### I. Company Thesis

Volkswagen AG (VW), headquartered in Wolfsburg, Lower Saxony, Germany, is a storied automobile manufacturer with a rich history dating back to its founding in 1937 by the German Labour Front. The companys inception was driven by the vision of creating a peoples car (Volkswagen in German), an affordable vehicle for the average German family. This vision materialized into the iconic Beetle, a car that became a symbol of the brand and played a pivotal role in establishing VWs global presence.

Post-World War II, Volkswagen was revived under the stewardship of British Army officer Ivan Hirst, who transformed the company into a cornerstone of the German economic miracle. The Beetles success in the 1950s and 1960s, particularly in the United States, cemented VWs reputation for reliability and innovation. The company continued to expand its product lineup and geographic footprint, becoming a global automotive powerhouse.

Volkswagen Group, the parent company, is now the largest automotive manufacturer by worldwide sales, a testament to its extensive portfolio of brands, including Audi, Porsche, SEAT, Škoda, Bentley, Bugatti, Lamborghini, and Ducati. This diverse brand portfolio allows VW to cater to a wide range of market segments, from luxury and performance vehicles to mass-market cars and commercial vehicles. The groups biggest market is China, accounting for 40 of its sales and profits. This significant market presence underscores VWs strategic focus on global expansion and adaptation to local market needs.

The companys commitment to innovation is evident in its substantial investments in electric vehicles (EVs) and autonomous driving technologies. VW has announced plans to launch at least 30 EV models by 2025, aiming for EVs to constitute 20-25 of its total yearly sales volume. Volkswagens recent strategic initiatives reflect its adaptability and forward-thinking approach. The company has entered into significant partnerships, such as the joint venture with Californian EV start-up Rivian, to accelerate its software transformation and enhance its EV offerings. Additionally, VWs collaboration with Chinese EV maker Xpeng aims to bolster its competitiveness in the rapidly evolving Chinese market.

Despite facing challenges, including the infamous Dieselgate scandal and the competitive pressures in the EV market, Volkswagen has demonstrated resilience and a capacity for reinvention. The companys focus on sustainability, as evidenced by its ambitious decarbonization targets and investments in renewable energy, positions it well for the future. Volkswagens robust financial health, with a solid balance sheet and significant cash reserves, provides a strong foundation for its strategic initiatives. The companys commitment to delivering shareholder value is reflected in its consistent dividend payouts and strategic capital allocation.

In summary, Volkswagens rich heritage, diverse brand portfolio, strategic market presence, and commitment to innovation and sustainability make it a compelling investment opportunity. The companys ability to navigate challenges and capitalize on growth opportunities underscores its potential for long-term value creation.

### II. Company Basics

CEO (Tenure) Oliver Blume (since September 2022)

Market Cap 63.8 billion (as of 2023)

Multiples (Current year)

* PE 3.5x
* PB 0.4x
* PS 0.3x
* Dividend yield 7.6

1, 3-Year, 5-Year Return (Ann. Through 2023)

* -50
* TBD
* TBD

-50 from 52-week high and -50 from ATH

Business Mix (of 2023 Sales)

* Volkswagen Passenger Cars (TBD)
* Audi (TBD)
* Porsche (TBD)
* Škoda (TBD)
* SEAT (TBD)
* Bentley (TBD)
* Lamborghini (TBD)
* Bugatti (TBD)
* Ducati (TBD)
* Volkswagen Commercial Vehicles (TBD)

Geographic Mix (of Sales)

* China (40)
* Europe (TBD)
* North America (TBD)
* South America (TBD)
* Rest of World (TBD)

Recent Strategic Initiatives

* Joint venture with Rivian for software transformation
* Collaboration with Xpeng to enhance competitiveness in China
* Significant investments in electric vehicles and autonomous driving technologies

### III. Investment Highlights

#### a) Valuation

Volkswagen AG (VW) is currently trading at attractive valuation multiples, with a PE ratio of 3.5x, PB ratio of 0.4x, and PS ratio of 0.3x. The companys dividend yield stands at a robust 7.6, reflecting its commitment to returning value to shareholders. Despite a significant drop in share price over the past year (-50 from its 52-week high), these valuation metrics suggest potential for upside, especially given VWs strategic initiatives and market positioning.

#### b) Leadership and Strategic Direction

Under the leadership of CEO Oliver Blume, who took the helm in September 2022, VW has embarked on several strategic initiatives aimed at enhancing its competitiveness and market presence. The joint venture with Californian EV start-up Rivian is a notable move to accelerate VWs software transformation, while the collaboration with Chinese EV maker Xpeng aims to bolster its competitiveness in the rapidly evolving Chinese market. These partnerships are expected to provide VW with advanced EV technologies and software capabilities, crucial for its future growth.

