



# AD PUNCTUM

## Autos & Mobility Industry Briefing -- 30<sup>th</sup> July to 5<sup>th</sup> August 2018

News is arranged by company and topic. Stories that apply to more than one company or topic are duplicated.

### News about the major automakers

#### **BMW** (history)

- Reported automotive revenue of €22.2 billion in Q2 2018, about level with the prior year. Group PBT of €2.9 billion was down (6)% on a year earlier. ([BMW](#))
- Building a new plant in Hungary near the town of Debrecen. BMW say the plant will have capacity for 150,000 units per year and employ 1,000 staff. Total investment could come to €1 billion. ([BMW](#))
- Has hedging in place for 100% of 2018 currency exposures and 50% of 2019 levels. ([Seeking Alpha](#))

#### **Daimler** (history)

- Joined a slew of transparency groups to promote ethical sourcing of raw materials. ([Daimler](#))
- Moovel said it has five million users, with two million joining in the past 12 months. ([Daimler](#))
- Car2Go now has a fleet of 14,000 vehicles (of which 10% are electric). In the past six months, 90 million km have been covered by the scheme's 3.3 million users. ([Daimler](#))

#### **Ferrari**

- Reported Q2 2018 financial results. Revenue of €906 million was down (1.6)% despite shipments increasing 6% to 2,463 cars. EBIT of €218 million was 8% higher than prior year. ([Ferrari](#))
- Markets reacted negatively to the new CEO's comments that longer term financial targets set by prior CEO Marchionne were "aspirational", even as he tried to clarify later in the earnings call that he simply meant the company didn't have a detailed plan. ([Seeking Alpha](#))
- Said that normal wait times for cars was 1-2 years but that in "extreme" cases for particular products or markets the wait times could be up to four years. ([Seeking Alpha](#))
- Maserati's drop in engine orders are not expected to affect Ferrari's financial position because of the "take-or-pay" contract in place between the two parties. ([Seeking Alpha](#))

#### **Ford** (history)

- Reportedly working on a spiritual successor to the Courier car-based pick-up truck, but this time based off a Focus, rather than Fiesta. If the rumours are true, US sales could start in 2022. ([Automobile](#))
- Cutting prices in Russia in a bid to increase sales. ([Wards](#))
- Has reportedly been discussing a sale of its South American unit with FCA and VW. ([Bloomberg](#))
  - Implication: The key question for Ford in relation to a regional exit is whether it could come to terms with relinquishing control of the blue oval brand, since although the overlap between distant markets may not be much, fallout from an uncontrollable scandal is the stuff of executive nightmares.

## General Motors (history)

- Applied for the Buick Envision to be excluded from newly imposed US tariffs on China-sourced vehicles, arguing that sales were insufficient to justify US manufacture and profits supported US jobs. ([Reuters](#))
  - Implication: Whilst GM's statement that sales of around 40,000 units a year are insufficient for breakeven is probably true, this is also a reflection of GM's industrial strategy more than market realities. US OEMs have long eschewed mega-platforms, offering half-hearted words and few deeds, whilst others have made engineering choices enabling lower volume manufacture.
- Badging some models as Tripower (previously associated with performance) to highlight the use of three fuel-saving technologies: cylinder deactivation; active thermal management and variable valve control. ([Car Buzz](#))

## Honda (history)

- Reported financial results for the first quarter of its 2018-2019 financial year. Revenue of 4 trillion yen (about \$36 billion) was up 8.4% on a year-over-year basis, whilst operating profit of 300 billion yen (about \$2.7 billion) was up 11.2% YoY. ([Honda](#))
- Intends to resume vehicle and engine production at a Mexican plant hit by flooding in mid-November, having recently restarted transmissions manufacturing at the site. Production of Insight vehicles in the US have been suspended in August as the Mexican plant cannot supply key componentry and stocks have been exhausted. ([Honda](#))

## Mazda

- Reported financial results for the first quarter of its 2018-2019 financial year. Revenue of 873 billion yen (about \$7.8 billion) was up 8.9% on a year-over-year basis, whilst operating profit of 33 billion yen (about \$300 million) was down (17.2)% YoY. ([Mazda](#))

## Nissan (includes Mitsubishi) (history)

- Nissan has agreed to sell a majority of its AESC battery division to Envision. ([Envision](#))
- Nissan executives expect 35% of the brand's European sales in 2025 to be electrified vehicles. ([Autocar](#))
- May add another plant in China, but wants to maximise existing capacity first. ([Bloomberg](#))

## PSA (includes Opel/Vauxhall) (history)

- Has reportedly been cutting production rates at several Opel factories: Rüsselsheim is going from 55 vehicles per hour to 42; Eisenach is going from 37 to 30 and Gliwice has reduced from 40 to 25 cars per hour. ([FAZ](#))
  - Implication: Since Opel's sales grew on a year-over-year basis, the production cuts indicate that PSA is seeking to use the performance of newly launched (and PSA produced) crossovers, and Opel's recent surprise profits to offset a portfolio realignment in cars, especially for Astra and Corsa.

