

THE VW QUALITY OF LIFE.

Tomorrow's Growth Strategy



GBCC 2016
HORIZON CONSULTING



TODAY'S JOURNEY.

Understanding the
Diesel Challenge



Overcoming the Diesel
Challenge



Volkswagen of
Tomorrow



Scaling Internationally



IMPLICATIONS OF THE VW DIESEL CHALLENGE.

New challenges are brought on by the Volkswagen defeat devices

The Diesel Challenge

1 Increased Costs

More than €29B in lawsuits
11M cars with defect

How do we minimize
the total costs of the
scandal in the short
term?

2 Invalid Value Proposition

Uncertainty
about Diesel
globally

Quality &
Innovation
under scrutiny

Strategy 2025:
What is the VW
value proposition?

3 Slowing Sales

Weakening leadership position
& momentum in sales

What geographic
strategies to achieve
scalability and success of
Strategy 2025?

Overarching cause: Philosophy of financial performance



A close-up photograph of a hand holding a light blue microfiber cloth, wiping a bright red car. The car's surface is highly reflective, showing several bright, circular light spots. In the lower foreground, a circular, chrome VW logo is visible, reflecting the hand and the surrounding environment. The overall scene conveys a sense of meticulous care and maintenance.

A FRESH VW PHILOSOPHY.

PHILOSOPHY PARADIGM SHIFT.

A holistic perspective on success

"By 2018, we want to take our group to the very top of the global car industry"

Focus: Financial Performance

Sales Volume

Profitability



"We need to work together to make sure that Europe remains innovative and competitive as an industrial location in a rapidly changing world"

Focus: Quality of Life

Economic Prosperity

Longevity

Satisfaction

Trust:

Actions speak louder than words. Change internal culture to avoid any more discrepancies.





EXECUTIVE SUMMARY.

Overall Mandate

To be a leader in the quality of life by innovating in the automobile industry

FOCUS

RECOMMENDATION

EFFECT

Economic Prosperity

Complying to sanctions, providing goodwill packages
Changing the product portfolio to non-diesel VW, shifting to sustainable operations

Take proactive measures
Reducing all costs by €1,239B

Satisfaction

Strategy 2025: A new long term VW business model
Creating a superior customer value proposition

Create new LT value proposition
Increasing the CLV by 37%

Longevity

Successfully scaling strategy 2025
going global starting with China

Establish dominance in China
Reach market share of 25% by
2020

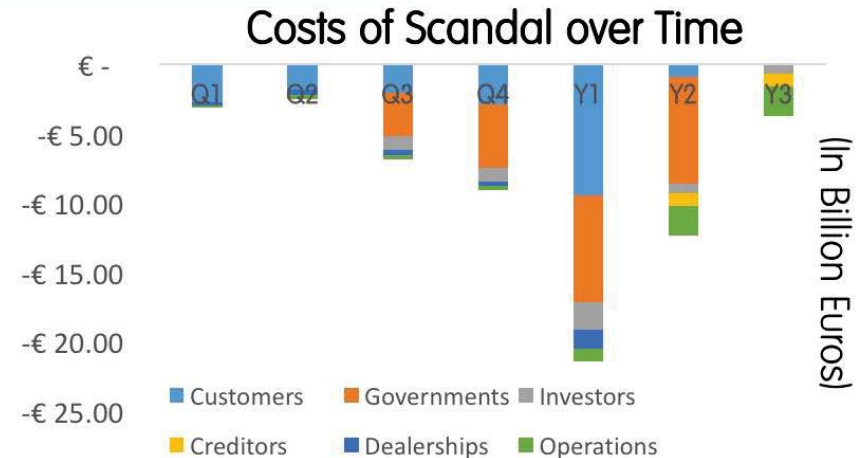
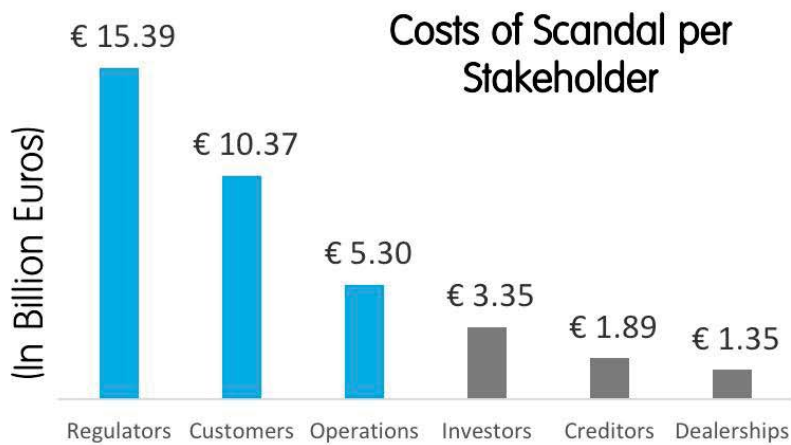
ECONOMIC PROSPERITY.

How do we minimize the total costs of the scandal in the short term?



COST MITIGATION STRATEGY.

Doing the right thing



Stakeholders	Cost	Issue	Strategy
Regulators	<ul style="list-style-type: none"> €11.3B under Clean Air Act €4.0B for False Advertising 	Compliance	Show good faith and have a proactive long term action plan
Customers	<ul style="list-style-type: none"> €8.1B in Goodwill Package €495M in Software €1.7B in loss Resale Value 	Retention	Short-term conversion to other non-diesel VW products
Operations	<ul style="list-style-type: none"> €3.9B in loss Diesel car sales 	Positioning	Shift market position from diesel in USA



THE VW GOODWILL PACKAGE.

Customer retention strategy

Current Strategy	New Strategy	Impact
<i>Before EPA ruling</i>	<i>After EPA ruling</i>	<i>Looking forward</i>
\$500 USD Prepaid Loyalty Visa Card	\$3500 USD on VW Repurchase	Increase customer retention of Diesel VW drivers by 50% Strengthening VW green image
\$500 USD Dealership Card	Recall of the 550,000 vehicles	
Free 24hrs Roadside Assistance	Green initiatives to invest in CO2 reduction	



THE GOVERNMENT LAWSUIT.

Comply to sanctions and show good faith

Current Concerns

Current US lawsuit: \$29B USD

Risk of new governmental lawsuits (EU)

Additional sanctions

Approach

Toyota case outcome:
Settlement 70% of initial
Government EV Incentives

EU countries:
Blame on the individuals not the
company

VW diesel cars cannot be sold in
the US:
Shift away from Diesel sales in
the market

Impact and outcome

Lower lawsuit settlement by
\$1B USD

Low risk of prolongation of
governmental law suits

New US production of EV
and hybrids

Importance



CHANGE PRODUCTION IN PORTFOLIO.

Shift operations to other green alternatives to appeal to same customers



Low emission release with a competitively high mileage rate

Quality of product and design

Affordability of purchase



E-Golf & Golf GTE



Jetta Hybrid

Generate a NPV of €215M by retaining 50% of diesel consumers through purchases of other VW products



SATISFACTION.

What does the VW company, product & technology, and consumer experience look like for Strategy 2025?



PORTRAIT OF THE 2025 INDUSTRY.

