CLUB

Ford’s turnaround is back on track after the carmaker delivers a much-needed beat and raise

PUBLISHED TUE, FEB 6 2024•7:51 PM EST | UPDATED AN HOUR AGO

Jeff Marks
@JEFFMARKSCNBC

In this article

F +0.76 (+6.30%)

CNBC SHARE

Ford CEO Jim Farley speaks at the launch of the all-new electric Ford F-150 Lightning pickup truck at the Ford Rouge Electric Vehicle Center on April 26, 2022 in Dearborn, Michigan. The F-150 Lightning is positioned to be the first full-size all-electric pickup truck to go on sale in the mainstream U.S. market.

Bill Pugliano | Getty Images

Ford Motor delivered an earnings beat Tuesday, along with a stronger-than-expected outlook as cost cuts and higher profits from its commercial car business are expected to more than offset the losses from electric vehicles.

per share.

- **Automotive revenue** increased 3% year over year, to $43.2 billion, beating analysts' forecasts of $40.2 billion, according to estimates compiled by LSEG.
- **Adjusted earnings-per-share** (EPS) fell 43% to 29 cents, beating estimates of 14 cents per share, LSEG data showed.
- **Earnings before interest and taxes (EBIT)** dropped 59% from last year to $1.05 billion but was better than the $936 million analysts forecasted.

Ford shares jumped roughly 6% in after-hours trading in reaction to the positive results.

Ford Motor

1 Year

+

SHARE

cnbc.com

Bottom line

What a difference a quarter can make.

In Ford's last go around, we were concerned that management took its eye off the ball and let operations suffer as it prepared for the UAW strikes. In the third quarter, Ford recorded a $1.2 billion increase in costs associated with warranties, a result that was simply unacceptable to us.

The headwind overshadowed the beginning of a more adaptable and flexible Ford, one that isn't afraid to align production toward high-margin ICE (internal unprofitable EVs. As we've said before, we want Ford to maximize its profits and cash flows while carefully and slowly growing its EV business. It's no easy task, but this is in the best interest of shareholders.

As Ford gets a better handle on its quality and warranty issues, we're starting to see how profitable it can be even in a flattish environment for the car industry. A lot of that credit belongs to Ford Pro, which increasingly looks undervalued by the market for its profit potential.

And we've always liked the cash flow here. To push Ford's payout ratio to 50% for the year, it announced an 18-cent per share supplemental dividend. This is nice to have on top of the regularly scheduled quarterly dividend of 15 cents. With the stock trading at a price-to-earnings multiple below 7, we have to wonder if the greater value-creating move would be to buy back stock. But we won't complain about a return of cash.

The ongoing capital discipline, leverage to hybrids, profitability of Pro, and potential turnaround in quality control keep us invested in Ford. We are raising our price target to $15 from $13 and reiterated our 2 rating, meaning we'd look for a pullback before adding to our position.

Quarterly commentary

SHARE

Adjusted Earnings-Per-Share (EPS)	**0.29**	**0.14**	**0.51**	**-43%**
Automotive Revenue (in millions)	**43,200**	**40,118**	**41,800**	**3.3%**
Company EBIT (in millions)	**1,053**	**936**	**2,564**	**-58.9%**
Segments (in millions)				
Automotive Revenue (in millions)	**43,200**	**40,118**	**41,474**	**4.16%**
• Ford Blue	**26,200**	**25,308**	**26,200**	**0.0%**
• Ford Model e	**1,600**	**1,925**	**1,568**	**2%**
• Ford Pro	**15,400**	**13,602**	**13,706**	**12%**
Company EBIT (in millions)	**1,053**	**936**	**2,564**	**-58.9%**
• Ford Blue	**813**	**782**	**1,549**	**-47.5%**
• Ford Model e	**-1,570**	**-1,305**	**-631**	**-148.8%**
• Ford Pro	**1,811**	**1,554**	**1,450**	**24.9%**
Company EBIT Margin %	**2.4**	**2.3**	**6.2**	**-375 bps**
• Ford Blue	**3.1**	**3.09**	**5.91**	**-280 bps**
• Ford Model e	**-98.1**	**-67.79**	**-40.24**	**-578 bps**
• Ford Pro	**11.8**	**11.42**	**10.58**	**118 bps**
Adjusted Free Cash Flow	**1,964**	**1,545**	**2,441**	**-20%**

Notes:

- All estimates are from FactSet except for EPS and sales, which come from LSEG.
- Unless otherwise noted, all numbers are in millions
- Yellow = matched estimates; green = beat; red = miss
- 100 basis points (BPS) = 1 percentage point
- Margin change in BPS
- YoY = year over year
- EBIT = Earnings before interest and taxes
- EBT = Earnings berofre taxes
- N/A = Not Available
- Revenue figures rounded to nearest hundredth

revenues year over year despite the loss of roughly [illegible] units due to the UAW strike. Over the full year, revenues increased 8% and every region was profitable. As the consumer became more cautious about buying an electric vehicle, Ford saw a surge in demand for hybrids, which now represent about 13% of Blue U.S. volumes. Ford sees 2024 as another year of double-digit growth for hybrids.