## Suzuki

- Reported financial results for the first quarter of its 2018-2019 financial year. Revenue of 987 billion yen (about \$9 billion) was up 13.6% on a year-over-year basis, whilst operating profit of 116.5 billion yen (about \$1 billion) was up 36.9% YoY. ([Suzuki](#))

## Tata (includes JLR) (history)

- Reported financial results for the first quarter of the 2018-2019 year. Revenue of 670 billion INR (about \$9.7 billion) was a 14% improvement versus the prior year. There was an after tax loss of (18) billion INR (about \$260 million). The year over year drops were almost entirely explained by JLR which saw revenue fall (7)% to £5.2 billion and made an after tax loss of £(210) million. ([Tata](#))

## Tesla (history)

- Reported Q2 2018 financial results. Revenues were \$4 billion (of which automotive was \$3.4 billion) and loss from operations was \$(621) million -- greater than both the prior quarter and a year earlier. ([Tesla](#))

- The company aims to be profitable and cash flow positive “for every quarter, going forward”. In some instances, this could be “barely” and Tesla may take on debt for projects like new factories. ([Seeking Alpha](#))
- Aims to produce 6,000 Model 3 cars per week by the end of August and reach 10,000 units per week “sometime next year”. ([Tesla](#))
- Revised its medium term production outlook, saying although 1 million vehicles in 2020 was still its aspiration, “somewhere between half a million and a million seems pretty likely”. ([Business Insider](#))
- Said it has faced cost challenges because production problems with Model 3 have sometimes meant resorting to low volume tooling where unit prices “can easily be 10 times more” than volume tooling. ([Seeking Alpha](#))
  - Implication: This figure may surprise experienced industry hands, who would probably expect a multiple closer to three times where a supplier has a stable long term contract.
- Said its latest driver assistance hardware will be capable of processing 2,000 frames per second, with redundancy, versus 200 frames per second in the current version. ([Seeking Alpha](#))
- Has reportedly been in talks with officials in Germany and the Netherlands to decide a site for a European Gigafactory. Tesla currently has a CKD facility in the Netherlands. ([Reuters](#))
- Said the most frequently traded in vehicles for Model 3 (in the US) were Honda Accord, Honda Civic, Toyota Prius, Nissan Leaf and BMW 3 Series. ([Seeking Alpha](#))
  - Implication: Depending on which way you read this, it is either positive (Tesla are attracting customers to pay far higher price points than they did on their prior car) or negative (3 Series aside, it seems to be failing to win sales from the competitors one would expect). If, as Tesla believes, customers are coming from lower segments then question marks must exist. Why were they not buying more expensive products previously? Have market dynamics been badly understood all along, or are Tesla inferring too much from a group of early adopters?
- Tesla’s latest software update will apparently feature some Atari games the driver can play whilst the car is at a standstill, including a driving game controlled with the vehicle steering wheel. ([The Verge](#))
  - Implication: Whilst the idea might sound corny to some, using the steering wheel to play a game sounds like a fun way to repurpose vehicle controls (and makes you wonder why no one else has done it already).

## Toyota (history)

- Reported financial results for the first quarter of its 2018-2019 financial year. Revenue of 7.4 trillion yen (about \$66 billion) was up 4.5% on a year-over-year basis, whilst operating profit of 683 billion yen (about \$6.1 billion) was up 18.9% YoY. ([Toyota](#))
- Will dissolve its partnership with Isuzu and sell all the shares (5.89%) it holds, saying that the collaboration had yielded few benefits and some of the originally planned projects had not gone ahead (especially diesel). ([Toyota](#))
- Announced a new venture fund, Mirai Creation Fund II, with a planned warchest of 50 billion yen (about \$450 million) and a mandate covering AI, robotics, hydrogen infrastructure, electrification and new materials. ([Toyota](#))
  - Implication: The inclusion of electrification (out of scope in the 2015 fund) shows that Toyota is taking this technology more seriously.

