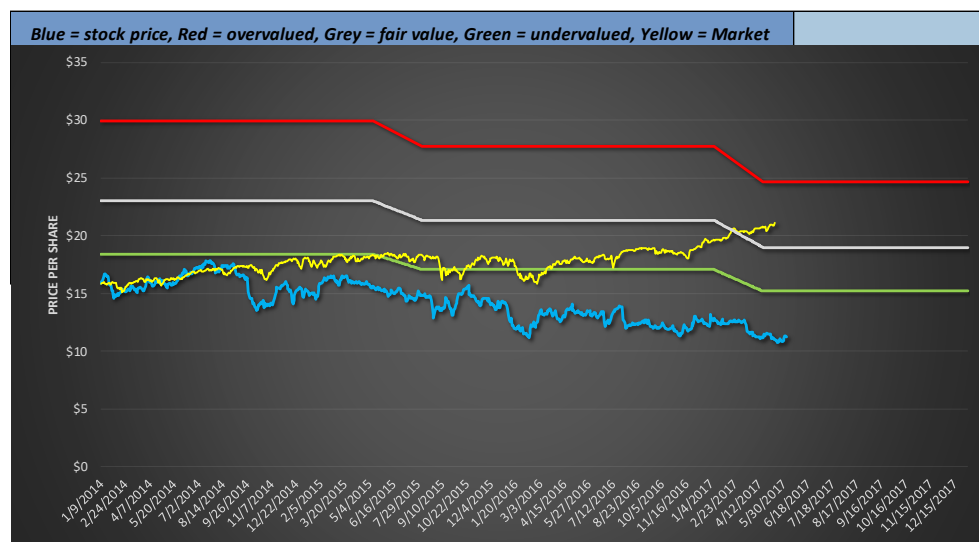




Ford Motor Company has been in the portfolio since November 2015 when the stock triggered a Buy consideration at \$15.35. The company has been paying a nice dividend of around 5% annually. It is currently at 59.2% Fv which is based on a 100% Fv price of \$19.00.

The company has been producing reliable results and is considered undervalued on many parameters. The stock sells for less than seven times projected earnings for the next year. It trades at a discount to the overall market of approximately 25% on an earnings basis. Ford has proven staying power as a global manufacturer and supporter of automobiles and trucks. It was one of the first industry leaders to focus on environmental concerns and electric vehicles in the 1990s under the direction of then CEO, Bill Ford. It was very early in making these changes and it cost Ford market value because investors labeled the activities a “distraction” from efficient manufacturing. It was actually visionary, but Bill was replaced with the first “outsider”, Alan Mulally. Mr. Mulally was from Boeing, a global manufacturer with 150,000 employees.

Mr. Mulally is credited with “saving” Ford. He did an excellent job at managing the company while shedding assets such as Volvo, Jaguar and Land Rover which have all moved on to continue as very successful growing competing operations. At the same time, much of what Bill Ford started in 2000 has become part of the future success of the company. Recently, Ford was ranked by the high-tech industry as #1 in advancing automotive technology. This came as a surprise because almost everyone expected someone like Tesla to be on top. The ranking recognized actions such as Ford’s recent acquisition of Chariot, a ride-sharing service and Argo an artificial intelligence and robotics development company. Ford has been a leader in robotics for decades.



Ford stock has suffered through a predominately sideways to downward price movement for the last two years while market values at Tesla moved past Ford. Interestingly, Ford is ranked well above Tesla on delivering the future automobile and has \$3.5 billion in free cash flow annually. Tesla loses billions. Is this rational?

I don't think the answer to this question was explored at the Ford board meeting when they decided to “retire” (see fire) CEO Mark Fields, an individual with numerous successes to his name and a Ford



employee since 1989. From the company's own press release, Mark was credited with being responsible for one of the fastest global manufacturing expansions in 50 years and managing the most aggressive global product introduction schedule in the company's history. He was named Global Leader of Tomorrow by the World Economic Forum and CNBC Asia Business Leader Innovator of the Year. In less than 2 years as CEO, the Ford board decided he was no longer suitable to be the leader of Ford Motor Company.

I am not worried about Ford's ability as a company to continue to lead the industry and advance with the rapidly changing auto industry environment. Ford is not a company that broadcasts their plans for the future; management believes that is confidential and has proven their capabilities over decades of good management and delivery. However, I am worried about the company's directors ability to see a long-term direction for the company. I believe the recent change in management was made because of short term stock pressure. The board did not know how to say to the market, Ford is on a path of success that is multi-year, not just this quarter. I sometimes wonder why many publicly traded companies bother with a strategic plan (5 to 10 years)? When the average tenure of a publicly traded company CEO is just 5 years, how do you implement a strategic plan?

Now, what about the future? The new CEO is an accomplished executive. He successfully managed Steelcase which is a furniture manufacturer with 11,000 employees. Ford has over 200,000 employees. Steelcase total revenue at \$3 billion is 2% of Ford's revenue of \$152 billion. Steelcase earnings at \$124 million is 3.5% of Ford's free cash flow of \$3.5 billion. Since leaving Steelcase, he has been overseeing the Ford Smart Mobility group as a Board director. The automobile industry is one of the highest investors in research & development. Steelcase expenditures in this area are unknown because it is not mentioned in the annual report. Research & Development must produce long-term results, it is not a playground; just ask Wang.

I fear this change may follow the same destructive path currently being experienced at Harley-Davidson [HOG]. Almost 10 years ago, Harley-Davidson decided a family member, a dedicated motorcycle individual, would no longer lead the company. They turned to Johnson Controls selecting an individual that did not even ride a motorcycle. The new leader immediately shut down the part of the business that was credited with most of the technological advances of the last 20 years and had developed a marketing focus on the future market. He threatened to move manufacturing of the most recognized "Made-In-America" brand overseas unless manufacturing employees gave up income and benefits. Earnings improved, efficiencies increased, and the stock price moved up. Unfortunately, now Harley is faced with out-of-date technology, an aging customer base, no ability to appeal to the new market of younger buyers, excessive dealer inventories and no plan on how to address the future with a demoralized and hostile workforce.

What will happen to Ford? I believe there is a high probability that short term earnings will increase just like they did at Harley-Davidson. The dividend will remain near 5% or possibly higher for the next 2 to 3 years. There is a 25% probability the stock will reach an overvalued level within 2 years and a 50% probability it will reach fair value (\$19/share). However, I believe Ford has a 75% probability to be out of business within 10 years. It will be joining the ranks of Rambler, Studebaker, Pierce Arrow and Oldsmobile. This makes the stock a short term buy/hold consideration, but long term sell consideration.