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: Baa2/Stable
- S&P: BBB/Stable
- Fitch: BBB/Stable

Financial Data

- Debt/EBITDA: 1.1x

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%

Appropriate for Income

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

Ford has made a remarkable turnaround, going from the brink of bankruptcy and government intervention to earning robust profits, generating positive cash flow, and receiving investment-grade credit ratings from debt-rating agencies. We believe the company is worthy of its investment-grade rating given its improved operating performance and its cash balance that is in excess of its automotive debt.

Bond Strengths

- Ford has improved its operations markedly over the past several years. Important efficiency improvements include labor-force reductions and reducing the number of platforms on which it builds its cars and trucks, both of which have improved profitability.
- Ford has cash and marketable securities of $24 billion in the company's automotive segment versus automotive debt of $13 billion.
- Ford plans to further reduce its automotive debt to $10 billion.
- Ford has taken aggressive measures to improve its pension-funding status. Ford's pension plans were $8 billion underfunded at the end of 2015, a strong improvement from nearly $19 billion underfunded at year-end 2012.
- We believe rating-agency upgrades are likely in coming years.

Bond Weaknesses

- The cyclical nature of the auto industry presents a challenge for Ford and other automakers.
- If gas prices were to move higher, sales of Ford's higher-margin trucks and SUVs could be hurt.
- Competition is expected to remain intense, and excess production capacity is likely to limit auto-industry price increases. Competition can also pressure margins as auto manufacturers offer incentives that lower prices in order to sell 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.
Recent News and Analysis

7/26/2017: Ford reported second-quarter adjusted operating earnings per share (EPS) of $0.56, which was better than the $0.43 analyst consensus estimate and up from $0.52 the company earned in the second quarter of 2016. Ford updated its full-year adjusted EPS range to be $1.65 to $1.85.

In our view, this was a decent quarter for Ford as the company beat the analyst consensus estimate. The company’s revenue benefited from a sales mix of higher-value vehicles in the quarter. As usual, North America was by far the largest driver of profit, but Ford’s European region also posted a profit while its South American business posted a modest loss. Global market share fell to 7.4% from 7.5% in the second quarter of 2016. We believe we have likely seen the peak in this cycle for the auto industry, but we are encouraged by Ford’s actions in recent years to weather the cyclicality of the industry. These actions include improving its debt measures, keeping cash in excess of debt on hand at its automotive segment ($12.2 billion of excess cash at the end of the second quarter, which was an improvement from $11.6 billion at the end of the second quarter of 2016), and reducing the number of cars and trucks it needs to sell to break even in a downturn. 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.

5/22/17: Ford has appointed Jim Hackett as its new CEO. There have been recent news reports of growing discontent with Ford's stock price among its board of directors and some shareholders. Ford indicated that Mark Fields, who was the previous CEO, has chosen to retire, but this appears to be a situation where he was likely encouraged to cede the CEO role. While we don't view the job Fields did as substandard, we believe the bar was set very high by Fields’ predecessor, Alan Mulally, who restructured Ford and guided it through the last recession as the only one of the big three American automakers that did not file for bankruptcy. We believe the high bar set by Mulally, coupled with Ford's depressed stock price, likely led to the CEO change. Jim Hackett, Ford's new CEO, formerly served as the executive chairman of Ford's Smart Mobility unit. This is the division that focuses on the next wave of automobile technology, including electric and self-driving vehicles. Ford is perceived to be behind competitors in these new technologies, and we believe the board of directors likely views Hackett as the transformational leader that it needs to step into the future of automobile manufacturing. We expect to hear more with regard to the changes Hackett plans to make at Ford in the coming months and will be particularly interested in any ways it may affect bondholders via the company’s financial strength. Bill Ford appeared to indicate on the company’s webcast that there would be no major change with regard to the current balance of priorities as it relates to bondholders and shareholders, but we will keep a close eye on this. 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 several years 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 its ultimate goal is to bring this number down to just nine platforms globally. The company expects that by 2016, 99% of its global vehicle volume will come off of nine platforms. 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 stake-ins (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 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 15.2% in 2013, up slightly from 2009. Ford launched 24 new or significantly refreshed vehicles globally in 2014. The company expects to introduce even more new or refreshed vehicles in the 2016-2018 timeframe. While the large number of launches was detrimental to profits in recent years, we believe this short-term pain is likely to lead to enhanced profitability in coming years. Perhaps most importantly, 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 so far it appears to be quite a successful innovation. We believe this may give it 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 essentially all of its profit has been derived from North America. Ford put a restructuring plan in place to eliminate its losses in Europe, and has recently seen modest profits in Europe. This plan included plant closures that reduced headcount and excess production capacity in an effort to cut costs materially and become more efficient.