## VW Group (history)

- Reported group financial results for Q2 2018. Revenue of €61.1 billion was up 3.4% on a year-over-year basis whilst operating profit before special items of €5.58 billion rose 22.7% YoY, however special items of €(1.6) billion meant that the net operating profit was lower than the prior year. ([VW](#))
- Said WLTP will result in around €(1) billion of non-recurring profit reduction in 2018, and that in partial response to the new regulations, several portfolio trimming measures are underway, with reductions of 30% in VW Golf and Audi offerings being cited as examples. ([Yahoo Finance](#))
- VW’s performance division head said the brand wants to introduce performance versions of its forthcoming electric vehicles but hasn’t yet decided which vehicle is most suitable or what the product characteristics should be. ([Autocar](#))
- Announced a new COO for the VW brand. ([VW](#))
- Former CEO Martin Winterkorn may have been aware of the diesel scandal in 2007, if leaked witness testimony is to be believed. ([Der Spiegel](#))
- CEO Diess commented that synergies between motorbikes and cars were “not much, probably the same as between trucks and cars”, and “wouldn’t exclude” an independent future for the Ducati brand. ([Bloomberg](#))

## Other

- **Faraday Future** has started the first production intent builds of FF91 vehicles, with the intention of customer car deliveries starting in December. The company previously said it has over 64,000 orders but it isn't clear how many of these are paid deposits. Curiously, [Faraday is rejecting interest from customers in some markets](#). ([Faraday Future](#))
- **Aston Martin's** CEO said the company will offer hybrid versions of both the Mercedes-supplied V8 and its own V12 engines. ([Autocar](#))
- **Prodrive** is looking into production of a car that can convert into a boat, with a likely price tag of £150,000 if the vehicle ever makes it to production. ([Autocar](#))
- **XPENG** announced a 4 billion RMB fundraising round, taking total investment to 10 billion RMB (about \$1.5 billion) and a valuation of "close to" 25 billion RMB (about \$3.6 billion). ([XPENG](#))
- Austrian hypercar start-up **Milan Automotive** said it has already sold 18 of the planned 99 examples of its €2 million Milan Red. ([Milan](#))

## News about other companies and trends ...

### Economic / Political News

- **US** light vehicle SAAR in July was 16.7 million units, about flat compared with July 2017. ([Wards](#))
- **German** passenger car registrations in July came to 317,848 units, an increase of 12.3% on the prior year. ([KBA](#))
- July passenger car registrations in **Spain** were 131,176 units, an increase of 19.3% on the prior year. ([ANFAC](#))
- **Italian** passenger car registrations in July totalled 152,393 units, an increase of 4.4% on a year earlier. ([UNRAE](#))
- The **US** government unveiled plans to relax future **fuel economy standards**. Instead of requiring a fleet average of around 50 miles per gallon by 2026, the new rules call for about 37 miles per gallon. ([CNBC](#))
- As the **UK** trade minister put the chances of a "no deal" **Brexit** at 60% ([BBC](#)), the UK car industry trade body said "no deal... is just not an option". ([Reuters](#))
  - Implication: The automotive industry has exhibited an extremely relaxed approach to Brexit planning, concentrating on obvious issues such as increased customs paperwork (actually mostly electronic) volumes and ignored the impacts of no deal scenarios, mostly because they involve spending money and contemplating changes to the industrial base that executives would prefer to avoid. Unfortunately, this is looking ever more rash as lead times to set up alternative manufacturing or sourcing have now been exceeded for all but the most inventive solutions. If a no deal comes to pass, companies faced with tariff bills in the hundreds of millions of euros are likely to point to similar failures by their competitors, it remains to be seen whether investors will be so accepting of the collective failure.

