

NYSE **F**

**FORD MOTOR CO**

**AUTOMOBILES** INDUSTRY

OVERALL RATING FOR 1ST QUARTER 2015 **HOLD**

**OUR EVALUATION OF F**

FORD MOTOR CO is showing strong Cash Flow Quality and Balance Sheet Quality, and Valuation suggests a lower amount of price risk, but Operating Efficiency and Earnings Quality are both weak. When combined, F deserves a HOLD rating.

Even though the Operating Efficiency rating improved during the quarter on strengthening turnover ratios, this was offset by weakness in the Earnings Quality rating. Combined, the overall rating remained unchanged from the last quarter.

**FINANCIAL SONAR™ FOR F  
1ST QUARTER 2015**



**HISTORICAL RATINGS**

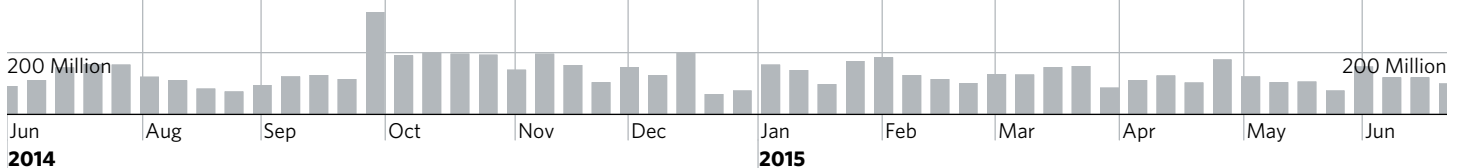
	Q2 2014	Q3 2014	Q4 2014	Q1 2015
<b>OVERALL RATING</b>	<b>HOLD</b>	<b>HOLD</b>	<b>HOLD</b>	<b>HOLD</b>
<b>EARNINGS QUALITY</b>	<b>WEAK</b>	<b>STRONG</b>	<b>STRONG</b>	<b>WEAKEST</b>
<b>CASH FLOW QUALITY</b>	<b>STRONGEST</b>	<b>STRONGEST</b>	<b>STRONGEST</b>	<b>STRONGEST</b>
<b>OPERATING EFFICIENCY</b>	<b>WEAK</b>	<b>WEAK</b>	<b>WEAKEST</b>	<b>WEAK</b>
<b>BALANCE SHEET</b>	<b>STRONG</b>	<b>STRONG</b>	<b>STRONGEST</b>	<b>STRONG</b>
<b>VALUATION</b>	<b>LOW RISK</b>	<b>LOW RISK</b>	<b>LEAST RISK</b>	<b>LEAST RISK</b>

**PRICE TRENDS AND VALUATION**

Price (AS OF 06/25/15)	<b>\$15.40</b>	MARKET CAP.	<b>\$60.3 BILLION</b>	PRICE/SALES	<b>0.4</b>
PRICE/EARNINGS	<b>19.5</b>	PRICE/EARNINGS GROWTH	<b>NA</b>	PRICE/CASH FLOW	<b>5.6</b>
PRICE/ADJUSTED EARNINGS	<b>NA</b>	PRICE/ADJUSTED EARNINGS GROWTH	<b>NA</b>	PRICE/ADJUSTED CASH FLOW	<b>5.9</b>



**Average Weekly Volume**



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**EARNINGS QUALITY: WEAKEST**

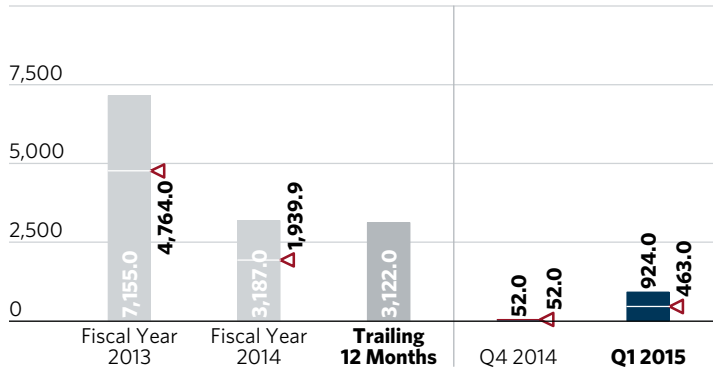
Earnings quality has long been analyzed and used by investors as a measure of the fundamental quality of the company and its future prospects. Companies may be including certain items that increase reported earnings and often the amount of cash flow supporting the earnings may be weak. Jefferson adjusts for these kinds of items and other anomalies to produce an adjusted earnings number that more accurately reflects ongoing business fundamentals at FORD MOTOR CO. Reported earnings are compared to the Jefferson adjusted earnings as a means to gauge earnings quality. Also measured is the amount of cash flow that underpins earnings.

The earnings quality for F decreased from STRONG to WEAKEST.

Though the reported net income increased during the last quarter to \$924.0M from \$52.0M, the quality of that reported net income declined. In addition, operating cash flow rose in the current quarter to \$2,413M from \$2,168M, but the quality decreased as the ratio of operating cash flow to earnings declined.

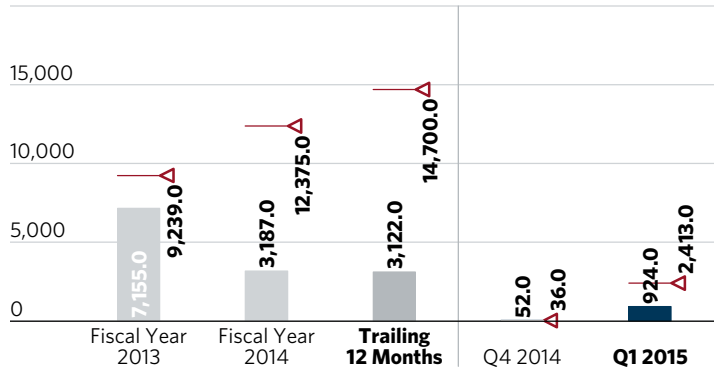
**NET INCOME VS. ADJUSTED NET INCOME** \$ IN MILLIONS  
 ▲ Adjusted Net Income

Adjusted Net Income as a Percentage of Net Income  
 66.6% 60.9% NA 100.0% 50.1%



**EARNINGS VS. OPERATING CASH FLOW** \$ IN MILLIONS  
 ▲ Reported Operating Cash Flow

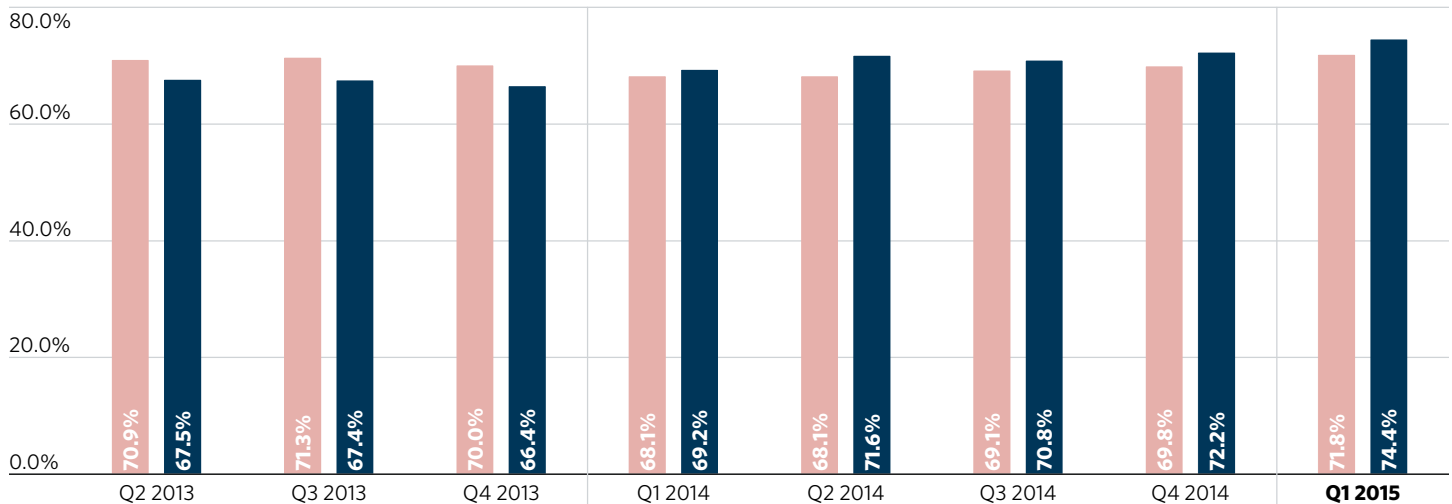
Operating Cash Flow as a Percentage of Earnings  
 146.0% 455.2% 470.9% 4169.2% 261.1%



**ACCRUALS**

Actual Accruals (Dark Blue) Forcasted Accruals (Light Red)

% OF SALES



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**CASH FLOW QUALITY: STRONGEST**

Cash flow is considered by many investors to be the ultimate measure of company performance and more reliable than reported earnings. The Jefferson measurement eliminates items that are not part of recurring cash flow or the result of actual operations for FORD MOTOR CO. These adjustments to cash flow provide a truer measure of cash flow and the resultant cash flow quality rating.

The cash flow quality rating for F remains STRONGEST as the operating cash flow quality quarter over quarter and free cash flow quality quarter over quarter improved. Meanwhile the operating cash flow quality year over year weakened.

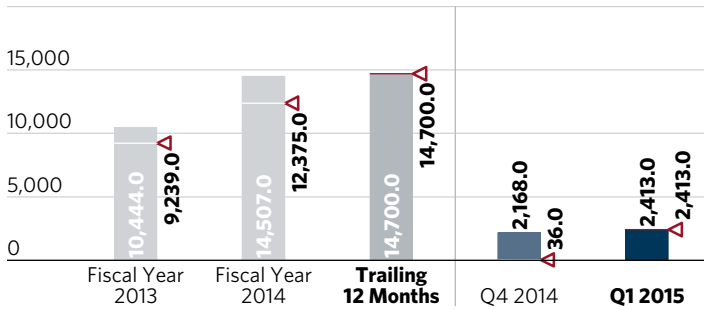
Even though the quarterly operating cash flow quality improved with reported and adjusted numbers that were both equal to \$2,413M, the decline in the annual operating cash flow quality offset this with a reported number of \$14,507M and an adjusted number that was 85.3% of reported. This represents deterioration from the previous period when the reported number was closer to the adjusted number.

**OPERATING CASH FLOW** **\$ IN MILLIONS**

▲ Adjusted Operating Cash Flow

Adjusted Operating Cash Flow as a Percentage of Operating Cash Flow

88.5%    85.3%    100.0%    100.0%    100.0%

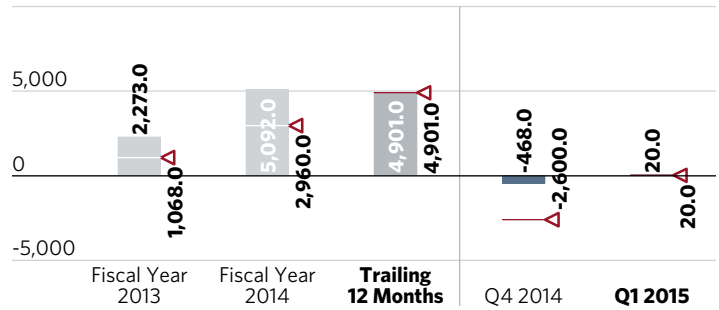


**FREE CASH FLOW** **\$ IN MILLIONS**

▲ Adjusted Free Cash Flow

Adjusted Free Cash Flow as a Percentage of Free Cash Flow

47.0%    58.1%    100.0%    100.0%    100.0%

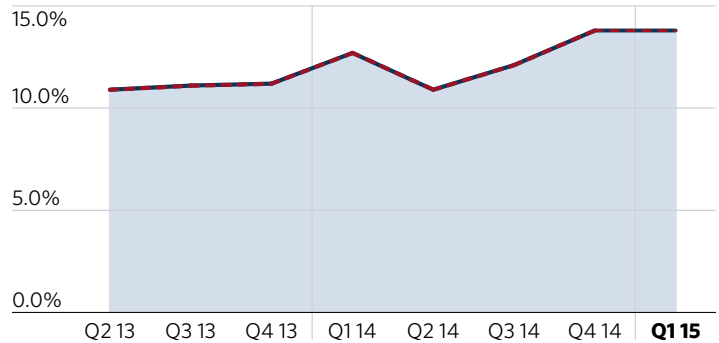


**FLOW RATIO**

Data not available for this chart.

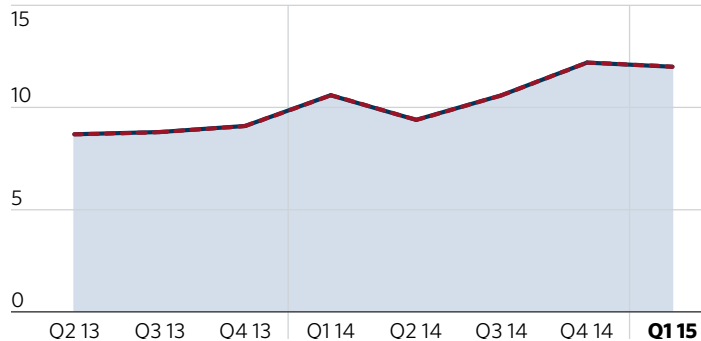
**CASH FLOW ROI**

◆◆◆ Adjusted Cash Flow ROI



**DEBT COVERAGE**

◆◆◆ Adjusted Debt Coverage



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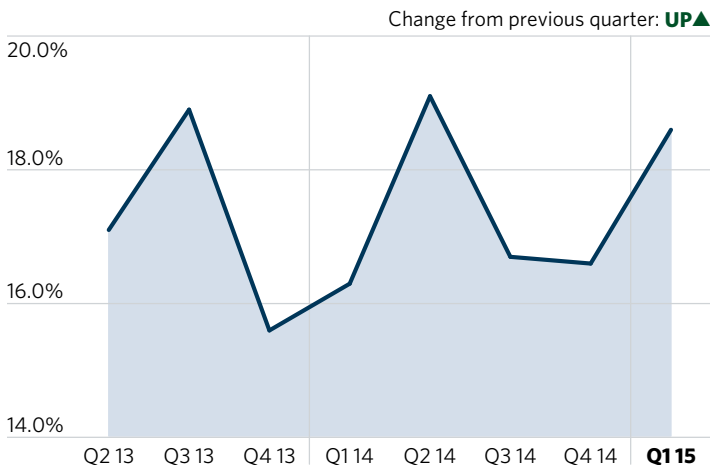
**OPERATING EFFICIENCY: WEAK**

The ability of FORD MOTOR CO to earn a profit is in part the result of how rapidly it converts its collection of assets into revenues and the resulting earnings and cash flow margins available. Operating Efficiency is measured by a combination of factors including: return on invested capital (ROIC), gross margin, EBIT margin, asset turnover, equity turnover, and lastly Staff, General, and Administrative costs as a percentage of sales (SGA).

