Ford Motor Company

Moderator: Executives, Ford

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OPERATOR: This is Conference # 9318248

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 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks there will be a question-and-answer session. If you would like to ask a question during that time, please press star than one on your telephone keypad. At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations.

Lynn Antipas Tyson: Thank you, Holly. Welcome to Ford Motor Company's Fourth Quarter 2021 Earnings Call. With me 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.

Today's discussions include some non-GAAP references. These are reconciled to the most comparable U.S. GAAP measures in the appendix of our earnings deck. You can find the deck along with the rest of our earnings materials and other important content at shareholder.ford.com. Today's discussion also includes forward-looking statements about our expectations. Actual results may differ from the stated. The most significant factors that could cause actual results to differ are included on Page 30.

Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS and free cash flow are on an adjusted basis. Product mix is volume weighted. A quick update on our near-term IR events. On Tuesday February 8, John Murphy from Bank of America will host a fireside chat with John Lawler and Kumar Galhotra who is President, Americas and International Markets Group. On Wednesday February 23, Jim Farley will participate in a fireside chat with Rod Lache at the Wolfe Global Auto Tech and Mobility Conference. And on Thursday February 24, Bob Holycross our Vice President Sustainability, Environment and Safety Engineering; and Dave Webb Ford's Treasurer will participate in the RBC Global Environmental Social and Governance Conference.

Now I'll turn the call over to Jim Farley.

Jim Farley: Thanks Lynn. Hello everyone. Well, some may have described 2021 as a breakthrough year for Ford, I would simply portray it as a year of important progress for the company. We strengthened our base business last year and now expect to deliver even stronger results this year. And just as critical we started moving with real speed and ambition to build a modern Ford.

Our true breakthroughs are still ahead of us, like rapidly scaling production of our popular new battery electric vehicles, like turning Ford Pro a new growth engine for our commercial customers businesses and ours, like building our intelligent software platform to revolutionize our customers' experience.

Even with the recent momentum I know some observers may remain skeptical that a 118-year-old company like Ford will emerge as a winner in these disruptive times in our industry. And I'm okay with that. We're going to compete like a challenger, speak with our actions, prove ourselves overtime. So let's dive into last year. As I mentioned we have significantly improved our base business. In North America our largest market we have a very hot portfolio of new vehicles. We've now won awards of North America Truck and Utility of the Year for two years running. That's never happened by any company.

The new Bronco, the Bronco Sport, the Maverick, the Mustang Mach-E all of them brand-new name plates for our lineup all, of them kits. Last month we launched E-Transit. In the spring, we're in the middle of launching F-150 Lighting. Few people ask us any more about why we phased out sedans and many more asking when they could take delivery of the new Bronco or Maverick or Lightning. So we're doing everything we can in our powers to increase our production and break constraints. We don't like making our customers wait and we're taking action to ensure that they don't pay unreasonable markups.

We've also made progress outside of North America and this is very important. Ford has been a one-legged stool for too long. We stayed in Europe and South America and other regions, because we really believe we can create sustainably strong businesses in those markets. And we want to serve these customers with better, more connected and electric products and services. The deep restructuring in Europe and South America have put us in a position to grow profitability going forward. In China, we're now set up to play a much bigger role in the EV boom going on there. We've quietly grown Lincoln into a strong contender in the world's largest luxury vehicle market. In fact, China is now the number one Lincoln market globally.

Our international markets group is profitable and we're now preparing for the important launch of our next-generation Ranger pickup this year. While we remain in the teeth of the COVID crisis and semiconductor shortages, our overall business is still in great shape. And at the same time, we're rapidly making progress on key aspects of the Ford+ plan. And for customers that means more distinctive products and solutions, more always on relationships with our brands and adding ever-improving user experiences. Now to deliver these things, we're building new muscles and that certainly includes scaling up our production of electric vehicles as I mentioned. We under-called the demand for our first wave of EVs. The Mustang Mach-E, the E-Transit, the F-150 Lighting.

In the past six months, we doubled our 2023 planned capacity for EVs to 600,000 units a year. Now this required everything from working with SK and LG to increase battery supplies to knocking down walls at our Rouge electric vehicle center, while the mortar was still wet to make room to improve and build more Lightnings. Our team knows how to scale manufacturing and we're now harnessing that capability to ramp up production of EVs. We also have a task force dedicated to lowering the bill of materials for our bets above and beyond just the usual declines in material costs. For example, on Mustang Mach-E in just the last month, our team found $1000 of opportunity per vehicle. And that's delivered through design simplification, vertical integration and leveraging our scale with supply chain as we ramp up production. And that team is just getting started.

