Ford Motor Company

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jim Farley - *President, Chief Executive Officer*

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PRESENTATION

Operator
Good day, everyone. My name is Gary, and I will be your conference operator today. At this time, I would like to welcome you to the Ford Motor Company First Quarter 2024 Earnings Conference Call. All lines have been placed on mute, to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question, during this time, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" then "2." Please note, this event is being recorded.

At this time, I would like to turn the call over to Lynn Antipas Tyson, Executive Director of Investor Relations. Please go ahead.

Lynn Antipas Tyson
Thanks, Gary. Welcome to Ford Motor Company's first quarter 2024 earnings call. With me today are Jim Farley, President and CEO, and John Lawler, Chief Financial Officer. Also joining us for the Q&A is Cathy O'Callaghan, CEO of Ford Credit.

Today's discussion includes 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.

Our discussion also 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 page 19. Unless otherwise noted, all comparisons are year-over-year. Company EBIT, EPS, and free cash flow are on an adjusted basis.

Lastly, I want to call out a few of our near-term IR engagements. May 30, Jim Farley will participate in a fireside chat in New York with Toni Sacconaghi and Daniel Röska at the Bernstein Annual Strategic Decisions Conference. And June 11, John Lawler will participate in a fireside chat in New York with Emmanuel Rosner at Deutsche Bank's Auto Summit. Jim…

James Farley
Thank you, Lynn. Hi, everyone, and thank you for joining us. The cornerstone of Ford+ is pretty straightforward, a more resilient business model, higher growth, higher margin and more capital efficiency. And I would say quarter one had a lot of great green shoots in that plan. It sets us up for a very strong 2024 and beyond.

Before John goes through quarter one, I want to highlight four key strategic areas: how our growth drivers are changing, our progress in quality, the resilient Ford Pro business, and what we're learning on the electrification journey in quarter one.

On growth, the portfolio changes we made and the restructuring we've done in our geographic footprint has really paid off for Ford. Several years ago, we normally would be reducing our volume and our mix and having good news on pricing. What's changed in the last year, and especially in Q1, you could see, is our top line and bottom-line profitability are increasing, driven by improved volume and mix, and we're actually seeing pricing headwinds. And that new portfolio and geographic footprint is really tremendous to see at Ford. There is no better example for this than the portfolio changes we've made in our truck and van business.

Ford is the number one best-selling pickup manufacturer in the world. And our Ford Transit Cargo Van is the best-selling in the world. It's now our second best-selling nameplate at Ford. And our midsized Ranger, now our most affordable pickup, is the third best-selling vehicle at Ford, and together with the Everest makes up our profits outside of China, North America and Europe. It's an incredible new franchise for Ford.

These changes in our portfolio at all different sizes and price points in the truck and the van business has really played to Ford's strength. And it doesn't stop there. Our growth drivers are diversifying. We now have a vibrant software business and physical services business led by Ford Pro. You don't need to look very far beyond our mobile service as an example.

Ford now has 3,500 or more remote service vehicles in our fleet globally. And last year, we did 2.4 million remote service experiences, both remote service and pickup and delivery. 40% of that was for Pro and 60% was for our retail business. Ford now has more than 700,000 paid subscribers for software. That's up 47% year-over-year. It's capital efficient and the gross margins are more than 50%.

Our quality is making real progress. Kumar and the team have really focused on our key areas. Our '23 model year has three months in service, initial quality is 10% better than the previous model year. And we're seeing our current model year that we're selling for several months, another 10% improvement. That should put us in the middle of the pack, and many of our vehicles start to lead their segments in initial quality.

But to bend the curve on warranty costs and customer recalls, we're really focusing on our launches. We're past the Super Duty launch now and well into the F-150 launch, and we made a lot of changes to improve and bend that curve. On the F-150 and others, we've delayed the Okay To Buy date three to six weeks. We've taken a lot of new testing regimens. Actually, we ended the quarter with 60,000 units in our plant stock, which hurt our first quarter, but we'll benefit because we're shipping those now in our second quarter for all those quality processes.

And what we're so far seeing is we avoided about 12 recalls on F-150, and we're seeing the best performance on 3 MIS after a launch in a long time. And I'd like to be specific here. Normally, after a launch, we've seen about, in the last five years, about a 70% spike in our defects. The industry average is about 20%.

In the Super Duty and Mustang launches, we're about that industry average 20% spike. And now we're seeing, with the F-150, even better performance than the industry average. And boy, do we have a lot of launches in the second half to prove out this new launch process. What we're going to see in the long term is fewer recalls and lower warranty costs because of this new process. I'm really proud of the team's progress on quality, and we have so much more to do.

I'd like to talk quickly about Ford Pro. When we look at quarter one, we made about $3 billion. It's how much we made the whole year in Pro two years ago. We're growing revenues, EBIT, EBIT margin. We're growing our volume. Our attach rates for high-margin software and physical services are improving. And when you ask yourself, why is this different? And why would this business…why would these profits be more resilient than our retail business? It comes down to three things.

First is the diversity of our customer base. About a third of our Pro customers are small business, another third are large companies, and about 20% more is governments, all different kinds. And the diversity of those customers and all three of them are driving white-hot demand for our vehicles and services right now from infrastructure build-out, roadwork's, 5G, onshoring manufacturing, and refleeting for our key government fleets. One out of four of those fleets are all Ford, and boy, do they trust our company.

