The luxury car industry is embracing the energy transition

Welcome to secular growth views. Climate change and the energy transitions seem to interconnect! In this podcast, we highlight how the car industry, and in particular the luxury car industry, is approaching its own transition. I am Christophe Schmid, CEO and Head of Investment Strategies at iX-7 Asset Management SA, a Swiss-based FinTech company. Along with my colleagues, I'll provide you with an in-depth view of subjects of interest to the investment world. It is November 19th, 2021, 10:15 a.m., in Dubai.

The luxury automobile industry is catching up fast.

At the outset and for many years, car manufacturers like Lamborghini, Ferrari, Bugatti, Porsche, and Rolls-Royce, amongst others, were reluctant to talk about the energy transition and to implement any changes. But that seems to be in the past! Lamborghini has been CO2 neutral since 2015, and the company announced it will introduce a fully electric car by 2027. Lamborghini is not the only OEM that has shifted gears; Porsche intends to introduce, by 2030, fully electrical or hybrid models, Rolls-Royce is exiting its glamorous V12 by the end of this decade, Ferrari intends to produce its first EV by 2025, and Jaguar, probably the most advanced versus its peers, intends to become fully EV compliant by 2025.

These changes were, up to recently, out of context for many of us. Would you have ever imagined a Ferrari without the mystique engine sound? The sound of each high-end luxury car engine is part of the brand. In the same context, design, available colors, and apps. With the introduction of EV, these ultra-high end car companies redefine their DNA - what a challenge!

The next big thing to observe is performance; In the past, a car's performance was measured by its speed in going from 0 to 100km/hour. Going forward, the performance measurement will be the distance that can be extracted from a fully loaded battery. Without a doubt, road adherence, maneuverability, security, comfort, and full turn-around capacity will remain in focus.

The future of automakers

Historically, OEMs have focused on the development of the internal combustion engine and transmission components. In a world where cars are powered by electrons, car manufactures are required to reinvent themselves. They benefit from strategic strengths such as manufacturing dimensions, multiple R&D capacities, customer management, and after-sales services. But for now, they are faced with a number of new challenges such as selling EVs appears to be more labor intensive than selling a traditional car and disruptors approach the market differently. Newcomers to the EV-business enter the market by means of intermediaries such as complement to inter-regional transport opportunities, entertainment systems, and service providers such recharging facilities. Altogether, this creates a new ecosystem that interlinks the car and its user to company.

Existing automakers are expected to acquire new competencies through reverse engineering battery and software technologies. These are two key areas of future car performance. In particular, battery technology is expected to migrate from cell-level chemistry to battery-pack systems, including software that optimizes the vehicle's performance and utilization comfort. In a way, tomorrow's battery-pack systems will allow charging in less than 3 minutes and recharging while driving on specific tracks. This subsegment is projected to have a total market size of over USD 60 billion by 2025. Given this, the battery business appears to be a golden opportunity for global groups. Yet, full lifecycle management may turn the asset into a liability. Therefore, some manufactures may decide to avoid the battery business.

Truly engaged car manufacturers are expected to consider exposure into downstream business and data analytics too. As EVs require recharging, partnerships with utilities and other third parties could be possible.

And here is the irony of the recent developments. In the coming years, incumbents will focus on software and battery technology while disruptors like Tesla are engaging with Fordism. In fact, incumbent manufacturers are focusing on meeting carbon neutrality while disruptors aim to improve and accelerate manufacturing capacities! What a turn of affair!

Actions for investors

Investors should identify companies that have a strong R&D track record and manage the full process, including the underlying technologies that produce value or are likely to do so in the future.

Ideally, investors should examine the innovation cycle for different emerging technologies. Considerations may include market traction, the pace of disruption, time to market, and process technologies and techniques. Other factors may include regulatory changes or geopolitical headwinds.

While the timing of the investment can be important, we would consider holding onto a well-diversified selection for a prolonged period as the key driver of excellent performance achievement. It can be expected that winners will crystalize over time, and trading on news flows may result in negative performances.

In terms of EPS generation, Incumbent OEMs have the muscle power to implement changes and benefit from scale. On the other side, disruptors tend to have a higher margin business unlocked through the creation and expansion of digital-based ecosystems.

Finally, as unlikely as it might sounds, while the energy transition is nicely powering ahead, investors are advised not to ignore big oil. This is particularly opportune since the production of alternative energy is not getting deployed fast enough to satisfy an ever-increasing demand of the latter.

Thanks for listening and enjoy reading our detailed views!

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