### I. Company Thesis

Volkswagen AG (VW) is a cornerstone of the global automotive industry, with a rich history that dates back to its founding in 1937 by the German Labour Front. The company, headquartered in Wolfsburg, Lower Saxony, Germany, has evolved from its early days under the Nazi regime to become a symbol of post-war recovery and industrial prowess.

The iconic Beetle, designed by Ferdinand Porsche, became a cultural phenomenon and laid the foundation for Volkswagens reputation as a manufacturer of reliable and accessible vehicles. Post-World War II, Volkswagen was revived by British Army officer Ivan Hirst, who played a crucial role in transforming the company into a global automotive powerhouse. The Beetles success in the 1950s and 1960s, particularly in the United States, cemented Volkswagens reputation for quality and innovation. This period also saw the introduction of the Volkswagen Type 2, known as the Microbus, which became another cultural icon.

Volkswagens journey through the latter half of the 20th century was marked by strategic acquisitions and expansions. The company acquired Auto Union and NSU Motorenwerke, which led to the revival of the Audi brand. This move diversified Volkswagens portfolio and positioned it as a leader in both the mass-market and luxury segments. The acquisition of brands like SEAT, Škoda, Bentley, Bugatti, Lamborghini, and Porsche further solidified its status as a global automotive conglomerate.

In recent years, Volkswagen has faced significant challenges, including the infamous Dieselgate scandal in 2015, which tarnished its reputation and led to substantial financial penalties. However, the company has shown resilience and a commitment to transformation. Under the leadership of CEO Oliver Blume, Volkswagen has embarked on an ambitious strategy to become a leader in electric mobility and digitalization. The company aims to launch at least 30 electric vehicle (EV) models by 2025 and has committed significant resources to developing its EV infrastructure and software capabilities.

Volkswagens investment in its software arm, Cariad, and the establishment of PowerCo for battery production underscore its commitment to leading the automotive industrys transition to electric vehicles. The recent partnership with Rivian and the strategic investment in Chinese EV maker Xpeng highlight Volkswagens proactive approach to leveraging external expertise to accelerate its transformation. Despite the challenges posed by the shift to electric vehicles and the competitive pressures in key markets like China, Volkswagens strong brand portfolio, extensive global footprint, and robust financial position provide a solid foundation for future growth.

The companys focus on innovation, sustainability, and strategic partnerships positions it well to navigate the evolving automotive landscape and capitalize on emerging opportunities. In summary, Volkswagens storied history, strategic acquisitions, and forward-looking initiatives make it a compelling investment. The companys commitment to electric mobility, digitalization, and sustainability, coupled with its strong brand equity and global presence, provide a promising outlook for long-term value creation.

### II. Company Basics

* CEO (Tenure) Oliver Blume (since 2022)
* Market Cap 63.8 billion as of 2023
* Multiples (Current year) 4x PE (forward), 7.6 dividend yield
* 1, 3-Year, 5-Year Return (Ann. Through 2023)
* 1-Year -50
* 3-Year TBD
* 5-Year TBD
* Business Mix (of 2023 Sales)
* Volkswagen Passenger Cars (TBD)
* Audi (TBD)
* Škoda (TBD)
* SEAT (TBD)
* Bentley (TBD)
* Bugatti (TBD)
* Lamborghini (TBD)
* Porsche (TBD)
* Volkswagen Commercial Vehicles (TBD)
* Scania (TBD)
* MAN (TBD)
* Geographic Mix (of Sales)
* Europe (TBD)
* China (TBD)
* North America (TBD)
* South America (TBD)
* Rest of World (TBD)
* Headquarters Wolfsburg, Lower Saxony, Germany
* Employees Over 670,000 globally
* Key Markets China (largest market, 40 of sales), Europe, North America
* Recent Strategic Moves Partnership with Rivian, investment in Xpeng, establishment of PowerCo for battery production, restructuring of software arm Cariad
* Financial Highlights (2023)
* Sales Revenue 322.3 billion
* Operating Profit 22.6 billion
* Net Income 17.9 billion
* Automotive Net Cash Flow 10.7 billion
* Automotive Net Industrial Liquidity 40.3 billion

### III. Investment Highlights

#### Valuation and Financial Performance

Volkswagen AG (VW) presents a compelling valuation, trading at a forward PE multiple of 4x and offering a dividend yield of 7.6. Despite a significant drop in its share price over the past year (-50), the company has demonstrated robust financial performance. In 2023, VW reported sales revenue of 322.3 billion and an operating profit of 22.6 billion. The net income stood at 17.9 billion, with an automotive net cash flow of 10.7 billion and automotive net industrial liquidity of 40.3 billion. These figures underscore VWs strong financial health and its ability to generate substantial cash flow, providing a solid foundation for future investments and shareholder returns.

#### Strategic Initiatives and Partnerships

Volkswagen has embarked on several strategic initiatives to bolster its position in the rapidly evolving automotive industry. The companys recent partnership with Rivian and its investment in Chinese EV maker Xpeng are notable moves aimed at accelerating its transition to electric vehicles (EVs). These partnerships are expected to enhance VWs technological capabilities and market reach in the EV segment. Additionally, the establishment of PowerCo for battery production and the restructuring of its software arm, Cariad, highlight VWs commitment to vertical integration and digitalization.

#### Product and Market Expansion

VW has a strong pipeline of new product launches, particularly in the EV segment. The company aims to introduce at least 30 EV models by 2025, with significant investments in developing its EV infrastructure and software capabilities. The recent launch of the ID.7, which won the prestigious German Car of the Year award, and the upgraded versions of the ID.4 and ID.5, reflect VWs focus on innovation and quality. The companys strategic focus on key markets such as China, Europe, and North America, which together account for a significant portion of its sales, positions it well to capture growth opportunities in these regions.

#### Operational Efficiency and Cost Management

Volkswagen has implemented several performance improvement programs to enhance operational efficiency and cost management. The company has reduced production complexity by adopting a platform-based allocation strategy, which is expected to improve efficiency and contribute significantly to its performance program. Additionally, VWs focus on reducing group overhead costs has resulted in a 140 basis point improvement in the overhead cost ratio year-to-date, demonstrating its commitment to prudent cost management.

#### Challenges and Risk Management

While VW has made significant strides in its strategic initiatives, it faces challenges in the competitive EV market, particularly in China. The company has experienced a decline in market share in the Chinese EV segment, which currently stands at around 4. However, VWs proactive approach, including the introduction of more cost-competitive battery technologies like LFP and improvements in in-car entertainment and driving assistance functions, is expected to enhance its competitiveness in this critical market. Additionally, VWs strong financial position and diversified brand portfolio provide a buffer against market volatility and competitive pressures.

#### Commitment to Sustainability

Volkswagen is committed to sustainability and has set ambitious targets for reducing its carbon footprint. The companys investment in EVs, battery production, and software development aligns with its broader goal of achieving carbon neutrality. VWs focus on sustainability is expected to resonate well with environmentally conscious consumers and investors, further enhancing its brand equity and market positioning.

In summary, Volkswagens strong financial performance, strategic partnerships, robust product pipeline, and commitment to operational efficiency and sustainability make it an attractive investment. The companys proactive approach to addressing challenges and leveraging growth opportunities positions it well for long-term value creation.

### IV. Investment Concerns

1. Competition in the EV Market

Volkswagen faces intense competition in the electric vehicle (EV) market, particularly from Chinese manufacturers like BYD and Nio, which have been rapidly gaining market share. Despite VWs strategic partnerships with Rivian and Xpeng, the company has struggled to capture a significant share of the Chinese EV market, holding only around 4. This competitive pressure could impact VWs ability to achieve its ambitious EV sales targets and maintain profitability in this segment.

1. Execution Risks in Strategic Initiatives

The success of Volkswagens strategic initiatives, including its partnerships with Rivian and Xpeng, the establishment of PowerCo, and the restructuring of Cariad, hinges on effective execution. Any delays or missteps in these initiatives could undermine VWs competitive position and financial performance. For instance, Cariad has faced delays and budget overruns, which have already impacted the launch timelines of new models.

1. Dependence on the Chinese Market

China is Volkswagens largest market, accounting for 40 of its sales. The companys performance in China has been under pressure, with a 1 drop in car deliveries in the first half of 2023. Any further decline in the Chinese market, whether due to economic factors, increased competition, or geopolitical tensions, could significantly affect VWs overall sales and profitability.

1. Regulatory and Compliance Risks

Volkswagens operations are subject to stringent environmental and safety regulations worldwide. The company is still dealing with the aftermath of the Dieselgate scandal, which has resulted in substantial financial penalties and reputational damage. Additionally, VWs plant in Xinjiang has come under scrutiny for potential human rights violations, prompting calls for an independent audit. Failure to comply with regulatory requirements or address these concerns could result in further legal and financial repercussions.

1. Supply Chain Disruptions

The global automotive industry continues to face supply chain challenges, including shortages of semiconductors and other critical components. Volkswagen has experienced production disruptions due to these shortages, as well as natural disasters like the flooding in Slovenia, which affected the production of over 150,000 vehicles. Continued supply chain disruptions could hinder VWs ability to meet production targets and fulfill customer orders.

1. Market Volatility and Economic Uncertainty

Volkswagen operates in a highly cyclical industry that is sensitive to economic conditions. Market volatility, inflation, and economic downturns can negatively impact consumer demand for vehicles, particularly in key markets like Europe and North America. Additionally, fluctuations in raw material prices and currency exchange rates can affect VWs cost structure and profitability.

1. High Investment Requirements

Volkswagens transition to electric mobility and digitalization requires substantial capital investment. The company has committed to investing 180 billion over the next five years, with a significant portion allocated to EVs, battery production, and software development. While these investments are crucial for future growth, they also pose a financial risk if the expected returns do not materialize or if market conditions change.

1. Operational Efficiency and Cost Management

Despite efforts to improve operational efficiency and reduce costs, Volkswagens performance in this area has been mixed. The companys overhead cost ratio has improved, but it remains higher than some of its competitors. Achieving further cost reductions, particularly in the face of inflationary pressures and the need for ongoing investment in new technologies, will be challenging.

1. Workforce and Labor Relations

Volkswagen employs over 670,000 people globally, and labor relations are a critical aspect of its operations. The company has faced strikes and labor disputes in the past, and any future disruptions could impact production and financial performance. Additionally, VWs plans to reduce capacity in Europe by 10 could lead to workforce reductions, potentially straining labor relations.

10. Technological and Cybersecurity Risks

As Volkswagen advances its digitalization efforts, including the development of