But more than anything, it's the breadth and freshness of our new lineup at Pro that's driving our profitability. We have the freshest lineup we've had in 20 years of Pro. We have an all-new Super Duty, an all-new Transit from top to bottom. And we have an all-new Ranger in 5 plus plants around the world. These new products are really attractive to customers. And beyond that, we have the most diverse Class 1 to 7 lineup in North America, our key market. And that adjacency sales are important because customers buy different kinds of vehicles for us in the same fleet.

But beyond that, in those fresh nameplates, we offer the best choice. We have cabin chassis and cutaway versions of our vans, different wheelbases and heights, the same on our pickup trucks. And we also have the most choice in terms of upfitters. We have 500 different upfitters across Western Europe and the US that prefer to work with Ford because of our experience with them. And it doesn't stop there. We design all of our commercial vehicles with a multi-energy platform, and that allows our customers to choose electric, partial electric, diesel, petrol, whatever choice on powertrain that best meets their cost of ownership. No one has this kind of lineup in our business globally.

The third key area is the diversification and the completeness of our software and physical services experiences for our customers. Now, 13% of Ford Pro's profits in the last 12 years make up these attached services. And it's a big change for us. And what's really driving that is our advantage in physical service. We have the largest repair network you can find of any brand out there, and we're widening that gap. We've added 700 commercial service bays in the last year and more than 11 very large service lead centers with between 50 and 200 repair bays that are open 24/7 for our customers. None of our competitors offer this kind of extensive repair network.

And it doesn't stop there. We have over 2,000 remote trucks and vans doing remote service for our Pro customers. No brand can match that either. And now we have over 560,000 active software subscriptions for Pro customers. That's up 40%. And that Pro Intelligence business took many years to build. It requires advanced electric architectures and it's a really hard moat to copy. Long and the short, Ford Pro is in for a great performance over the next several years.

What did we learn on electric so far? Well, as you know, we're number two in our home market in electric sales for the last couple of years and boy, we learned a lot. Since Capital Markets last year, we continue to adapt and evolve our spending and our investment ramp for battery plants and assembly capacity for our EVs to match customers' demand, and more importantly than all of that, match their price expectations. We're retiming our launches and our capital spending. In fact, this year, we expected to spend about $10 billion as a company. We've now guided $8 billion to $9 billion; we will probably be on the low end of that range.

And we're being very consistent about our discipline on profitability. We expect every one of our EVs to make money in the first 12 months, and that is a very disciplined process. In fact, we delayed the launch of our three-row crossover, which is a great product, two years, not only to match the slower growth in EV but more importantly to take advantage of new battery chemistry and formats to substantially reduce the cost of the batteries for that vehicle. We'll do everything it takes to be profitable in the first 12 months of our vehicles.

And what's our bet as a company? Well, it's pretty simple. We're going to bet on commercial work vehicles where we do really well, where we know the customers, where we can innovate for them like Pro Power on board with partial and fully electric vehicles, but increasingly, our bet will be on our new small affordable platform developed by our team on the West Coast.

Why is affordability so important? When we look at the connected car data from our EV customers, we noticed that people who live in the suburbs, urban customers, they tend to drive shorter distances and those more affordable vehicles, more approachable. And we believe that's where the adoption of EV will grow the fastest. And we believe we can compete in segments of small cars and vehicles, more affordable vehicles in a unique way, that's Ford.

A good example was we learned a lot when we, in our more expensive vehicles, Mach-E, when in February, we dropped the price 17%, our volume went up 141%. That's telling us that the more affordable we can make great product, the more attractive it is to these mainstream EV adopters.

And the last thing I'd say is we're learning about the importance of choice. Our growth in the first quarter in hybrids is a good example. We grew 36%. We think the full year will be 40%. We're now approaching 400,000 units of volume for our hybrid business, and we're now number three in hybrids in the U.S. It's a big advantage. We've been in the business for more than 20 years. And what's really exciting for us is for the first time, some of our contribution margins on hybrids are above what similar contribution margins than our pure internal combustion engine margins.

With that, I'll turn it over to John.

John Lawler
Okay. Thanks, Jim. So our team around the globe is becoming more focused and adept at applying the Ford+ strategy, and we really did deliver a solid quarter. We are transforming Ford into a higher-growth, higher-margin, more capital-efficient and more resilient business. We're progressively shedding behaviors that have weighed down performance and valuation of legacy auto companies for most of the industry's history.

Our strong global product lineup is differentiated, offering customers freedom of powertrain choice and drove first quarter revenue of $43 billion, up 3%. Our revenue has grown in each of the last three years, and we expect 2024 to be no different. Wholesales were down 1%, more than explained by the late quarter launch timing of the new F-150. We delivered $2.8 billion in adjusted EBIT with a margin of 6.5%, reflecting continued strength in Ford Pro.

Costs were up $1.2 billion, but if you double-click on this, you'll see that $1.1 billion of that was investments in growth by Ford Pro, including new products. Ford Blue and Ford Model e costs were roughly flat, and we're on track to deliver $2 billion of cost efficiencies for the full year. Adjusted free cash flow was a use of $500 million, more than explained by the vehicles in inventory, and this impact will reverse in the second quarter.