Understanding the needs of tomorrow

31%

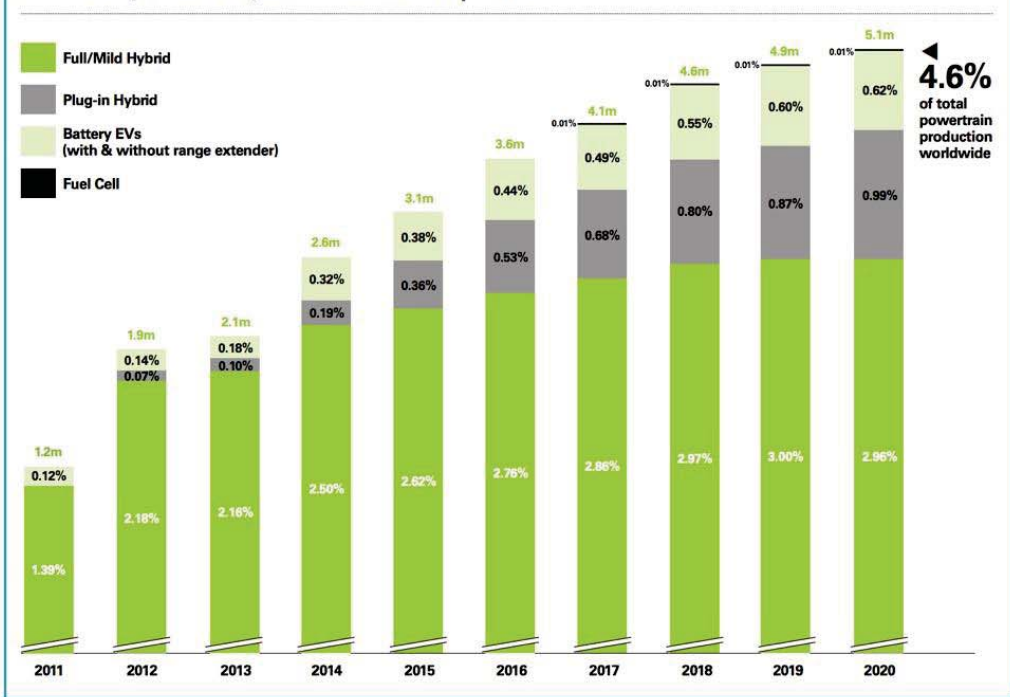
Annual growth rate for e-mobility, 2025

Global

policies for new environmentally friendly solutions

Consumers repurchase rate from 4 yrs to 6 yrs

Electrified powertrain production forecast | 2011-2020



Source: Deloitte 2014 Global Automotive Consumer Study
 Source: KPMG, Global Automotive Executive Survey 2015



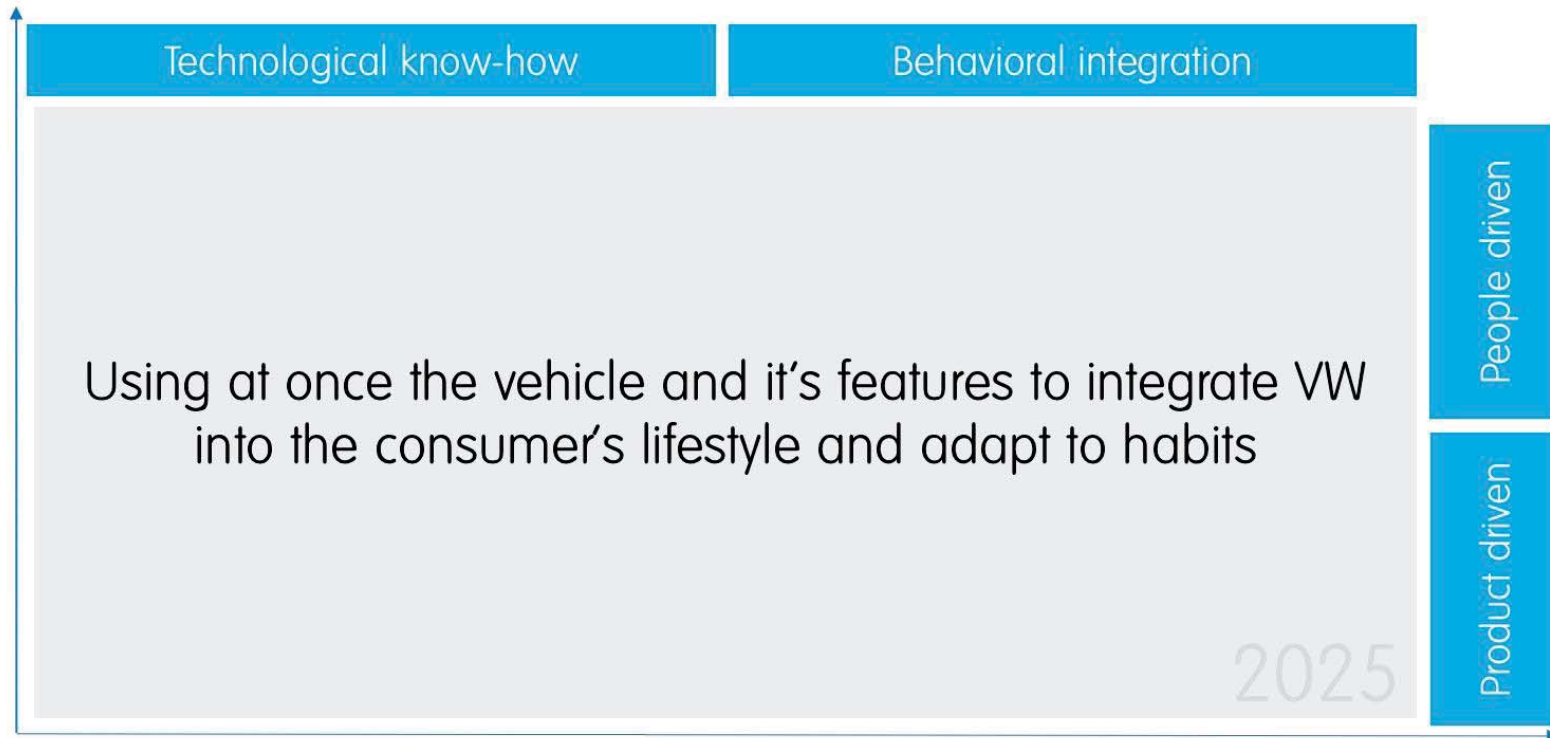
THE NEW VW BUSINESS MODEL.

Creating a superior customer value proposition



THE NEW VW BUSINESS MODEL.

Creating a superior customer value proposition



STRATEGY 2025.

Quality of life through integrating VW in the consumers lifestyle

The VW Experience: Quality of life

Advanced Product & Features

Value-Adding Service

Leader-grade Engines
Advanced Tech. Software



Modular Upgrades
Account Supported Personalization

Prosperity

Satisfaction

Longevity



ADVANCED PRODUCT.

VW's leader-grade engines

Become a leader in EVs and hybrids by 2025

Expand Chattanooga plant to produce these new engines

Operations

R&D budget at 2.5% of annual sales for 10 yrs

R&D

Launch in select global markets in 5 years time

Timeline

Technical Requirements

Double battery efficiency: from 60miles to 120miles

Stationary storage: stocking the energy from the vehicles environment when inert

Maximize space by minimizing the required size of the battery pack



ADVANCED FEATURES.

Added value through software

Quality of Life through Responsive Technologies

Proactive technologies

Sensors

Push Notifications

VM learns and adapts to user

Integrated user experience between lifestyle and driving experience



Obj.
Service
Tech.
Outcome

VALUE-ADDING SERVICES.

Added value through enhanced technologies and hardware

1. Consumer Accounts

Program & teach VW software consumer preferences and lifestyle habits

Better understand the consumer and their specific needs
Track CLV and upgrade possibilities

2. Upgradable Vehicles

Modular design, easily upgradable

Plug-and-play units that can be changed and updated as years go by
Integrate newer technologies in older models

Personalize approach and longer customer lifespan

Obs.

Service.

Tech.

Outcome



STRATEGY 2025.

Quality of life through integrating VW in the consumers lifestyle

The VW Experience: Quality of life for the consumer

Advance product & features



Value-adding service

CLV increase by 37%



Modular upgrades
CRM

NPS of 7



Tailored consumer exp.
Seamless integration

Increase retention by
5%



Upsell incentives
Increase switching costs






INTERNATIONAL SCALABILITY.