Sales at Ford Model e, the electric vehicle division, increased by about 2% but losses widened due to lower pricing, higher material costs, and investments in the future. Over the full year, revenues increased 12% but losses widened to $4.7 billion.

On the bright side, Ford reiterated its commitment to optimizing how it allocates capital, meaning it is not going to pour billions of dollars of investment into areas with no near-term profitable future.

CEO Jim Farley said on the conference call tonight that “we’re getting much more disciplined on capital not just where we allocate, but more importantly, how much we spend and when.”

For example, Ford said it won’t start selling its second-generation products until the lineup is profitable in the first twelve months of its launch. In addition, Ford plans to spend less capital on larger EVs and to focus only on the geographic areas and industry segments where it has an edge.

Ford Pro, the unit that houses the company’s commercial vehicles, as well as its software and services business, continues to be a bright spot and profit engine for doubled to $7.2 billion, reflecting a margin of 12.4%. This brings Ford close to its mid-teen target. Behind the margin improvement is the increase in active software paid subscriptions at Pro. It now has about half a million active subscribers, up about 46% from last year, and the margins on these services are over 50%.

Guidance

Ford provided an upbeat outlook for 2024.

The company expects full-year adjusted EBIT (earnings before interest and taxes) of $10 to $12 billion, which is well above consensus estimates of about $9.6 billion on FactSet and $9.2 billion on Bloomberg. This outlook contemplates flat to modestly higher full-year U.S. industry volume but with lower pricing.

After Ford delivered $10.4 billion in adjusted EBIT over 2023, where could the profit upside come from if volumes are flat and pricing is down? Much-needed improvements to quality and also cost reductions. Management said it sees “green shoots” in quality improvement and $2 billion in cost reductions in areas like material, freight, and manufacturing that will offset high labor and product refresh actions. In addition, Ford expects warranty costs to be flat year over year. Down would have been preferred, but it’s better than up.

By segment, Ford expects Blue EBIT to be roughly flat year over year at $7 to $7.5 billion versus $7.5 billion in 2023; Model e losses to widen to $5 to $5.5 billion

billion in 2023.

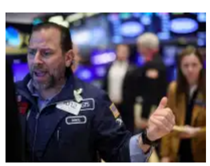
(Jim Cramer's Charitable Trust is long F. See here for a full list of the stocks.)

As a subscriber to the CNBC Investing Club with Jim Cramer, you will receive a trade alert before Jim makes a trade. Jim waits 45 minutes after sending a trade alert before buying or selling a stock in his charitable trust's portfolio. If Jim has talked about a stock on CNBC TV, he waits 72 hours after issuing the trade alert before executing the trade.

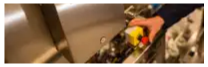
THE ABOVE INVESTING CLUB INFORMATION IS SUBJECT TO OUR TERMS AND CONDITIONS AND PRIVACY POLICY, TOGETHER WITH OUR DISCLAIMER. NO FIDUCIARY OBLIGATION OR DUTY EXISTS, OR IS CREATED, BY VIRTUE OF YOUR RECEIPT OF ANY INFORMATION PROVIDED IN CONNECTION WITH THE INVESTING CLUB. NO SPECIFIC OUTCOME OR PROFIT IS GUARANTEED.

MORE IN INVESTING CLUB

We're raising our price target on Eli Lilly by $120 after its excellent quarter



Jim Cramer says the stock market rally has stalled because of two important reasons



Investing Club: We hiked our Nvidia price target — encouraged by new highs after Goldman Sachs' bear case takedown

MORE IN ANALYSIS

CLUB **GEHC stock finally gets some respect after earnings. Those betting against it got slammed**

Jeff Marks 4 HOURS AGO

CLUB **DuPont sets a low bar and hops over it — the quarter is a step in the right direction and investors scoop up shares**

Zev Fima 5 HOURS AGO

CLUB **We're raising our price target on Eli Lilly by $120 after its excellent quarter**

Kevin Stankiewicz