Our balance sheet remains strong with $25 billion in cash and close to $43 billion in liquidity. And earlier this week, we also completed the renewal of our $18 billion corporate credit facilities, extending maturities by an additional year. Overall, our strong liquidity provides significant flexibility for us to invest in profitable growth. Consistent with our commitment to return 40% to 50% of adjusted free cash flow to shareholders, today, we also declared a regular second quarter dividend of $0.15 per share payable June 3 to shareholders of record on May 8.

I'll spend a few minutes summarizing the financial performance of each of our customer-focused segments. And there's evidence in every one of them of how Ford+ is making our business stronger. Ford Pro delivered a 36% increase in revenue on a 21% increase in wholesales. The segment has consistently delivered year-over-year revenue growth each quarter since we re-segmented our business. EBIT more than doubled to $3 billion with a margin of 16.7%, reflecting increased Super Duty and Transit production, richer Super Duty mix and higher net pricing.

In addition, over the past 12 months, roughly 13% of Ford Pro's EBIT came from software and physical services, on the glide path to reaching 20% in a few years. And this important revenue stream generates sticky and recurring gross margins in the 40% to 50% range. And as you can see, given the breadth and depth of Ford Pro's competitive moats, investments in growth drive tremendous operating leverage. The segment's results this quarter demonstrate the consistency, predictability, and earnings power of this growth business.

Ford Model e generated a loss of $1.3 billion as significant industry pricing pressure more than offset flat costs as wholesales declined 20%. In the quarter, we took action to bring down inventory levels. For example, after being at a price premium to competition in 2023, we lowered pricing on Mustang Mach-E in the U.S. by 17%, bringing us in line with the 2-row crossover segment. And as Jim mentioned, we did see elasticity with an improved mix of higher trends.

In the U.S., retail sales jumped 77% versus the total EV segment, which was up roughly 2.6%. Our total EV market share grew by 3.4 points to 7.5%, and Mach-E was the second best-selling e-SUV, only behind Tesla's Model Y. The bottom line is that we're more competitive and doing well in the marketplace. We've reduced our stock levels significantly and the pace of sales has increased.

In Ford Blue, revenue, wholesales, and EBIT were down, all impacted by the F-150 production ramp and vehicles and inventory. EBIT margin was 4.2%, and our international operations continue to be profitable across the board. Ford Blue's global product portfolio remains strong and our hybrid sales continued to grow, up 36% in the quarter as we get the benefit of hybrid products planned years ago. Our global mix of hybrids is currently at 7%, up 2 points year-over-year with more products on the way. Additionally, China exports increased 33%, including

Lincoln Nautilus, and that's consistent with our strategy to better leverage that asset-light footprint.

Ford Credit generated EBT of $326 million. In the quarter, the financing margin improved, and credit loss performance continued to normalize and remains below our historical average. Importantly, we continued to see a high-quality book based on strong FICO scores, which continue to exceed 750.

And as expected, auction values have declined by roughly 10% as lease return rates continued to normalize. So, we're beginning to unlock the huge potential for customers and all of our stakeholders with the Freedom of Choice made possible by Ford+. There's plenty of work ahead to fulfill that potential. However, the progress we've made so far is undeniable. We're delivering growth and profitability, sharpening capital efficiency and fortifying the resilience of our business.

Accordingly, turning to our outlook, we continue to expect full year company adjusted EBIT of $10 billion to $12 billion and are tracking toward the high end of this range, and that would be a record for Ford. We're raising our adjusted free cash flow guidance to $6.5 billion to $7.5 billion, supported by the underlying strength of the business and lower-than-planned CAPEX.

Our adjusted free cash flow guidance is consistent with our cash flow conversion target of 50% to 60%. We're tightening our CAPEX range to $8 billion to $9 billion as the team adjusts to the dynamic EV landscape. We're scrutinizing every dollar in driving efficiencies that we believe could land us at the lower end of this revised CAPEX range. Our outlook for 2024 assumes a flat to slightly higher SAR in both the U.S. and Europe.

Our planning assumption is for the U.S is 16 million to 16.5 million units. Full year of customer demand for all-new Super Duty contributing to better market factors for Ford Pro. Industry supply/demand normalizing.

From a planning perspective, we're assuming lower industry pricing of roughly 2% driven by higher incentive spending as we move through the year. We expect this to be partially offset by top-line growth from the launch of our new products. There's no change to our segment outlook, which anticipates continuous strength in Ford Pro, leading to EBIT of $8 billion to $9 billion, and that's driven by the continued growth and favorable mix, partially offset by moderated pricing.

As expected, loss in the range of $5 billion to $5 billion for Model E, driven by continued pricing pressure and investments in new vehicles, and for Ford Blue, EBIT of $7 billion to $7.5 billion, reflecting a balanced market equation and also cost efficiencies, offsetting higher labor and product costs. And we expect Ford Credit's EBT to be about $1.5 billion, up slightly year-over-year.

Our performance this quarter continues to demonstrate the positive momentum of Ford+. Capital discipline is driving the right global footprint, portfolio of products, and consistent cash generation. We continue to see growth opportunities and remain focused on delivering improvements in both quality and cost.

Now, that wraps up our prepared remarks, and we'll use the balance of the time to address what's on your minds.

So, thank you, and operator, please open up the line for questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2". Please limit yourself to one question and one follow-up.

