Appropriate for Income

Recommendation

We consider bonds of Ford (and its subsidiaries) to be an appropriate holding for Edward Jones clients who seek Income as an objective within a well-diversified portfolio.

Edward Jones Credit Strength Assessment

Investment Summary

We have changed our credit strength assessment on Ford to Below Average from Average. Ford has recently encountered decreased profits, and new management plans to revamp the company’s operations and pieces of its business model. While some details have been disclosed about how the company plans to change, management is expected to announce a thorough vision for large scale changes to improve profitability in the coming months. We expect this announcement could contain significant cost cutting, exits of unprofitable regions and business model improvements in regions where Ford may continue to operate but cut out unprofitable lines of business. The company has already announced its intent to exit the vast majority of its U.S. car business to focus on its profitable truck and SUV lines, which we view favorably. With the recent downgrade by Moody’s to Baa3 and the rating agency maintaining a negative outlook on Ford, the probability has increased somewhat that Ford could have a non-investment grade rating, at least at one rating agency. However, we still see a number of significant strengths in the company, including its highly profitable line of trucks in the U.S. and its significant cash holdings. We also expect the company’s performance to likely improve once management lays out its new business plan.

Bond Strengths

• Ford’s truck line, including the F-150, is a highly profitable franchise that we believe has substantial ongoing value.
• At the end of 2017, Ford had cash and marketable securities of $26 billion in the company’s automotive segment versus automotive debt of $16 billion.
• We believe the company has the incentive to maintain a strong financial position with the intention of maintaining investment-grade ratings due to the large amounts of funding needed for Ford Motor Credit.

Bond Weaknesses

• The cyclical nature of the auto industry presents a challenge for Ford and other automakers.
• Ford must balance the execution of fixing or exiting underperforming businesses with its continuing investment in new technology, like self-driving vehicles.
• There may be a number of new entrants to the auto industry in coming years with a number of technology companies rumored to be developing electric cars.

Company Overview

Ford Motor Company is one of the world’s largest producers of cars and trucks. Ford also owns Ford Motor Credit, which provides consumer financing for Ford’s vehicles and offers floor plan and other financing to its dealers.

Primary Subsidiaries Include

Ford Motor Credit

Parent Credit Ratings

Moody’s................................. Baa3/Negative
S&P............................................ BBB/Negative
Fitch................................................ BBB/Stable

Financial Data

Debt/EBITDA................................. 1.5x

U.S. Recommended Corporate Bond Sector Weightings

- Financial (30%- 45%)
- Utilities (10%- 25%)
- Industrial (35%- 55%)

U.S. Recommended Bond Ladder

- Short-term (up to 5 years)
  30%- 40%
- Intermediate-term (6- 15 years)
  40%- 50%
- Long-term (16+ years)
  15%- 25%

Please see important disclosures and certification on page 4 of the report.
Recent News and Analysis

9/5/18: We have changed our credit strength assessment on Ford to Below Average from Average. Ford has recently encountered decreasing profits, and new management has indicated it plans to revamp the company's operations and pieces of its business model. While some details have been disclosed about how the business plans to change, we feel significant details regarding the company's future business model have yet to be disclosed, leading to a lack of transparency currently. While the business plan was originally expected to be announced in September, the company cancelled the event and has not announced when it will occur. However, when Ford does make this announcement, we expect it could contain significant cost cutting, the exiting of unprofitable regions, and business-model improvements in regions where Ford may continue to operate but cut out unprofitable lines of business. The company has already announced its intent to exit the vast majority of its U.S. car business to focus on its profitable truck and SUV lines, which we view favorably. The company has also indicated it plans to sharpen its focus on developing electric and autonomous (self-driving) vehicles. While this part of the business will be unprofitable in the near term, we view it as a necessary step for the automaker to develop these business lines. With the recent downgrade by Moody's to Baa3 and the rating agency maintaining a negative outlook on Ford, the probability has increased somewhat that Ford could have a noninvestment-grade rating, at least at one rating agency. However, we still see a number of significant strengths in the company, including its highly profitable line of trucks in the U.S. and its significant cash holdings. We also expect the company's performance to likely improve once management lays out its new business plan. We continue to consider bonds of Ford (and its subsidiaries) to be an appropriate holding for Edward Jones clients who seek Income as an objective within a well-diversified portfolio.

