I. EXECUTIVE SUMMARY

Ford Motor Company

Ford is one of the world's largest car and truck manufacturers. It is incorporated in the state of Delaware, USA. The company produces a wide range of vehicles, which includes small, medium, and large cars and pickups, bus/vans, minivans, full-size pickups, and sport utility vehicles. It also offers a wide range of services and products, such as repairs and maintenance, accessories, extended warranty services, collision, insurance, and financing.

Ford's main markets are United States and Europe, but the company is also present in other markets such as Canada, Mexico, South America, Asia Pacific. Currently, the company is implementing several strategies to penetrate and expand emerging economies, such as China. The company's main competitors are General Motors Corporation, DaimlerChrysler Corporation, Toyota Corporation, and Honda Motor Corporation.

The company's operations are divided in two business sectors: the Automotive Sector and the Financial Services sector. Even though the Automotive sector accounts for the largest portion of revenues generated by the company, due to high production costs, it has been incurring in operating losses in the last few years, so the net operating income of the company is being generated by its Financial Services sector. The company is now in the process of implementing cost reduction strategies to become profitable its automotive sector.

Fiat S.p.A.

The Fiat Group is one of the largest industrial groups in Italy. The company is engaged principally in the manufacturing and sale of automobiles, commercial vehicles and agricultural and construction equipment. They also manufacture other automotive-related products and systems, which include but are not limited to powertrains, components, metallurgical products and production systems.

Fiat main operations are in Europe and U.S. though they operate in 56 countries throughout the world. The company is currently working to strengthen its presence in markets outside the EU, focusing on South America and Turkey. Its main competitors are Bayerische Motoren Werke AG (BMW), Ford Motor Company, and Volkswagen AG.

Starting on January 1, 2005, the company has aggregated its activities for financial reporting purposes into five business areas: Automoviles (including Fiat Auto, Maserati and Ferrari), Agricultural and Construction Equipment (CNH), Commercial Vehicles (Iveco), Components and Production Systems (Magneti Marelli, Teksid, and Comau), and other business (Business Solutions, Iteldi, holding companies, and other companies). In 2004, the company recorded a net loss for the fourth year in a row, although its losses have been narrowed due to the implementation of strategies to reduce costs and improve efficiency and competitiveness of its operations.

Purpose

Our report is intended to provide an assessment of the financial position of both companies and a prospective analysis to assess its future success. We will base our analysis in a comparison of the companies' strategy, a stock price, accounting policies, ratio analysis, and a Dupont analysis.

II. COMPANY PROFILE

A. FACT SHEET

Ford Motor Company

COMPANY NAME:	Ford Motor Company
STATE OF INCORPORATION:	Delaware
ADDRESS:	One American Road Dearborn, Michigan, 48126
TELEPHONE:	313-322-30000
MARKET EXCHANGES:	NYSE Pacific Coast Stock Exchange Other Stock exchanges in Europe
TICKER SYMBOL:	F
OUTSTANDING SHARES	
COMMON STOCK:	1,760,048,400 (SOURCE: 02/24/04)
CLASS B STOCKS:	70,852,076 (SOURCE: 02/04/04)
STOCK PRICE:	$7.32 (Close 04/21/2006)
INDUSTRY:	Auto Manufacturers
MAJOR COMPETITIORS:	General Motors Corporation DaimlerChrysler Toyota Corporation Honda Motor Corporation
FULL-TIME EMPLOYEES:	324,864 (SOURCE: 12/31/04)

Fiat S.p.A.

COMPANY NAME:	Fiat S.p.A.
COUNTRY OF INCORPORATION:	Turin, Republic of Italy
ADDRESS:	Via Nizza 250 Turin, Italy
TELEPHONE:	39-011-006-1111
MARKET EXCHANGES:	NYSE Other OTC
TICKER SYMBOL:	FIA
OUTSTANDING SHARES	
ORDINARY SHARES:	800,417,598 (SOURCE: 02/24/04)
PREFERENCE SHARES:	103,292,310 (SOURCE: 02/04/04)
SAVING SHARES:	79,912,800 (SOURCE: 02/04/04)
STOCK PRICE:	$13.72 (Close 04/21/2006)
INDUSTRY:	Auto Manufacturers- Major
MAJOR COMPETITIORS:	Bayerische Motoren Werke AG (BMW) Ford Motor Company Volkswagen AG AG
FULL-TIME EMPLOYEES:	160,549 (SOURCE: 12/31/04)

B. HISTORY

Ford Motor Company

Ford was founded on June 16, 1903 in the state of Michigan by Henry Ford and 11 business associates. They signed the company's articles of incorporation and shared $28,000.00 in cash.