The first question today is from Adam Jonas with Morgan Stanley. Please go ahead.

Adam Jonas
Hey, everybody. I got one question for John and one for Jim. John, you were just on Bloomberg saying EVs are needed to meet compliance regulations. Now, it's my understanding that Ford does not disclose penalties or ZEV credit purchases for Ford on clean air regulation. Can you confirm that? That's not disclosed, right?

John Lawler
So, let me clarify a few things, Adam, on that. It's that it's not an option for us not to be compliant. If you don't comply with your ZEV or your greenhouse gas emissions requirements, you can't pay fines. What happens is you can't sell. And that's consistent across the industry. So that's for all OEMs. All OEMs are under those rules. And so, there's really three levers that we have. We can sell EVs and hybrids. We can sell fewer ICE or we can contract to buy credits from another OEM.

And when we do contract to buy credits, we will disclose that as we did in our 10-K at the end of the year. And so those are the three levers. And we, I would say, monthly, if not weekly, are working to optimize across those three levers to drive the highest profitability and the highest cash flow for the company. So to continue to sell the ICE vehicles, we are going to need to sell EVs and we're going to optimize across the profitability. Now, the most important thing, as Jim said, is we need to get the EV business to stand on its own, to be profitable and return on the capital we've invested. And then all the levers will be accretive to Ford and we'll be able to make it really positive. So that's what we're focused on. And that's what I intended to communicate earlier today.

Adam Jonas
Okay. But you did, so you do disclose, you did disclose, what was it?

John Lawler
Yes. We disclosed last year in the 10-K that we had purchased our commitments of $700 million.

Adam Jonas
And will that increase this year?

John Lawler
In the first quarter, there wasn't anything material. And as we go through the year, if it's the right lever to pull, as I said, as we're optimizing, we will report it.

Adam Jonas
I appreciate that, John. Just my follow-up for Jim, Ford Pro is kicking butt, okay. And at a 10 times EBIT, that business could be worth like double Ford's entire market cap. So, the market's kind of implying that the rest of the business would be valued at negative many, many tens of billions. Seeing another way, your stock, I mean, this business is incredible. People would die to have this business. And I think folks are aware, it's not a secret anymore, Jim, that people are aware of how good this business is, yet your stock ranks 491 out of 500 companies in the S&P 500 on PE multiple. Now, Jim, I know you don't like it, and I know you don't agree with it, but can you explain why does the market values your company as one of the lowest multiple companies in the world in any industry? Why? Try to rationalize that for me, because it seems

important that you, as a leader of this organization, understand that so you can address that problem. Thanks.

Jim Farley
Thank you, Adam. And first of all, thanks for your report on Pro. I appreciate you taking the time to understand the business. Look, I mean, as John mentioned, we have to make tremendous progress on Model e. It's a huge drag, not just on Ford, but on our whole industry, even for pure Play EV players. And we're very clear-eyed about that. We're very committed to transparency. A lot of OEMs will handle EVs very different. We won't. It's like if we had an unprofitable regional business and we rolled it up, and it wouldn't be transparent to investors, we would never do that, and we're not going to do that with EVs. And we're not going to subsidize our Pro and Blue business by not being transparent about EVs.

And it's how we run the business. I think investors should understand, for me as a leader, that we're going to build a sustainably profitable EV business with terminal value. And it needs to return the cost of capital on its own and not be subsidized, as I mentioned. And the real turning point for us, not only is our flat costs in Model e this year, but most importantly, it'll be the profitability in our next cycle of products. And I'm proud of the work that our team has done to make the adjustments in our capital spending and to make sure that all of our next EVs are profitable. And the evidence will be there.

And I think that is the main drag on the company right now, as it will be for our whole industry. Blue is in really good shape. I wonder out loud, Adam, if everyone really understands the resilience of the Pro business over time. We're very profitable now, but we believe that this business will be profitable and durable for many years to come. And I'm not sure the full market understands that personally. I know you've gone through the business, understanding the demand, and I encourage everyone to understand and ask us more questions about Pro. Thanks.

Adam Jonas
Thanks, Jim.

Operator
The next question is from John Murphy with Bank of America Merrill Lynch. Please go ahead.

John Murphy
Good afternoon, guys. The freedom of choice is a great marketing tool to go out to market with, and I think it's reasonably or should be very effective. But Jim, as you think about this, as the market is shifting towards hybrids, at least in the near term, I'm just curious what kind of capacity you have to ramp up significantly in hybrids if the demand really is there. And if you think about the competitive threat really coming from Toyota with a lot of capacity on this side, is there risk that there's market share losses to them over time, or do you have the ability to really step up here? I think you mentioned something about 400,000 hybrids on an LTM basis, but can you do a whole lot more and really garner your fair share of the market?

Jim Farley
Hi, John. We made a lot of capacity decisions several years ago on hybrid, and I'm very thankful we did. For example, we just radically increased the capacity for F-150 that we're

launching now up to 25%. It takes, as you said, a long time for suppliers to ramp to that capacity. It's not assembly capacity, it's a constraint. So that 400,000 is almost double what we did a couple of years ago. That was all very intentional.