We plan to take full advantage of our first-mover position in the fully electric pickup truck market starting with Lightning. But there's much more to come. In the coming months, we'll break ground on the Blue Oval City electric truck plant in Tennessee. It will be the largest, the most advanced manufacturing complex in our history and it will produce Ford's second generation of a full-sized electric pickup in high volumes starting in 2025. And at the same time, we have three large-scale battery plants in Tennessee and Kentucky, which will be coming on stream with capacity to produce enough battery cells for more than 1 million vehicles a year. This is in addition to our battery sourcing in China and Europe.

We are well on our way to achieve at least a 40% mix of BEVs by 2030 with strong margins and equal to our higher market share in the key high-profit high-volume segments we compete. For example, the F-150 Lightning, if we had full production today to meet our current demand we would rival the Model Y as the leading BEV nameplate in the US market. We can't grow a profitable BEV business without a very healthy ICE business. And to do this we're reducing complexity everywhere, while increasing, leveraging the benefits of our connectivity.

Now this includes things like fewer top hats guided by customer demand and a judicious approach to vehicle content based on deep insights generated from that same vehicle data. We're also being disciplined with capital as we deploy that to our ICE products recognizing that as a mix of BEVs increases, we will continue to manufacture ICE vehicles but with a focus on optimizing cash returns. So our goal is to continue to improve our automotive EBIT margins. Let me say that again. Our goal is to continue to improve our auto EBIT margins even as we ramp up the mix of BEVs.

In 2021, we began to bring our vision of an always on experience for retail and commercial customers to life. Our customers are realizing the benefits of our over-the-air software updates. But that's just the beginning. We're using our hubs in places like Palo Alto to attract more and more great software engineers and technology specialists. And we're fundamentally changing the culture of engineering inside Ford. The hardware will always be important but the software and the embedded systems will define the next generation of our vehicles' experiences.

I think customers will be amazed at the benefits as we move to central compute rather than the distributed compute we have across all the supplier-provided modules today. Our human-centered interface professionals are now in one single organization with authority over the in-car digital experiences, interfaces, screens and controls. And we're committed to providing an environment where software engineers can do the very best work of their careers.

Before I turn it over to John, let me close, the velocity of change at Ford is increasing. We're not seeking half measures. Fear of change and risk has never served legacy automakers well in the past couple of decades. We're done with incremental change. We have a clear plan, a bias fraction and whatever-it-takes mindset.

We're confident our strong base business will generate the capital we need to fund a very exciting future. We're recruiting incredible talent from outside the company to work with the best people from Ford. As excited as our customers are for that great portfolio we have in the market today, we can't wait to show them what's coming in the future.

Now I'll turn it over to John, who will take you through the results for the quarter and our expectations for this year.

John Lawler: Thank you, Jim. In the face of ongoing challenges with semiconductor constraints, and industry-wide supply chain disruptions, we executed our Ford+ plan, including closing out our global redesign, strengthening our product portfolio and investing in exciting new opportunities fundamental to growth and value creation.

For the year, we posted $10 billion in adjusted EBIT, with a margin of 7.3%. That's our strongest performance since 2016. We delivered right at the midpoint of our guidance range adjusting for the re-class of our first quarter Rivian game to a special item. And despite a 6% decline in wholesale, our automotive business posted its strongest EBIT margin since 2016.

North America delivered an 8.4% EBIT margin and is firmly on the glide path to a 10% EBIT margin. In addition, our operations outside the US collectively posted their best results since 2017.

I'm very proud of the team's hard work, the resiliency last year as we rose to the challenge and optimized constrained production to protect customer orders, new launches, our electrification strategy, and our most profitable vehicles. We also remain highly disciplined with our incentive spend, and mix management, which combined with improvement in warranty costs, more than offset commodity headwinds and supply chain-related production losses.

Ford Credit, whose profits and dividends are an important source of capital for us delivered a strong year. EBT was $4.7 billion, as auction values were at record highs and credit losses were near record lows. Free cash flow was $4.6 billion, and we ended the year with strong cash and liquidity more than $36 billion and $52 billion respectively, which now includes our stake in Rivian valued at $10.6 billion at the end of the year.

In 2021, we continue to advance our capital strategy given the improvements we're seeing in the underlying business. We reinstated the regular dividend at $0.10 per share in the fourth quarter as we continue to focus on creating value for our shareholders. We also further strengthened our balance sheet by repurchasing $7.6 billion of high-cost debt, deleveraging the balance sheet and significantly reducing our ongoing interest expense.

We introduced the industry's first fully integrated sustainable financing framework covering both an auto OEM and its captive finance company. And in November, following the launch of the framework we completed our inaugural $2.5 billion green bond issuance, which was met with incredible investor demand and will help fund our exciting BEV portfolio. Our strong balance sheet including cash, provides a solid foundation to continue to invest in our Ford+ priorities.