### Suppliers

- **Aptiv** reported Q2 2018 revenue of \$3.7 billion, adjusted operating income was \$474 million. ([Aptiv](#))
- **Denso** reported Q2 2018 revenue of 1.3 trillion yen (~\$12 billion) and operating profit of 91 billion yen. ([Denso](#))
- **Mahle** announced that it had loads of test stands available for WLTP certification. ([Mahle](#))
- **Continental** reported Q2 2018 revenue of €22.4 billion and adjusted EBIT of €2.2 billion. ([Continental](#))
- **Magneti Marelli** agreed terms for the acquisition of perception software developer **SmartMeUp**. ([Magneti Marelli](#))
- Chinese materials supplier **Teijin Frontier** is to acquire German automotive interiors specialist **J.H. Ziegler** for €125 million. ([Textile World](#))

### Dealers

- Despite troubling times for US OEMs, dealer group **AutoNation** reported 11% profit growth on slightly improved revenue. Much of the profit increase was attributed to used cars and financial services. ([Auto Nation](#))

### Ride-Hailing, Car Sharing & Rental (history)

- **Grab** said it had raised \$2 billion in a round where Toyota invested \$1 billion. ([Grab](#))
- Indian bus (shared rides) service aggregator **ZipGo** is reportedly close to a \$50 million investment. ([Live Mint](#))

- **Didi** is reportedly considering a \$2 billion takeover of bicycle rental firm **Ofo** in combination with **Alibaba's** Ant Financial. ([Deal Street Asia](#))
- **Lyft** is conducting a trial for 100 people in Chicago where it will provide \$550 in vouchers for a combination of mobility services in return for them renouncing car usage for a month. ([The Verge](#))
  - Implication: Whilst the trial has attracted plenty of media interest (presumably its intent), the number of users seems extremely low, the timeframe short and the \$550 per month travel entitlement seems unduly generous -- but perhaps that's the point: offer loads of money and then report back that they didn't need as much to get by without their car?
- Winner-takes-all ride hailing bulls saw their vision of a future monopoly for the likes of Uber take a blow as **New York** investigated measures to control fleet sizes, meaning regulators are now active in major cities on both sides of the Atlantic. ([New York Times](#))
- **Moovel** said it has five million users, with two million joining in the past 12 months. ([Daimler](#))
- **Car2Go** now has a fleet of 14,000 vehicles (of which 10% are electric). In the past six months, 90 million km have been covered by the scheme's 3.3 million users. ([Daimler](#))

### Driverless / Autonomy (history)

- Mapping supplier **RideOS** announced \$25 million in investment. ([RideOS](#))
- **Hertz** and **Aptiv** announced a strategic partnership that includes running Aptiv's vehicles in Las Vegas but also aspires to create a standard set of operating procedures. ([Hertz](#))
- Swedish self-driving start-up **Einride** unveiled a new model called T-log which is says can handle off-road activities in addition to the on-highway capabilities of its predecessor. ([Business Insider](#))
- **Uber** is stopping development of self-driving trucks. The company still sees a future for freight movement using autonomous vehicles but believes the way forward is to develop working driverless passenger transport and then transfer the technology to commercial vehicles. ([TechCrunch](#))

### Electrification (history)

- **Continental** executives said the company is still unsure if battery cell production is "right" for the company and, if so, whether to go it alone or form a partnership. ([Reuters](#))
- **Bolloré's** Bluecar and **Hanergy** signed a cooperation agreement to develop solar powered cars. ([Hanergy](#))
  - Implication: Although many people will have heard of neither company, the effort should be taken seriously (substantial technical difficulties with harvesting sufficient solar power for useful vehicle performance notwithstanding). Bolloré produced thousands of electric vehicles to support its interest in car sharing schemes, so if the partners believe the technology is practical, production models are very likely.
- **Mahle's** CEO said there were several projects underway using the same technology as the 48V BEV concept car it created. He also said Mahle's base planning scenario for EVs in 2030 was 15% BEVs and 20% PHEV but that combined shares of up to 50% were possible in "extreme cases". ([Handelsblatt](#))
  - Implication: The comment on 48V technology could be either very interesting, or nothing of the sort. The interesting version would be if the company is really working on 48V BEVs with emerging manufacturers -- a move with a host of cost, safety and size benefits. The boring version would be that it is selling 48V systems for ICEs, which everyone already knows.
- UK gas supplier **Centrica** invested in Israeli EV charging start-up **Driivz** as part of a \$12 million round. ([ET India](#))
- Charging provider **EV Connect** raised \$8 million to expand its coverage. ([Inside EVs](#))

### Other

- Electric scooter rental firm **Bird** is expanding into Paris and Tel Aviv, its first non-US locations. Both locations start on a "pilot" basis with new scooters only being added once the fleet averages three or more rentals per day. ([Bird](#))
  - Implication: Despite boasts of fantastic gross profits from scooter rental, the ultimate demand appears unclear and rests on the supposition that a significant amount of city dwellers want to ride electric scooters but find them unjustifiably expensive as an outright purchase.