And we made the decision a couple of years ago to actually make hybrid more pervasive in our lineup, and we're actually now going to…we've now committed publicly, we're going to offer hybrid on all of our vehicles across our lineup. And of course, the capacity has to be there. But if you look at the pricing premium today, which is maybe the most important thing to look for, because now that contribution margin for hybrid is covering the cost of the hybrid incremental material cost, that's really a meaningful development. And I think we're in good shape. Of course, our hybrid business is different than the others. We're number three in the U.S. Number one and number two is of course Toyota and Honda. But our hybrid capacity is in trucks. That's where most of our hybrid sales are in North America. And we don't see a lot of competition so far for that business. We'll see over time. So, I feel really good about the decisions we made several years ago about our capacity expansion. Will it be more than 40% growth? It could be. And I think we have flexibility. Now we have really meaningful scale for our suppliers. A lot of our competitors will be starting from scratch.

John Murphy
And I have one follow-up on Pro. It seems like there's a lot of pent-up demand on the fleet side, both on commercial and government. I'm just wondering if you can comment on that on sort of a unit basis as well as potentially a service basis and just really kind of talk about what kind of benefit that may sort of still garner towards for Pro, which is, as you said, shooting the lights out or we should say that. It seems like there's a lot of opportunity here still just from a market release of pent-up demand, and that might be even more structural over time.

Jim Farley
It's true. The demand on Pro is fundamentally different than retail. There's no doubt about it. Our retail customers are not re-fleeting. They're not doing roadwork's and 5G infrastructure build-out. I mean, these are all fundamental drivers. The ambulance market in the US, the average ambulance is 15 years old. I mean, they've been waiting for Transits for a long time. We're now increasing our capacity, which is great. But I mean, we're oversubscribed on the new Super Duty 2 to 1. So, I wish I could say we got that right. We didn't, but we are expanding capacity. I think…and we have this freshest lineup that we've never had. So, we have this kind of double opportunity. Our lineup is fresh. We have the most choice. At the same time, our customers are in kind of white-hot demand that we saw in retail two years ago during the supply shock. And we're doing everything we can to increase our capacity for our customers. It's very frustrating for them.

John Murphy
Great. Thank you very much.

Operator
The next question is from Ryan Brinkman with JP Morgan. Please go ahead.

Ryan Brinkman
Hi, thanks for taking my question. I'd love to get some more of your thoughts on capital allocation, including after in the release, you repeat the intention to return 40% to 50% of free

cash flow to shareholders. I guess with CAPEX coming further down and FCF up, there's more to return. But at the same time, targeting to return only up to half of what you generate obviously implies you want to continue to grow cash on hand despite the current $28 billion being well more than the over $20 billion that you've historically targeted. And of course, you've got lots of available liquidity beyond that, close to a record, I think.

So just curious what might be driving the conservatism here, whether it relates to more macro or industry uncertainty or wanting to preserve some other optionality or for some contingency I'm not thinking of. I think in the past when I've asked this question, you'd sort of point to the industry transition towards EVs. But seems like the last couple of quarters now, your focus is more on improving the EV business by trying to spend less, not needing to spend more, all right? So just wanted to check in how you're feeling about capital allocation, what you're seeing that causes you to want to be conservative now? And then what could cause you to potentially want to become more aggressive in the future?

John Lawler
Yeah. So, thank you. So we have our stated policy, as you said, 40% to 50% of free cash flow. Our balance sheet is strong. Our cash position, we ended the year strong. We're at $25 billion this quarter when we talked about the fact that our guidance for this year went up. So, when we look at it, we believe that right now in the transition point for the industry, we would rather invest in accretive growth opportunities. And we've always said that if those opportunities don't come to fruition, then we'll need to look at other allocation decisions that we would need to make, but we're not there yet. So, we're continuing to talk about this as a team consistently. But we think at this point, the position we're at, we're comfortable with, given where we're at in the transition. We'll pay out the 40%, 50% of free cash flow. The last couple of years, it's been at the high end of that range. And eventually, as we continue to execute on our Ford+ plan, if those accretive opportunities to allocate capital for additional accretive growth aren't there, then we'll look at other ways of returning that cash to our shareholders.

Ryan Brinkman
Very helpful. Thank you.

Operator
The next question is from Bruno Dossena with Wolfe Research. Please go ahead.

Bruno Dossena
Hi, everyone. Thanks for taking the questions. I wanted to ask in Model e. And I understand that reaching breakeven depends on the timing of the launch of the next-gen vehicles. But in the intermediate term, can you tell us how you're thinking about the trajectory of losses in e and specifically the potential to work down the structural costs associated with this business?

John Lawler
Yes. So we are…I don't know, it's a cliché, I guess, laser-focused on this…all the costs around Model e. And for the year, when you look at…well, let's just take it back up a second. The last couple of years, when you look at Model e, we've actually reduced the cost of our vehicles significantly. On Mach-E, we've taken over $5,000 of cost out, but the revenue keeps dropping faster than we're able to take out the cost. And we're being very thoughtful about what we're putting in as far as structural costs, et cetera. And so, we're going to continue to work on driving

every dollar of cost out of the business in the near term. And if the pricing stabilizes and we don't see these significant reductions continuing across the industry, then I think that you could probably start to see some of those cost reductions flow to the bottom line. But so far, the last 12 to 18 months, it's just been a continuous march down on the top line, which is offsetting any of the savings we've had from a cost standpoint. So, it's in our control. We have to take cost out. We know that. That's what we're marching towards. And we're understanding the dynamics and the competitiveness of the market equation as we set up the cost structure for our second-gen vehicles. And as Jim said, we pushed out the three-row SUV because we need more cost to come out of that for that to be at the margin levels we expect.