What geographic strategies should Volkswagen focus on to achieve scalability of Strategy 2025's success?



VOLKSWAGON GLOBAL OPPORTUNITIES.

VW will need to customize strategy to grow in each region




	Industry Regulations	VW Industry Market Share	Consumer Income Distribution	Supply Chain Support
 <p>China</p>	Enter through JV's. Changing standards	14.5% of market Dominant leader	Rising middle class and first time car owners	8 factories in China
 <p>Western Europe</p>	Strict emissions restrictions on CO2 and GHG	12.5% of market Dominant Leader	Large middle and upper class	Factories in 15 European countries
 <p>USA</p>	Strict emissions restrictions on NOx and PM	2.5% of market Small Player	Large middle and upper class	2 factories in the USA

Source: Volkswagen Group Case Study



VOLKSWAGON GLOBAL OPPORTUNITIES.

To capture market trend opportunities, VW will need to customize strategy to grow in each region

	Industry Regulations	VW Industry Market Share	Consumer Income Distribution	Supply Chain Support
 China				
 Western Europe				
 USA				

The VW Experience will be tailored to keen first time buyers and a digitally connected Chinese culture.

The VW Experience will be tailored to meet the sustainability expectations of Europeans.

The VW Experience will be tailored to the customized needs of individuals and modular differentiation.

Source: Volkswagen Group Case Study



GLOBAL PASSENGER CAR INDUSTRY.

Diverse OEM market trends are driving unique strategies in different regions

Europe



Diesel car sales are dominant (>50%) in European countries

N. America



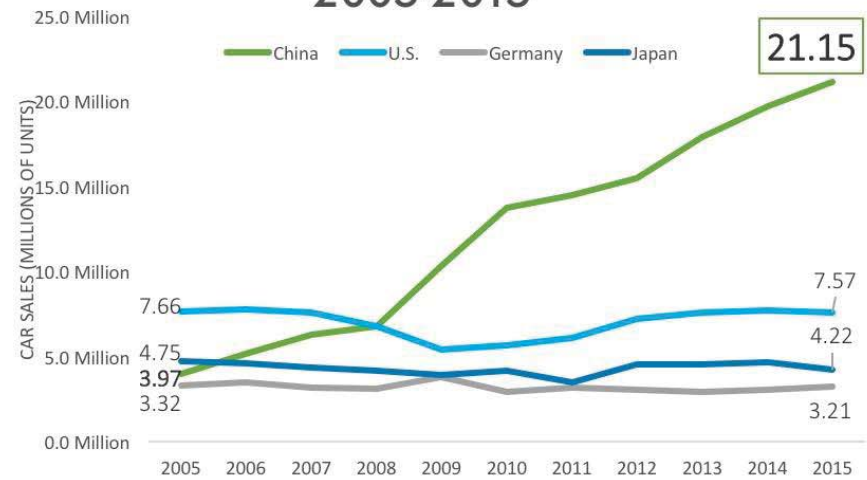
Electric and hybrid vehicle sale growth is fluctuating

Asia



Electric and hybrid vehicles are becoming increasingly popular, overtaking US in sales

Passenger Car Sales By Unit 2005-2015



Volume of sales increasing globally led by China and emerging markets
Fierce competition in established markets keeping sales price stable

Opportunity for technological innovation in power trains and services in modular systems to differentiate OEM players



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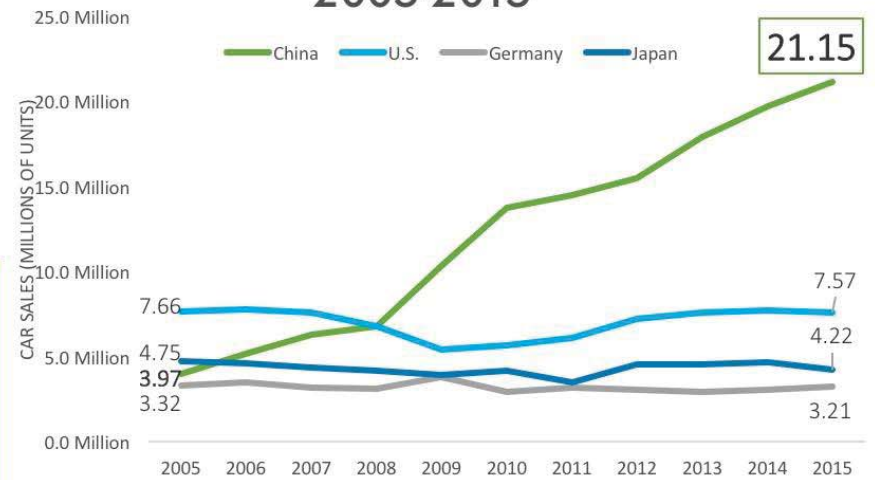
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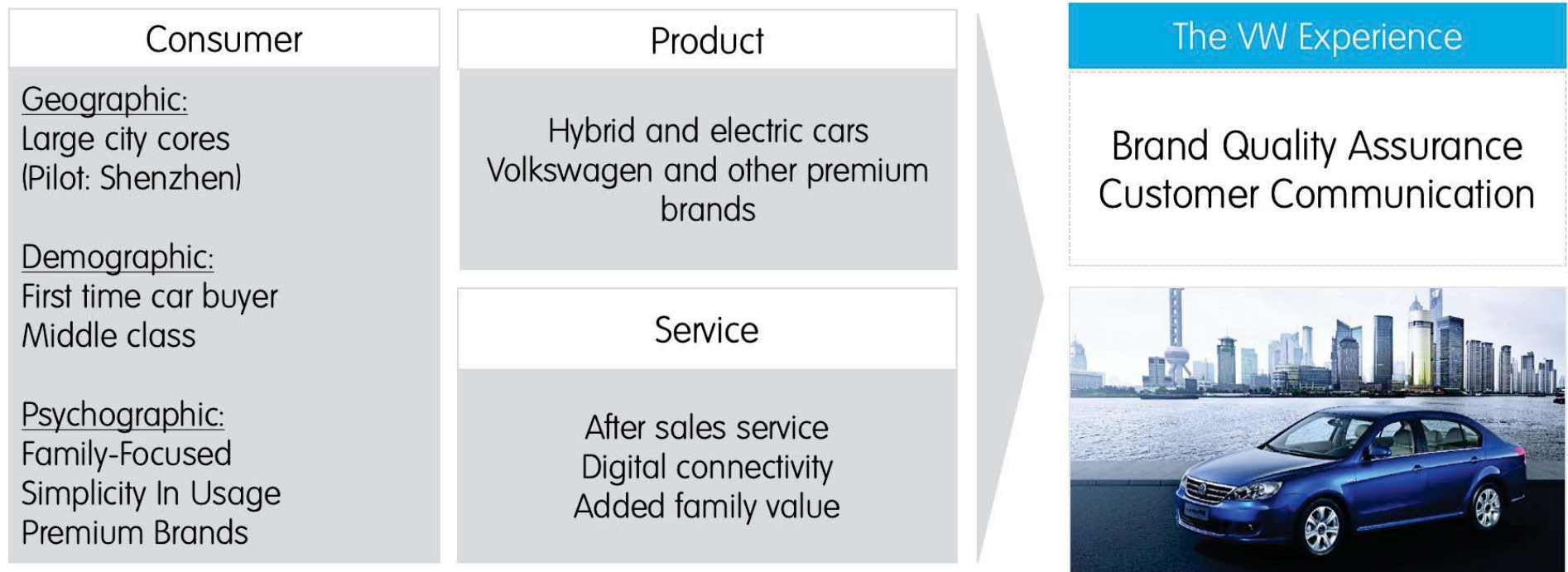


Opportunity for technological innovation in power trains and services in modular systems to differentiate OEM players



VW IN CHINA BY 2025.

