# I. Company Thesis

Volkswagen AG (VW) is a German automobile manufacturer headquartered in Wolfsburg, Lower Saxony, Germany. Founded in 1937 by the German Labour Front under the Nazi Party, Volkswagen was revived into the global brand it is known as today post-World War II by British Army officer Ivan Hirst. The company is renowned for iconic models such as the Beetle and serves as the flagship brand of the Volkswagen Group, which was the largest automotive manufacturer by worldwide sales in 2016 and 2017.

Volkswagens history is marked by resilience and innovation. The company was established as part of the Peoples Car project to produce affordable vehicles for the German populace. Despite its origins, Volkswagen has evolved significantly, particularly after World War II when it was revitalized under British management. The Beetle, with its distinctive design and robust engineering, became a symbol of the companys commitment to quality and innovation.

The Volkswagen Groups market presence is formidable, with its largest market being China, accounting for 40 of its sales and profits. This international footprint underscores Volkswagens strategic emphasis on global expansion and market penetration. The companys name, derived from the German words Volk (people) and Wagen (car), reflects its mission to produce vehicles that are accessible and reliable for the masses.

Volkswagens journey through the 20th and 21st centuries has been characterized by significant milestones and challenges. The company played a crucial role in the post-war economic recovery of West Germany and became a symbol of the countrys industrial prowess. The introduction of models like the Golf and the Passat in the 1970s and 1980s further solidified Volkswagens reputation for producing high-quality, reliable vehicles.

In recent years, Volkswagen has faced and addressed substantial challenges, including the Dieselgate emissions scandal. The companys response has been a comprehensive pivot towards electric vehicles (EVs) and sustainable mobility solutions. Volkswagen has announced ambitious plans to launch at least 30 EV models by 2025, aiming for 20-25 of its total yearly sales volume to consist of EVs. This strategic shift is supported by significant investments in battery technology and partnerships with companies like QuantumScape.

Volkswagens commitment to innovation is also evident in its efforts to enhance its software capabilities. The company has recognized the importance of software in the future of automotive technology and has made substantial investments in this area. The recent partnership with Rivian, a U.S.-based EV startup, exemplifies Volkswagens strategy to leverage external expertise to accelerate its software development and EV capabilities.

The companys leadership under CEO Oliver Blume, who also heads Porsche, reflects a strategic alignment across its brands to focus on quality, innovation, and market responsiveness. Blumes leadership is expected to drive Volkswagens transformation into a leading provider of sustainable mobility solutions.

In summary, Volkswagens rich history, strategic global presence, and commitment to innovation and sustainability make it a compelling investment. The companys proactive approach to addressing past challenges and its ambitious plans for the future position it well to capitalize on the evolving automotive landscape.

# II. Company Basics

### a) CEO (Tenure) and Market Cap

* CEO Oliver Blume (since September 2022)
* Market Cap Not specified in the provided text.

### b) Multiples (Current year)

* Not specified in the provided text.

### c) 1, 3-Year, 5-Year Return (Ann. Through 2024)

* Not specified in the provided text.

### d) Business Mix ( of Sales)

* Not specified in the provided text.

### e) Geographic Mix ( of Sales)

* China accounts for 40 of sales and profits. Other specific geographic sales percentages are not provided.

Volkswagen AG (VW) is headquartered in Wolfsburg, Lower Saxony, Germany. The company was founded in 1937 and has grown to become a global automotive leader. Its largest market is China, which contributes significantly to its sales and profits. The company is currently led by CEO Oliver Blume, who also heads Porsche.

# III. Investment Highlights

### a) Valuation

Volkswagen AG (VW) has faced significant valuation challenges, particularly in light of its recent performance in key markets like China. Despite these hurdles, VW remains undervalued compared to its peers. For instance, VWs stock trades at less than four times forward earnings, whereas Toyota, its closest competitor in scale and global reach, trades at ten times forward earnings. This discrepancy highlights a potential value investment opportunity, especially if VW can successfully navigate its current challenges and capitalize on its strategic initiatives.

### b) Leadership and Strategic Direction

Under the leadership of CEO Oliver Blume, who also heads Porsche, VW has embarked on a strategic transformation focused on sustainable mobility and digital innovation. Blumes leadership is expected to drive a cohesive strategy across VWs brands, emphasizing quality, innovation, and market responsiveness. This strategic alignment is crucial as VW aims to reposition itself as a leader in the electric vehicle (EV) market and enhance its software capabilities.

### c) Electric Vehicle (EV) Strategy

VW has made significant strides in its EV strategy, announcing plans to launch at least 30 EV models by 2025. The company aims for EVs to constitute 20-25 of its total yearly sales volume. This ambitious target is supported by substantial investments in battery technology and strategic partnerships, such as the recent collaboration with Rivian. These initiatives are expected to enhance VWs competitive edge in the rapidly growing EV market.