Bruno Dossena
Okay. On a similar vein to the comments you made around cost and pricing for the Mach-E, if we look at your combustion, Blue and Pro, we see the costs are up $1.2 billion year-over-year, presumably from material content on some new launches, warranty, maybe offset by some savings. And we also see that pricing in these businesses is up about $1 billion. But can you give us some insight into if or when you'll see some improvement in variable costs relative to pricing and Ford beginning to close the variable cost gap compared to peers?

John Lawler
Yeah. So if you look at that, most of the cost this quarter was up in Ford Pro is all related to the material costs for our new product launches, both the Super Duty and the Transit that we launched in Europe as well as manufacturing costs for the increased volumes that we're bringing across, as Jim mentioned. So that's what drove most of the cost increase in the quarter. We're on track to deliver the $2 billion of cost reductions we talked about at the beginning of the year of raw manufacturing costs, material costs as well as freight and overhead. And so, you'll start to see that really gain traction as we move through the second half of the year. And that's when you'll start to see it on our quarterly results.

Operator
The next question is from Itay Michaeli with Citi. Please go ahead.

Itay Michaeli
Great. Thanks. Good afternoon everyone. Just two questions from me. First, on back to Pro. With a $3 billion outcome in Q1, can you maybe talk about the puts and takes, if I think about the rest of the year? And maybe should we think about the full year at the high end of the range? And then going back to Model e, the press release did allude to EV costs improving going forward but an offset from top line pressure. I was hoping you could help to mention what you're assuming for EV prices the rest of the year. And as volume kind of responds to these price cuts, is there a level where Model e can still become contribution margin positive over the next 12-plus months?

John Lawler
So let me unpack that. So for the year, we're not projecting or sharing where we expect the cost to come down. If you look at what recently happened in the quarter when it comes to pricing on Model e, we had entered the year assuming that prices would come down about 20%. They came down much more than that. We had to take our prices down about 17% to remain competitive, and mass competition as we went through the quarter. So we've seen prices coming down quite dramatically, and that's why we haven't been able to keep up from a cost reduction standpoint. Look, we're targeting to take out as much cost this year as we can on Model e and all in the spirit of driving towards that contribution margin positive so we can have some leverage as we move volumes through the chain. So that definitely is our intention as we continue to work on Model e in the near term.

Jim Farley
On Pro, obviously, Q1, Pro is really structured not necessarily on traditional demand like retail. It's actually deliveries. So, our delivery volume in Q1, it's kind of…it's a cyclical business globally and we have a lot of strong delivery in the first quarter just because of the contractual agreements with our customers, including fleetail. And when you look at the rest of the year, we

have shutdowns. There are a lot of other, we have launches. There are a lot of reasons why we feel really comfortable even with the strong result in the first quarter, that our guidance is still accurate for Ford Pro, given all the puts and takes. But we'll revisit in the second quarter. We'll see how pricing lands. We're going to be doing quite a bit of fleetail business this quarter as well as looking at locking in pricing for some of our large corporate fleets later in the year. So, we're going to learn a lot more this quarter on whether there's tailwinds or headwinds on Pro.

Itay Michaeli
Terrific. That's all very helpful. Thank you.

Operator
The next question is from Joseph Spak with UBS. Please go ahead.

Joseph Spak
Thanks. Jim, first to start, I appreciate all the commentary you talked about on the F-150 launches and as well as Super Duty and Mustang and some of the improvements there. As you mentioned, you've got some other big launches coming up later this year, I think Explorer and a number of others. So, was the lesson learned that you will go more cautious and careful? And is that…should we expect a slower ramp-up than we've seen historically for some of these new launches later in the year?

Jim Farley
I would say we're seeing real benefits to our customers and the company, I believe, long term in taking this new approach to launches. It also requires our industrial system under Kumar to work differently, to solve problems, to do different kinds of testing and that goes into kind of our longer-term lessons learned. And we're now really spending a lot of time on long-term durability, which is an area where Ford has standards, but maybe didn't look to lead the industry, which we now look to. And so, we're not going to change our approach to these launches. We think this new more measured approach with more physical testing, a lot more time for problem solving for our team is the right approach for the company in the midterm and long term.

We do have some very significant launches coming up. We have Explorer and Aviator as you mentioned, which are high volume in both North America. And in China, we have a new wave, we call Wave 2 for the one-tonne Transit in Europe, which is super profitable. And we're going to be building and launching the higher-end derivatives of that. We have the Bronco in China. I mean, I can go on and on. We have a freshened Maverick and Bronco Sport coming and even more models than that. So given all that complexity, it's actually even more important for us to take our time. And it may, like quarter one, it may mean that in some quarter ends, we may have some company stock and plants to make sure that we do the right thing on quality. So our earnings may be a little bit lumpy. We'll see how that works out based on this new approach.

