# 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 company, initially established under the Nazi regime, was revived post-World War II by British Army officer Ivan Hirst, transforming it into the global automotive powerhouse it is today.

Known for its iconic Beetle, Volkswagen serves as the flagship brand of the Volkswagen Group, which was the largest automotive manufacturer by worldwide sales in 2016 and 2017. Volkswagen Groups extensive portfolio includes renowned brands such as Audi, Porsche, Lamborghini, Bentley, Bugatti, and SEAT, among others. This diverse brand lineup allows Volkswagen to cater to a wide range of market segments, from luxury sports cars to budget-friendly vehicles.

The companys largest market is China, which accounts for 40 of its sales and profits, underscoring its global reach and influence. Volkswagens name, derived from the German words Volk (people) and Wagen (car), signifies its mission to produce vehicles for the masses. This philosophy was embodied in the development of the Beetle, a car designed to be affordable for the average German family.

Over the decades, Volkswagen has maintained its commitment to innovation and quality, continuously evolving its product offerings to meet changing consumer demands and technological advancements. In recent years, Volkswagen has made significant strides in electric vehicle (EV) development, with a goal to launch at least 30 EV models by 2025 and achieve 20-25 of its total yearly sales from EVs. This ambitious plan is part of Volkswagens broader strategy to lead the automotive industrys transition to sustainable mobility.

The companys investment in EV technology is complemented by its efforts to develop autonomous driving capabilities, as demonstrated by its prototype fully autonomous car, Sedric, presented at the 2017 Geneva Motor Show. Volkswagens commitment to sustainability and innovation is further evidenced by its investment in solid-state battery technology through a 100 million stake in QuantumScape, a Silicon Valley-based startup. Additionally, Volkswagen has formed strategic partnerships, such as its collaboration with Rivian to develop new software and EV architecture, highlighting its proactive approach to addressing the challenges and opportunities in the evolving automotive landscape.

Despite facing significant challenges, including the Dieselgate scandal and intense competition in the EV market, Volkswagen remains a formidable player in the global automotive industry. Under the leadership of CEO Oliver Blume, the company is focused on leveraging its extensive brand portfolio, technological advancements, and strategic partnerships to drive future growth and maintain its competitive edge. Volkswagens rich history, commitment to innovation, and strategic vision position it as a compelling investment opportunity. The companys efforts to adapt to the rapidly changing automotive landscape, coupled with its strong market presence and diverse brand portfolio, provide a solid foundation for long-term growth and value creation.

# II. Company Basics

CEO (Tenure) Oliver Blume (since 2022)

Market Cap TBD

Multiples (Current year) TBDx PE, TBDx PB, TBDx PTB, TBDx PS, TBD 12-mo. dividend yield

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

TBD from 52-week high and TBD from ATH

Business Mix (of 2023 Sales) Volkswagen Groups portfolio includes Audi, Porsche, Lamborghini, Bentley, Bugatti, and SEAT. The specific sales mix for 2023 is not provided in the text.

Geographic Mix (of Sales) The largest market is China, accounting for 40 of sales and profits. Specific percentages for other regions are not provided in the text.

# III. Investment Highlights

## Valuation and Financial Performance

Volkswagen AG (VW) has demonstrated robust financial performance despite facing several challenges. For the first nine months of 2023, the company achieved sales revenue of 235 billion, marking a 16 increase year-over-year. This growth was driven by strong sales in Europe (up 21) and North America (up 16). The operating result for the same period was 16.2 billion, corresponding to a margin of 6.9. However, its important to note that the operating result was negatively impacted by non-cash effective effects from commodity hedges, amounting to 2.5 billion. Excluding these valuation effects, the underlying operating result increased to 18.7 billion, resulting in an underlying operating margin of 8. This demonstrates the companys resilience and ability to generate substantial revenue and profit even in a challenging environment.

## Battery Electric Vehicle (BEV) Growth

Volkswagen has made significant strides in the BEV segment, with BEV deliveries reaching 532,000 units in the first nine months of 2023, representing 7.9 of total deliveries. The BEV share increased to 9 in the third quarter alone, indicating strong momentum. The company continues to outgrow the market in Europe, confirming its leading position. Despite a general reluctance in the European market to buy battery-powered vehicles, Volkswagens BEV order intake has recently picked up, supported by new product launches such as the upgraded ID.4, ID.5, and the all-new ID.7. This positions Volkswagen well to capitalize on the growing demand for electric vehicles.

## Strategic Partnerships and Investments

Volkswagen has formed strategic partnerships and made significant investments to enhance its technological capabilities and market position. The collaboration with Rivian to develop new software and EV architecture is a notable example. Additionally, Volkswagens investment in QuantumScape, a Silicon Valley-based startup specializing in solid-state battery technology, underscores its commitment to innovation and sustainability. These partnerships and investments are expected to accelerate Volkswagens transition to electric mobility and autonomous driving, providing a competitive edge in the evolving automotive landscape.

## Operational Efficiency and Cost Management

Volkswagen has implemented a comprehensive performance program aimed at improving operational efficiency and cost management. The company has made progress in reducing group overhead costs, achieving a ratio of 15.7 to automotive revenues year-to-date, an improvement of 140 basis points compared to the prior year period. Volkswagen is also working on a significant performance program for its core brand, targeting 10 billion in cost savings over three years to achieve a 6.5 margin by 2026. This program includes measures to improve productivity, reduce fixed costs, and enhance material cost efficiency, which are crucial for maintaining competitiveness and profitability.

## Market Position and Geographic Diversification

Volkswagens extensive brand portfolio and strong market presence provide a solid foundation for growth. The companys largest market, China, accounts for 40 of its sales and profits. Despite facing competitive pressures in the Chinese BEV market, Volkswagen has maintained a strong position in the internal combustion engine (ICE) segment. The companys strategic initiatives, including the launch of new models and partnerships with local companies like Xiaopeng, are expected to enhance its competitiveness in China. Additionally, Volkswagens growth in Europe and North America further diversifies its revenue streams and reduces reliance on any single market.

## Challenges and Risks

While Volkswagen has shown resilience and adaptability, it faces several challenges and risks. The company is navigating a competitive and rapidly changing automotive landscape, with intense competition in the BEV market from both established players and new entrants. The ongoing transition to electric mobility requires substantial investments, and any delays or setbacks in product launches or technological advancements could impact Volkswagens market position. Additionally, geopolitical tensions, regulatory changes, and economic uncertainties pose risks to the companys global operations. Volkswagens ability to effectively manage these challenges and execute its strategic initiatives will be critical to its long-term success.

In summary, Volkswagen AGs strong financial performance, strategic investments, and commitment to innovation position it well for future growth. The companys efforts to enhance operational efficiency, expand its BEV portfolio, and strengthen its market position provide a solid foundation for long-term value creation. However, investors should remain mindful of the challenges and risks associated with the evolving automotive industry.