At its foundation, the company's future laid in "the production of affordable cars for a mass market"[1]. This goal was achieved by implementing in 1913 the moving assembly line, which was Ford's greatest contribution to the automotive industry, at the Highland Park plant. This new technique provided the company with a competitive advantage that allowed it to far surpass the production levels of their competitors.

In 1917, the company began producing trucks and tractors. Conflicts between Henry Ford and other stockholders led him and his son to buy out the other stockholders, and by July of 1919 the company became the sole property of the Ford family. It was then incorporated in the state of Delaware. Lincoln Motor Company was acquired in 1925 initiating the company into the luxury car industry. A few years later in 1930, the Mercury division was created beginning the production of mid-priced cars.

In the 50's the company went public. In the 60's the company started global expansion by establishing Ford of Europe in 1967,

The company began its second century of existence continuing its leadership in the automotive industry in design innovation by leading the way in defining the American Hybrid with two full hybrid vehicles introduced and three more on the way.

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[1] Source: www.ford.com

Fiat S.a.P.[2]

Fiat was founded in Turin in 1899 and incorporated in 1906 as a manufacturer of automobiles, but quickly expanded into the production of buses and motor coaches, commercial vehicles and aviation and marine engines. By 1920, its product lines included metallurgical products, railway cars, automotive and industrial components and tractors, and expanded into civil engineering in 1929. In the 1950, the company began to manufacture construction equipment. During the 1980s and the beginning of the 1990s expanded through acquisitions, joint ventures and marketing agreements. In 1999, the company celebrated its centenary and began its second century of existence as one of the largest industrial groups in Italy with operations in 56 countries through 700 subsidiaries and affiliates.

[2] Source: Form 20-F, Fiat S.p.A. Annual report for the year ended December 31, 2004, SEC Filings

C. SWOT ANALYSIS

<table>
<tr><th colspan="2">FORD MOTOR COMPANY - SWOT</th></tr>
<tr><th>Strengths</th><th>Opportunities</th></tr>
<tr><td>

- Well-recognized trademarks and service marks
- Intellectual Property
- Brand Loyalty
- Variety of products and services
- Product differentiation and innovation
- Flexible manufacturing capacity
- Share technology

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- Growing global demand for mobility
- Expand presence in emerging economies
- New Consumer Spending Trend
- Focus on commercial and governmental fleet sales

</td></tr>
<tr><th>Weaknesses</th><th>Threats</th></tr>
<tr><td>

- High cost structure
- High cost of legal proceedings
- High cost of environmental matters

</td><td>

- Excess Capacity
- Mature Market
- Competition
- High commodity prices
- Global Climate Change
- Government Regulations Reduced profitability due to new regulations

</td></tr>
</table>

FIAT S.p.A - SWOT	
Strengths	**Opportunities**
▪ Well-recognized brands ▪ Variety of products and services ▪ Product differentiation and innovation ▪ High degree of operating autonomy ▪ Highly Qualified and internationally experienced managers	▪ Expand presence in emerging economies ▪ Engage in mergers, acquisitions, joint ventures and restructuring ▪ Strengthen brands by introducing new models ▪ Build expertise in other core sectors
Weaknesses	**Threats**
▪ Downgrades of credit rating ▪ High cost of debt financing ▪ Extensive environmental and other governmental regulations ▪ Divested non-core operations ▪ Workforce strongly represented by labor unions. ▪ New senior management team	▪ Excess Capacity ▪ Mature market ▪ Intense Price Competition ▪ Highly Competitive Industry ▪ Global Climate Change ▪ Exchange rate fluctuations, interest rate changes and other market risks ▪ Cyclical Economic forces

D. STRATEGY ANALYSIS

Ford Motor Company

Ford is currently engaged in several strategies aimed to reduce cost and increase profitability:

- Ever since its foundation, Ford has achieved competitive advantage through its *product differentiation strategy* focused on new technology. At this moment, the company has introduced or is working to introduce several new technologies: hybrid powertrains, hydrogen-powered internal combustion engines, bio or clean diesel powered vehicles, fuel cells, Roll Stability Control system, all-aluminum bodies, etc. During 2004, Ford introduced the world's first hybrid SUV, the Escape Hybrid, which was named "North America Truck of the Year"[3] and the world's first purpose-built crossover vehicle, the Ford Freestyle FX,
- Ford is making technological investments to transform its plants to flexible manufacturing. Many of them are already operating as or on their way to become flexible. Its target is to attain 80% flexibility by the end of 2010. This new manufacturing technique "enables to add a vehicle line or change over to a new model by reprogramming, rather than retooling, the vast majority of the machinery involved"[3]. Therefore, production changeovers can occur in a matter of days and brand-new vehicle designs can go into production quickly saving huge amounts of time and resources.
- Ford has also started to share vehicle architecture, technologies, and components for new vehicles. This strategy has proven to be effective in realizing efficiencies in manufacturing, engineering, and product cost.

[3] Ford Motor Company, 2004 Annual Report

- The company is also working towards reducing greenhouse emissions from its facilities and increasing the use of renewable and other "green" power as a way to improve fuel economy. It is also studying location-specific solutions to mobility that may bring new opportunities as well.
- "Motorized mobility is growing at a greatest rate in emerging economies"[4]. Ford is now working on increasing its presence in markets at the stage of high growth in vehicle demand, such as China and other emerging regions.
- In mature markets like North America and Europe, which accounts for about two thirds of today's worldwide automotive industry, the consumer spending trend is moving towards added content and features in new vehicles. Ford is already addressing those needs offering to its customers fresh vehicles with up-to-the minute technology.
- Ford has also implemented a strategy of reducing less-profitable sales to daily rental cars companies and focusing in more profitable commercial and governmental fleet sales.

Even thought volume growth will come from developing markets, Ford's auto and truck sales revenues come mainly from established markets. We believe that the strategies Ford is implementing to both penetrate emerging economies through fulfilling the demand for mobility of those economies and maintaining its market share in mature markets offering higher-content vehicles will ensure it a healthy market presence in the years to come. One of the company's goals is to grow at least at the GDP's growth rate, and we feel confident that the new opportunities the company has and the expanding strategies it is implementing will allow them to achieve that goal.

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[4] "Our Route to Sustainability", Ford Sustainability Report 2004/5

As discussed in the SWOT analysis section, Ford is also implementing several strategies aimed to reduce costs. Its flexible manufacturing and share technology initiatives have proven to be very effective in reducing costs and we are confident that they will continue to help the company to increase its profit margin. We believe that those cost reduction strategies will not only offset future expense increases due to new governmental regulations aimed to regulate greenhouse gas emissions and fuel economy but also ensure the business profitability.

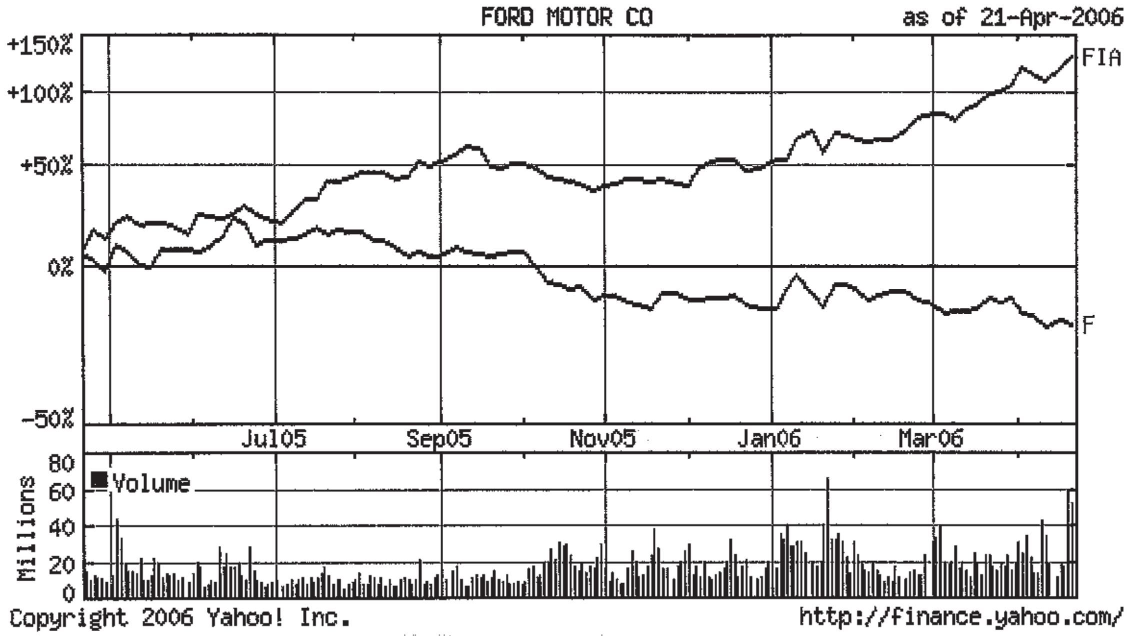
Fiat S.p.A.

