

Equity Research

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Price Target Change — May 26, 2021

Autos and Auto Parts

Ford Motor Company (F)

F: The Birth of Ford Digital

Our Call

Ford's Investor Day highlighted that it is not lagging, but rather leading the future mobility push. The company rolled out compelling BEV & commercial growth strategies. More importantly, Ford is one of the first traditional automakers to outline a convincing strategy to leverage Big Data in order to transform the car ownership experience. Automakers will need both a strong BEV and connected car strategies to win in the future. The sales model is no longer sell-and-forget, but rather an "always on" customer experience. Tech should enable preventive maintenance solutions, seamless integration of servicing, lower warranty costs, & ultimately higher customer loyalty. Ford estimated the TAM for connected services will be \$20bn by 2030. With hardware already on the vehicle, connected margins should be very high. We reiterate our Overweight rating and raise our price target to \$17.

2023 8% target implies upside to consensus

Our 2023 EPS estimate of \$2.30 reflects an 8.1% adj EBIT margin, in-line with guide of 8%. If Ford delivers, this implies upside to consensus at \$1.75 for 2023. With increased confidence that Ford has the right long term strategy, we are increasing our price target from \$15 to \$17. The new target only reflects 3.75x 2022E EBITDA (vs. 3.25x prior).

Aggressive BEV plan

Ford now expects 40% of global sales will be all-electric by 2030 and raised its electrification spend to \$30bn+ by 2025. Ford plans to roll out two new BEV architectures by mid-decade. Ford expects to reach \$100/kWh at the pack level by 2025 and \$80/kWh by close to end of decade. All-in Ford expects BEV with connected services to offer better profitability than ICE vehicles.

"Ford Owns Work"

Ford announced the creation of the Ford Pro vehicle services and distribution business, which will be fully dedicated to the needs of commercial and government customers. This market was \$27bn in 2019 and is expected to grow to \$45bn by 2025. This includes \$750m in higher N American P&S sales by 2025.

Equity Analyst(s)

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Rating	Overweight
Ticker	F
Price Target/Prior:	\$17.00/\$15.00
Upside/(Downside) to Target	22.3%
Price (05/26/2021)	\$13.90
52 Week Range	\$5.58 - 13.94
Shares Outstanding	3,920,792,383
Market Cap (MM)	\$54,499
Enterprise Value (MM)	\$54,065
Average Daily Volume	18,399,829
Average Daily Value (MM)	\$256
Dividend (NTM)	\$0.00
Dividend Yield	0.0%
Net Debt (MM) - last reported	\$(6,745)
ROIC - Current year est.	1%
3 Yr EPS CAGR from current year (unless otherwise noted)	78%

\$	2020A	2021E	2021E	2022E	2022E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	(0.23) A	0.89 A	NC	0.82 E	NC
Q2 (Jun)	(0.35) A	(0.41) E	NC	0.62 E	NC
Q3 (Sep)	0.65 A	0.23 E	NC	0.53 E	NC
Q4 (Dec)	0.34 A	0.30 E	NC	0.43 E	NC
FY	0.41 A	1.00 E	NC	2.40 E	NC
P/E	33.7x	13.8x		5.8x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Connectivity Means Customer Service is "Always On"

Ford outlined a threefold opportunity from higher connectivity that should enable efficiencies in repair & maintenance. Ford expects to have 1m vehicles on the road with full over-the-air (OTA) capability by July 2022 and 33m by 2028, and driver assistance Ford will be able to increase customer engagement. Ford has a growing scale that can help find new opportunities and deliver custom solutions. Ford estimates the TAM for their addressable connected services is \$20bn by 2030. Assuming a 50% attached rate and \$20/month in connected revenue this would be a \$4bn opportunity. More importantly, the hardware will already be installed on the vehicles, so the incremental margins should be like a SaaS business at a two year potential payback period (minor costs from marketing, cloud consumption & wireless usage).

