

The BMW Group in December 2006¹

Bayerische Motoren Werke G.m.b.H. (BMW Group, or colloquially, ‘BMW’) is one of the ten largest automobile manufacturers in the world. With its BMW, Mini and Rolls-Royce brands, it possesses some of the strongest premium brands in the car industry. In addition to cars, BMW’s “Industrial Operations” division manufactures motorcycles, and the company also operates a financial services division. According to senior management, BMW’s goal is to “....generate profitable growth and above-average returns by focusing on the premium segments of international automobile markets.”

Fiscal year 2006 (ending December) was a record year for the company’s Industrial Operations (See Exhibit 1, columns 3 and 4). The number of vehicles sold in 2006 increased by 3.5% from 2005, to 1.37 million. Revenues increased to over €49 billion, and net income to nearly €2.5 billion. The company announced a per-share dividend increase of 9.4% over the previous year’s level. Compounded annual growth rates (CAGRs) during the prior three years in revenue, net income, and operating cash flow were 6%, 3%, and 9%, respectively.

At the end of 2006, BMW’s equity market capitalization is approximately €30 billion.

BMW set a goal of selling 1.7 million vehicles by the year 2014. The company was witnessing rapid growth in emerging markets, especially Asia. The Asian market for BMW grew by 13% in 2006 to 142,000 units, with the Chinese markets registering a 35% increase to nearly 45,000 vehicles, and the Japanese market a 5.6% increase to 62,000 vehicles. In China, BMW established manufacturing operations in a joint venture with Brilliance China Automotive, to produce 30,000 BMW 3- and 5-Series vehicles. In India, the company was building an assembly plant, with a more modest goal of selling 1,700 vehicles by 2008-09.

The depreciation of the US\$ and Japanese ¥ against the € since mid-2005 was creating some pressure on revenue and margin growth in two of BMW’s key markets. Additionally, the year 2006 saw a significant rise in the price of raw materials such as steel, as well as in oil, the latter being a key factor driving consumer buying patterns for automobiles.

Comparisons

Analysts looked to the other premium German carmaker, Audi, as a peer company to BMW.² Although it has a separate identity as a publicly traded company, Audi was mostly owned by Volkswagen A.G. The parent company also undertook all of Audi’s manufacturing.

In 2006, Audi sold approximately 900,000 vehicles worldwide, to produce revenues of €31 billion, an increase of 17% from the prior year. Audi’s net income in 2006 was €1.3 billion. Three-year CAGRs in revenue, net income, and operating cash flow for Audi were 10%, 16%,

¹ This case was developed by Professor Anant K. Sundaram of the Tuck School of Business at Dartmouth College, as a basis for class discussion. © July 2007.

² Mercedes Benz would have been another comparable, but its being joined with the large number of non-premium Chrysler segment vehicles sold made it difficult for analysts to disentangle the performance of its premium segment.

and 21%, respectively. At the end of 2006, the company's equity market capitalization is a little over €23 billion.

Audi has set an aggressive target of growing worldwide volumes to 1.4 million by 2014. The company was also expanding rapidly in emerging markets, with its prior presence in India and China with the "Skoda" brand being increasingly replaced by the Audi brand.

The competitor that many observers used as an industry benchmark was Toyota. Famed for its innovation and quality, and its hugely successful entry into the luxury market in the US with its Lexus brand that mainly came at the expense of market share for BMW and Mercedes, Toyota was set to become the largest, and easily the most profitable, car manufacturer in the world by 2007. At the end of the first quarter of 2007 (when its 2006-07 fiscal year ends), Toyota produced nearly €10 billion in net income on €150 billion in revenues, and at the end of 2006, Toyota's equity market capitalization was €166 billion.

Exhibit 1 also contains comparable financials for Audi and Toyota.

Exhibit 1

	FY-end 12/06 € millions		FY-end 12/06 € millions		FY-end 3/07* ¥ billions	
	Audi Group		BMW Group		Toyota Motor	
	2006	2005	2006	2005	2007	2006
Revenue	31,142	26,591	49,227	47,206	22,131	20,068
Cost of Goods Sold**	27,309	23,439	39,238	37,343	18,000	16,335
Selling, General & Admin**	2,401	2,117	7,008	6,776	1,900	1,993
Other Operating Income	1,051	790	176	275	--	201
Other Operating Expense	468	418	0	0	--	0
EBIT (= Operating Income)	2,015	1,407	3,157	3,362	2,231	1,941
Non-operating Income	17	-12	0	0	115	60
Net Financial Expense	86	85	-358	474	--	--
Profit before Taxes	1,946	1,310	3,515	2,888	2,346	2,001
Taxes	603	486	1,066	934	868	737
Net Income	1,343	824	2,449	1,954	1,478	1,264
Cash & Mkt Securities	5,898	3,564	1,235	1,372	2,230	2,065
Non-cash Current Assets	4,727	3,951	17,102	15,188	5,497	5,090
TOTAL CURRENT ASSETS	10,625	7,515	18,337	16,560	7,727	7,155
Net Property, Plant, Eqpmt	5,023	5,221	11,514	11,290	5,625	5,208
Other Fixed Assets	3,262	3,376	7,892	7,988	6,158	5,702
FIXED ASSETS	8,285	8,597	19,406	19,278	11,783	10,910
TOTAL ASSETS	18,910	16,112	37,743	34,928	19,510	18,065
Short Term Debt	210	165	1,407	655	935	866
Non-debt Current Liabilities	6,825	5,641	9,224	8,555	5,302	4,909
TOTAL CURRENT LIABILITIES	7,035	5,806	10,631	9,210	6,237	5,775
Long Term Debt	3	15	882	1,070	788	730
Other LT Liabilities	4,607	4,187	10,915	11,336	1,621	1,501
TOTAL LT LIABILITIES	4,610	4,202	11,797	12,406	2,409	2,231
Equity	7,265	6,104	15,315	13,312	10,864	10,059
EQUITY + LIABILITIES	18,910	16,112	37,743	34,928	19,510	18,065
Depreciation**	2,242	1,865	3,319	3,002	930	909
Capital Expenditure	1,917	1,705	4,269	3,809	1,550	1,466
Share Price End-Dec**	€540.00	€317.50	€44.50	€38.50	¥7800	¥6000
Market Value	23,220	13,652	29,888	25,858	24,960	19,200
Market-to-Book (M/B)**	3.20	2.24	1.95	1.94	2.30	1.91
Price-to-Earnings (P/E)**	17.29	16.57	12.20	13.23	16.89	15.19
Beta***	N.A.		1.07		0.95	
WACC***	N.A.		8.50%		9.00%	

* All data are from publicly available sources; data for BMW and Audi are for Industrial Operations only; data for Toyota Motor annualized from disclosure for the first three quarters and guidance for the fourth quarter. Average ¥/€ exchange rate is €1 = ¥150.

** CGS and SGA include Depreciation; Share Price is on a per-share basis; M/B and P/E are ratios.

*** Betas are from German investor's viewpoint, measured against the DAX30 as the index; Toyota's beta and WACC are based on its € returns. Beta and WACC are case writer estimates.