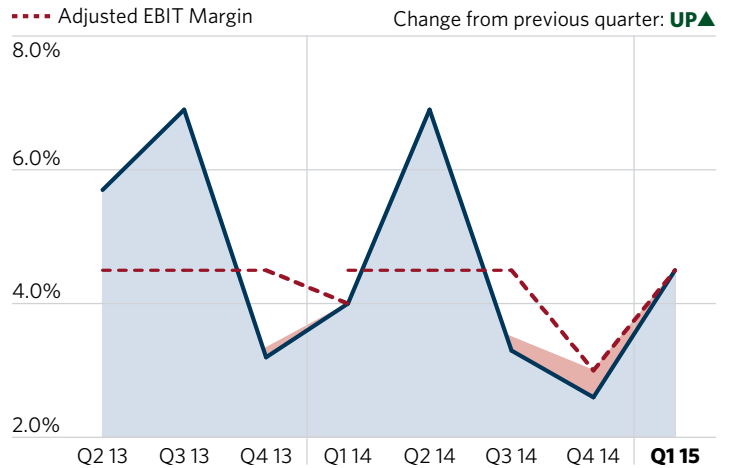
The operating efficiency rating for F improved from WEAKEST to WEAK as the net margin, EBIT margin, return on incremental investment capital and gross margin improved since the last quarter.

In addition, the EBIT margin improved from 2.6% to 4.5%. The higher EBIT margin indicates that F has reduced their pre-financing costs.

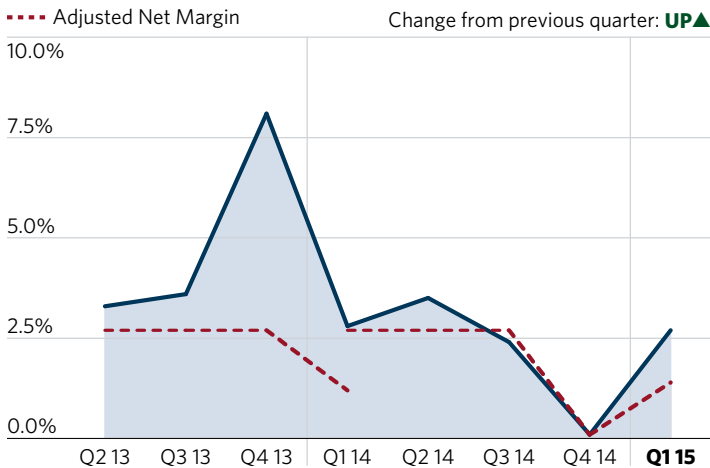
**GROSS MARGIN**



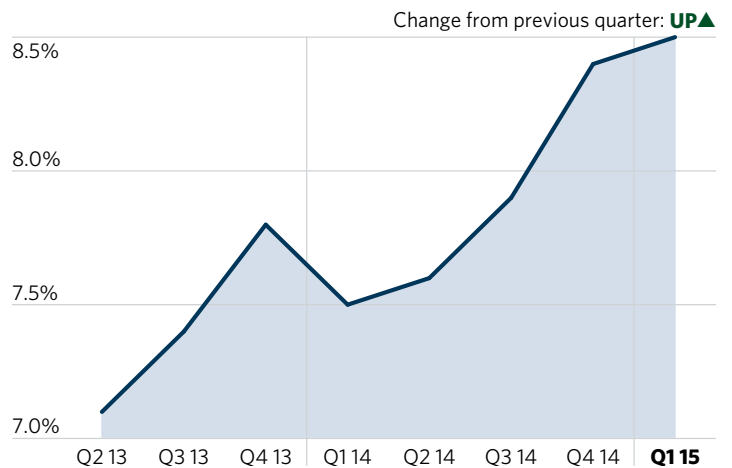
**EBIT MARGIN**



**NET MARGIN**



**SG&A AS A PERCENTAGE OF SALES**



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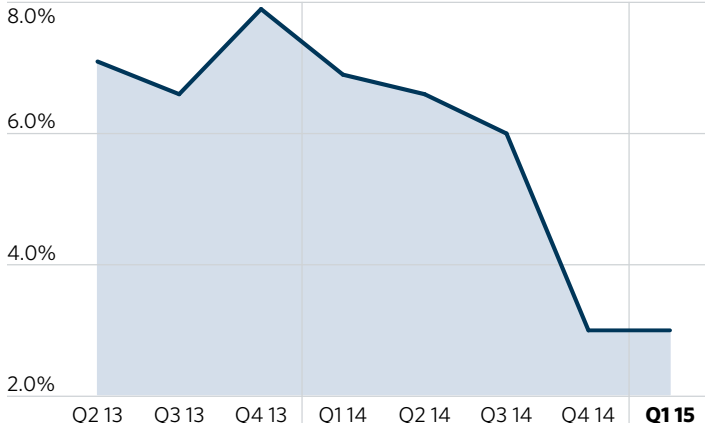
**AUTOMOBILES** INDUSTRY

OVERALL RATING FOR 1ST QUARTER 2015 **HOLD**

**OPERATING EFFICIENCY: WEAK**

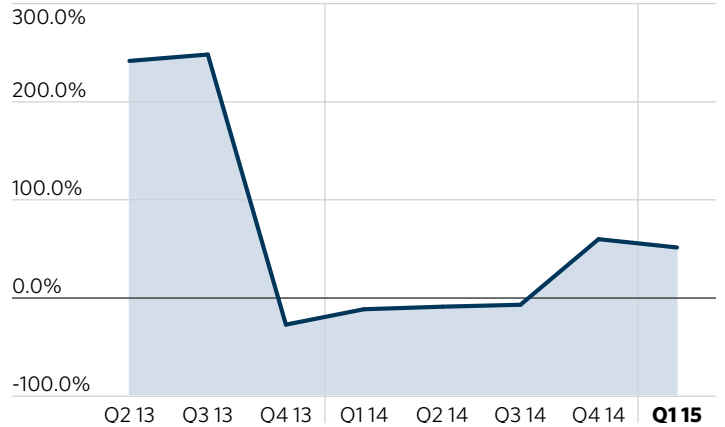
**ROIC**

Adjusted ROIC

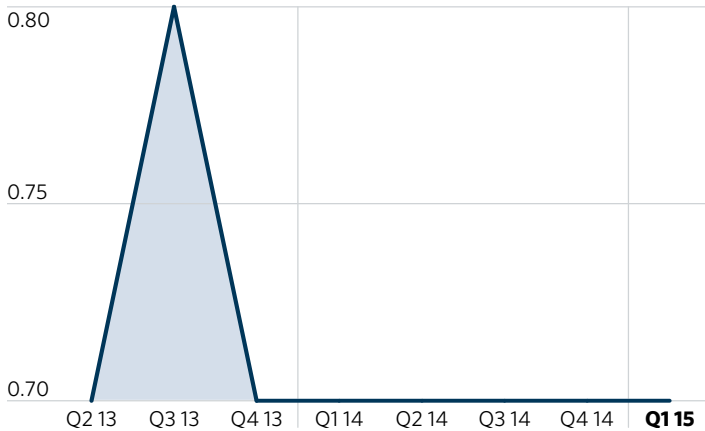


**RETURN ON INCREMENTAL INVESTED CAPITAL**

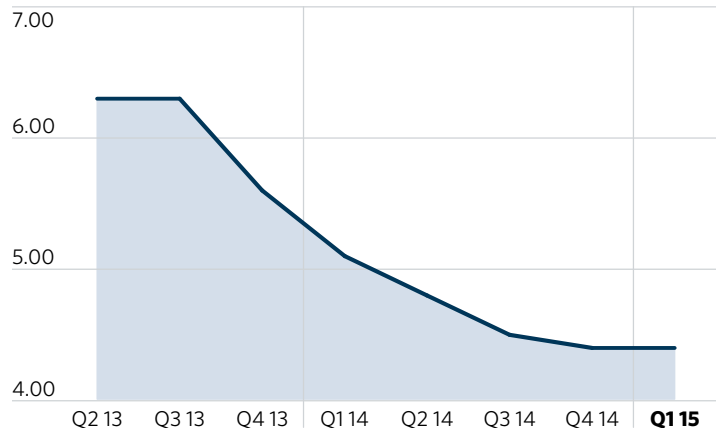
Change from previous quarter: **DOWN**



**ASSET TURNOVER**



**EQUITY TURNOVER**



**CASH CONVERSION CYCLE**

Data not available for this chart.

IN DAYS

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**BALANCE SHEET QUALITY: STRONG**

The balance sheet shows the ability of FORD MOTOR CO to pay its bills and fund future growth. It also provides clues to aggressive accounting since reported earnings that do not generate cash flow generally end up somewhere on the balance sheet. The following are analyzed in determining balance sheet quality: quick ratio, current ratio, cash position, accounts receivable days sales outstanding (AR DSOs), and number of days inventory is held prior to sale to customers (Inv Days).

The balance sheet rating for F weakened from STRONGEST to STRONG as all five measures of performance deteriorated over the last quarter.

Inv Days increased (a negative change) from 23 to 29 days. The higher Inv Days indicates that F has lengthened the time inventory is held before it is sold to customers thereby requiring more working capital. In addition, the cash position deteriorated from \$27,892M to \$26,836M. The lower amount of cash on hand indicates that F will have a harder time meeting financial obligations.

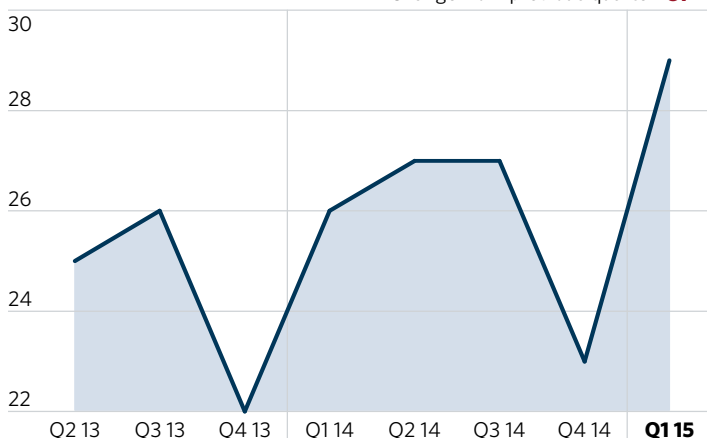
**RECEIVABLES DAYS OUT**

Change from previous quarter: **UP▲**



**INVENTORY DAYS OUT**

Change from previous quarter: **UP▲**



**CURRENT RATIO**

Data not available for this chart.

**QUICK RATIO**

Data not available for this chart.

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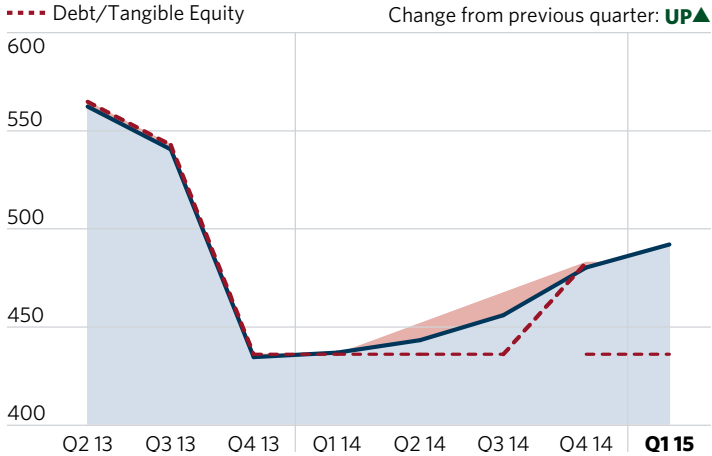
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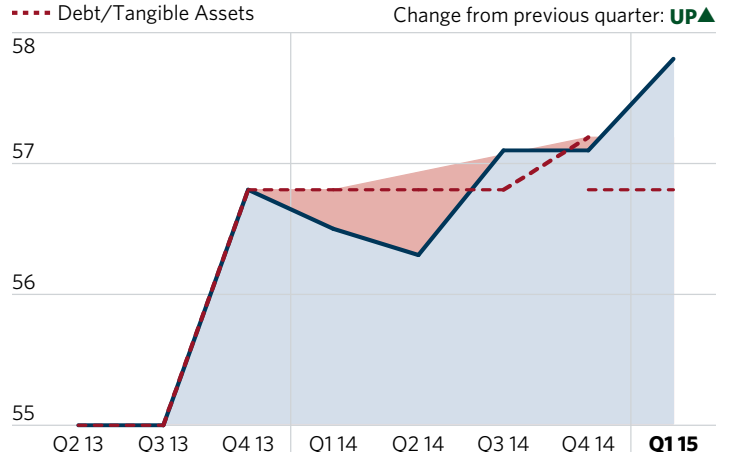
OVERALL RATING FOR 1ST QUARTER 2015 **HOLD**

**BALANCE SHEET QUALITY: STRONG**

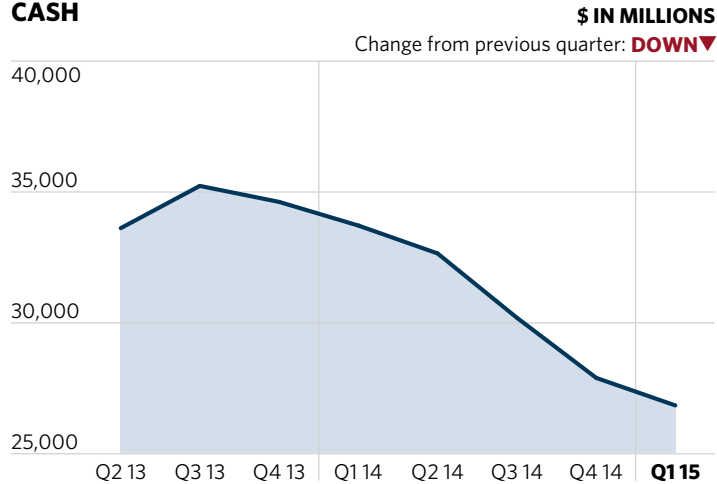
**DEBT/EQUITY**



**DEBT/ASSETS**



**CASH**



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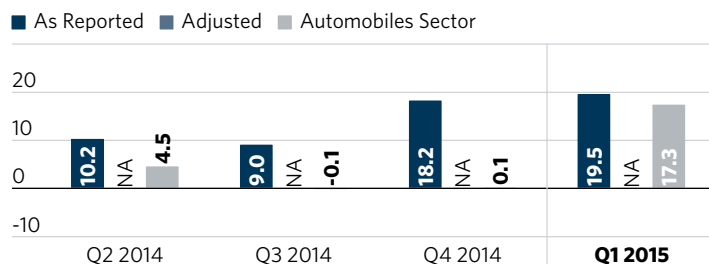
**VALUATION: LEAST RISK**

A favorable valuation (a LEAST RISK or LOW RISK rating) implies lower potential downward price risk that is evidenced by a company price multiple that is lower than the corresponding sector average. The valuation rating is based on both absolute and relative levels at FORD MOTOR CO compared to its peers within its sector based on price to earnings (PE), price to earnings growth (PEG), price to sales (PS), and price to cash flow (PCF).

The valuation rating for F remains a LEAST RISK.

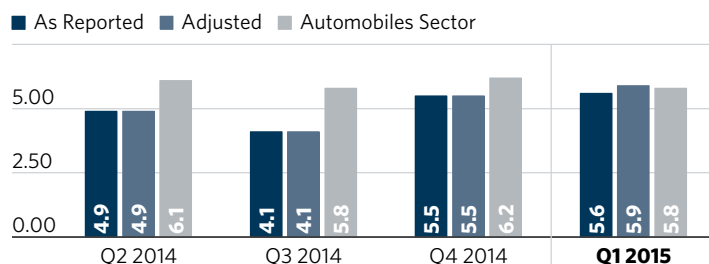
**PRICE/EARNINGS**

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Earnings	<b>8.20</b>	<b>19.50</b>	<b>12.16</b>
Adjusted Price/Earnings	<b>NA</b>	<b>NA</b>	<b>NA</b>
Sector Price/Earnings	<b>11.60</b>	<b>19.40</b>	<b>14.79</b>



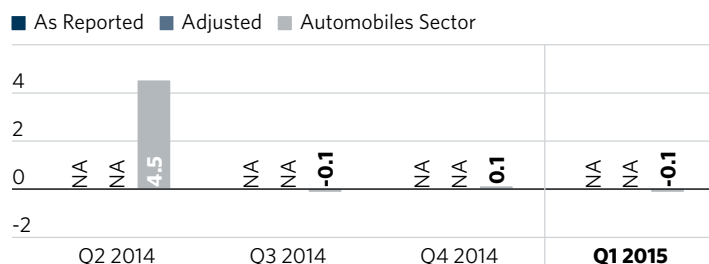
**PRICE/CASH FLOW**

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Cash Flow	<b>4.10</b>	<b>5.90</b>	<b>5.10</b>
Adjusted Price/Cash Flow	<b>4.10</b>	<b>5.90</b>	<b>5.14</b>
Sector Price/Cash Flow	<b>5.80</b>	<b>6.70</b>	<b>6.18</b>



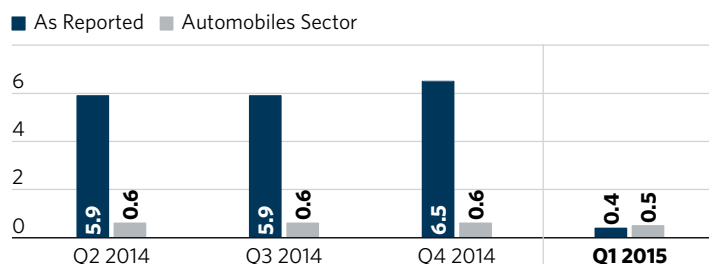
**PRICE/EARNINGS GROWTH**

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Earnings Growth	<b>0.20</b>	<b>3.60</b>	<b>1.23</b>
Adjusted Price/Earnings Growth	<b>NA</b>	<b>NA</b>	<b>NA</b>
Sector Price/Earnings Growth	<b>-0.10</b>	<b>4.50</b>	<b>0.61</b>



**PRICE/SALES**

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Sales	<b>0.40</b>	<b>6.50</b>	<b>5.18</b>
Sector Price/Sales	<b>0.50</b>	<b>0.70</b>	<b>0.60</b>





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**PEER VALUATION COMPARISON**

TICKER	COMPANY	MARKET CAP.	PRICE ON 05/21/15	PRICE/ EARNINGS	PRICE/ SALES	PRICE/ CASH FLOW	PRICE/ EARNINGS GROWTH	VALUATION RATING
TM	TOYOTA MOTOR CORP -ADR	\$238.3 B	\$139.40	0.0	0.9	7.4	0.0	<b>LEAST RISK</b>
HMC	HONDA MOTOR CO LTD -ADR	\$65.4 B	\$36.10	0.0	0.5	4.5	0.0	<b>LEAST RISK</b>
<b>F</b>	<b>FORD MOTOR CO</b>	<b>\$60.3 B</b>	<b>\$15.40</b>	<b>19.5</b>	<b>0.4</b>	<b>5.6</b>	<b>NA</b>	<b>LEAST RISK</b>
GM	GENERAL MOTORS CO	\$55.8 B	\$34.70	15.4	0.4	4.8	0.4	<b>LEAST RISK</b>
TSLA	TESLA MOTORS INC	\$34.0 B	\$268.80	-84.5	9.0	-237.1	-0.4	<b>LOW RISK</b>
HOG	HARLEY-DAVIDSON INC	\$12.0 B	\$57.40	14.5	1.8	10.8	1.1	<b>LEAST RISK</b>
THO	THOR INDUSTRIES INC	\$3.0 B	\$57.80	15.5	0.8	14.2	0.8	<b>LEAST RISK</b>
<b>AUTOMOBILES SECTOR</b>		<b>\$52.2 B</b>	<b>—</b>	<b>17.3</b>	<b>0.5</b>	<b>5.8</b>	<b>-0.1</b>	<b>—</b>

**PEER OPERATING COMPARISON**

TICKER	COMPANY	MARKET CAP.	GROSS MARGIN (%)	EBIT MARGIN (%)	NET MARGIN (%)	ROIC (%)	CASH CONVERSION CYCLE (DAYS)	OPERATING EFFICIENCY RATING
TM	TOYOTA MOTOR CORP -ADR	\$238.3 B	25.5	10.7	8.3	7.6	25.0	<b>LOW RISK</b>
HMC	HONDA MOTOR CO LTD -ADR	\$65.4 B	33.3	5.3	4.0	5.8	46.0	<b>LOW RISK</b>
<b>F</b>	<b>FORD MOTOR CO</b>	<b>\$60.3 B</b>	<b>18.6</b>	<b>4.5</b>	<b>2.7</b>	<b>3.0</b>	<b>0.0</b>	<b>MEDIUM RISK</b>
GM	GENERAL MOTORS CO	\$55.8 B	17.0	4.0	2.6	5.3	-1.0	<b>LOW RISK</b>
TSLA	TESLA MOTORS INC	\$34.0 B	35.9	-10.9	-16.4	-14.4	66.0	<b>MOST RISK</b>
HOG	HARLEY-DAVIDSON INC	\$12.0 B	47.7	26.8	16.1	12.3	30.0	<b>LOW RISK</b>
THO	THOR INDUSTRIES INC	\$3.0 B	14.5	8.0	5.4	20.0	28.0	<b>LOW RISK</b>

**DEFINITIONS**

**Adjusted Net Income:** Adjusted Net Income is a company's reported net income less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing earnings.

**Accruals – Forecasted and Actual:** The comparison of forecasted and actual accruals identifies a discretionary build not attributable to a company's sales growth, and could be a sign of poor earnings quality. For our purposes, the forecasted accrual component is an aggregate measurement of total accruals (short-term balance sheet accounts) that distinguishes between "normalized" and "extraordinary" accruals. The normalized accruals are based on historical relationships between sales and accruals and are dynamically adjusted over time to account for changes in the ratio between these two variables. Normally, short term accruals will grow as sales grow – i.e., the "normalized" measure. Discretionary accruals are the portion of accruals that are in excess of the base factor and therefore exceed the normal and are "extraordinary".

**Adjusted Operating Cash Flow:** Adjusted Operating Cash Flow is reported operating cash flow less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing cash flow from operations.

**Adjusted Free Cash Flow:** Adjusted Free Cash Flow is reported operating cash flow less adjustments for one-time, non-operating items and capital expenditures. This provides a more realistic picture of a company's ongoing cash generation from operations after capital investments.

**Flow Ratio:** The Flow Ratio is a measurement of management's effectiveness in managing its working capital to maximize the company's cash flows. The measure is a ratio of a company's non-cash current assets to its non-interest bearing short-term liabilities.– These non-cash assets include items such as accounts receivable (which are essentially interest-free loans to customers) and inventory (which is subject to obsolescence or spoilage). The non-interest bearing liabilities are essentially interest-free loans to the company. A lower ratio implies tighter cash management for a company as it has less cash tied up in non-cash current assets and is able to utilize interest free loans from suppliers.

**Cash Flow Return on Investment:** Cash Flow ROI is a measure of a company's ability to generate operating cash flow from its invested capital. Many analysts consider this measure preferable to an earnings return measure such as ROE since cash flow is considered a more reliable measure.

**Adjusted Cash Flow Return on Investment:** Adjusted Cash Flow ROI is a measure of the ability to generate operating cash flow from its investment in capital calculated using a company's adjusted cash flow.

**Debt Coverage:** Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated from continuing operations.

**Adjusted Debt Coverage:** Adjusted Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated from continuing operations, calculated using a company's adjusted cash flow.

**Adjusted Return on Invested Capital:** Adjusted ROIC assesses a company's efficiency at allocating the capital to profitable investments using a company's adjusted net income (see above) yielding a measure of how well a company is using its capital to generate returns.

**Adjusted EBIT Margin:** Adjusted EBIT Margin is a measure of a company's earnings before interest and income taxes less adjustments for one-time and non-operating items divided by a company's sales.

**Adjusted Net Margin:** Adjusted Net Margin is a measure of a company's net income less adjustments for one-time and non-operating items divided by a company's sales.

**Return on Incremental Invested Capital:** ROIC measures the relationship between incremental investment and incremental net operating profit after tax. This provides a measure of the returns a company is earning on recent investments rather than all investments as measured by ROIC.

**Cash Conversion Cycle:** The Cash Conversion Cycle measures the number of days working capital is tied up from the date of purchase of raw materials until the collection of cash from the sale of the product.

**Debt to Tangible Equity:** Debt to Tangible Equity is a ratio of a company's debt to equity less adjustments for goodwill and other intangible assets yielding tangible equity.

**Debt to Tangible Assets:** Debt to Tangible Assets is a ratio of a company's debt to total assets less adjustments for goodwill and other intangible assets.

**Price/Adjusted Earnings:** Adjusted Price/Earnings is a relative valuation measure comparing a company's share price to its adjusted net income.

**Price/Adjusted Cash Flow:** Adjusted Price/Cash Flow is a relative valuation measure comparing a company's share price to its adjusted cash flow.

**Price/Adjusted Earnings Growth:** Adjusted Price/Earnings Growth is a relative valuation measure comparing a company's share price to its growth in adjusted earnings.

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The Jefferson Financial Sonar™ ratings system classifies companies into three categories: Buy, Hold and Sell. The Financial Sonar rating is the result of a point scoring system derived from the five main criteria. The more negative the rating, the more likely the overall rating will be a Sell. More positive criteria will support an Overall Rating of Buy.

Jefferson Research & Management has developed the Financial Sonar™ Rating System which is based upon five analytical criteria: Earnings Quality, Cash Flow, Operating Efficiency, Balance Sheet, and Valuation. The first four criteria are rated in one of four categories (best to worst): Strongest, Strong, Weak, Weakest. Valuation is also rated in one of four categories (best to worst): Least Risk, Low Risk, Medium Risk, Most Risk.

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