On the repair side, Ford can leverage diagnostic data to preemptively identify maintenance issues on the vehicle and seamlessly schedule an appointment with a dealer, which may be done via a mobile fleet. Moreover, the ability to early identify and repair OTA could reduce warranty spend 8%. On the OTA side, Ford highlighted their latest Mach-E and F-150 are OTA updateable beyond just infotainment, and certain customers will get Blue Cruise, Level 2 autonomous driving, installed OTA this fall. Eventually this will roll out across its fleet and is expected to have a >85% take rate. Ford plans to further expand its electronics architecture in its next gen BEVs as they will have 24 times the computer power and 7 times the memory as the current generation.

Aggressive Battery Electric Vehicle (BEV) plan

Ford now expects 40% of global sales will be all-electric by 2030 and raised its electrification spend to \$30bn+ by 2025 from \$22bn prior. Ford will roll out two BEV architectures by mid-decade, one for cars and SUVs and one for full size pickups and SUVs. This compares to 5 ICE platforms today. Ford is also confident in battery strategy, called IonBoost, highlighting 88% nickel content in its NMC cells with the highest energy density. Ford targeted a 40% improvement in battery pack costs vs. 2021. Ford expects to reach \$100/kWh at the pack level by mid-decade and \$80/kWh by close to end of decade. The long term target partially leverages its investment in Solid Power (see our [meeting recap](#)). Interestingly, Ford will use two different cell chemistries, including a phosphate based chemistry for commercial applications given the deeper levels of discharge for these applications.

All-in Ford expects BEV with connected services to offer better profitability than current internal combustion engine (ICE) vehicles. The cost will come down though cell cost reductions, scale in non-battery EV tech, and other vehicle savings (80% shared with ICE platforms). Ford plans 240 GWh by 2030 with 10 plants around the globe. Ford plans to outsource only the power electronics, but will make the e-motors and e-axes in-house. This should drive scale and also utilized their current footprint. Lastly, Ford smartly highlighted that their ICE scale helps lower costs on the rest of the vehicle, compared to startups entering the market. Ford will be purchasing millions of components vs. startups targeting only thousands.

"Ford Owns Work"

Ford announced the creation of the Ford Pro vehicle services and distribution business, which will be fully dedicated to the needs of commercial and government customers. Ford also highlighted its current leadership (+40%) and unique opportunities in the commercial segment. This market was \$27bn in 2019 and is expected to grow to \$45bn by 2025. Part of the growth is a targeted \$750m in higher N American parts & services (P&S) sales by 2025 as it rolls out 120 service elite hubs and a fleet of 1,200 mobile servicing vehicles. In addition, Ford sees large opportunities for its telematics services as many of their smaller fleet customers (<150 vehicles) are underserved. Ford also highlighted added opportunities from more tailored financing options for fleet customers as well as charging services for commercial customers.