Joseph Spak
Okay. Thanks for that. And then just back to the hybrid conversation because as you pointed out, your hybrid portfolio is much different than Toyota or Honda. It's pretty limited. I think you only have like three hybrids right now. But how should we think about scaling that to the rest of the portfolio, as you mentioned? Is it really like taking existing power plants you have and trying

to sort of fit it, make it fit on more models or are there real new investments that need to be made for hybrids?

Jim Farley
It's a good question. So, I would say mostly, it's taking our current internal combustion engines and adding new hybrid components and doing the engineering to fit that. Look at the T6 platform. We had the Ranger. We had the Everest; we have the Bronco. That's an obvious candidate. We have our full-size SUVs, candidate. We have the Explorer platform. And I think we're lucky. We have the right engines. Some of them may have to go to an action cycle engine from a normal combustion cycle.

We have the components in our system from the hybrid, the torque splitting devices that, we do have to up the investment in some capacities like our hybrid transmissions, but we've made the decision to do that already and that's in our spending plan this year. I think we're in really good shape. It doesn't require wholesale inventing new power trains. But it does involve some engineering and investment in capacity. I would say kind of modest investments, mostly in the capacity side and some engineering.

Joseph Spak
Okay. Thank you for that.

Operator
The next question is from Colin Langin with Wells Fargo. Please go ahead.

Colin Langin
Great. Thanks for taking my questions. It sounds like you're pretty optimistic about pickup demand, but I think there's media reports that some of the data showing pricing was a bit weak in Q1, inventories look pretty high. So, are you seeing any risks in the market? And where do you see pricing for some of these models coming for the rest of the year, I guess, now that you got maybe some of the 2023s out? And then where should inventory really end?

John Lawler
Yes. So what you saw in pickups for us as we came out of the end of last year into the first quarter of this year here in the U.S. is we built up stock as we knew we were coming into the launch. So, we built stocks of '23 models. And then we were selling those down in the first quarter throughout the majority of the quarter. And that's why you saw, to stay competitive with our competitors that had '24 year model pickup trucks, we saw some top line coming down. So, we had higher incentives to sell the '23 model year longer through the quarter.

You see now that our '24 F-150s are at dealers and selling. They're turning in about seven days. You'll see, as you look at the data, that our average transaction prices are going up and our incentive spend is coming down because of the '24 year mix. So that's a big part of what moved it for us on pickup trucks. And it was, because we're such a big player.

Jim Farley
I just want to emphasize; I don't think there's a brand out there that has a Maverick. That's pretty much alone in the segment, and we still are in a supply shock for Maverick. It's one of our fastest-growing vehicles. We have an all-new F-150 with a hybrid option, as John said, turning

really fast. We have a Super Duty on the Pro side that's oversubscribed 2 to 1, and we have a brand-new Ranger. So, we're a bit of a unicorn in the sense that yes, we're big, and there is some risk. But I would say the risk is for people who have aged product. And I think Ford is in a particularly advantaged situation.

Colin Langin
And what about inventory levels? I think some of the data is showing in the high 90s ending up, March kind of coming down to...

John Lawler
Yes, that's come down considerably, and if you look at us on an overall basis, our dealer day supply is mid-50s. Yes, we are completely out of stock on Rangers. Maverick is like 30-day supply or something like that. F-150 came down because we had quite a few '23s. But now with the launch and the quality effort, I think the stocks are really in good shape. And Super Duty, we have very few in stock for retail.

Jim Farley
Yes. So you've got to look at the dealer day supply, and that's in a good place.

Colin Langin
And just as a follow-up, maybe color on industry pricing. What is sort of embedded in your guidance at this point? And how is pricing holding up, I guess, sequentially because I think some of the comps are a little tough with launches year-over-year?

John Lawler
Yes. First quarter pricing held up pretty well, Q4 into Q1. From a planning perspective, we assume that the industry, we expect to see pricing pressure of about 2% negative pricing across the industry. And it really comes back to affordability. Many folks across the industry have been talking about pricing coming down, though what, and it hasn't. And again, we saw in the first quarter that it remained pretty robust. But we keep looking at it from an affordability standpoint, from the consumer perspective. And when you look at where consumers were pre-COVID , then we have the supply shocks and we had a very imbalance between supply and demand, but now as that's normalized, we would expect that affordability should go back to where it was pre-COVID and that's about 13% to 14% of monthly disposable income.

And you also have to factor in right now with interest rates that payment prices have gone up, insurance rates have gone up as well as maintenance rates. And so, when you take all that together, we think about affordability, we say, okay, if you're going to be back towards that range of affordability for the consumer, then prices are going to have to come off a couple of points or so across the industry. And so that's how we think about it and that's what we have planned. And we'll see where that runs with Q2 and then as we go through the second half of this year.

Colin Langin
Okay. Thanks for taking my questions.

Operator
The next question is from Tom Narayan with RBC. Please go ahead.

Tom Narayan
Thanks for taking the question. Jim, we heard from your guys' commentary that if EV prices those drops stabilize, then the losses would lessen. But as we've heard from some of the earnings yesterday, Tesla, GM, it seems like the opposite is happening. It seems like OEMs are trying to make cheaper EVs and that pricing is really only going to go lower. I guess, how confident are you that you could reduce EV losses in this environment if EV prices just keep on going down?