Fiat is also adopting a series of organizational and industrial initiatives intended to bring them back to profitability:

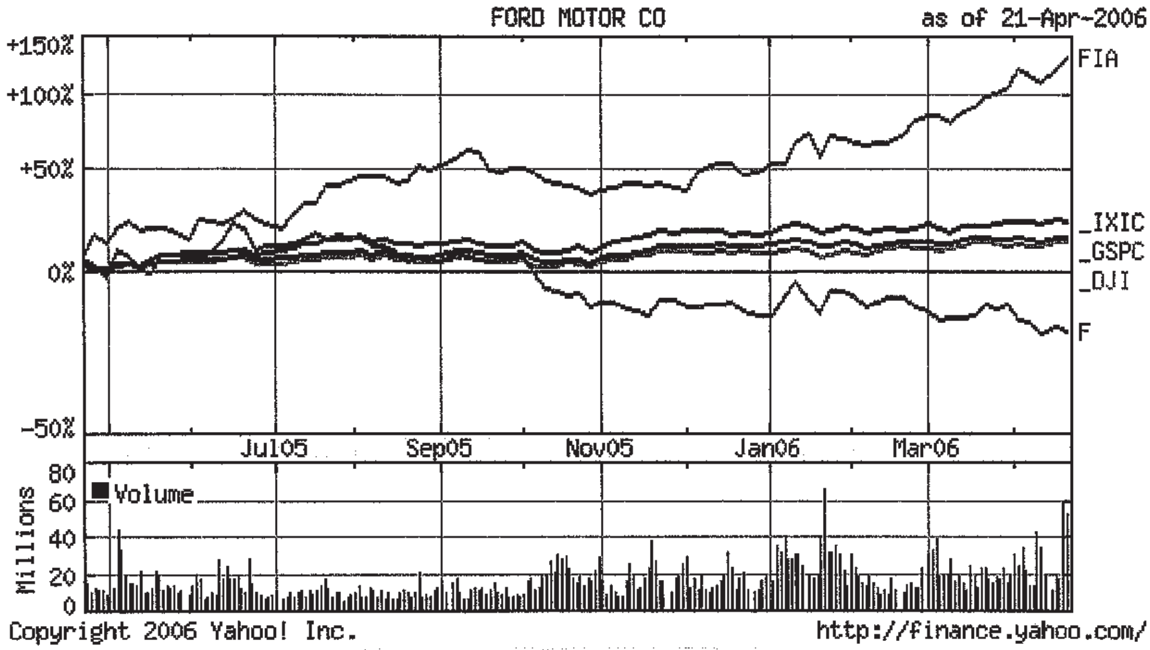
- The company is divesting non-core assets and operations and re-focusing on core sectors.
- It is adopting a more dynamic and efficient management structure through downsizing the corporate structure and strengthening its management by hiring highly qualified and internationally experienced managers and promoting internal group managers.
- Reinforcing its capital structure and maintaining a healthy liquidity position. The company has successfully executed a number of transactions that have improved it capitalization and liquidity profile. In addition, the company has reduced its gross indebtedness.
- Introduced a number of innovative new models as part of continued efforts to renew their product lines and strengthen brand recognition.