So let me briefly touch on the fourth quarter. With a margin of 5.4%, adjusted EBIT was $2 billion and we generated $2.3 billion in free cash flow. Some modeled stronger EBIT for us in this quarter. We know that was largely driven by higher volume expectations relative to the 10% sequential increase, we guided to in October and lower corporate other expenses.

North America delivered $1.8 billion of profit with a margin of 7.1%. Volume was up 10% on a sequential basis, as supply chain constraints eased and custom demand for our products remained strong. South America delivered a modest profit for the second consecutive quarter and the business is now set up to deliver sustainable profitability.

With restructuring of the legacy business complete, the region is now focused on strengthening Ford's position in the truck market, growing its new commercial vehicle business and enriching customer experiences.

In Europe, the underlying trajectory of our business continues to accelerate towards a 6% EBIT margin. However, the adverse effect of near-term supply chain disruption continues to mask that improvement. Importantly we were the number one commercial vehicle brand in Europe for the seventh consecutive year and transit continues to have an extremely healthy order bank. Mustang Lockheed sales in the region are off to a strong start with the order bank building momentum as we accelerate the transition to BEV.

In China, Lincoln continues to be a real bright spot and gain share in the highly profitable and growing premium segment. In the fourth quarter, we achieved record sales of the brand in China, contributing to an almost 50% increase for the year. We are expanding the Lincoln portfolio in 2022 with the launch of the all-new Zephyr. The order bank for that vehicle opened recently and is off to a fast start.

In the fourth quarter we also achieved an important electrification milestone in China as we began local production and customer deliveries of the Mustang Mach-E. Our direct-to-customer model for Mach-E allows people to order online and through 25 Ford select city stores.

Our international markets group performed well in the fourth quarter and had a record year playing to its strengths especially from our flagship Ranger pickup, which delivered full year segment share of 14.9% up 1.1 percentage points year-over-year. We also announced major investments in both South Africa and Thailand to modernize production and launch the next-generation Ranger from four assembly plants later this year.

And in mobility, we've made steady progress towards the scaled commercialization of moving people and moving goods and we are confident in Argo's progress in delivering a Level 4 autonomous vehicle solution. And in addition, we are rationalizing our investment portfolio and focusing on autonomous development.

Now, I'll share with you our current thinking about 2022. We expect supply constraints to remain fluid throughout the year, reflecting a variety of factors including semiconductors and COVID. Based on what we see now, we believe our full year wholesales will be up about 10% to 15% in 2022 with a high single to low digit decline in the first quarter, reflecting supplier shortages related to Omicron shutdown and semiconductors.

For the full year, we expect to earn between $11.5 billion and $12.5 billion in adjusted EBIT and that's up 15% to 25% versus 2021. And the high end of the range equates to an adjusted company EBIT margin of 8% and our North America business at 10% EBIT margin, which if we achieve would be one year earlier than the target we shared with you last May.

Now turning to GAAP results for a minute. It's important to point out that each quarter we will mark-to-market our investment in Rivian, which sits in cash and marketable securities on our balance sheet. This is not something we can forecast. The mark-to-market may cause volatility in our quarterly GAAP net income and EPS results.

So looking at how our adjusted EBIT guidance rolls up. Our range assumes significantly higher profits in North America and collected profitability outside of North America, as we realize the full benefits of our global redesign efforts. We also expect Ford Credit EBT to be strong, but lower than 2021 profits, and we expect mobility and corporate other EBIT to be roughly flat.

Lastly, we expect to generate adjusted free cash flow of between $5.5 billion and $6.5 billion. Now, other assumptions we factored into our guidance include. First, we expect customer demand enthusiasm to remain strong for our new and iconic nameplates. We will have a full year of production of the award-winning Bronco and Maverick, in addition to a robust BEV lineup, with Mustang Mach-E, E-Transit and F-150 Lightning all in production.

Second, with wholesales up about 10% to 15%, we anticipate the pricing environment to remain strong, although the interplay between volume and pricing will remain dynamic. Third, we expect commodity headwinds of about $1.5 billion to $2 billion. Fourth, we anticipate other inflationary pressures, which will impact a broad range of costs. And fifth, at Ford Credit, we expect auction values to remain strong in 2022, as supply constraints persist. However, as I mentioned, we anticipate lower EBT reflecting primarily non-recurrence of reserve releases, fewer returned off-lease vehicles and more normalized credit losses.

Most importantly, we're committed to our Ford+ plan and we'll continue to invest aggressively to drive growth and value creation. This includes devoting resources to customer-facing technology, connectivity, our always on relationships with customers and electrification. We are confident the long-term payback from those investments will be substantial.