7/26/18: Ford reported second-quarter operating EPS of $0.27, which was below the $0.31 analyst consensus estimate and down from $0.56 in the second quarter of 2017. The company also lowered its 2018 operating EPS guidance to a range of $1.30 to $1.50 from its previous guidance of $1.45 to $1.70. This was a disappointing quarter for Ford, in our view. The company lost money in South America, Europe and Asia. While South America has been a fruitless business for years, the bigger disappointments came at its European segment, where it had appeared Ford was beginning to turn the corner, and Asia (specifically China), where Ford's business had been improving for years, until recently. On the other hand, aside from the disruption in truck production experienced due to a fire at a key parts supplier, Ford's North American business exhibited continued strength. The cut in 2018 guidance was primarily due to weakness in Europe and Asia. Management indicated it is taking action to address the issues in these regions, but it appears trends are unlikely to improve until 2019 when many of its refreshed models are scheduled to hit showrooms. On the earnings conference call, management indicated it plans to redesign and refocus its international businesses to cut out unprofitable ventures that have little potential. We certainly would support action on this because we believe these underperforming businesses mask the underlying earnings power of the North American truck and SUV business along with its Ford Credit lending segment. Ford remains well capitalized, in our view, with $9 billion of cash in excess of debt at the automotive business. We consider bonds of Ford (and its subsidiaries) to be an appropriate holding for Edward Jones clients who seek Income as an objective within a well-diversified portfolio.

Company Outlook

Ford Has Improved Its Operations Significantly - Ford has spent the last decade focusing on improving its operational structure. We believe Ford has made many significant improvements operationally, including bringing its fixed costs under control and improving its efficiency by building vehicles off fewer underlying platforms. Ford has aggressively reduced costs and the size of the overall company to employ a strict focus on profitability. The company has reduced the size of its workforce and has signed contracts that allow for these reduced labor costs to remain under control. Ford has also reduced the number of vehicle platforms off of which it builds its cars and trucks. In 2007, the company designed its vehicles off of 27 different platforms. The company consolidated its production to 15 platforms in 2013, and now operates on just nine platforms, with the goal of further reducing this number. Sharing platforms allows different makes of car or truck to have common design, engineering and production attributes, which ultimately leads to cost savings. This renewed focus on profitability has allowed Ford to operate with a significantly lower breakeven production level (the number of vehicles it would need to produce in a given year to not lose money for the year). We believe current breakeven levels may be more than 40% lower than those in 2009. This reduction in the breakeven level is very positive for bondholders because it reduces the probability of large losses in what has historically been a very volatile industry. We also note that Ford has sold brands that it either owned or had stakes in (including Volvo, Jaguar and Land Rover, among others) to focus solely on its Ford brand and, to a lesser extent, its Lincoln brand.

Despite Simplifying Its Operations, Ford Has Generally Kept Its Vehicle Lineup Fresh – We have been impressed by Ford's ability to "right-size" its operations while at the same time innovating and producing vehicles that are relevant to consumers. Ford's North American market share stood at 13.9% in 2017, down slightly from 14.2% in 2014. In its 2015 model year, Ford introduced a new F-150 pickup truck with an aluminum body. This was a big risk given the popularity and profitability of the F-150 line, but it has been a successful innovation. We believe this may give it a bit of an advantage over its closest competitors. This new F-150 is lighter than a steel-bodied version and offers better fuel economy.