- Building on its global presence and expertise in other core sectors, in particular agricultural and construction equipment and commercial vehicles, through product innovation and continued efficiency improvements.
- Strengthening its distribution network by rationalizing the number of dealers, closing existing gaps in the geographic dealership coverage, enhancing corporate identity and improving economic of dealers.
- Maintaining continuous focus on efficiency and cost reduction through the reduction of its workforce, the decrease in production capacity through the closure of certain manufacturing plants, as well as reduction of owned and dealer's inventories.
- Adopted a new organizational structure focused on operational responsibilities rather than business units.
- Created a new governance body, the Group Executive Council (the "GEC"), to review the organizational and operating model and increase its competitiveness.

E. STOCK PRICE COMPARISON



A comparison between the stock prices of Ford and Fiat shows that Fiat enjoys a healthier performance as its stock price has been increasing while Ford's stock price have been slightly decreasing.



Finally, a comparison between both Ford and Fiat stock prices Vs three indexes: S&P, NASDAQ, and Dow Jones shows that the price performance of Ford have been below the average market while Fiat is performing better than the market with a deep upward on 2006. This is especially significant taking into consideration that the automotive industry is in a mature stage and has been recently worsened by a marked increase in fuel prices during the last year. We think that as new technological solutions are introduced and emerging economies are penetrated, this trend will continue in the future for Fiat and Ford will also recover from the downturn .

V. PROSPECTIVE ANALYSIS

A. RATIO ANALYSIS

Profitability ratios

Financial ratios are used to compare the risk and return of different firms in order to help equity investors and creditors make intelligent investment and credit decisions. Ratios can provide a profile of a firm, its economic characteristics and competitive strategies. The objective is to see how sales dollars are being spent. This ratio analysis will include four aspects of business management – profitability, operating, investment and financial. The analysis period is for the year ended December 31, 2004.

The first ratio that we are going to analyze is the gross margin ratio or gross-profit-to-sales ratio. This ratio assists management in monitoring the cost of sales from one period to the next. Ford's 2004 gross margin ratio is 28.4%. and Fiat's is 23.6%. The biggest offender of this increase is commodity price increases, particularly for steel and resins, due to a strong global demand.

Net profit margin

The net profit margin indicates how much profit a company makes for every $1 it generates in revenue. For Ford this ratio is 1.3% and for Fiat is (4.3) %, since Fiat had a loss in 2004.

Working capital management

The operating working capital to sales ratio indicates what would be left if a company raised all of its short term resources, and used them to pay off its short term liabilities. The more working capital, the less financial strain a company experiences. For Ford this ratio is 41.9%, while Fiat's ratio is 23.7%. This means that Ford has a better short term financial management. The primary use of this ratio is to arrive at working capital needs, given a sales projection. What this means is, if Ford for example, wants to increase its sales by 2%, the working .capital will have to increase by the same rate.

The inventory turnover shows how many times the inventory is sold and replaced over a period. Ford's inventory turnover is 12.62, while Fiat's is 2.5.

Total Assets turnover compares a company's sales to its total assets. It indicates how well an organization is making use of its total assets. Fiat is slightly more efficient at its capacity of assets utilization with a ratio of 0.8 Vs 0.6 for Ford.

The receivables turnover indicates how quickly customers are paying your business. The greater the number of times receivables turn over during the year, the shorter the time between sales and cash collection. Receivables turnover is a good way to gauge the effectiveness of the company's payment terms. Ford's receivable turnover is 1.5

Vs 2.3 for Fiat. This indicates that Fiat could have better collection practices or better terms.

Short-Term Liquidity

The current ratio indicates the number of times current assets will pay off current liabilities. Historically, a 2:1 ratio has been considered the ideal minimum. Ford's current ratio is 1.24 compared to Fiat's 1.40. These rations don't seem financially sound,

Debt and Long-term Solvency

Liabilities-to-equity ratio tells creditors how well an organization is able to contract and meet its debt obligations. Ford's liability-to-equity ratio is 17.18 in 2004, while Fiat's is 5.21. Fiat's low liabilities-to-equity ratio is mainly due to the repayment of bonds, including the bond of approximately 1 billion euros issued by Fiat Finance and Trade repaid at the end of March 2004, and the bond convertible into General Motors common stock for 2.2 billion U.S. dollars.

The debt-to-equity ratio measures solvency and the capital structure of a company. It indicates how much the company is leveraged (in debt) by comparing what is owed to what is owned. In other words, its measure the company's ability to borrow and repay money. In Ford's case, its debt is 10.78% of its equity vs. 10.44% for Fiat. Again, Fiat's debt-to-equity ratio is lower mainly due to the repayment of bonds.