So that wraps up our prepared remarks. We'll use the balance of the time to hear and address what's on your mind. Thank you. Operator, please open the line for questions.

Operator: Thank you. And as a reminder, if you would like to ask a question, please press star than one on your telephone keypad. If you would like to withdraw your question press the pound key. In order to allow as many callers as possible a chance to ask a question, please limit yourself to one question, thank you. And our first question is going to come from the line of John Murphy with Bank of America.

John Murphy: Good evening, everybody. Thanks for the time tonight. Just a first question. Jim, there's been a lot of speculation that you might consider spinning a portion of the future car business whether it be EV or AV with Argo. But there's also the backside of that that might make more sense to spin some of your legacy ICE assets and have the entire company become a more pure-play EV/AV company in totality. So I mean, how do you think about this and what would you be your motivations either way? And how you -- I mean how are you strategizing this?

Jim Farley: Thanks, John. Yes, I don't want to speculate on rumours or speculate on the speculation in the press. But I will go back to something we said, and I've said over and over again which is, running a successful ICE business and the successful BEV business are not the same. The customers are different. We think the go-to-market is going to have to be different. The product development process and the kinds of products we develop are different. The procurement supply chain is all different. The talent is different. The level of in-sourcing is different. And actually, the rhythm of the business is different -- fundamentally different.

So, I'm not going to talk about speculation in the press, but I will tell you that the way we're operating the businesses acknowledges those differences. And I'm really excited about the company's commitment to operate the businesses as they should be.

Operator: Thank you. Our next question will come from the line of Rod Lache with Wolfe Research.

Rod Lache: Hi, everybody. I wanted to ask you a little bit about margins. As John said, it looks like you guys will hit 8% if you hit the high end of your target range. And Jim you said that you're targeting improving margins from here. So maybe you can give us a little bit more colour on that how we should think about it?

I'm not sure that 8% is the benchmark anymore, just given how many years ago that's been and how many changes there are to the business. You're ramping up a lot of spending on engineering and spending up in EV infrastructure, but you're also going to grow the Ford Pro business. So maybe you can just give us some of the puts and takes how to think about it? And as part of it, if you might just give us a data point on where Ford Pro stood in 2021.

John Lawler: Yes. Hi, Rod, it's John. So I guess I would say that -- as Jim just said that, we're looking at the ICE business and the BEV business and we're managing both differently. When you look at the ICE transition, I think there are still a lot of opportunities for us to improve that business.

We're very focused on reducing our structural costs. We've done a lot already, but there's a lot more that we think we can do there. We're looking at operating with much lower stock levels as our business continues to develop. So we'll operate at leaner inventories than we have in the past which will help our top line and continue to strengthen that top line.

We're improving our quality which is important. We saw that come through this year from a year-over-year warranty standpoint it was down roughly $1.4 billion. And we want to be at the top in quality in every segment and that's going to have opportunity for the business.

We're also working to revitalize our business through our digital capabilities, leveraging what we have from the connected vehicle to improve warranty even further, as well as improve what we're doing from a manufacturing standpoint and leverage that technology to bring those types of cost down.

There's opportunities in maximizing our parts business and we're going to lower our distribution costs. There's opportunity there. So we see that over time, as we manage the ICE business, there's opportunity to improve margins even further from there.

And then when you talk about BEV, so as we've talked about in past calls our BEV margins are not where we intend it to be. We have opportunity, but we need to do that through scaling them, right?

We're not going to chase top hats. We're going to look at scale. We're going to want to have a strong lineup where we can lean into it with key vehicles in high-volume segments like we are today with Mustang Mach-E, the Lightning and in our commercial vehicles with the Transit.

We're going to reduce complexity, right? We know that one of the things that we need to do on our vehicles and we saw that, as Jim talked about, with the team finding $1,000 a unit on Mach-E and they just got started is that, we need to approach the design of these vehicles differently.

And that's what's really important about having the first-mover advantage there. We're on the road with these. We're in production with these. We understand what we need to do in that second generation and we're off doing that right now improving what we have on the road today and really bringing that knowledge into our second-generation design.

And then as I said earlier on the ICE business, we're going to leverage the compute on the vehicles to really lower our manufacturing costs and leverage that compute to simplify what we do coming down the line and bring that down to the bottom line of the vehicle. And then distribution.

We all know the difference in the distribution cost for the legacy system that's out there versus what we see with other manufacturers. So that's an opportunity for us to work with our partners to improve that. So on both of those we see opportunities.

And then as you said Rod there's opportunities to grow our business and lean into our leading position in commercial vehicles with Ford Pro. And we're looking to grow that business to $45 billion in revenues by 2025. And so I think there's opportunities across both of our key segments and with Ford Pro to improve the business as we move forward beyond the 8%. And now we need to stay extremely focused and relentless on that execution.

Operator: Thank you. And our next question is going to come from the line of Sam Levy with Credit Suisse.

Dan Levy: Hi. Thank you. It’s Dan Levy with Credit Suisse. I'd like to ask about your JV with GlobalFoundries, and just broadly about what you're trying to do with electronic components and sort of the notion of simplification, which you've talked more about. So we've heard that with GlobalFoundries, I think, Hau Thai-Tang mentioned, you'd like to control more of the sub-sourcing to suppliers. You'd like to dictate more of the design of some of the electronic products that in the past have been handled by the suppliers. Maybe you could help us unpack this.

How significant of a change is this in your operating model where you frankly focused on just the core vehicle itself and outsourcing where you can? How achievable is this especially given you're concurrently undergoing this transition to EV? And broadly how should we think of the financial implications given you're going from what's been more of a just-in-time approach on inventory and components to now more of a just in case and deeper in the supply chain? Thank you.

Jim Farley: Thank you for your question. Perhaps the biggest gift for all the pain we're going through now in semiconductors is that we have very painfully learned the lesson that we cannot manage the supply chain for these key components as we have.

In fact you could argue that in the change of transition to these digital electric vehicles that supply chain could be one of the biggest advantages a particular company has or doesn't have. The way we look at it is the key electric components memory chips semiconductors. I would break semiconductors into two types. I'll come back with GlobalFoundries in a second. Feature-rich chips that we still use a lot. A window regulator doesn't need to have a 4-nanometer chip. And the advance -- but we also have sensors power electronics for our inverters, the batteries themselves all the way back to the mine, the inverters of different battery. Chemistries itself have different raw materials and kind of ecosystems that support them.

So this is a very important topic for the company. How different it is? It's really different. We need different talent at the company. We need physical inspection of the actual producers. We need direct contracts with them. We need to design the SoC ourselves. We need to direct in the case -- in some cases to even direct prefer build to print or actually use supplier XYZ to get out of where we've been. And this takes talent. It takes a different approach. It takes more resources.

On GlobalFoundries, it's kind of the first big bet, but there'll be many, many more coming for us. We're very dependent on TSMC for our feature-rich nodes. Obviously, the capacity is at risk over time as the industry moves to more advanced nodes including us.

And as I said we're going to need feature-rich nodes for many years to come. GlobalFoundries knows how to build them. They know to build them in the United States. We can partner with the government depending on the CHIPS

Act to capacitize here. It will be a few years until we benefit from that but it's a really big thing to descale ourselves on the feature-rich chips from the current ecosystem that we depend on around the world. And I think GlobalFoundries is a really interesting deal when we get into the details.

We have to put cash up when we participate. Those feature-rich semis will be used by other companies industrial companies, not just Ford. It's a really interesting deal. And I was talking to the US company. You can expect the same kind of thing on advanced nodes and all the other components I mentioned including more deals on the raw material for various types of battery chemistry. And this is a culture change at Ford. As I said this is part of the rhythm change between ICE and BEV.

Operator: Thank you. Our next question will come from the line of Ryan Brinkman with JPMorgan.

Ryan Brinkman**:** Hi, thanks for taking my question. Slide 20 shows you with $36.5 billion of cash and investments which might be a record, but it is certainly the most that I can remember and compares to I think like five-plus years ago you used to talk about wanting to have cash of something closer to in excess of $20 billion with like another $10 billion or $13 billion of more liquidity on top of that.

I get that there's more uncertainty now with the pandemic and the chip shortage. And of course you're investing heavily for electrification. Despite those investments though, I mean you're still calling for $5.5 billion to $6.5 billion of FCF this year versus the dividend costs like $1.5 billion or $1.6 billion.

So, with the current trajectory it seems like the record cash pile should only grow bigger in 2022. I'm just curious what your thoughts are on this whether you have any updated thoughts on the optimal capital structure over what time or under what conditions you might move towards that more optimal capital structure. And it being so far above the earlier targeted cash balance might influence how you go about deciding what to do with the Rivian stake once the lockup expires.

John Lawler: Thanks Ryan. So, yes we're really pleased with the position we have from a cash standpoint because it gives us the flexibility to invest in the business as we go. We've talked about the investments we'll be making in BEVs. We'll be breaking capacity contains and we're going to continue to focus on scaling as quickly as we can.

The other thing we need to think about is the supply chain for our BEVs. There's opportunities potentially for vertical integration. There's opportunities for looking beyond as we move into these connected vehicles with more advanced electronics, potentially leveraging capital to secure supply chain there. So, there's a lot of opportunities as we move forward to leverage this cash to improve the business. We're also focused on our shareholders. And of course, total shareholder returns is important as well. So we're going to continue to provide dividends to our consumers -- to our shareholders, which is important for us as we move forward given our shareholder base. So I think what you'll see is that, that cash balance is going to be a benefit for us, as we look to grow the business, as we look to expand, as we look to vertically integrate, as we look to secure our supply chain and we continue to develop our Ford+ plan.

Ryan Brinkman: Very interesting. Thank you.

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

Emmanuel Rosner: Thank you, very much. Good evening. I wanted to ask you a little bit more detail related to two items in the 2022 outlook. The first one is your volume and mix assumption. In the fourth quarter when I look at the North American walk, your wholesale were up something like 60,000 units year-over-year, but the volume mix piece of your North American bridge was up only $100 million and that's despite what F-150 may be up like 34% year-over-year, if [Indiscernible] is right. And so just curious what's going on in terms of mix and why that contribution didn't really flow through to the EBIT. And how do you think about, as you grow your volume 10% to 15% in 2022, what kind of EBIT contribution can we expect from this? That's the first item. And then the second one is in terms of additional investment costs, so you've quantified a step-up in CapEx for 2022. I'm just curious if there are things in the income statement that you're able to quantify in terms of additional investments in technology that we should think about as we model 2022?

John Lawler: So let me focus on 2022 first. So looking at the walk for 2022, you have to think about the 10% to 15% in the volume growth, but mix is also a strong part of that on a year-over-year basis. We expect to see continued strong mix. Pricing, as I said in my remarks, we do expect the continued strong pricing environment. So when you look at volume mix and pricing, we expect that to be up about $5.5 billion to $6.5 billion. And so I'll just walk through what -- where we see that on the bridge to 2022. We are continuing to invest in modernization and that was along with our product related spending, as we're continuing to build out our BEV business. That's about $1.5 billion headwind, but that's broadly offset with other efficiencies that we're working on. You also see that commodities are going to be a headwind next year of about $1.5 billion to $2 billion. And then Ford Credit is going to be strong, but we do expect them to be down about $1.5 billion. And then of course, we've got lower net pension income. So we expect the top line to be strong with the volume increase. We continue to expect to have strong mix. And then we expect pricing to be a strength as well on a year-over-year basis.

Operator: All right. And our next…

Jim Farley: Sorry, what's nice about what we're seeing this year or our forecast this year is, we're seeing good profit leverage from that incremental top line. And I think that's very encouraging. We have lost statistics about how that compares in the past, but that hasn't always been the case at Ford. It's great to see that top line flow into our profitability increase.

Operator: Thank you. And our next question is going to come from the line of Colin Langan with Wells Fargo.

Colin Langan: Great. Thanks for taking my questions. Just following up on the walk. If I actually annualize Q4, you're running at only $8 billion. What was particularly weaker about this quarter as a sort of starting point? It's also sort of down sequentially on higher sales. Is that seasonality, higher commodity costs hitting worse this quarter? Any colour there?

John Lawler: From a quarter-over-quarter basis and what – how the quarter developed, we hit the midpoint of the guidance. And one of the things is I think some expected volumes to be up higher than what we had guided. And just we had supply chain constraints hitting us this quarter.

Omicron disrupted several of our key suppliers. They couldn't produce. They couldn't get us products. But net-net when you look at the fourth quarter relative to where we were third quarter, let's say as a proxy, volume and mix was up slightly. It was up about six-tenths. But then we had additional headwinds on commodities. We had some modernization costs that came through, specifically around our IT as well as connectivity as we're investing in those growth areas.

And then we saw costs come through from inflation. We saw costs come through on transportation, on fuel, et cetera. So we're seeing some of those headwinds were hitting us in the fourth quarter. But demand was strong. If we could have met the demand and the production without the disruptions, you would have seen a stronger quarter.

And so as we go into 2022, as we see those supply constraints ease, as we see the demand for our really strong product line-up, we see the top line growing. We see continued improvement in mix. We see continued improvement in price. And that's going to be much more of a tailwind versus some of the headwinds we're seeing [Inaudible]

Colin Langan: And just following up on the mix. Any colour on how the Lightning will impact as it runs in obviously, pretty large battery there? Is that going to be dilutive as we think about the second half as that starts to ramp?

