**SUMMARY**

Investment choice: Volkswagen AG
- Well positioned in China with JVs
- Market leader in Europe
- Strong brand portfolio
- Economies of scale, 3rd biggest manufacturer in the world
- Poised to increase global market share

Current Stock Price: 155 EUR
Value from: 246.1 EUR

**Agenda**
- Industry overview
- Quick company overview of both Volkswagen and Honda
- Identification of earning drivers
- SWOT
- Financials/Forecasting
- Analysis
- Valuation

**Market Summary**
- A highly competitive market
- Many players in the low, middle and high end segment
- Increasing focus on fuel-efficiency
- Developing markets considered as a key area of growth

**Regional Outlook**
- Indications of a recovery
- Better than expected sales in Q4
- China a key growth market despite slowdown
- India and ASEAN car markets to grow
- Continuing sales decline
- Euro debt crisis
- Closure of factories
- Latin America amid growth
- Moderate growth expected in Brazil

**THE RISE OF THE BRIC**
- BRIC demand will overshadow demand from TRIAD nations
Market Share

Global Market Share by vehicles sold 2012

Honda Motor Co. Ltd

- Based in Japan
- Automobile, motorcycle and engine manufacturer

4 business units:
- Motorcycles
- Automobiles
- Financial Services
- Power products

7th biggest manufacturer in the world

Honda: Earning drivers

- Asian/Developing [ASEAN] Market for Motorcycles
- Automobiles in the North American market (Compact and midsized sedans: Honda Civic, Accord)
- Fuel efficient vehicles
- Financial Services Division

Honda: SWOT Analysis

Strengths
- Strong brand equity (Honda), engineering capabilities
- Global presence

Weaknesses
- Supply chain issues
- Non-focused on low to middle class consumers
- Design capabilities lacking
- Product recalls

Opportunities
- Hybrid electric vehicles
- Joint ventures with local/M&A automotive companies
- Developing markets
- Economical cars

Threats
- Numerous market players
- Toyota
- Korean rivals
- Low cost players
- Loss of intellectual property
- Economic slowdown
- Sino-Japanese crisis

Honda: Revenues

Revenues (JPY, MM)

Honda: Regional Revenue Breakdown

Regional breakdown of revenue
Honda: Operating Profit Margin

- OP Margin by Division

Honda: Performance Breakdown

- Stable motorcycle segment
- Financial Svc. has benefited from increased sales
- Recovery of the automobile market in North America (supply chain restored, Civic & Accord [helped by lower JPY])
- Increased automobile sales, yet OP margins remain low
- Power Engineering segment unprofitable

Honda: Analysis

- Increased automobile sales, but increased cost of sales (Eg: Marketing expenses)
- Japanese sales flat; end of eco-car subsidies
- Euro debt crisis
- Rise in North American automobile sales offset by decrease in Europe and slow sales in Asia
- Anti-Japanese protests in China
- Lack of diesel engines, design and price competitiveness in Europe
- Product line-up does not cater to increase in middle class affluence (lack of big-car, sports, luxury segment)

Honda: Strategies and solutions

- Decrease costs by outsourcing manufacturing in automobile segment
- Localize automobile specifications for Europe: Diesel engines, Focus on design, Price competitiveness
- Possible JV with European partner (Nissan-Renault)
- Possible restructuring of JV with Chinese partner
- Leverage on fuel and engine technology; new product line-up

Honda: Potential Problems

- Localizing designs to Euro market will lead to increase in costs
- No recovery in Euro crisis
- Complications with JV in China: technology-sharing, management, costs
- Consumers may want fuel-efficient cars but may not want to pay more for it (more focused on price)

Valuation

Current Stock Price: 3,555 JPY
Valuation: 2,437.44 JPY

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<tr>
<th>Year</th>
<th>Beginning</th>
<th>Income</th>
<th>Earnings</th>
<th>Return on Equity</th>
<th>Earnings &amp; Dividends</th>
<th>Residual Income</th>
<th>Intrinsic Value</th>
<th>IV per Share</th>
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</table>
Volkswagen AG

- Based in Germany
- Automobile, motorcycle and engine manufacturer
- 4 business units:
  - Automobiles
  - Financial Services
  - Power Engineering
  - 3rd Biggest manufacturer in the world

Volkswagen: Earning drivers

- Volkswagen-branded cars
- Asian markets – Particularly China
- Luxury Market
- Financial Services Division

Volkswagen: SWOT Analysis

**Strengths**
- Strong brand portfolio
- Economies of scale
- Strong brand equity

**Weaknesses**
- Main market is in declining Europe
- Late entry in hybrid market

**Opportunities**
- Emerging markets
- Joint ventures with other local manufacturers
- Lenders
- Cheap financing

**Threats**
- Facing numerous competition from every market player
- Stricter regulations
- Loss of technology to rivals in JV
- Sustained Euro crisis

Volkswagen: Revenues

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Volkswagen: Regional Revenue Breakdown

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<td>Asia</td>
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Volkswagen: Operating Profit Margin

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<th>Division</th>
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<tr>
<td>Commercial Vehicles</td>
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<td>Scania</td>
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<tr>
<td>Total</td>
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</table>
Volkswagen: Performance Breakdown

- Increased revenue, but not exponential growth
- Majority of revenue from automobile sales
- Financial Svc. Division set to benefit from increased automobile sales
- Increased sales and growth especially in Asia
- Declining Europe sales – divergence from market

Volkswagen: Analysis

- Car market still in recovery stage, moderate and not exponential growth expected
- Declining Europe sales due to economic conditions, tough competition
- Sales from Asia and America offsetting the difference
- Increased Asian sales: Well-positioned due to diversity of offerings, Audi in China, JV's no. 2 in China
- Luxury car sales in China have been growing (Lamborghini, Bentley)

Volkswagen: Strategies and solutions

- Lacking in fuel-efficient product line up; needs to further develop its engines
- Cost-cutting; setting up of more factories and JV's in target markets

Volkswagen: Potential Problems

- Sustained Euro crisis or further weakening of Euro
- Complications with JV /China; technology-sharing, management, costs
- Huge brand portfolio requires vast CAPEX expenditures
- Increased regulations in emerging markets (Pollution in China)

Valuation

Current Stock Price: 155 EUR
Valuation: 256.1 EUR

<table>
<thead>
<tr>
<th>Year</th>
<th>Book Value</th>
<th>Earnings</th>
<th>Return on Equity</th>
<th>Earnings &amp; Dividends</th>
<th>Residual Earnings</th>
<th>Intrinsic Value</th>
<th>IV per Share</th>
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<tr>
<td>2012</td>
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KPMG Survey on market share