Price-to-earnings ratio measures the degree to which the market capitalizes a company's earnings. The PE ratio reflects investor's expectations that a corporation will be very profitable in the future. In the case of Ford and Fiat, the latest has a higher PE ratio of 8.48 Vs 7.66 for Ford.

The return on equity ratio is an indicator of how well a company used reinvested earnings to generate additional earnings, It is used as a general indication of the company's efficiency; in other words, how much profit it is able to generate given the resources provided by its stockholders. In our case study Ford has a higher return of equity of 21.7 Vs (77.25) for Fiat. Fiat has a negative ratio due to the operating loss.

The return on assets compares income with total assets. It can be interpreted in two ways. First, it measures management's ability and efficiency in using the company's assets to generate operating profits. Second, it reports the total return accruing to all providers of capital (debt and equity), independent of the source of capital. Again, Ford has a higher ROA in comparison to Fiat: 1.2 Vs (2.77) for Fiat

B. DUPONT MODEL

DUPONT MODEL Ford Motor Company					
Data	**Amount (in millions)** **2004**	**2003**	**2002**	**2001**	**2000**
Net Income	3,487.00	495.00	(980.00)	5,453.00	3,467.00
Sales	171,652.00	164,196.00	163,420.00	161,519.00	170,579.00
Total Assets	292,654.00	304,594.00	289,357.00	271,983.00	283,390.00
Total equity	16,045.00	11,651.00	5,590.00	7,786.00	18,610.00

Return on Equity = Equity multiplier * Return on Investment

Return on Investment (**ROI**) = Profit margin * Total asset turnover
Profit margin (**PM**) = Net Income/Sales
Total Asset turnover (**TAT**) = Sales/Total Assets

Equity Multiplier (**EM**) = Total Assets/ Total Equity

Substitution

	2004	**2003**	**2002**	**2001**	**2000**
PM =	0.020314357	0.00301469	-0.00599682	0.03376073	0.02032489
TAT=	0.586535636	0.539065116	0.56476947	0.59385697	0.60192314
ROI=	0.011915094	0.001625114	-0.00338682	0.02004905	0.01223402
EM=	18.23957619	26.14316368	51.7633274	34.9323144	15.2278345
RETURN ON EQUITY	0.21732627	0.042485624	-0.17531306	0.70035962	0.18629769

FIAT

Ford

DUPONT MODEL FIAT GROUP				
Data	**Amount (in millions)** **2004**	**2003**	**2002**	**2001**
Net Income (loss)	(1,586.00)	(1,900.00)	(3,948.00)	(445.00)
Sales	46,488.00	48,346.00	55,427.00	57,575.00
Total Assets	57,243.00	62,711.00	92,521.00	100,749.00
Total equity	5,757.00	7,494.00	8,679.00	13,607.00

Return on Equity = Equity multiplier * Return on Investment

Return on Investment (**ROI**) = Profit margin * Total asset turnover

Profit margin (**PM**) = Net Income/Sales

Total Asset turnover (**TAT**) = Sales/Total Assets

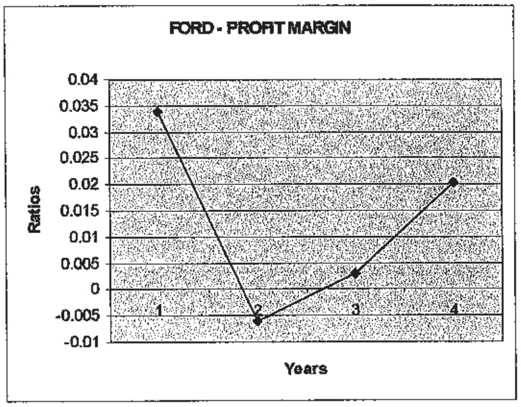
Equity Multiplier (**EM**) = Total Assets/ Total Equity