John Lawler: No. I don't think that as we ramp up at the start with the launch this year that it's going to have a significant impact on what we see from a standpoint of our profits in North America. And then coming back I think one of the questions Colin you had asked that, I didn't touch upon was the fourth quarter or maybe it was Emmanuel earlier on the mix side is we did have lower Super Duty mix in the quarter and that was again driven by supply chain disruptions. There were vehicles that we weren't able to build and complete because of certain commodities that weren't coming through to get those vehicles down the line and done.

Operator: Our next question will come from Brian Johnson with Barclays.

Brian Johnson: Yes, good afternoon. I want to talk a little bit about dealer pricing versus your pricing. The Detroit Press ran some articles in January on taking action in some of the more egregious markups on EV. Yet if I look at the broader lineup, I see that per J.D. Power your revenue per unit is up about 3-point – 3,800, which clips to your $7.6 billion pricing you cited. Yet the transaction prices are up 5,600, meaning you're leaving about $1,850 of profit in the dealers' hands which would be about another $3.6 billion of profit. So just wondering kind of as you kind of go forward as the dealers, especially move to this simplified inventory model you're looking at how you're thinking about the balance between your invoice your revenue per vehicle and the actual transaction prices at the dealer level?

Jim Farley: Thank you. I would say, the answer to your question for ICE and BEV would be slightly different. We have about 10% of our dealers last year in the supply-constrained environment that, we're charging above MSRP to our best of our knowledge. We have very good knowledge of who they are. And their future allocation of product will be directly impacted because of that policy. And we've seen really quick action by our team.

On the BEV side, this is quite an important topic, because the margins that we want to build to in BEV are going to be heavily dependent on a different go-to-market and customer experience. I won't go into any more than that, but this is a quite important lesson for us of the franchise system, and the way we will manage going forward. But I'm very optimistic now that our team has the intelligence in the market that we put an allocation trigger in for those dealers who choose to price that way. But it's inefficiency no doubt about it.

Operator: Thank you. Our next question is going to come from the line of Mark Delaney with Goldman Sachs.

Mark Delaney: Yes. Thanks very much for taking the call. So maybe you could help us better understand the linearity of reaching the 600,000 annualized EV capacity target, and what kind of visibility you have into securing the necessary supply to do that both in terms of things like semiconductors as well as batteries?

Jim Farley: Thank you. So we've been hard at work at this for quite some time actually. We knew we were oversubscribed pretty early in the process and the team has been at it. We have been working. Really, the primary lift for us is battery availability. So we've actually been securing extra batteries for quite some time now. We have some manning options for Mach-E. So we will move close to 100000 units this year on Mach-E. That will be our big move this year.

Next year, our big move will be Lightning going to 150000 units. I won't get into battery chemistries and all the details, but I'm really excited about the progress we've made so far in securing batteries. On the F-150 Lightning, we actually had a physical capacity constraint of the facility. And so we took the decision already to again redesign the facility so that we can accommodate the 150,000 units. We have great capacity on F-150 for the nonelectric components. So this is just a matter of the Mach-E getting the labor in place and getting the batteries, and the F-150 getting the batteries out of Georgia and redesigning the facility so we can get the final assembly done. As far as chips are concerned these battery electric vehicles and the supply chain are a strategic advantage for our company. So we will protect in the constraint where we will protect our battery electric supply production.

Operator: Thank you. Our next question will come from the line of Joseph Spak with RBC Capital Markets.

Joseph Spak: Thank you. Jim, it's really refreshing to hear you talk about the two different businesses and how you're managing them and running them and planning for them separately. I guess so to the -- and it's also good to hear you think you would have more to wring out of the ICE business. But I guess the question is, as CEO of Ford which is managing those two businesses like to the extent, you are able to wring more out of ICE, does that give you leeway to accelerate or increase your investment in the EV business? Like how do you think about combining the two businesses back together in terms of the investment spend?

Jim Farley: Absolutely. Absolutely. The profitability of ICE is very important because it gives us optionality, not only of scaling BEV, but also vertically integrating BEV which is increasingly becoming important for a profit lever. So we definitely want to push our ICE business as fast as far as we can. We're going into this transition with the freshest ICE line-up, I can think of any of our competitors not just in the US, globally.

But we think there's, as John said, a ton of other levers that we can pull to improve the margins of our ICE business. We see our ICE business increasingly in kind of specialty groupings of passion brands like, Bronco and Mustang. And our pickup truck customers, retail side using those for recreation and for everything they use them for. And so look at the success of Maverick we've had for example.

So, we're really excited about this opportunity for BEV. And you bet you, it gives us all sorts of optionality as a company to really continue to invest in high growth business but also focus -- allow us to focus our cash and our investment in building the margin for the high growth business through things like vertical integration and new customer experiences, accelerating our physical experiences to the dealers on both businesses.

Operator: Thank you. Our next question is going to come from the line of Itay Michaeli with Citi.