Financials

Exhibit 1 - F Financials

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
\$ in millions, except per share data								
INCOME STATEMENT	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net Sales	148,320	143,640	115,941	130,395	163,399	160,637	165,180	168,859
Cost of Sales	(134,840)	(130,894)	(109,110)	(120,323)	(142,801)	(140,329)	(143,127)	(145,968)
Gross Profit	13,480	12,746	6,831	10,072	20,598	20,308	22,054	22,891
Selling, General & Admin.	(11,403)	(11,161)	(10,193)	(10,299)	(12,582)	(12,369)	(12,719)	(13,002)
Operating Income	2,077	1,585	(3,362)	(150)	8,016	7,939	9,335	9,888
% Margin	1.4%	1.1%	-2.9%	-0.1%	4.9%	4.9%	5.7%	5.9%
Interest Expense	(1,228)	(1,020)	(1,649)	(1,898)	(1,900)	(1,900)	(1,900)	(1,900)
Equity in Affiliates	95	1	26	154	533	637	721	742
Ford Credit	2,627	2,998	2,608	3,157	2,990	2,914	3,039	3,163
Other Income	2,203	1,795	3,507	3,672	2,400	2,400	2,400	2,400
Pretax Income	5,774	5,359	1,130	4,935	12,039	11,990	13,594	14,294
Income Taxes	(562)	(599)	510	(898)	(2,408)	(2,758)	(3,127)	(3,431)
Tax Rate	9.7%	11.2%	-45.1%	18.2%	20.0%	23.0%	23.0%	24.0%
Tax Rate Ex JV Income	9.9%	11.2%	-46.2%	18.8%	20.9%	24.3%	24.3%	25.3%
Non Controlling Interest	(18)	(2)	(3)	(6)	(8)	(8)	(8)	(8)
Net Income	5,194	4,758	1,637	4,032	9,623	9,224	10,460	10,855
Basic Shares	3,974	3,972	3,973	3,980	3,980	3,980	3,980	3,980
Diluted Shares	3,997	4,004	3,973	4,016	4,016	4,016	4,016	4,016
Diluted EPS	\$1.30	\$1.19	\$0.41	\$1.00	\$2.40	\$2.30	\$2.60	\$2.70
Dividends	0.73	0.60	0.15	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
ASSETS								
Cash and Cash Equivalents	23,036	22,288	30,752	28,914	34,675	40,586	47,638	55,242
Receivables	3,698	3,618	3,422	3,866	3,717	3,751	3,793	3,912
Inventory	11,220	10,786	10,808	12,207	11,528	11,522	11,513	11,901
Other Noncurrent Assets	3,621	2,824	1,998	2,276	2,149	2,148	2,146	2,219
Total Current Assets	41,575	39,516	46,980	47,264	52,070	58,007	65,090	73,273
Net Property, Plant & Equipment	35,986	36,257	36,864	38,089	41,641	44,916	48,276	51,673
Investments and Advances	2,595	2,396	4,778	4,564	4,564	4,564	4,564	4,564
Deferred Taxes	12,293	13,856	14,757	11,937	11,937	11,937	11,937	11,937
Other Noncurrent Assets	8,214	10,357	10,607	12,308	12,308	12,308	12,308	12,308
Total Auto Assets	100,663	102,382	113,986	114,162	122,520	131,732	142,175	153,755
Ford Credit Assets	161,678	160,697	158,524	149,291	150,789	152,303	153,831	155,376
Eliminations	(5,801)	(4,542)	(5,249)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Total Assets	256,540	258,537	267,261	258,453	268,309	279,035	291,006	304,130
LIABILITIES AND STOCKHOLDERS' EQUITY								
Short Term Debt	2,314	1,575	1,374	1,352	1,352	1,352	1,352	1,352
Accounts Payable	20,426	19,681	21,125	22,759	21,493	21,482	21,464	22,189
Other Liabilities & Deferred Revenue	18,868	21,340	21,942	19,661	19,661	19,661	19,661	19,661
Other Current Liabilities	3,524	2,834	2,718	1,233	1,233	1,233	1,233	1,233
Total Current Liabilities	45,132	45,430	47,159	45,005	43,739	43,728	43,710	44,435
Long-term Debt	11,833	13,703	22,633	24,819	24,819	24,819	24,819	24,819
Other Long Term Liabilities	22,607	24,366	27,408	27,643	27,643	27,643	27,643	27,643
Total Auto Liabilities	79,572	83,499	97,200	97,467	96,201	96,190	96,172	96,897
Ford Credit Liabilities	146,703	146,350	144,499	133,981	135,479	136,993	138,521	140,066
Eliminations	(5,801)	(4,542)	(5,249)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Total Liabilities	220,474	225,307	236,450	226,448	226,681	228,182	229,694	231,962
Total Stockholders' Equity	36,066	33,230	30,811	32,004.8	41,628.5	50,852.9	61,312.6	72,168.0
Total Liabilities and Stockholders' Equity	256,540	258,537	267,261	258,453	268,309	279,035	291,006	304,130
CASH FLOW	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Cash Flow from Operating Activities	6,851	6,108	3,552	1,993	13,931	13,943	15,312	16,046
Cash Flows from Investing Activities	(3,220)	(3,118)	(8,653)	(6,363)	(8,170)	(8,032)	(8,259)	(8,443)
Free Cash Flow	(886)	(1,472)	(2,150)	(4,507)	5,761	5,911	7,053	7,603

Source: Company Reports, Wells Fargo Securities, LLC estimates

Price Target Basis and Risk

Price Target for F: \$17.00 from \$15.00

Our \$17 price target is based on 3.75x 2022E EBITDA of \$17bn. Our base case reflects an ~11% y/y increase in FY 2021 global production (20% N America, 11% Europe, & 5% China). This reflects a modest, ~2.3m, impact on global production from the semiconductor shortage.

Risk for F

There are numerous risks that automakers face. Notable risks into 2021 include the impact of sudden rises in commodity prices, production volatility around the semiconductor shortage, and other supply chain disruption risks. Ford has also experienced significantly elevated levels of warranty costs over the last few years, and therefore continued performance would negatively impact results. The industry has been significantly impacted by production disruptions due to COVID; this continues to be a risk to production.

Investment Thesis

F

We are Overweight Ford, as the new CEO is finally executing on the long awaited turnaround plan which should focus the company on profitable businesses. The company should also see tailwinds from a very strong launch lineup with the new F-150, the Bronco Sport, and the Bronco. In addition, while Ford is considered a laggard on future mobility trends, in our view recent actions show the company is leading. Their AV partner, Argo AI, is likely among the top 5 autonomous leaders; the Mach-E is a proof point that Ford is serious about EVs; and now that its vehicles are connected, we are seeing the rollout of connected features.

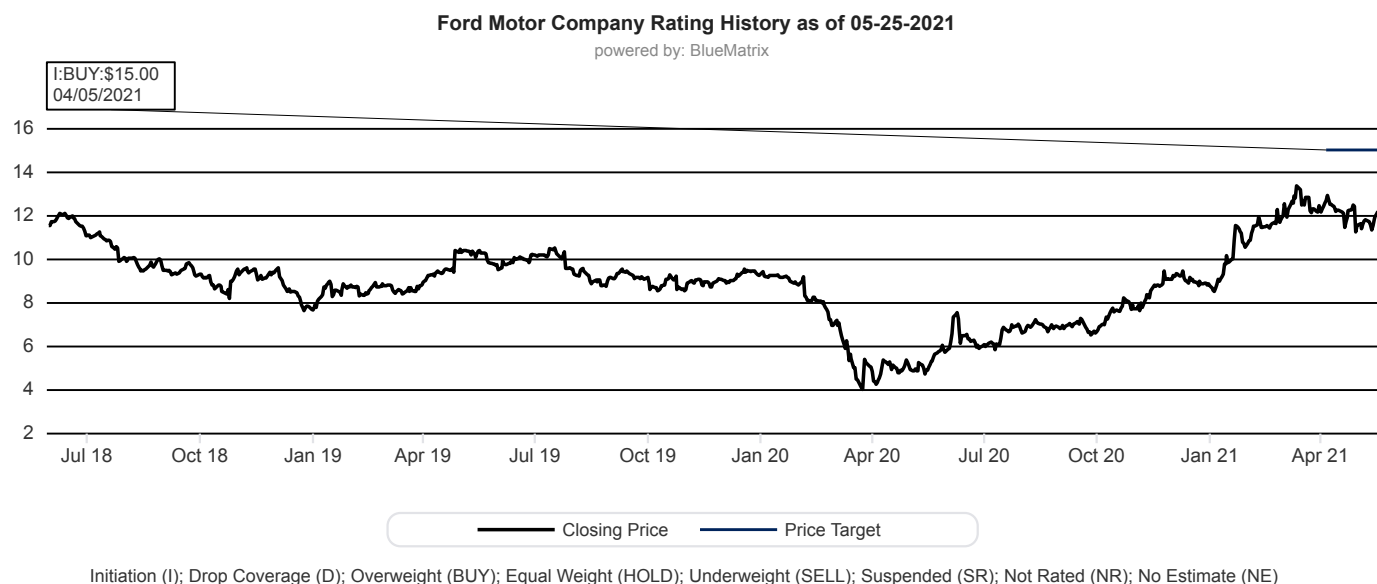
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