John Lawler
So, when you look at it, it's clear that when the EV craze started, right, it was…it looked like demand was going to be well along supply. But that was with the early adopters, and they were willing to pay a higher price. What we're finding with being in the marketplace is that EV prices are normalizing, and our early majority customers are not willing to pay a premium. And that's what we're seeing. And so we think that prices for EVs are going to normalize around where gas is and the consumers are going to weigh the value proposition of that propulsion choice, either for their duty cycle, what works for them, either it's going to be an EV or a traditional ICE engine or a diesel or a hybrid. And pricing is going to have to be relatively consistent across all choices of propulsion, and a customer will make a choice based on the value of that. And that's how we're building the business model for electric vehicles. I don't think that you're going to find that you're going to have electric vehicles well below gas prices unless there's so much capacity pushing against the demand curve, and it's an imbalance on that end of it. But eventually, rational players will have to come to the marketplace.

Jim Farley
We launched our first small SUV this year in Europe in Cologne, our Explorer to two-row crossover. It's a relatively small vehicle certainly in the US. And you can expect, as I mentioned several times, that our new affordable platform will be used for most of our volume in their next cycle of product. What's really exciting for us is that we see an opening in the market. We see a lot of brands having to launch compliance vehicles that lose money, and they probably don't want to sell a lot of volume, but they have to. We believe that we can be profitable at $25,000 to $30,000 so it's a huge opportunity for Ford. And what we're learning with BlueCruise and our Productivity software on Pro is that all those vehicles will be great platforms for software and services. And so, we're really excited about that new more affordable vehicle lineup, starting with Explorer in Europe this year.

Tom Narayan
Thanks. And maybe as a follow-up, maybe this is something that could help here is battery raw mat costs, we have lithium down like 80% since the peak in 2022. Could you just remind us of how your contracts work? I think there's…we've heard from some other OEMs that there's still some benefits to come, actually getting better, given how contracts work and you could actually see benefits on battery raw materials later in the year.

John Lawler
Yeah, we're seeing the same thing. We're no different.

Jim Farley
I would say that the biggest leverage on the battery cost is still going to be taking nickel out of them and those kind of things. It's great to see the easing of some of the raw materials, and that will definitely cascade into our business, depending on our contracts. I think the most important thing strategically is to get to new chemistries that have a lot less expensive materials in them. And we see that right around the corner at Ford. And we're changing our launch timing to take advantage of that.

Operator
Our final question today is from James Picariello with BNP Paribas Exane. Please go ahead.

James Picariello
Hi everyone. Just back on Joe's question regarding this year's heavy slate of model launches. I know the hyper focus is on improved launch quality. I believe, Jim, you mentioned at some point Ford Pro lost $1 billion in profit last year from a more delivered Super Duty launch, excluding the impact from the strike. My question is, we already saw the F-150 refresh this quarter result in 60,000 units getting pushed. Is there a risk to Ford Blue's guide from lower launch volumes? Is this already factored into the range or is it mainly expected Ford will avoid any material slowdown from here?

John Lawler
It's already factored in.

James Picariello
Already factored in. Okay. That was easy. Can you also…can you just unpack how the implied ASP for Model e in the quarter finished in the $10,000 to $14,000 range? And then just given the slow volume start to the year, should we still be expecting modest full year growth for Model e?

John Lawler
Yes. We expect high single-digit growth in the Model e, primarily with the launch of Explorer, as Jim mentioned, in Europe. When you look at the average selling price with the math, it's difficult because of the quarter. So, we had quite a few units in stock. And as we saw the competitive pricing in the industry come down, we took our prices down, too. So then we had to take the prices down of all units in stock equally, and that was about $300 million of impact there. So when you look at the tenth of revenue for the quarter for Model e, you need to add that $300 million in, if you want to do the math based on the wholesales in the quarter.

James Picariello
Got it. Maybe my first question doesn't count, given how you answered. Just on the $2 billion in material manufacturing cost savings for this year, I know there are not going to be clean numbers that stand out in the bridge quarter-to-quarter, but can you just give a high-level assessment on the progress to date? What initiatives are really showing through? And any color you're willing to share on first half versus second half timing on those initiatives? Thanks.

John Lawler
Yeah. So the majority of them are going to be towards the second half. I'm really encouraged by the progress that Kumar and the industrial platform are making around the design changes. And those design changes are trying to be implemented as we get the new model year changeover in the second half and as we bring vehicles online in the second half. So that's one area where I've seen tremendous progress by the Ford teams. They're working on those design reductions to come through. The other area we're seeing progress is in manufacturing, and Bryce and his team as they're working to drive efficiencies to help offset the increases we have this year based on the contract that we signed last year.

So, in both areas, I'm seeing green shoots there. And Liz is doing a really nice job on the supply chain side as well. We've got better systems and tools and processes. We're working more collaboratively with the supply base. She's changing the culture. And so, across all three of those areas in the industrial platform between what Kumar is doing, leading the team with

Bryce and Liz, we're seeing green shoots, and we're confident on the $2 billion this year, but mostly timed towards the second half.

Jim Farley
And one of the most important priorities for us as a team is to take that cost out and improve quality at the same time. So on the design side, for example, we have specific windows where the team can make design changes and not to protect our quality. I just want to emphasize that because we're trying to do both at the same time, improve quality and improve our costs in the industrial system. And to do that, we have to be very intentional.

James Picariello
Thanks.

CONCLUSION

Operator
This concludes the Ford Motor Company first quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect.