.

If you turn to the Mach-E, really good demand so far. We have about 70% of the customers are new to Ford. So we have new to Ford being they haven't owned a Ford for 15 years. The cross-shop vehicles are Porsche Boxster, Porsche 911, Mercedes E class.

We're also seeing in the reservations as we turn them into orders. High all-wheel drive mix more than we thought. The extended battery is much more popular than we expected. And don't forget, we have 127,000 federal tax credits that are each were $7,500 each, and that is a big advantage on the pricing side.

So really strong demand, early orders for Mach-E. On Bronco, obviously, the Bronco Sport is turning, I think, in like 6 days. We sold every 1 we wholesale to dealers in the fourth quarter. I think we sold over 5,000. It's just like the F-Series turning incredibly fast, Ryan. And I would say the Bronco, we're now just shy of 200,000 reservations, and we're now starting -- in a little bit, we'll turn those into orders.

The encouraging thing about Bronco is just the interest. Not only do we have a lot of orders and confident in reservation, but the mix is stronger than we thought. It's encouraging to see the 1/3. But the is very, very strong mix. And the demand is at the dealership levels or even our reservation system are really, really strong. And I think we could pass some Bronco Sport in January. I think we passed 8,000 units.

So I mean -- and that's a brand-new model to our lineup. So that gives you a picture for the demand side. And maybe, John, any comments about the rest of performance?

John Lawler: Yes. I'd just say, Ryan, that when you look at it, Jim went through the portfolio transformation, but the global redesign is really starting take hold derisking the business. We're starting to see some strength in China. The localization of key project -- of products there, Lincoln, for sure, improving our cost structure there by localizing. We're leveraging capacity at the JVs to build Lincolns and commercial vehicles.

Our partnering to share investments and improve scale, you saw that with the South Africa announcement we had building the Ranger and a VW pickup now in that facility. So I think we're starting to see strength across all the areas we've been talking about. But we're also focusing on the basics of the business, right?

We've renewed our focus on our quality improvement. We're leveraging all of our connected vehicles to identify issues faster, improve our warranty expense, improve our ownership experiences. We're also leaning into electrification now, as Jim said, with Mach-E being on the road, the E-Transit coming, the F-150 BEV next year.

And we're really transforming the team as well. We're bringing in new talent. We're organizing ourselves to grow our core businesses and expand that through connectivity and digital services.

And so when you look at all of that across the business and you start to see some of the strength take hold, it gives us confidence in the year, and it allows us to move forward with the confidence we're projecting. So I think there's a lot of good things going on here.

Operator: And our next question is going to come from the line of John Murphy with Bank of America.

John Murphy: I just wanted to ask a question, Jim, just around the transition to EVs and maybe using F-150 is an example, you can maybe talk around. I mean, when do you think sort of the tipping point is for the consumers, where they see enough EVs on the road that your ICE vehicles become somewhat obsolete and it depresses And how do you kind of work through that transition?

And specifically also around the F-150, I mean, can you position this as a performance enhancement, particularly around torque for trucks that you can actually get paid a tremendous amount of money for kind of like you did with I mean I think it wasn't really fuel economy that people love with the network, right?

I mean -- so I mean, just what's the tipping point where you kind of get hit a little bit on your on your outgoing ICE vehicles? How do you manage that transition? And how do you think about your position EVs?

James Farley: Thank you for your question. It's stunning how fast the industry is changing. I watch the market really carefully in Europe and 10% in December. Pure battery electric is amazing. Our time is now at Ford. We're not talking about aspirations. We committed to California and Paris Accord and carbon neutrality a long time ago when it wasn't easy, and I'm very proud of that.

This year, as you mentioned, we're launching Mach-Es in the market now. We think it's a real competitor to Tesla and their stronghold part of their price market. The F-150 electric is a lot of inbound interest from our loyal customers. We sold 780,000 F-150s last year. We are going to find, and we are finding, within that, a duty cycle that matches electric for some of those customers. It's such a large scale.

In Transit electric, the inbounds on that vehicle are really high. This is our turf. And we're not just going to have 1 delivery vehicle. We're going to have 3 lengths, 2-wheel bases, 3 roof heights, a cut through, a cabin chassis and a van and we're not done. So we are the leader in the Transit business.

We have the body builder connections. 100% of our transits get updated. And we know every one of those of So -- and we are getting more inbound for that.

So how do we manage move? I think it's a really good question. I don't know if any of us have the answer. The costs are coming down quickly. But for me and the team, the move to electric is not about batteries and motors.

