



GLG-SOLVAY BUSINESS CASE 2013-2014

RULES AND GUIDELINES 2013

London, October 28th, 2013

THE OBJECTIVE AND ITS REQUIREMENTS

THE Objective

By groups of 4-5 members, please submit your recommendation (BUY or SELL), investment case and a detailed operating model for Volkswagen AG (Reuters RIC:VOWG_p.DE, Bloomberg ticker: VOW3 GY) by December 23rd 8am. The objective of this exercise is to understand how to read the variables driving a business and how to value it. Take the time to organize your thoughts on what matters and how to present it in a simple form. All your work has to be included in the spreadsheet that will be provided to you as a template to answer the case.

Your work

RECOMMENDATION

In your recommendation sheet (see xls spreadsheet) – Include:

- Your recommendation (BUY or SELL)
- Your target price (in EUR) & upside/downside (in %)
- In two sentences please state how do you calculate your price target

INVESTMENT CASE

In your case sheet (see xls spreadsheet)

- In two sentences please state how the company makes money
- In three sentences describe the business model
- Is Volkswagen a good business? Why or why not? (Five sentences only)
- Is Volkswagen a better business model than Renault? (Three sentences only)
- Is Volkswagen a better business model than BMW? (Three sentences only)

- What are the most sensitive variables/drivers in the profitability of the company? (Five bullet points)
- What was the size of the light vehicle market in Western Europe in 2012? (One bullet point)
- What is Volkswagen group **market share** in the world? (One bullet point)
- What volumes growth does Volkswagen group expect in **Western Europe in 2014** (%)? (One bullet point)
- What are the key **model's launches** in 2014 for Volkswagen group? (3 bullet points)
- What are **Volkswagen Auto margin targets** by brand? (Six bullet points)
- What is the **MQB platform**? (Three sentences only)
- What is the key concept behind the MQB platform? (Three sentences only)
- What are the **CO2 emission targets for 2020** in Europe & China? (Two bullet points) Why the European commission has postponed these targets? (Three sentences only)
- How many **employees** work for Volkswagen group? (One bullet point)
- Why does Volkswagen group need Joint Ventures in China? (Three sentences only)
- Where are Volkswagen group's Chinese profits consolidated? (One sentence only)
- What is Volkswagen group's cash position? (One bullet point) Why does Volkswagen group need this amount of cash in its balance sheet? (Three sentences only)

OPERATING MODEL – FINANCIALS

In your model sheet (see xls spreadsheet) – Include:

- Historical quarterly and annual financials back 2 years
- Projected quarterly financials out 1 year
- Projected annual financials out 5 years
- Capture the main drivers of your sales using the same reporting shown by the company
- Show a breakdown of sales by brand
- Make sure to include currency impact in your model (i.e. for example \$/€ adjustments on your sales)
- Show a breakdown of your profit using the same reporting shown by the company

FCF

In your FCF sheet (see xls spreadsheet)

- Calculate historical and projected free cash flows
- Show working capital analysis and capital investments for incremental sales

RATIOS

In your ratios sheet (see xls spreadsheet)

- Calculate IRR, ROIC and any other accounting ratios/formulas you feel are relevant to analyse Volkswagen's group.

ENTERPRISE VALUE/MULTIPLES

In your multiples sheet (see xls spreadsheet)

- Calculate the enterprise value for Volkswagen group
- Calculate historical and projected multiples (i.e. EV/Sales, EV/EBITDA, EV/EBIT & P/E)
- Compared multiples with BMW, Daimler, Renault, Continental, Nestle and Solvay and try to justify the premiums/discounts (six sentences only)

VALUATION

In your valuation sheet (see xls spreadsheet) – include:

- Detailed Valuation - use as many valuation metrics as you may feel are appropriate.

Notes

- You can write comments in your model to explain the rationale behind your key assumptions
- Colour code
 - Blue font – numbers reported by the company (either in press release, presentation or reports)
 - Black font – formula/calculations in your spreadsheet
 - Red font – assumptions
- You can also add charts to illustrate trends key to your investment case
- Press release, presentation or reports for Volkswagen group available on:

- http://www.volkswagenag.com/content/vwcorp/info_center/en/talks_and_presentations/talks_and_presentations.html/
- http://www.volkswagenag.com/content/vwcorp/info_center/en/publications/publications.html

- You can also look at sell-side estimates on Reuters or Bloomberg to check your estimates.

Coordinator

- Niels Pécriaux (simulationgame@glgpartners.com)
Niels is an INGEST alumni and has been working for GLG Partners over the last 5 years. Thanks to the impulsion of Pierre Lagrange, he has contributed significantly in setting up the case and ensuring the follow-up of the case after its launch. Two Q&A sessions are scheduled in November and December.

Timeline

October 28	Kickoff of the simulation game
November 9	Q&As session
November 30	Q&As session
December 23 @ 8am	Deadline for submissions. A copy of the dropboxes will be frozen at 8am. Nothing will be accepted after. Please make sure to view your dropbox folder on the web to check that your file has been well uploaded by that time.