Geographic Diversification a Mixed Bag – Ford has a presence in nearly all regions worldwide but the vast majority of the company's sales still originate from North America and Europe. However, in recent years the vast majority of its profit has been derived from North America. We expect underperforming regions to be thoroughly addressed when new management announces its strategic plan.
While Europe has been a difficult market, Ford had shown promising results in China. While Ford has been behind many of its competitors in penetrating the Chinese market, it made important strides in recent years. However, more recently, the company's Chinese operations have struggled, which appears to be due in part to product that needs to be refreshed. The company plans to release fresh product to the Chinese market in 2019. Ford's Chinese market share was 4.2% at year-end 2017. While the Chinese market is still a relatively minor part of Ford's business, we do believe this is an important market for the company given its growth characteristics. While the auto industry has a strong cyclical component in both North America and Europe, Chinese market growth has tailwinds beyond the whims of replacement cycles as there are still plenty of Chinese consumers who have yet to purchase their first vehicle. In fact, since 2009, industry volumes in China have grown from 14 million vehicles in 2009 to over 28 million vehicles in 2017, a roughly 10% compounded annual growth rate. This gives a good indication of why China is an important market for auto manufacturers.

**New Management to Provide New Vision for the Company**

Jim Hackett, the company's new CEO, was appointed to navigate the company into the coming automotive world that is expected to focus on electric vehicles, autonomous vehicles and ride sharing. Jim Hackett has provided investors with some of his views on the course he sees Ford taking in coming years. Key points have included cutting costs substantially to operate more efficiently and improve profit margins, increasing the company's focus on trucks and SUVs relative to cars, and increasing its focus on development of electric vehicles. We believe Ford is taking positive steps to evolve in a changing automotive industry. From a bondholder's perspective, we were pleased with what we heard. We believe the company is trying to strike a balance between the current world, in which trucks and SUVs have become increasingly popular due in large part to low gas prices, and preparation for the future world of autos.

**Financial Strength**

Ford's financial condition has improved dramatically over the past 10 years. The company's debt has been upgraded several notches by major credit-rating agencies because Ford has cut expenses, lowered debt, and enhanced its outlook. At the end of 2017, Ford's automotive sector had approximately $26 billion of cash and cash and marketable securities on its balance sheet versus $16 billion in debt. Taking into account the positive cash flows we project going forward, as well as unused lines of credit, Ford retains sufficient liquidity at this time.

We also note that Ford has diligently improved the funding of its pension plans. Ford's pension plans were about $6 billion underfunded at the end of 2017, a strong improvement from nearly $19 billion underfunded at year-end 2012. The majority of this improvement was due to its significant contributions to the plan. While Ford has made great strides in improving its financial condition over the past several years, it still operates in a highly competitive, cyclical industry. However, we believe the company's improved financial position, more moderate cost structure, and overall improved operating efficiency should allow the company to weather the next economic downturn while enduring less financial stress than in previous downturns. Ford has been quite bondholder-friendly recently as it has heavily reduced debt and improved its pension funding.

**Edward Jones Credit Strength Assessment**

We believe Ford's credit strength assessment is below average. The company has improved its operations markedly and has paid down debt in recent years to improve its financial position. Additionally, Ford has made meaningful progress in reducing its underfunded pension liability. However, while these are all positive steps for bondholders, Ford operates in a cyclical and highly competitive industry. Recently the company has lost some of its advantages on the cost side and has seen weakening results in China and Europe. The company plans to address these issues with a plan that it will discuss in coming months. While investors know that this discussion will come, important factors, such as total expected cost savings, which businesses may be eliminated, and the time frame for these changes, are not yet known. This uncertainty and lack of transparency make us somewhat more cautious on Ford's bonds than previously.
Required Research Disclosures

<table>
<thead>
<tr>
<th>September 6, 2018</th>
<th>BUY</th>
<th>HOLD</th>
<th>SELL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Credits</td>
<td>0%</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>Investment Banking</td>
<td>0%</td>
<td>21%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The table lists the percent of corporate credits we follow globally in each of the equivalent rating categories. We do not assign a “Buy” rating to any corporate credits. Investment banking services indicate the percentage of those subject companies that have been investment banking clients within the last 12 months.