It's about a digital vehicle and a new customer experience. And that is universal, whether it's F-150, ICE or a battery electric, that digital experience that we're talking about, we have 130,000 commercial solution customers now. We have 9 million Ford pass customers, that is universal.

So that's goodness that we'll get back in all of our business. We just have to be very flexible, which we have those large commercial vehicle manufacturing facilities that are very flexible. And we'll invest in both.

And we'll flex with the customers. So I think we're ready. This is our year. We're going to have great offers. And I think it's really on us. The real proof point to me is not going to be how many we sell in the first year. It will be how much better the vehicle is a year or 2 after we launch it with the same customer.

Operator: And our next question is going to come from the line of Rod Lache with Wolf Research.

Rod Lache: So $22 billion is a pretty huge commitment to EVs. I was hoping you can talk about the level of volumes you're aspiring towards. It sounds kind of like a similar commitment to another company that's targeting about 1 million units. Can you talk about your Ford's cost competitiveness and the trajectory of costs for EVs? Do you agree with these expectations of cost per kilowatt hour declining to the $55 to $80 range in 5 years?

And then lastly, in the context of what you said earlier, Jim, about allocating capital towards businesses that have strong returns. Do you think that by 2025, you can achieve similar profitability and returns in EVs that you achieve in ICE?

John Lawler: Well, clearly, we need to see improvements in cost structure, similar to what you've been talking about in that 55 to 80 kilowatt hour for the pack. And that's going to happen over time, and we definitely are pushing in that direction. And that's going to be required.

We're going to see the ICE and the BEV converge as they transition. And yes, we do see them being profitable. In fact, Mustang is profitable today, the marquee. So it's going to transition over time. We're deeply focused on driving that cost structure down on our BEV vehicles.

We're leaning into our strengths where we see some synergies and taking advantage of that. So it's definitely a focus we have from a standpoint of the $22 billion commitment to EVs. As Jim said, as we lean into our strengths, we're focused on BEV.

We're focused on expanding that growth. We're focused on the digital experience and the customer experience with those vehicles. And as that transition takes hold, over time, we're going after the larger segments, right?

These are segments that we lead-in. There's a strong customer base. And with that, as Jim said, there's duty cycles. There's specific needs for these customers with these vehicles. And we're going to continue to work with them to give them the solutions they need from a battery electric standpoint. But at this point, we're not going to guide on a number of volume and by when at this point.

James Farley: And Ron, I think just a compliment, John, expect us to be a lot more specific in spring as we move on. It's just -- this is not the right venue to go over specifics. But please rest assured, we are really excited to share all the specifics of our BEV plan. We just want to give you an idea of how we're allocating the capital.

Operator: And our next question will come from the line of Joseph Spak with RBC Capital Markets.

Joseph Spak: Just one question. You mentioned a couple of time landscape is quite different now than when you first laid out that time line for 8% EBIT margins. And now you're significantly stepping up investment, which is objectively a good thing. So I know you're still targeting that level. But is the time line shifting?

John Lawler: Yes. What I can say is that we are continuously putting pressure on ourselves to pull that time line ahead as quickly as possible. And so it is shifting. We're focused on it. We're focused on improving the business as quickly as we can and continue to invest in our growth areas. We see a stepped-up improvement in 2021. You saw that in the guidance.

And outside of the chip issue. And we're going to continue to work that. And as we do move closer to that 8%, we achieve those targets, we're generating good healthy free cash flows that we're going to invest in the business. So yes, we are putting tremendous pressure on the team to move that forward and achieve that as quickly as we can.

Operator: And our next question will come from the line of Dan Levy with Crédit Suisse.

Dan Levy: Jim, I'd like to ask a question on partnership because if we think about the tenure of Gen Hackett, it seems like one of the core focus is really on building out partnerships, and I think we saw with VW

But when we look at how things have played out recent months, I know you've seen you terminate plans with It seems like vehicle with has sort of been deemphasized. But on the flip side, we also see you forming this partnership with Google. So all in, wondering how you expect to use partnership as you're setting your agenda? And specifically, I'd be curious for that view as it relates to EV?

James Farley: Thank you so much for your question. This is a fundamental approach that we all committed to and continue to be committed to. We love what RJ is doing at Rivian. It's a strategic investment. It's not a transactional investment for this or that. And so we'll keep you updated.

But that's a very fundamental bet and it looks like the market is liking what he's doing, too, which is good for Ford. The partnership with Google is very fundamental. It goes far beyond We want our team working on things that will differentiate us.

Google has got a great platform for navigation and content delivery, and we can co-create on top of that. And the system is great, but we're going to use Amazon voice, and we're going to work hard with Apple on And we're going to have a great relationship with Microsoft on commercial vehicles, which will tell you about some other day. But our partnerships in the technology area, including the Chinese technology firms, is just going to get deeper and deeper and deeper.

And as far as our relationships, our partnerships, they will change with electrification. And you should expect more work in that regard. Anyways, I don't think you're going to have to wait too long to hear more about that actually. So it's a fundamental approach.

The technology partners are becoming more and more important for us to deliver that digital experience, but also to build the capability inside the company for large-scale AI/ML deployment to our industrial system, the customer experience, using that data off the vehicles for quality improvement.

And we don't have all the answers. And these companies can really help us, and we can help them. I hope that makes sense to you.

Operator: Our next question is going to come from the line of Emmanuel Rosner with Deutsche Bank.

Emmanuel Rosner: So one follow-up question on the increased spending in -- towards electrification. I understand you're not prepared to give specifics, But directionally speaking, I'm curious if you can give us color on what you were trying to achieve with it? I guess, how will this be spent?

And what is the goal here? Are you developing a dedicated, flexible architecture for all your electric vehicles? Are you accelerating the rollout of electric vehicles? I guess, I'm just curious how this will be used? And in a point of clarification on this as well.

So your slide into -- and your presentation implies that you will focus on the areas that -- where you lead all these pickups, your sales from a vehicle seem to have some sort of commercial angle to it. Will your electrification strategy be mostly aimed at commercial customers? Or will you have also high-volume passenger vehicles?

James Farley: So thank you for your question. The answer is absolutely. This accelerated spending on products and industrializing those products. And we recognize in the guidance for explaining that, that there's more spending to come on our battery vertical integration decisions.

We just don't have anything announced today. We have -- I'm not going to get into it, but we have 2 battery electric dedicated platforms. They will include high-volume passenger cars. But as we've always said, we're going to invest in the segments where we're the strongest.

And you can imagine what those nameplates are and what those segments are. And we will have a great lineup of commercial battery electric vehicles. And as well, importantly for me, is the investment in the digital experiences and the physical services to make that work. We've learned over all these years that Ford strength in commercial is far beyond the product. In fact, the product is often regulated to be defined as it is.

Our strength is our distribution network. Our ability to keep deals on the road. Our upfitters, our bailment policies, and all of those strengths will come to bear as we electrify those lineup.

And we have more ambitions, as you can see with the FCS software business. That business is growing very fast. It's a telematics and commercial services business. And that's a good example of the kind of investments we're making beyond the 4 walls of the product.

So as we electrify, we're not just going to bring more products. We're going to get more digital, and we're going to get into physical services and digital services as well. But they'll be in the nameplates in the segments that we have a great reputation. As John said, we have a good owner base.

Operator: And our next question is going to come from the line of Adam Jonas with Morgan Stanley.

Adam Jonas: Jim, so first off, I just have to say the Mach-E kicks I've rolled up and Lynn can tell you, she shamed me. I rolled up in my I spent a half hour in the saying, I got back in the and I have some regrets. I miss it. This thing is going to sell super fast, so Bravo to the team.

My question is on cell supply. What's your latest thinking on making your own cells or JVING with someone or pure outsourcing.

And I ask this, Jim, because as you can understand, many of us on this call, right, can see a situation where we have a potentially dramatic misalignment between -- basically where demand massively exceeds supply of cells, hence really could threaten the commercial targets of an OEMs EV volumes unless you get this sorted out. Please tell me we don't have to wait until late spring for that. But let me know where your head is.

James Farley: All right. Appreciate the feedback on the product. And to me, the real test for our fitness On Mach-E will be, as I said, how that product performs, its range, it's capability, it's quality, a year or 2 from now for that same customer. It's got a lot of character. It was a right. And I wasn't even driving the GTA. It was a lot of fun.

James Farley: Oh, that's the key. I was just going to say where do you see the GT. Look, our first inning, if this is a 9-inning ball game, our first inning, I think we played it about right, which is to buy the best technology at the lowest price out there during what you could argue in this first inning was an excess supply batteries. But now the game is changing.

And the next step is going to be a much more aggressive electrification plan and the subsequent impact on our battery strategy, and we cannot afford to be in the situation we are with semiconductors right now, which is a good metaphor for what you're bringing up.

So you can expect from Ford, follow-on this battery electric commitment, more news on our vertical integration plans. And there are options. We could do it ourselves. We can go to a JV and as well out there, not too far away, it's a solid-state technology moving very quickly.

There's a lot of bets to be made. This company -- this team is in the midst of making those. And we'll let you know as soon as we can. But we get it. We want to lock it up. We want to make sure it's not a constraint.

And we also want to pick the right technologies and the right partners at the time and have the flexibility as well as the technology changes, like solid state. I don't know. We can't give you a date right now, whether that will be the spring or tomorrow. But please understand, we totally get the issue and the opportunity.

Operator: Our last question for the day will come from the line of Philippe Houchois with Jefferies.

Philippe Houchois: I've got 2 questions, 1 for Jim and 1 for John. Jim, on this alliance with our relationship with Google is interesting, and we had mono do a similar arrangement 2 weeks ago in Europe. If I stepped back a few years ago, I remember Google being seen as the enemy and the company that car makers had to stay away from the Google getting to the car.

What has changed? Is it just simply that you looked at the cost of developing software and you feel like it's to complicate too costly and then Google is a better solution to bring that connectivity to your customers?

Or has the willingness to find commercial arrangements will improve in terms of revenue sharing, for example, that made working Google maybe less threatening, it might have been a few years ago?

And then for John, I was just wondering, if you're the first OEM to give us some guidance on the impact of semiconductor shortage on earnings, and thank you for that. I'm just trying to understand, you guide for the impact -- what the impact could be in the first half.

Let's assume things normalize from the third quarter. How much of that negative impact in the first half? Would you be able to make up in the second half? Or should we think there's a net loss that we should take into account into our earnings forecast based on what you've given in terms of guidance?

James Farley: So to be really direct about your question, probably 3 things really changed our mind or not changed our mind, but got us to where we were. First of all, it's not an exclusive relationship. So we want Carplay to work great in all of the vehicles. We want Amazon voice products to work great in our vehicles.

But the Google things really changed the answer to your question or evolved. The first one was we just -- the money we were spending to keep competitive on a generic experience in the vehicle versus what they could offer in a stable, robust platform, the economics just work better.

And we could take our team instead of doing generic capabilities, we could put them on really differentiation. And we found that in Mach-E. If you use the Mach-E, we call it the systems, we really started to understand that if we had a stable digital platform inside the vehicle, we could really out co-create and create better, deeper experiences for a broncho customer or make or a commercial customer.

So basically, it was their commitment to build and to dedicate resources to a really good digital ecosystem in the vehicle. The second one is that we really started to feel a lot more comfortable with our customers' data. And how that would be protected. And that's really important. Ford is a very trusted brand. All the data will be held and managed by Ford, whole won't have access to the Ford customer data in the cloud.

The third thing was they're cloud. We're trying to move our enterprise and a lot of our compute into the cloud very quickly for cost and capability. And we think the U.S. is really competitive, but so is Amazon, those Microsoft.

But we also saw that they were willing to make a commitment on AI and ML mean we are already using AI and ML throughout our company, but we need to really accelerate that.

And they have real resources, and we're willing to make the commitment. So those are kind of the things that really swayed us I hope that makes sense. But it's not necessarily exclusive.

And we really are excited about the subscription business and digital experience that could come off of this and all the other bets we're making with the technology companies. John?

John Lawler: Yes. So the scenario we laid out is based on the discussions we've been having with the supply base over the last couple of weeks, and it's very We know that it's an industry impact.

And what we see is that we could lose between 10% and 20% of the planned first half production. And so when you take that on an annual basis, the impact of that full year could be between $1 billion and $2.5 billion.

And like we do, and we did -- like we do and like we did with COVID, we've assumed in there some reasonable cost recoveries and our ability to recover some of the production in the second half.

And so the net impact on the year would be between $1 billion and $2.5 billion, depending on where this falls out, relative to the production disruption in the first half. And that's why we tried to frame it up to give a scenario around what it could be because it's very fluid right now.

And as we get through this quarter, in April, we'll be able to share more details. We think we'll have a lot more understanding of exactly how this is going to fall out.

Operator: At this time, we would like to thank you for dialing in for today's Ford Motor Company Fourth Quarter and Full Year 2020 Earnings Conference Call. We appreciate your participation and ask that you please disconnect.

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