

FORD

Ford CEO Jim Farley gave us big clue automaker's stock was going to surge

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Ford CEO Jim Farley took less than 58 weeks to do what his three predecessors at the helm of the iconic automaker could not: Tip the stock price past \$20 a share — even while a global pandemic triggered supply chain challenges that continue to squeeze the industry.

But that's not even the whole story.

What's notable to industry analysts is that Farley foreshadowed his belief in the company's potential when everyone else was jumping ship. As factories shut down amid surging COVID-19 deaths and workers all over the U.S. were furloughed, Farley doubled down on his faith in Ford and put his own skin into the game.

He purchased about \$1 million worth of stock at an average per-share price of \$5.13 in May 2020, three months after he was promoted to chief operating officer and three months before Ford announced his promotion to CEO, according to U.S. Securities and Exchange Commission filings.

Typically when an executive makes a large share purchase in the open market — meaning they do it on their own, not to meet a certain company-required stock ownership threshold — it reflects confidence in the company.

Jim Farley and Bill Ford invest

A headline in Barron's on May 4, 2020, screamed, "Ford Motor Stock Has Been Hammered. COO Jim Farley Scooped Up Shares."

Just days earlier, Ford said it expected a \$5 billion operating loss in the second quarter and stock flatlined while the overall market was rising.

"According to SEC records, it was his first open-market purchase of stock since at least 2007, when Farley joined Ford as a group vice president," Ed Lin wrote for Barron's. And it was the second largest such purchase in a decade since chair Bill Ford paid \$8 million at an average price per share of \$9.51.

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Credit Suisse analyst Dan Levy referred to Farley as "Ford's CEO heir apparent" at the time and wrote in an investor report that the then-chief operating officer "may stand out, as he may bring a greater sense of urgency and action" in restructuring the company, Barron's noted.

"[W]e would expect Ford to potentially look longer term at even deeper action than what it has already articulated," Levy wrote, foreshadowing what would eventually happen.

Ford value surges

When Farley took over on Oct. 1, 2020, the stock hovered at \$6.66.

As of Monday, it had more than tripled during Farley's tenure. Ford's market cap has spiked more than \$28 billion in just the past 60 days, reaching \$80 billion this week.

The contrast to previous executives is significant.

Mark Fields and Jim Hackett failed to fulfill Ford stock goals from 2014-2020. Fields, now interim CEO of Hertz, left Ford in May 2017 after fewer than three full years at the helm. Hackett, who ran Ford after retiring as CEO of Steelcase office furniture, vacated his Ford role in 2020 and continued to be paid as a consultant by Ford into 2021.

Ford was under pressure by Wall Street to take action against Hackett, who oversaw Ford as stock sunk to a 52-week low before the COVID-19 pandemic.

While Hackett played a role in developing the high-profile vehicles now winning raves, he also sent a memo in January 2019 that said 2018 "was mediocre by any standard." He also voiced regret after a disappointing earnings report in January 2020, when competitors were thriving.

Even General Motors hit profit goals despite a 40-day UAW strike in 2019.

Alan Mulally has been credited with guiding Ford through the Great Recession with a steady hand from 2008-2014, recruiting Farley from Toyota along the way. Analysts now compare the understudy, Farley, to the legendary former Boeing CEO.

Bloomberg headlined in November 2020, "Ford Nailed Its CEO Search ... After 6 Years," going on to write, "There hasn't been much time for Jim Farley to show the world he'll be a great Ford Motor CEO; he's been in the job just a month."

The business news service has had a tough time keeping up now:

"Ford Rally Trounces Rivals With Shares Set to Double in 2021," on Oct. 28.

"Stock at its highest since 2011 when Alan Mulally was CEO," on Nov. 2.

"Ford shares have been on a tear since Jim Farley became chief executive officer ... up more than 200%," on Monday.

Farley's passion to prove what was possible was clear to anyone paying attention to regulatory reports required of publicly traded companies.

'Things to come'

"If you're looking for a sign that a company's future is burning bright, you can't find a much better one than its CEO buying shares. This is far more confidence-inspiring than an outside analyst recommendation," said Ivan Drury, senior manager of insights at Edmunds.com, the car review site. "This move from Farley could signal that there are far more exciting things to come in Ford's future."

The company confirmed that Farley has not sold the shares he purchased in 2020. He spent almost his entire 2019 base salary of \$1.1 million on Ford stock that year.

By contrast, Jim Hackett regularly shed Ford stock as CEO. In 2019 alone, he sold shares ranging in value from \$8.79 to \$10.36 for a total of more than \$2 million. His base salary that year was \$1.8 million.