Initiated Coverage (SELL) 11/15/10...FYI - For informational purposes only; factual, no opinion.

Analyist Certification

- I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. Mike Doyle, CFA

Other Disclosures

- Edward Jones publishes research reports on both this issuer’s bonds and common stock. These reports are authored by different research analysts. Further, Edward Jones utilizes different analysis techniques in analyzing bonds and common stock investments. While bond and common stock research reports about the same issuer may appear inconsistent or contradictory, the separate reports should be reviewed independent from one another.
- This report does not take into account your particular investment profile and is not intended as an express recommendation to purchase, hold or sell particular securities, financial instruments or strategies. You should contact your Edward Jones Financial Advisor before acting upon this report.
- This report is a product of the Edward Jones Fixed Income Research Department.
- All investment decisions need to take into consideration individuals’ unique circumstances such as risk tolerance, taxes, asset allocation and diversification.
- Before investing in bonds, you should understand the risks involved, including interest rate risk, credit risk and market risk. Bond investments are subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.
- Edward Jones limits inventory positions for fixed income securities. This security may currently be subject to these internal limits; however, this should not be considered contrary to our current recommendation.
- This opinion is based on information believed reliable but not guaranteed. The foregoing is for INFORMATION ONLY. Additional information is available on request. Past performance is no guarantee of future results.
- This issuer may have issued bonds in both large and small offering sizes. Bonds which are part of small offerings are generally less liquid, which may cause the price you receive in the secondary market to be lower than prices received by investors in large issues of the same issuer’s bonds.
- If you sell this security prior to maturity, you may receive more, less, or the same dollar amount you originally invested because the security’s market value may fluctuate over time due to various market factors (e.g., interest rates).
- Information about research distribution is available through the Investments and Services link on www.edwardjones.com.
- For U.S. clients only: Member SIPC — For Canadian clients only: Member - Canadian Investor Protection Fund
- Diversification does not guarantee a profit or protect against loss in declining markets.
- In general, Edward Jones analysts do not view the material operations of the issuer.
- Credit ratings generally represent the rating company's opinion of the bond's ability to meet its ongoing contractual obligations. These ratings are estimates and should be one of many factors considered in evaluating fixed income investments. These ratings do not address suitability or future performance. N/A indicates no rating available.
- When investing in issuers incorporated outside your own country of residence, you should consider all other material risks such as currency risk, political risk, liquidity risk and accounting rules differences, which can adversely affect the value of your investment. Please consult your Financial Advisor for more information.
- Edward Jones Credit Strength Assessment: Low –Our opinion is these credits are of low financial quality. We believe these credits are the most likely to default and experience the most financial hardship. Below Average – Our opinion is these credits are of below-average financial quality. We believe these credits are more likely to default or experience financial hardship than the average. Average – Our opinion is these credits are of average financial quality. We believe these credits have a low probability of default or low chance of experiencing financial hardship. Above Average – Our opinion is these credits are of above-average financial quality. We believe these credits are less likely to default or experience financial hardship than the average. High – Our opinion is these credits are of the highest financial quality. We believe these credits have the lowest probability of default and will experience the least financial hardship.
- Ratings from Standard & Poor’s ("S&P"). Moody's and Fitch may be shown for certain securities. S&P requires we inform you: (1) Ratings are NOT recommendations to buy, hold, sell or make any investment decisions and DO NOT address suitability or future performance; (2) S&P DOES NOT guarantee the accuracy, completeness, or availability of any ratings and is NOT responsible for results obtained from the use of any ratings. Certain disclaimers related to its ratings are more specifically stated at http://www.standardandpoors.com/disclaimers.