The VW Experience will be tailored to keen first time buyers and a digitally connected Chinese culture.

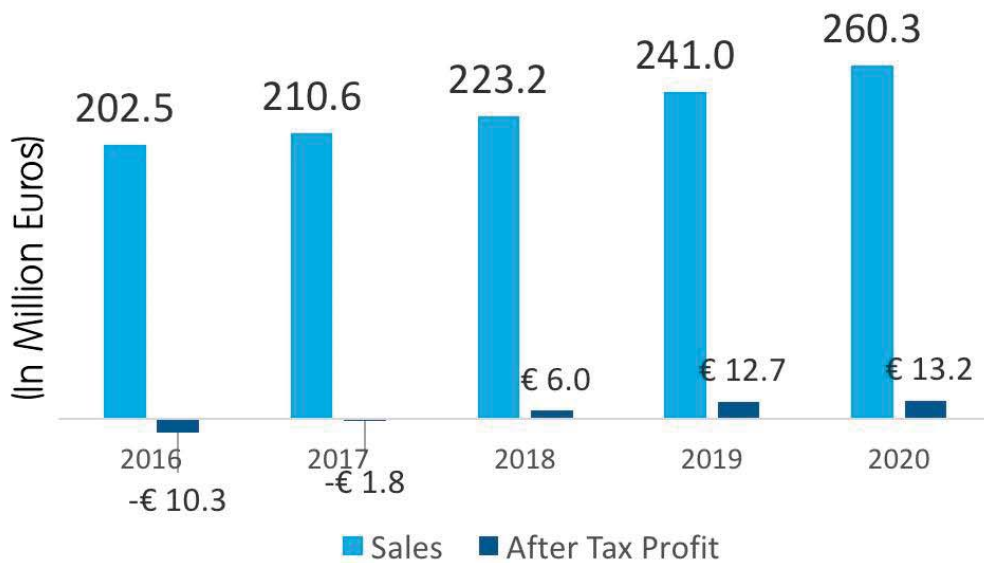


Increase market share from 15% to 25% by 2020 and generating a NPV of €6.12B.



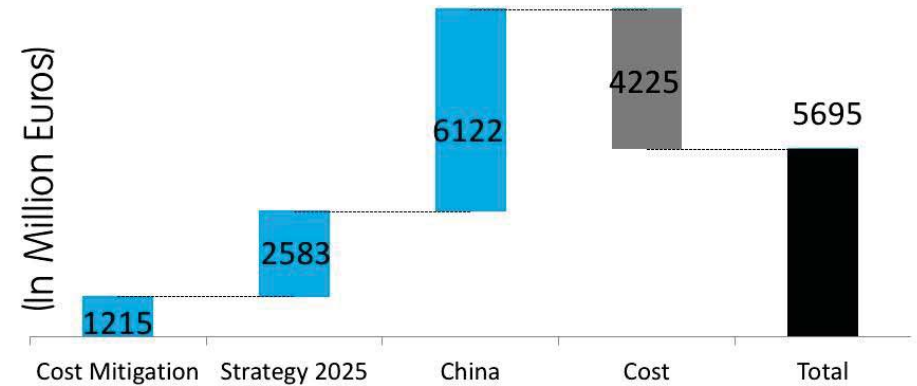
FINANCIAL OUTLOOK.

Volkswagen Group Financials Prospects



Sales CAGR at 5%
After-tax profit exceed pre-scandal level by 2020

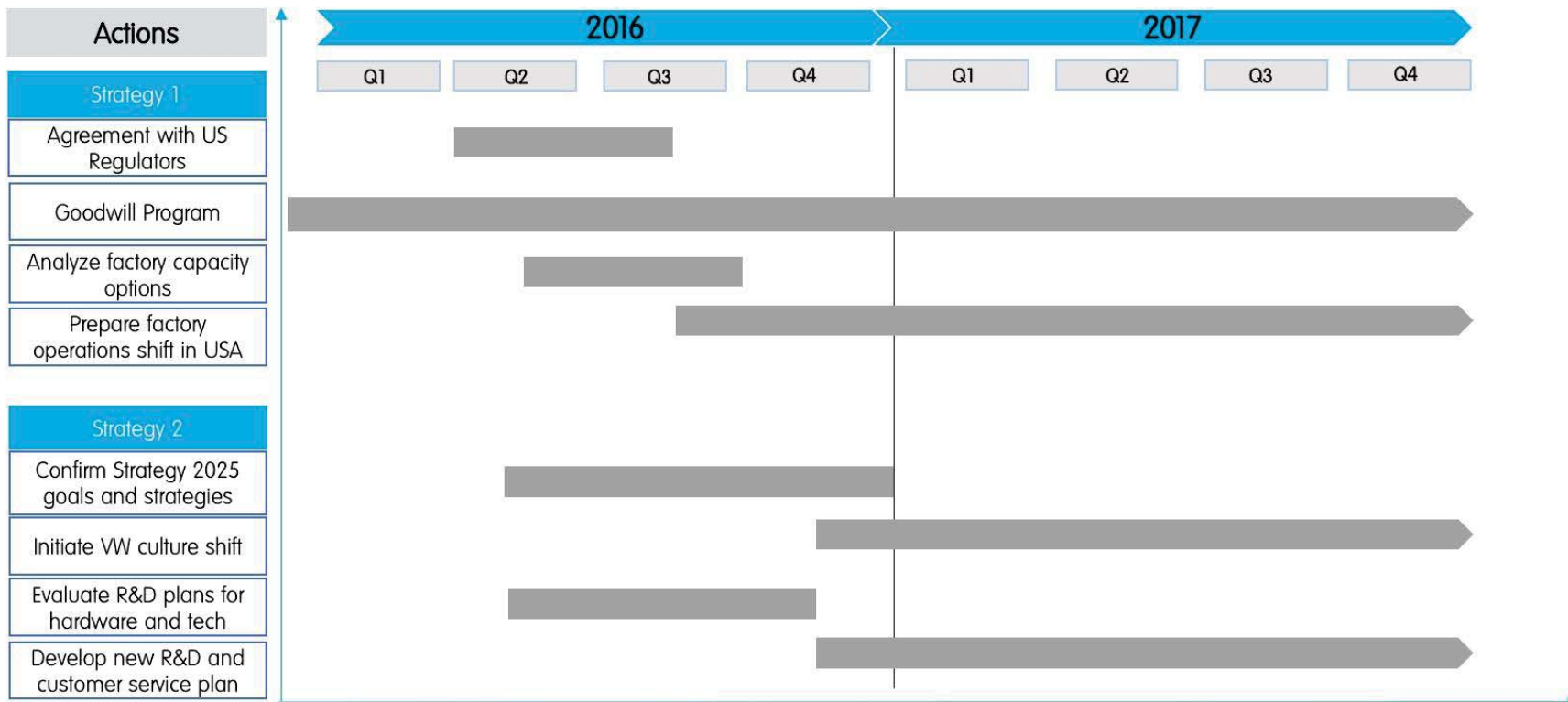
Incremental Value of Recommendation



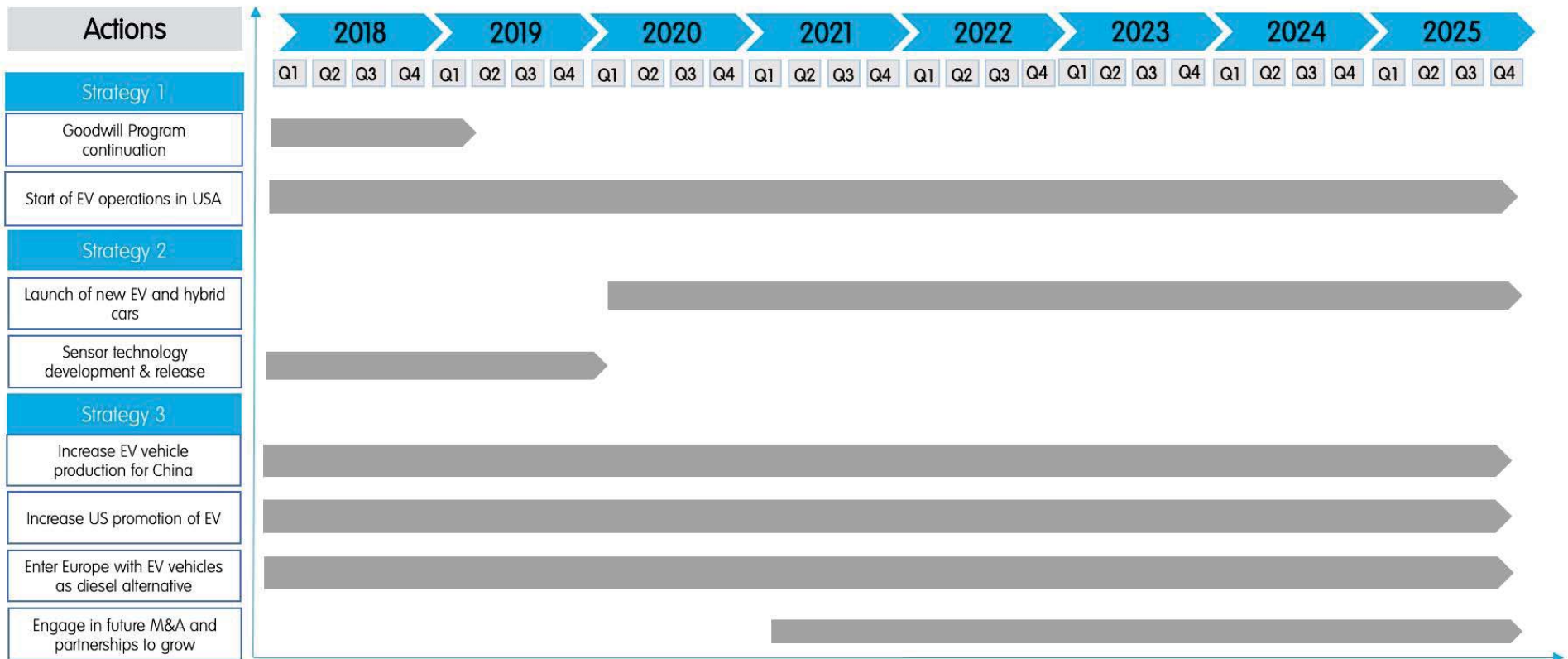
Generate NPV of €5695M from 2016 to 2020



QUALITY OF LIFE: S.T. ACHIEVEMENTS.



QUALITY OF LIFE: LT MILESTONES.



KEY TAKEAWAYS: QUALITY OF LIFE.

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New value proposition
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Longevity

Successfully scaling Strategy 2025
Going global starting with China

Establish dominance in China
Reach market share of 25% by 2020



Q&A



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[Implications of scandal](#)
[Executive summary](#)
[Cost mitigation](#)
[Change in portfolio](#)
[2025 industry landscape](#)
[2025 strategy](#)
[Product](#)
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[Kpis](#)
[Alternative](#)

VW TODAY

An innovative future for VW built core competencies

Core Competencies

German Engineering

A Strong Value Chain

A Global presence

How you've done it

Quality & Innovation
Unique technical know-how

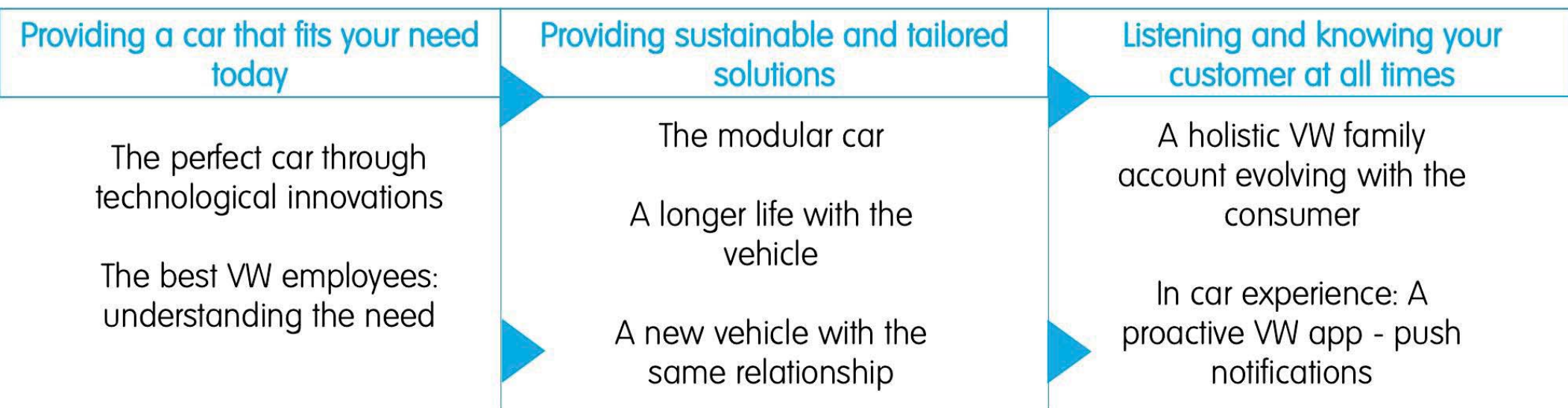
MQB Manufacturing
Flexibility and Cost efficiency

Recognizable international
brands:
VW, Audi, Porsche



THE VW CUSTOMER EXPERIENCE.

Quality of life through the sustainable customer life journey



VW Provides Value at every stage of the consumer life cycle.



CONSUMER PERCEPTION ON SCANDAL

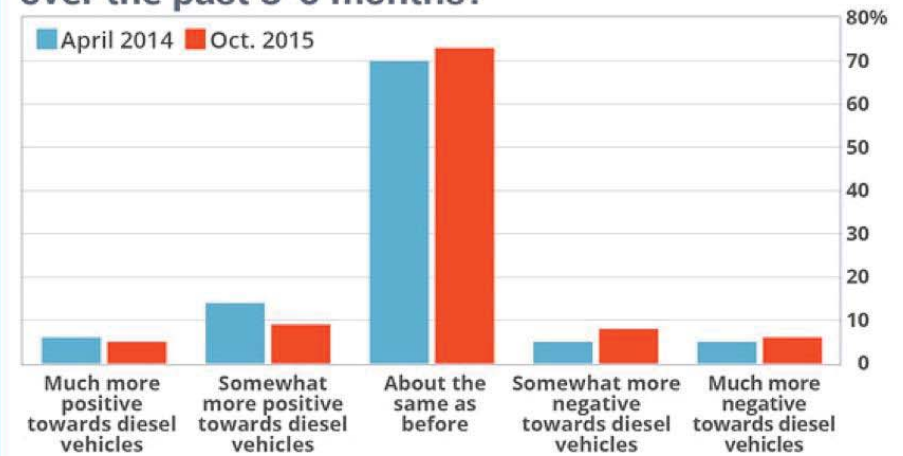
Diesel industry is lightly affected

86% of VW drivers are concerned about the environmental impact of their car

83% questioned the impact on its resale value

73% feared the performance of their vehicle would be affected

Have your views on diesel vehicles changed over the past 3-6 months?



*In April 2014, the question asked "Have your views on diesel vehicles changed over the past year?"