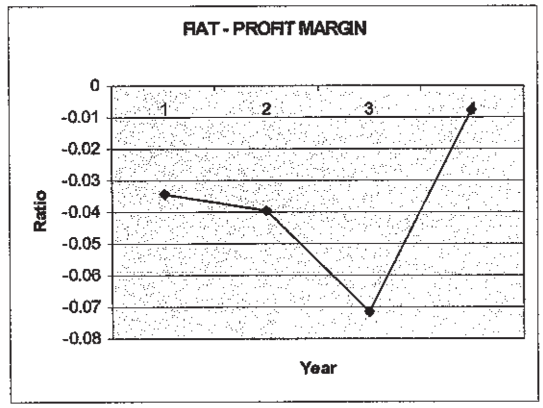
Substitution

	2004	**2003**	**2002**	**2001**
PM =	-0.034116331	-0.03930005	-0.07122882	-0.00772905
TAT=	0.812116765	0.770933329	0.5990748	0.57146969
ROI=	-0.027706444	-0.03029771	-0.04267139	-0.00441692
EM=	9.943199583	8.368161196	10.6603295	7.40420372
RETURN ON EQUITY	-0.275490707	-0.25353616	-0.45489112	-0.03270376

Ratio Analysis Based on Dupont Model Results

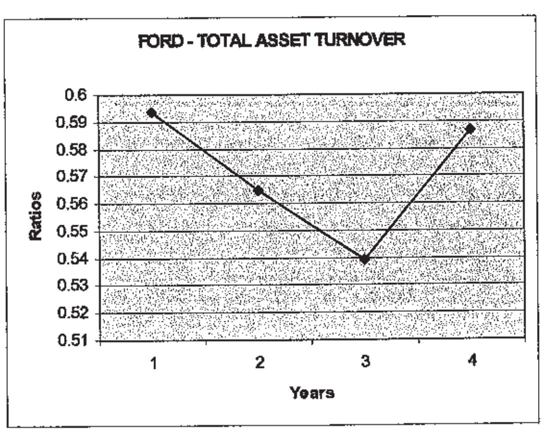
Profit Margin Ratio

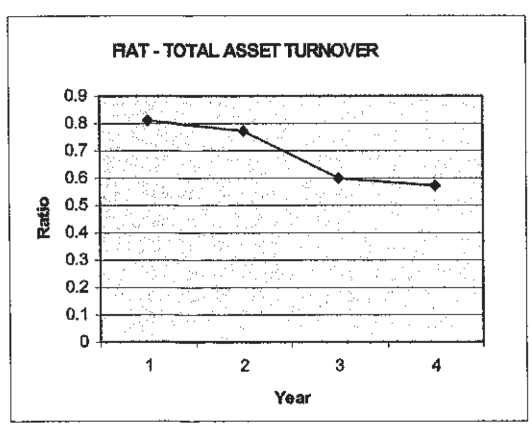




Looking at the chart for Profit Margin ratio it could be concluded that both companies are recovering from an unprofitable period. We can see that Ford's profit margin even though it has been increasing it hasn't reach the level they had three years ago. On the other hand we can see that Fiat superseded its maximum level reached in the past four years. We can assumed that one of the reasons for the profit margin increase might be management have been doing better for the past years as they control costs and produce sells.

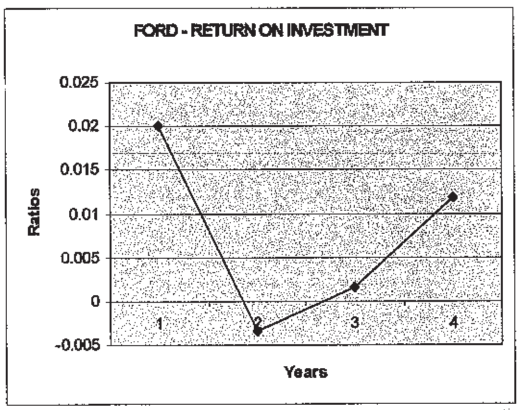
Total Asset Turnover Ratio

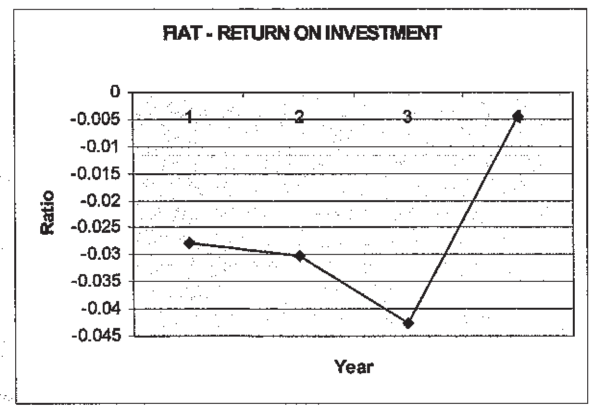




Based on the charts we have noticed that the companies have developed two different trends. For Ford Company, it seems that in the past years total asset turnover ratio has decreased significantly but in the last year we see a sudden raise. On the other hand, Fiat shows a gradual decrease over the past 4 years. It seems that Fiat is making a high profit margin on its products while Ford while Ford has a high TAT probably mainly because of competitive pricing.