#### c) Electric Vehicle (EV) Focus

VW has made substantial investments in electric vehicles, with 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 by this time. Recent product upgrades, such as the Volkswagen ID.4 and ID.5, which now feature a new electric drive and improved infotainment systems, highlight VWs commitment to staying competitive in the EV market. Additionally, the launch of the ID.7, which won the German Car of the Year award, underscores the companys focus on innovation and quality in its EV offerings.

#### d) Geographic Diversification

VWs significant market presence in China, which accounts for 40 of its sales and profits, underscores its strategic focus on global expansion. Despite recent challenges in the Chinese market, VWs investment in Xpeng and the upcoming launch of two VW-branded electric vehicles in collaboration with Xpeng are expected to enhance its market share in the region. Furthermore, VWs strong performance in Europe and North America, with double-digit growth in these regions, indicates a balanced geographic diversification that mitigates risks associated with over-reliance on a single market.

#### e) Operational Efficiency and Cost Management

VW has demonstrated a commitment to improving operational efficiency and cost management. The company has undertaken significant measures to reduce production complexity and enhance efficiency, such as the vehicle allocation for plants in Germany until 2028. Additionally, VWs robust financial health, with an automotive net liquidity of 36.7 billion as of September 2023, provides a strong foundation for its strategic initiatives and operational improvements.

#### f) Sustainability and Innovation

VWs focus on sustainability is evident in its ambitious decarbonization targets and investments in renewable energy. The companys commitment to innovation extends beyond EVs to autonomous driving technologies, with substantial investments aimed at maintaining its competitive edge. VWs strategic initiatives, such as the partnership with Rivian for software transformation and the collaboration with Xpeng, are aligned with its long-term vision of sustainable growth and technological leadership.

In summary, VWs attractive valuation, strategic leadership, focus on EVs, geographic diversification, operational efficiency, and commitment to sustainability and innovation make it a compelling investment opportunity. The companys ability to navigate challenges and capitalize on growth opportunities underscores its potential for long-term value creation.

### IV. Investment Concerns

#### a) Competition and Market Position

Volkswagen faces intense competition from both traditional automakers and new entrants in the electric vehicle (EV) market. Companies like Tesla and BYD have established strong positions in the EV space, and VWs market share in China for EVs is only 4, significantly lower than its 19 share for combustion engine vehicles. This disparity highlights the challenge VW faces in maintaining its market leadership as the industry shifts towards electrification.

#### b) Execution Risks in Strategic Initiatives

The success of VWs strategic initiatives, such as the joint ventures with Rivian and Xpeng, is not guaranteed. The collaboration with Rivian, for instance, involves a substantial investment of up to 5 billion, which represents almost half of VWs estimated net cash flow for the year. If these partnerships do not yield the expected technological advancements or market penetration, VW could face significant financial and operational setbacks.

#### c) Financial Performance and Valuation

Despite attractive valuation multiples, VWs share price has declined by 50 from its 52-week high. This decline reflects investor concerns about the companys ability to navigate the transition to EVs and maintain profitability. Additionally, VWs operating margin of 6.9 for the first nine months of 2023 is below the prior years level, indicating potential challenges in cost management and revenue growth.

#### d) Regulatory and Compliance Risks

VWs history, including the Dieselgate scandal, underscores the importance of regulatory compliance. The company is currently under scrutiny for its operations in Xinjiang, China, with allegations of forced labor. An independent audit of the Xinjiang plant is planned, but any negative findings could result in reputational damage and regulatory penalties, further complicating VWs operations in its largest market.

#### e) Supply Chain and Production Challenges

VW has faced significant supply chain disruptions, such as the severe flooding in Slovenia, which impacted production by over 150,000 units. These disruptions highlight the vulnerability of VWs global supply chain to external shocks. Additionally, the company has experienced part shortages and logistical challenges, which have affected inventory levels and delivery timelines.

#### f) Market Sentiment and Demand for EVs

The demand for EVs in Europe has been weaker than expected, leading to production adjustments at plants like Zwickau and Dresden. This lag in EV adoption poses a risk to VWs ambitious targets for EV sales, which are crucial for meeting regulatory requirements and achieving long-term growth. The company must balance pricing strategies and production levels to stimulate demand without eroding margins.

#### g) Operational Efficiency and Cost Management

VWs efforts to improve operational efficiency and reduce costs are ongoing, but the company faces significant headwinds. The performance program aimed at achieving a 6.5 margin for the Volkswagen brand by 2026 involves complex and extensive measures, including potential workforce adjustments and synergies within the brand group core. The success of these initiatives is critical for VWs financial health and competitive positioning.

#### h) Technological Advancements and Innovation

While VW has made substantial investments in EVs and autonomous driving technologies, the rapid pace of innovation in the automotive industry presents a continuous challenge. VW must keep up with advancements in battery technology, software integration, and autonomous driving capabilities to remain competitive. Any delays or shortcomings in these areas could hinder VWs market position and growth prospects.