

NIO



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What it does

NIO designs and jointly manufactures smart, high performance, premium connected electric vehicles.

Why we own it

- An emerging, uniquely Chinese brand champion that aspires to completely reimagine the experience of car ownership and shape a community of 'joyful users' with premium member services offered through NIO House and NIO Life.
- A vast market opportunity. China accounts for 60% of incremental EV sales globally with huge pent-up demand given the chances of citizens obtaining a licence plate for a non-EV in e.g. Beijing are 1-in-800. Nor is the market limited to China.
- An inspiring founder who naturally thinks in a long time frame and invests personally in his distinctive vision.
- An attractive business model. There is considerable spare capacity in the Chinese automotive industry and NIO is happy to outsource the manufacture of its product to high-quality partners while retaining control of key intellectual property.

How it could be worth many times more

- Over the next 10 years, Chinese car sales p.a. are likely to rise to 35m. Helped by central government aiming for 50% of new car sales to be EVs by 2030.
- If NIO takes c.20% of the market, this equates to 3.5m vehicles a year (likely to be a combination of premium and sub-brand vehicles). Margins rise to 25%, driven by the success in NIO life brands, means a market cap multiples of what it is today.

Where we might be wrong

- Local competition. Xpeng, Byton and incumbents with deep pockets crowd the marketplace with me-too offerings.
- Failure of the 'user enterprise'. Consumers just want the car and the other trappings prove to be a faddish expense.
- Manufacturing. Partners struggle to scale to meet demand and NIO must invest more heavily itself. Lower returns follow.

Short 10 questions

Can sales double in the next five years?

1

Just the foothills. Progress toward ½m cars per year and approaching 1m members cumulatively.

Ten years and beyond?

2

Mass-market IP licencing, premium memberships, autonomy. Joint ventures with Changan and GAC capable of 2m cars per year (1/3rd of market)? Level 4 autonomy to be commonplace in China before the West?

Competitive advantage?

3

Deep connection with its member community. Aspirational brand and lifestyle choice. Technology.

Is the business culture different?

4

Yes. Bringing joy to customers through design, value, community, exceeding expectations, honesty.

Customers like you? Contribute to society?

5

So far, emphatically yes. Demand has been greater (and broader) than even the company expected.

Are returns worthwhile?

6

Not at the moment. Still investing heavily behind the vision.

Will they rise or fall?

7

If NIO becomes primarily an IP licensor with low manufacturing investment, returns could rise steeply.

How is capital allocated?

8

Technology (primarily software), R&D and expanding the NIO House network.

Could it be worth 5x as much?

9

The Chinese car market continues to grow, EV sales increasingly dominate, and NIO becomes the domestic champion.

What doesn't the market understand?

10

Lazy analogies to Tesla (the visions differ) combined with fearfulness at the short-term capital needs.

Risk factors

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