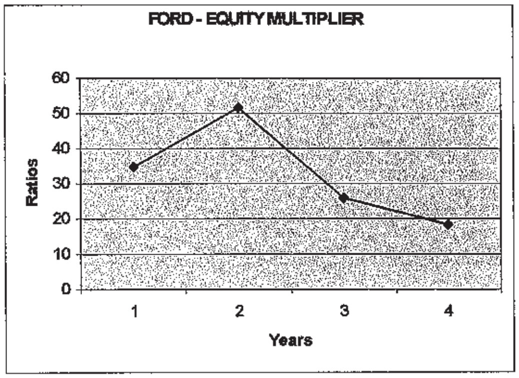
Return on Investment

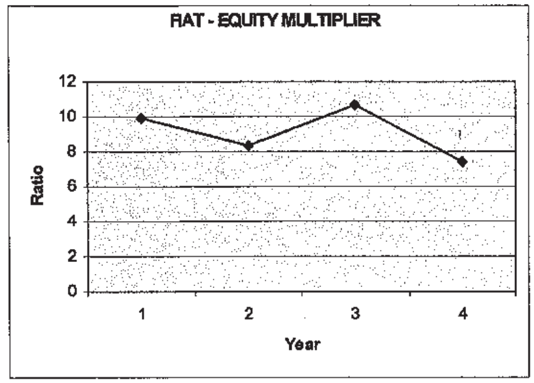




As we could see, return on investment pretty much has been acting the same for both companies in the last two years. We can assume that these increase could be due to the fact both companies are becoming more profitable in the use of their assets. It is also possible that the increase of ROI is because of higher profits or low turnover strategy.

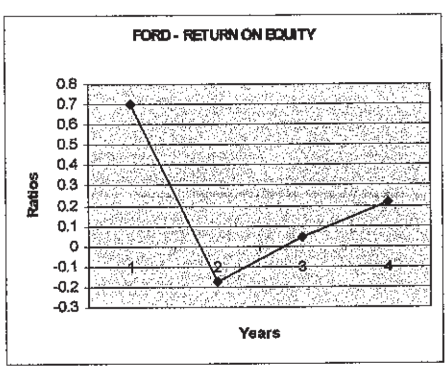
Equity Multiplier

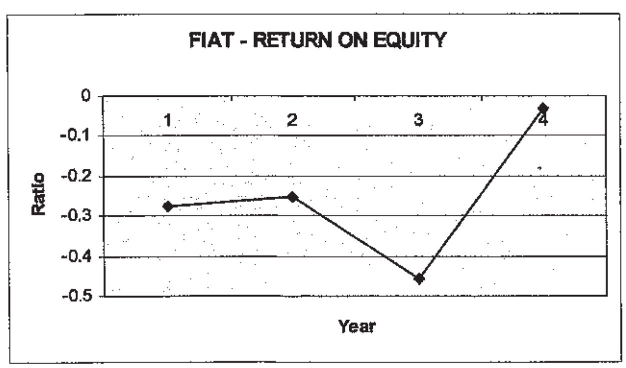




As we have noticed on the Ford chart, the equity multiplier have been decreasing for the past two years meaning that less debt is being used to finance the firm which is a good sign since debt requires fixed payments of principal and interest. This also represents a strong capital structure management. For Fiat we can see that the ratio increases and decreases moderately without significant changes. However, we noticed that the last year the ratio has been decreasing probably because they are also using less debt to finance firm's needs.

Return on Equity





As we know, return on equity represents the profitability of funds invested by the owners of the firm. As the charts of both companies reveal ROE have been increasing over the last 2 years which is a positive indication since this is produced by a high Return on Investment, Profit Margin, and Total Asset Turnover and not from a high Equity Multiplier as the other charts show.