Edward Jones Fixed-Income Research

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While Europe has been a difficult market, Ford is showing promising results in China. Historically, Ford has been behind many of its competitors in penetrating the Chinese market but has made important strides in recent years. Ford's Chinese market share rose to 4.5% at year-end 2015. 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 25 million vehicles in 2015, an 10% compounded annual growth rate. This gives a good indication of why China is an important market for auto manufacturers.

**Industry Outlook**

The U.S. automobile industry was in total disarray as recently as 2009, when two of the fabled “Big 3,” General Motors and Chrysler, declared bankruptcy. The remaining member of this group, Ford, escaped that fate but still lost billions of dollars from 2006-2008. The perception of these American icons had deteriorated substantially, to the point where many Americans preferred foreign cars over the vehicles made by the Big 3, as evidenced by consistently declining market shares. This decay occurred over many years, as foreign companies like Toyota, Nissan and Honda entered the U.S. market with non-union labor, and manufactured reliable, stylish, fuel-efficient cars that became more popular than American cars. Ford, for example, lost market share each year from 1995-2008. The trend toward large SUVs temporarily stanch the tide rising against the Big 3, as they took the initiative in creating ever-larger luxury vehicles that consumers enjoyed driving. This trend, however, soon backfired as gas prices rose and the economy fell into recession, causing a significant decline in sales of SUVs.

We believe that despite both considerable competition and the increasing importance of technological innovation in the auto sector, Ford is now better positioned than it has been for some time. Ford management proactively made many difficult decisions, which allowed it to stay out of bankruptcy at a time when both General Motors and Chrysler were forced to pursue bankruptcy. Ford reduced staff, improved operating efficiency, and ultimately returned to profitability in impressive fashion. We believe its ability to continue to innovate over this timeframe rather than having to focus on bankruptcy proceedings, government ownership, and how the company may look post-bankruptcy as its Big 3 competitors did has led to a leading position versus these competitors. We cite its much improved balance sheet; its focus on reduction of pension liabilities, which formerly weighed on the company; and innovations such as its aluminum bodied F-150 as indications of the progress the company has made in recent years.

**Financial Strength**

Ford's financial condition has improved dramatically, and we believe it should recover further over the next few years, assuming the U.S. economy continues to grow. The company's debt has already been upgraded several notches by major credit-rating agencies because Ford has cut expenses, lowered debt, and enhanced its outlook. Ford's automotive sector recently has approximately $22 billion cash on its balance sheet versus under $13 billion in debt. Ford plans to further reduce its automotive debt to around $10 billion in coming years. 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, and has not experienced problems raising new debt or rolling over existing debt in the credit markets.

We also note that Ford has diligently improved the funding of its pension plans. Ford's pension plans were $8 billion underfunded at the end of 2015, 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. In 2013, Ford contributed $5 billion to its global pension plans, including $3.4 billion of discretionary contributions to improve the funding of its U.S. plans. 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. We believe further rating-agency upgrades are likely in coming years.

**Edward Jones Credit Strength Assessment**

We believe Ford's credit strength assessment is 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. While these are all positive steps for bondholders, Ford operates in a cyclical and highly competitive industry.
Required Research Disclosures

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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.

Appropriate for Income: We consider bonds to be an appropriate holding for investors seeking income within a well-diversified portfolio. Our time horizon is 3-5 years.

Appropriate for Aggressive Income: We consider bonds appropriate only as a small Aggressive Income portion within a well-diversified portfolio. Bonds within this category are riskier, with a higher possibility of loss due to default, than bonds classified as Income. Our time horizon is 3-5 years.

Sell: We recommend investors sell these bonds. We believe these bonds are no longer an appropriate fixed-income holding because, in our opinion, they offer an unattractive risk/reward scenario at current prices. Our time horizon is 3-5 years.

FYI - For informational purposes only. factual, no opinion.

Initiated Coverage (SELL) 11/15/10....(S) 11/15/10-4/11/14

Analyst 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

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- 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.