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"The best investment a CEO could make, if they believe in their own turnaround plan, would be in their own stock," industry analyst Jon Gehrielsen said in April 2020 after reviewing

Ford regulatory filings.

"Because if their belief is right, that would yield them huge gains," he said.

'If the CEO doesn't have faith'

Marcus Hudson, executive director of Calderone Advisory Group, said the stark contrast between Farley and his predecessor sends a clear message to employees.

"I find it incredibly disappointing that in the midst of product launch issues, lost share and poor stock performance that any executive, let alone the CEO of the company, would sell shares, especially in the midst of a global restructuring," Hudson said of Hackett.

"If the CEO doesn't have faith in the longer term prospects of the company why should anyone else?" Hudson told the Free Press.

"Further, I would only add that this is exactly the type of leadership that Ford has been lacking since Mulally. ... It's easy to take someone else's money or wait to be granted shares; however, putting your own money up lets every employee at Ford know: A) I'm committed to the company, and B) I believe in my plan. Folks don't appreciate that employees pay attention to these things and showing that type of commitment can energize the whole company."

'Putting money' behind words

Messages matter and Farley has been clear to his employees that he's making investments for the long-term return based on recent hires as well as a focus on diversity, said Melissa Bradley, a business professor at Georgetown University.

"It is not surprising that he would put his money where his mouth is and share the risk of his decisions with other investors," she told the Free Press. "This definitely makes investors feel comfortable. As for his predecessor, intended or not, the moves of leadership and their shares correlates to confidence and does not signal confidence."

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In late October, Garrett Nelson of CFRA Research recommended that investors buy Ford stock and he lifted his 12-month price target on the shares from \$20 to \$24.

"When Jim Farley took the CEO reins just over a year ago, we think he saw a company with tremendous potential — one which had been poorly managed for a long time with a plethora of low-hanging fruit in the form of cost-cutting opportunities, and an exciting lineup of forthcoming new models," Nelson said. "We think his stock purchase reflected that belief."

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Farley has taken dramatic steps, ranging from replacing the chief financial officer on Day 1 of his new role to making production cuts in Brazil and India.

"I'd just like to highlight the progress in South America for this quarter," Farley said during the third-quarter investor call Oct. 27, turning to his CFO John Lawler.

"John, when is the last time we were profitable in South America?" Farley asked.

Lawler replied, "I believe it was 2013."

The CFO continued, "So let's hang that in the air for a second, 2013, making South America profitable for the first time since 2013."

When Farley cited that data point, there was a moment of silence before anyone asked a question or said anything on the call.

Investor relief

Few were more grateful for a \$20.15 Ford stock value on Monday than Steven Thomson of Arnold, Missouri.

Back in April 2020, before the surprise announcement that Hackett would leave his role, Thomson had written the Free Press, "I own about 200 shares of Ford stock, which are currently worth less than my iPhone," he wrote. "My connection to Ford stems from the fact I started working at a Ford dealer washing cars part time when I was 16. I am now retired after about 45 years of working at Ford dealers as a parts and service manager. I likely still have more emotional attachment to the company than many of their current senior executives, certainly more than Jim Hackett."

Watching the transformation under Farley has been a relief, Thomson now says.

"I am overjoyed that Jim Farley has taken over as CEO. The Hackett years were as depressing as the sinking stock price," he wrote recently. "Alan Mulally saved the company when it was on the brink of extinction and I was hoping somehow that (executive chair) Bill Ford could convince him to return and work his magic, but he did even better than that by moving Jim Farley to the top spot. Having a real car guy, especially one who is also a skilled weekend race car driver, is icing on the cake. Farley has spelled out in detail to investors, dealers, shareholders and customers the clear direction the company is heading — they are back in the car business."

The Farley stock purchase is no surprise while the Hackett sale just confused Thomson.

"When I got into the new 2022 Maverick pickup a week ago, I couldn't wipe the smile off my face. It is a real truck. My first thought was that I should be buying more Ford stock," Thomson said. "The new Bronco is amazing and is selling like hotcakes, but the Maverick will simultaneously replace the entry-level sedans and bring in a lot of new customers from import car nameplates ... for under \$20K," Thomson said. "As for Hackett selling the stock? I never understood anything he did, but I know that a car to him was just another commodity — like a filing cabinet."

Union workers often complained that Hackett rarely discussed publicly a love of cars or the automotive industry or the storied history of what Detroit has meant to America. The hiring of Farley immediately won praise throughout the ranks.

Marick Masters, a professor at the Mike Ilitch School of Business at Wayne State University, said, "Confidence, boldness, and determination are what make up the essence of leadership ... Ford is fortunate to have Farley at the helm at this critical juncture."

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Staff reporter Jamie L. LaReau contributed to this report.

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