Itay Michaeli: Great. Thanks. Good evening, everybody. I was hoping to go back and get an update on Mach-E profitability. I think a couple of quarters ago you mentioned you were already positive EBIT. It seems like pricing has been really strong in the last few quarters. You talked about taking out maybe $1000 of cost going forward. And of course, you're cutting up volume. I was hoping maybe you could give an update on kind of where you see Mach-E profitability this year versus your original expectation that maybe even relative to ICE vehicles perhaps like the Edge.

John Lawler: Yes. Thanks. It's John here. So, when we look at our Mach-E profitability as we said, we are profitable from a Mach-E standpoint. We're seeing great demand. We're seeing strong mix. So, we've seen the profits improve. Importantly what else we're seeing is opportunities to continue to reduce the cost and reduce the complexity. So we're very focused on improving those margins.

But overall, as we said in the past, our fab margins are not yet quite where we like them to be especially relative to our more profitable ICE vehicles. And so, we have to continue to do work there primarily around scaling, reducing the complexity as we move forward.

So we're encouraged by what we're seeing on Mach-E so far, especially with the strong demand and the mix but there's other work that we need to do as well to continue to further improve those margins. And our expectation is that we're fully competitive on our BEV margins as we move forward and that's what we need to work towards.

Jim Farley: Just to complement John's input. I'm struck -- throughout my career I'm struck at how different the rhythm of this digital BEV business is versus ICE. We all grew up in a business where you kind of launched the vehicle and then you work on a minor change or a next model. I certainly grew up in that model. And what we're finding with ICE, thank goodness we're scaling now, because what we're finding in Mach-E is that actually most of the exciting work starts after job one. That's when the OTAs really make a customer impact.

But on the cost side and the profit side, I guess we have learned so much about the lack of integration in our engineering operations as we compared our engineering on Mach-E to others that are best-in-class. And we are finding lots of profit opportunities as we get after that integration between engineering supply chain and manufacturing even within engineering. If I showed you our cooling system for Mach-E it has four motors probably needs to be two. It has 60 or 70 hoses probably needs to be one-third of that. And those are the opportunities we're going after. And we are not going to wait for next year. We're not going to wait for a minor change. We are going to reengineer that vehicle now and then use that expertise for Lightning, E-Transit and of course our all electric platforms.

And I just -- I'm really excited about this opportunity. Being in the industry as long as I have, I haven't felt this chance to take out so much cost after job one both from the customers' use of the vehicle off the data as well as actually all these integration opportunities.

And the other thing is the vehicles are much more simple than we thought. The F-150 has one cab, one box. And we -- for the same kind of ICE offering, it's like 40 configurations. So they're much simpler. And I'm really excited about -- I guess what I'm saying is we're at the very beginning of this journey. And it is -- it's already very exciting on the profit improvement as John said. And I haven't seen this kind of opportunity in the past in my career.

Operator: Thank you. Our next question is going to come from the line of Anindya Das with Nomura. Your line is open. Okay. Our next question will come from the line of Jeoffrey Lambujon with Tudor Pickering.

Jeoffrey Lambujon: Good afternoon. Thanks for squeezing me in. I just wanted to go back to the regional discussion as we think about the thoughts you shared on margins in North America that are embedded in the upper end of the full year 2022 EBIT guide. I wonder if you could just give us a sense for how you're thinking about the trajectory of margin improvement in Europe and IMG specifically. Just thinking about the semiconductor shortfall evolving over time the focus on Ford Pro and new product launches potentially helping to accelerate some margin recovery in Europe, and then the continued focus on Ranger and new products in IMG?

John Lawler: In Europe, we expect profit improvement. We expect them to be meaningfully profitable in this year in 2022. And we're still committed and Europe is on track to deliver the 6% EBIT margin by 2023. They're continuing to move forward. They're seeing favorable pricing environment continue.

They're accelerating into the BEV. The Mach-E is a very strong product for them. And again, commercial vehicles, it's a strength of ours and we continue to see that grow next year and be a pillar for Europe, a strength for Europe.

With IMG as you go into 2022, International Markets Group, we expect them to be down year-over-year but profitable. And that's going to be driven by two key things: the India transition and what we see there as well as the fact that our Ranger volumes are going to be down year-over-year as we launch the new Ranger.

And so it's a transition year for us in the International Markets Group. So they'll be down year-over-year but profitable. And then from there with the new Ranger, we're really excited about that product and what we can leverage with that product as we move forward in our International Markets Group.

Operator: Thank you. And with that, we will conclude today's Ford Motor Company Fourth Quarter and Full Year 2021 Earnings Conference Call. You may now disconnect.