Source: NACS

Source: Market Watch, Consumers view of diesel unchanged after Volkswagen scandal



SATISFACTION – RISK & MITIGATION

Playing our cards right to anticipate what could go wrong

Risk

Fear for security towards
the smart software

Modular to cannibalize
sales of new
automobiles

Competitor Pressure

Mitigation

Encrypted Data – Activated only when app is within range
Use of biometrics
Possibility to wipe data at a distance

New cars ownership, 2006: 4.3 years
New cars ownership, 2006: 6.5 years
Thus, new possibility to make money during those 2.2 years.

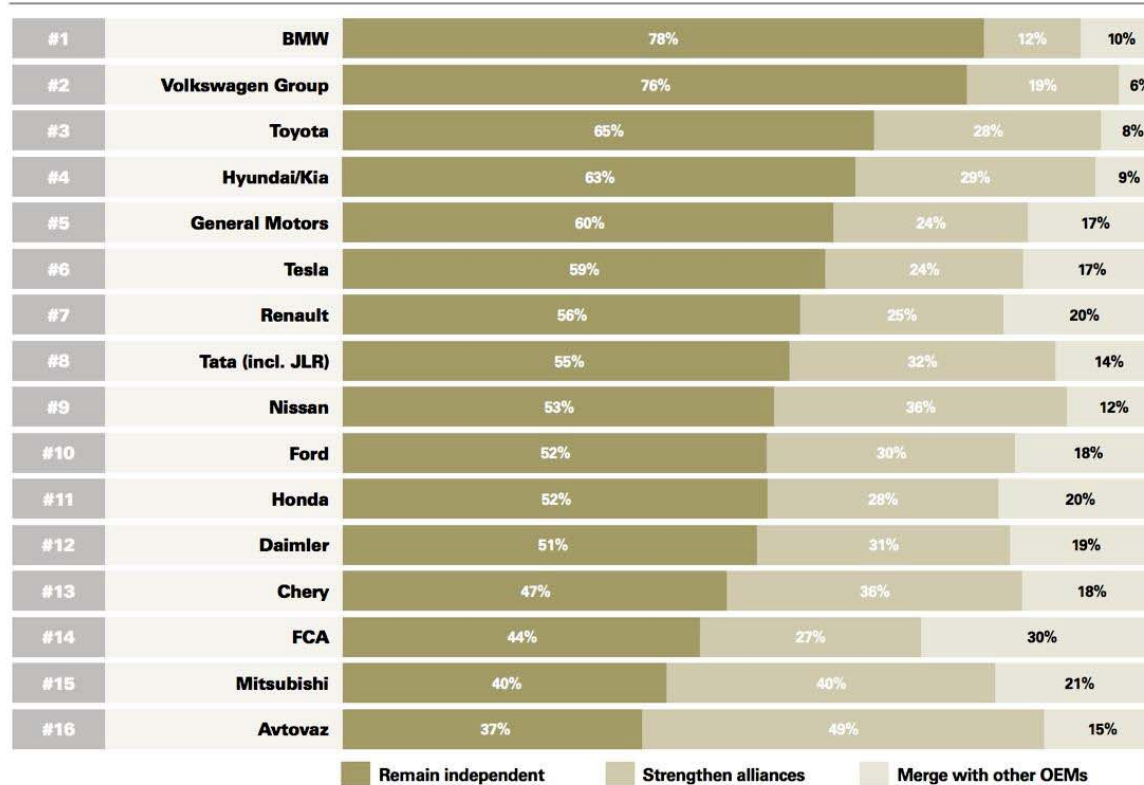
Strong market share
Years of experience
Differentiate through the VW experience

Source: CNBC, Americans holding onto their cars longer than ever



GROWING THROUGH M&As

For globally established OEMs, remaining independent is the number one survival strategy



Next 5 years: Current value chain & alliances enough for VW to grow

Note: Percentages may not add up to 100 due to rounding. Sorted descending by % remain independent Source: KPMG's Global Automotive Executive Survey 2015

Source: KPMG, Global Automotive Executive Survey 2015

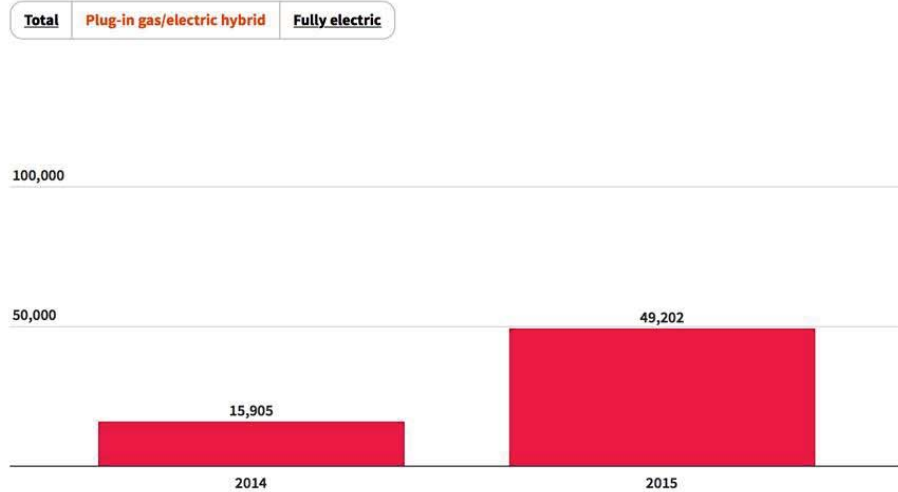


EV Sales

China to grow much faster than the US

China Electric Vehicle Sales

China's electric car sales have jumped almost 300 percent in the first nine months of 2015 compared to the same period last year.



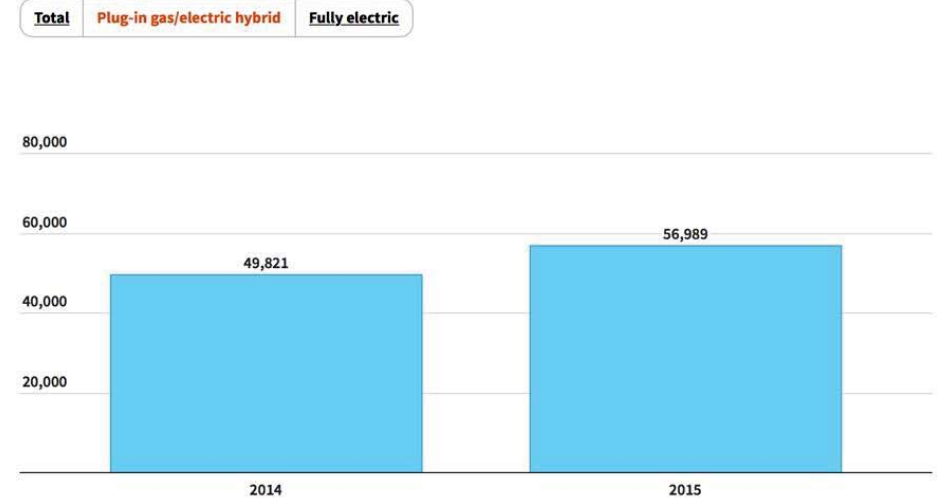
FIGURES ARE YEAR-TO-DATE THROUGH SEPTEMBER

Source: China Association of Automobile Manufacturers [Get the data](#)

IBT

U.S. Electric Vehicle Sales

U.S. electric car sales have dropped 7 percent in the first ten months of the year compared to the same period last year.



FIGURES ARE YEAR-TO-DATE THROUGH OCTOBER

Source: Electric Drive Transportation Association [Get the data](#)

IBT

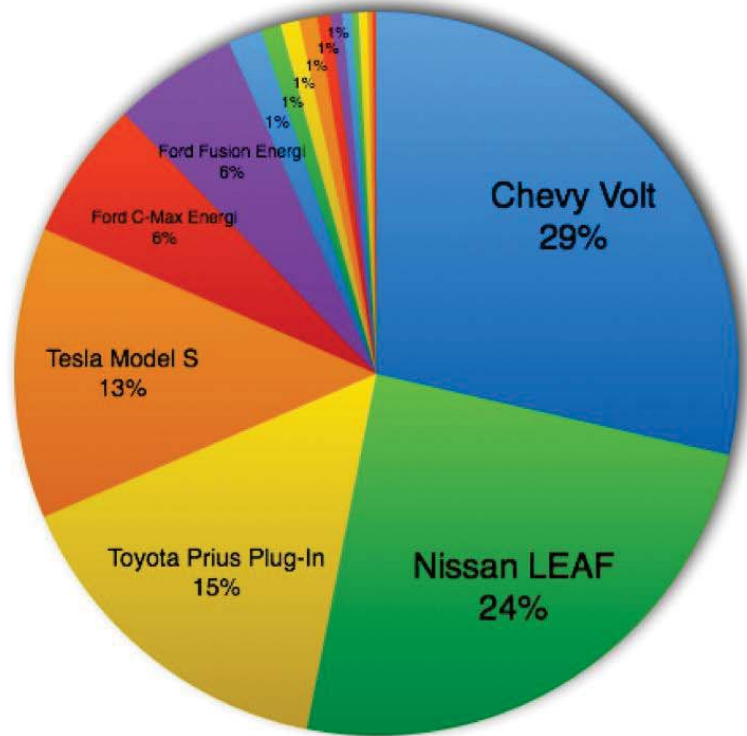
Source: IBT



COMPETITORS IN EV INDUSTRY.

Race for success in tomorrow's biggest market

Market Share of Plug-In Vehicles to Date in USA



Competitor	MS	Advancements
Tesla	13%	215 miles autonomous
Nissan	24%	Value
Toyota	15%	Value
Chevrolet	29%	Driveability

- Chevy Volt
- Tesla Model S
- Ford Focus Electric
- Mitsubishi i (MIEV)
- Honda Fit EV
- Porsche Panamera S-E
- Nissan LEAF
- Ford C-Max Energi
- Smart ED
- Fiat 500e
- Honda Accord PHEV
- Cadillac ELR
- Toyota Prius Plug-In
- Ford Fusion Energi
- Toyota RAV4-EV
- Chevy Spark EV
- BMW i3

Source: IBT



VW CONSUMER OF TOMORROW.

Understanding the drivers of gen Y

Industry Standards:

Fuel Efficiency
Cost
Safety
Drivability

Purchase Expectations:

Connectivity
Comfort & Design
Customization

Previous Gen Commuter:



Utility



Low Cost



Convenience

Gen Y Commuter:



Low Cost



Convenience



Love to Drive



SATISFACTION - CONSUMER ACCOUNTS.

Using data to provide top experience

Data Collected	Geographic routes Traffic patterns Favorite places
Data Used	Internally ONLY Understanding the consumer's preferences Provide insightful assistance
Opt-in/out	Consumer has the choice to activate or not the software



MODULAR EXAMPLES



1. Security Features

2. Tech. Features

3. Navigation Units

4. Climate Control



MODULAR CUSTOMIZATION

Upgrades during the usage and ownership

In garage upgrades

Air Filters

Engine Sensors

Rims/Tires



Battery

Interior Seats

Exterior Paint

Average update price: \$800USD-\$3,000USD



QUALITY OF LIFE OVERALL KPI's

Quantitative

- Minimization of Lawsuit Costs
- Time to Firm Profitability
- Increase In Customer Lifetime Value
- Increase in Market Share
- Increase In Net Promoter Score

Qualitative

- Brand Perception
- Customer Loyalty
- Customer Service



THE CHINA STRATEGY TACTICS

Our Strategy	Trend We Address	Impact
EV and Hybrid Product Expansion	<u>Growth in EV and Hybrid Sales:</u> China #1 sales of EV and Hybrids for VW, tightening in emission regulations	Increase In VW EV and Hybrid Product Sales
Modular Service Expansion	<u>After-Sales Market Growth:</u> Projected 20% growth in revenue until 2020	Increase In After-Sales Service Revenue, Increased Customer Loyalty
Account Application Creation	<u>Simplicity of Knowledge Communication:</u> Digital channels are now primary source of communication for consumers	Increase In Customer Communication, Increase In Proactive Notification

Source: McKinsey: The Road to 2020 and Beyond



SUCCESS WITHIN CHINESE REGULATION

- Extended JV with First Auto Works for 25 more years in 2015
- Higher stake approved by government from 2016 to 2041
- JV with SAIC moving in to Xin Jiang Province
- Increasing operations in Western China where automobile density is low

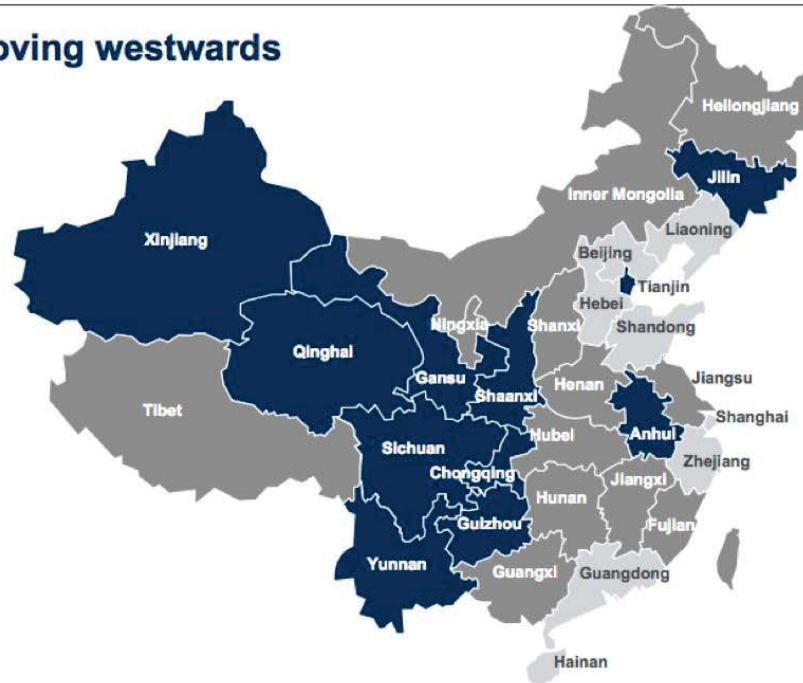


FUTURE CHINESE IMPLEMENTATION

High GDP growth moving westwards

GDP growth 2012

- 12-15%
- 10-12%
- 7-10%



Reduce risk of operation reduction by moving towards cities with no automobile restrictions

Move West towards cities with low automobile density to grow size of market

Move towards cities with a growing middle class and strong GDP growth

Source: Volkswagen Investor Report 2013



CHINESE AUTO RESTRICTIONS

Restrictive policies for new car sales in additional eight tier-1 and tier-2 cities



Existing quotas: Beijing 240k cars/year; Shanghai < 120k cars/year (not fixed); Guangzhou 120k cars/year

Chinese local governments are imposing sanctions on the number of automobiles on the road

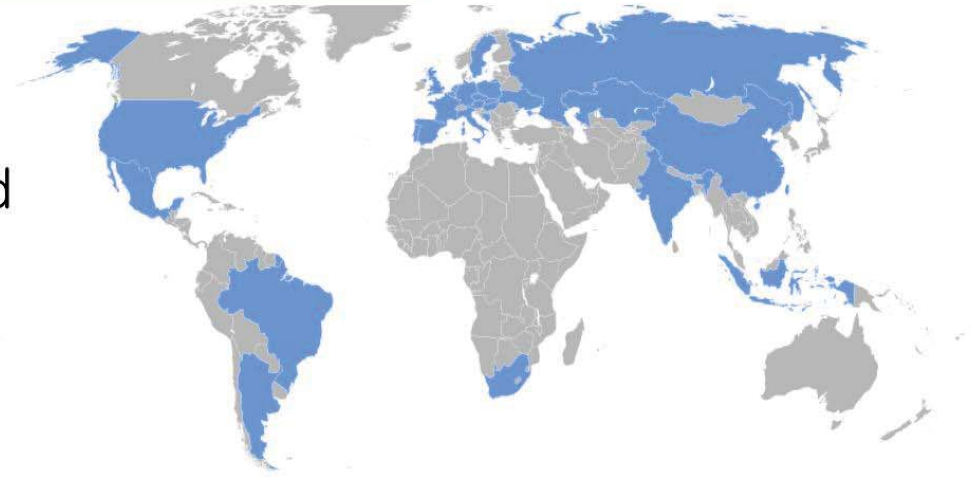
Capping the number of licenses allows less access to potential consumers

Source: Volkswagen Investor Report 2013



VW GLOBAL FACTORY LOCATIONS

Global
61 production locations and
factories in 150 countries



- > Amphur Pluakdaeng Rayong
- > Aurangabad
- > Bang Pakong
- > Busan
- > Changchun
- > Changzhou
- > Chengdu
- > Dalian
- > Foshan
- > Kuala Lumpur
- > Nanjing
- > Ningbo
- > Narasapura
- > Ping Chen City
- > Pithampur

China:
29 vehicle production and
component product locations to
leverage for expansion and
production



Source: Volkswagen Website

RISK AND MITIGATION: CHINESE EXPANSION

Risks

#1. Expansion opportunities in China are limited (due to regulation, decrease in market growth, etc)

#2. Competing technologies such as the electric motorbike capture sales

#3. OEM auto Chinese competition become stronger in domestic market

Mitigations

#1. Expand our Quality of Life offerings in other countries with high growth in sales (Czech, Poland)

#2. Only 34% of the Chinese population currently own cars, and there is a 50% purchase intention for an EV, and willingness to spend

#3. Chinese brands are perceived as lower in quality by domestic consumers compared to foreign brands

Source: Nielsen, The Next Generation of Chinese Car Buyers
McKinsey, A New Era For Manufacturing in China



WHY FOCUS ON PASSENGER CARS?

- Most of our business revenue is obtained from passenger sales
- Our growth is in double digits in passenger vehicles in emerging markets in Asia and Eastern Europe
- Bus and commercial vehicle sales have been heavily decreasing in previously demanding markets
- Consumer demand still greatly exists for passenger vehicle purchases



STRATEGY 2025: CLTV.

Financial analysis



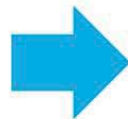
Pessimistic

Car life cycle	Y0	Y1	Y2	Y3	Y4	Y5	Y6	TV
Profit from Car Sale	\$3,066							\$2,773
Profit from upgrades				\$240	\$240			
NPV for 1 car Life cycle	\$3,466							
CLTV	\$5,387							

Optimistic

Car life cycle	Y0	Y1	Y2	Y3	Y4	Y5	Y6	TV
Profit from Car Sale	\$3,066							\$4,944
Profit from upgrades			\$240	\$240		\$240		
NPV for 1 car Life cycle	\$3,672							
CLTV	\$7,098							

\$1,060 - \$2,300
increase per customer



Average increase of
37% in the CLTV

Assumptions	
Current Average Car price	\$39,500
Future average price	\$42,000
Revenue from one upgrade	\$2,000
Profit margin on sale of car	7.30%
Profit margin from on upgrade	12%
Current retention ratio	50%
Discount rate	5.38%
Current CLTV	
Updates (Optimistic)	0
Updates (Pessimistic)	2

	Pessimistic	Optimistic
Average # of VW purchases	1.8	2.5
Average # of upgrades	2	3

COST MIGITATION FINANCIALS.

Decreasing realized losses

Operations Savings	2015	2016	2017	2018
US Diesel Sales	62400	31200	31200	31200
US Average Car Price	\$ 39,000.00	\$ 39,000.00	\$ 39,000.00	\$ 39,000.00
VW Sales	\$ 2,434	\$ 1,217	\$ 1,217	\$ 1,217
Profit Margin	7%	7%	7%	7%
EBIT	\$ 165	\$ 83	\$ 83	\$ 83
Tax	\$ 50	\$ 25	\$ 25	\$ 25
Depreciation	\$ 50	\$ 50	\$ 50	\$ 50
Change in NWC	\$ 14	\$ 14	\$ 14	\$ 14
Capex	\$ 10	\$ 10	\$ 10	\$ 10
FCF Recommend	\$ 142	\$ 84	\$ 84	\$ 84
FCF Base	\$ 142	\$ -	\$ -	\$ -
Increment FCF	\$ -	\$ 84	\$ 84	\$ 84
Discounted CF		\$ 84	\$ 80	\$ 76
WACC	5.28%			
NPV (USD)	\$ 239			
NPV (EURO)	€ 215			

+

€1B in Lawsuit
Settlement Reduction
from estimated €15.3B



STRATEGY 2025 FINANCIALS.

Increasing Customer Lifetime Value

Sales in 2015
€ 202B

Addressable
Portfolio
30% or €60B

Adoption Rate
25% or €15B

CLV Achievable
Increase
17%

NPV
€ 2.58B from 2016 to 2020



CHINA STRATEGY FINANCIALS.

Achieve 25% market share by 2020

China Strategy	2015	2016	2017	2018	2019	2020
China Market (Units)	24,855,172	26,346,483	27,927,272	29,602,908	31,379,083	33,261,827
Growth Rate	6%	6%	6%	6%	6%	6%
VW Market Share	15%	17%	19%	21%	23%	25%
VW Chinese Car Sales Units	3,728,275	4,478,902	5,306,181	6,216,610	7,217,188	8,315,456
Average Car Price	€ 18,000	€ 18,000	€ 18,000	€ 18,000	€ 18,000	€ 18,000
VW Sales (Value)	€ 67,108	€ 80,620	€ 95,511	€ 111,898	€ 129,909	€ 149,678
Profit Margin	7%	7%	7%	7%	7%	7%
EBIT	€ 4,898	€ 5,885	€ 6,972	€ 8,168	€ 9,483	€ 10,926
Tax	€ 979	€ 1,177	€ 1,394	€ 1,633	€ 1,896	€ 2,185
Depreciation	€ 3,362	€ 4,039	€ 4,785	€ 5,607	€ 6,509	€ 7,499
Change in NWC	€ 1,007	€ 1,209	€ 1,433	€ 1,678	€ 1,949	€ 2,245
Capex	€ 3,290	€ 3,952	€ 4,682	€ 5,485	€ 6,368	€ 7,337
FCF Recommend	€ 2,985	€ 3,586	€ 4,249	€ 4,978	€ 5,779	€ 6,658
FCF Base	\$ 2,985	\$ 3,164	\$ 3,354	\$ 3,556	\$ 3,769	\$ 3,995
Increment FCF	€ -	€ 422	€ 894	€ 1,422	€ 2,010	€ 2,663
Discounted CF	€ -	€ 400	€ 807	€ 1,218	€ 1,636	€ 2,059
WACC	5.28%					
NPV	€ 6,122					



STRATEGY 2025 ALTERNATIVES

Considerations	Main counter argument
Collaborative Consumption	Many operational difficulties Very targeted value – VW appeals to a large demographic
Self Driving cars	Not scalable enough for desired scalability Not relevant enough for differentiation in our value proposition
Continuing Diesel	Long term trends are a threat to this industry Current perception of the VW diesel vehicle after the scandal