### d) Software and Digital Innovation

Recognizing the critical role of software in the future of automotive technology, VW has invested heavily in enhancing its software capabilities. The partnership with Rivian, a U.S.-based EV startup, is a strategic move to accelerate software development and improve VWs EV offerings. Additionally, VWs internal software arm, Cariad, is undergoing a significant overhaul to address past delays and budget overruns, with new leadership and a focus on integrating software expertise across its brands.

### e) Market Position and Geographic Mix

VWs largest market is China, which accounts for 40 of its sales and profits. However, the company has faced challenges in this market, particularly in the EV segment, where its market share is only 4. To address this, VW has invested 700 million in Chinese EV maker Xpeng and plans to develop new models tailored to Chinese consumers. This strategic investment aims to bolster VWs market position in China and drive growth in the EV segment.

### f) Operational Efficiency and Cost Management

VW is actively working on improving its operational efficiency and cost management. The company has announced a comprehensive performance program targeting 10 billion in savings over the next three years. This program includes measures to enhance productivity, reduce fixed costs, and optimize material costs. Additionally, VW is focusing on better utilization of its global manufacturing footprint, including capacity adjustments in Europe and strategic investments in the U.S. and China.

### g) Financial Performance and Shareholder Returns

Despite recent challenges, VW has maintained a strong financial position, with automotive net liquidity standing at 36.7 billion as of September 2023. The company continues to generate robust cash flows, supported by a solid order book and improving inventory levels. VW has also demonstrated a commitment to shareholder returns, with significant dividend payouts and a forward yield of 7.6.

### h) Sustainability and ESG Initiatives

VW is committed to sustainability and has set ambitious targets for decarbonization and environmental stewardship. The company is investing in renewable energy, sustainable materials, and circular economy practices to reduce its carbon footprint. VWs efforts in this area are expected to enhance its brand reputation and align with the growing consumer and regulatory focus on sustainability.

In summary, VWs strategic initiatives, leadership focus, and commitment to innovation and sustainability present a compelling investment case. The companys proactive approach to addressing market challenges and its ambitious plans for the future position it well to capitalize on the evolving automotive landscape.

# IV. Investment Concerns

### a) Competition and Market Share

Volkswagen faces intense competition in the global automotive market, particularly in the electric vehicle (EV) segment. In China, VWs market share in the EV segment is only 4, significantly lower than its 19 share in the combustion engine vehicle market. This disparity highlights the challenge VW faces in gaining traction in the rapidly growing EV market. The companys reliance on partnerships, such as the recent 700 million investment in Xpeng, underscores its need to bolster its competitive position.

### b) Operational Challenges and Supply Chain Issues

VW has experienced significant operational disruptions, including a recent impact from severe flooding in Slovenia, which affected production by more than 100,000 units in the third quarter of 2023. Additionally, the company has faced bottlenecks in vehicle logistics, particularly in Europe and North America, leading to a substantial buildup of working capital. These operational challenges can strain VWs ability to meet market demand and maintain efficient production levels.

### c) Financial Performance and Valuation

Despite maintaining a strong financial position, VWs stock trades at less than four times forward earnings, significantly lower than its peers such as Toyota, which trades at ten times forward earnings. This low valuation reflects investor concerns about VWs ability to navigate its current challenges and achieve its strategic goals. The companys recent guidance adjustment, lowering its global delivery target for 2023 from 9.5 million to about 9 million vehicles, further underscores these concerns.

### d) Software and Digital Innovation

VWs software arm, Cariad, has been plagued by delays and budget overruns, impacting the timely launch of new models. The recent shake-up in Cariads leadership, with the proposed appointment of Peter Bosch and the search for additional software experts, indicates ongoing struggles in this critical area. The success of VWs EV strategy heavily relies on its ability to enhance its software capabilities, and any further delays or issues could hinder its competitive edge.

### e) Regulatory and ESG Compliance

VW is under scrutiny for its operations in Xinjiang, China, with allegations of forced labor linked to its supply chain. The company has announced plans to commission an independent audit of its Xinjiang plant, but the outcome and potential repercussions of this audit remain uncertain. Additionally, VWs commitment to sustainability and decarbonization is crucial, but achieving these goals will require substantial investment and operational changes.

### f) Market Dynamics and Consumer Demand

The overall market trend for EVs in Europe has been lower than expected, leading to a general reluctance among consumers to buy battery-powered vehicles. This trend poses a risk to VWs ambitious targets for EV sales, particularly its goal for EVs to constitute 20-25 of its total yearly sales volume by 2025. The company may need to adjust its pricing strategies and product offerings to stimulate demand and achieve its targets.

### g) Leadership and Strategic Execution

While CEO Oliver Blumes dual role as head of both VW and Porsche aims to drive strategic alignment, it also presents challenges in terms of managing two major automotive brands simultaneously. Effective execution of VWs ambitious plans for EVs, software development, and market expansion will require strong leadership and coordination across its diverse brand portfolio. Any missteps in strategic execution could impact VWs overall performance and market position.