SPECIAL REPORT BY NICK GIBBS

Split or quit? Why firms are dividing EV and ICE arms

THE QUESTION for car companies is this: do you carry on with business as usual, making both electric cars and combustion engine cars, gradually replacing the latter with the former?

Or do you use the opportunity to overhaul your business by carving out the EV side and partitioning it away from the legacy business?

Car companies are increasingly looking at the split option, and that has huge implications for employees, suppliers and contractors, depending on how clean that split is.

The reasoning for dividing up a company to better face future upheaval is sound from a business point of view. Right now, as a car maker, your business making combustion-engined cars is likely the most profitable. But it also carries the burden of a network of legacy infrastructure and the inevitable dwindling of the market. UBS predicts the production of ICE vehicles will be broadly stable until 2024, before declining at a rate of around 15% a year.

On the other hand, right now, electric vehicles are expensive, mostly unprofitable, and somewhat dependent on state-controlled bonus-malus schemes with little forward visibility as to how long they might last. However, EVs also represent the future, with production expected to grow sixfold by 2030, according to UBS.

It makes sense, then, to protect your EV side and dole out production of electric cars and associated parts – such as batteries – to plants within your home country. Given the financial load on developing this side of the business, it also makes sense to reorganise how you build, sell, market and create revenue from those vehicles.

But how clean would the separation be?

Ford, for example, is splitting its company into three new business segments – Ford Model E (electric vehicles), Ford Blue (ICE passenger cars) and Ford Pro (commercial vehicles) – which it says is partly to bring more financial clarity to investors. Starting from the first quarter of 2023, the company will no longer report automotive as a single entity. "This change will not be a simple pro forma exercise," chief financial officer John Lawler said at the company's investor call in July. "These are true segments with both operating and financial accountability, giving you added transparency on our business."

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Ford said this won't change the company ownership structure but the move does give it the opportunity to do so in the future.

But who would be interested in buying ICE divisions, knowing they're essentially doomed? The answer is: those companies who either don't think they are doomed, or those who believe they can create enough synergies in the time that's left to make a good business.

In the case of Renault's decision to split off its combustion engine business, companies on both side of that argument are interested in taking a stake, at least

Ford splitting ICE and EV is "not a pro forma exercise"

according to reports from France. One of those is Saudi oil giant Aramco, which is reportedly interested in developing synthetic fuels, and the other is Chinese car maker Geely.

Renault would keep a stake in its ICE business, codenamed 'horse', again according to reports, giving it a financial interest in the separated company while running the electric unit as before.

Geely, meanwhile, is clearly making a case for synergies, given it also has a stake in Aurobay, the company created out of Volvo's combustion engine business. As the combustion engine becomes increasingly electrified, the actual power unit itself becomes more and more commoditised, meaning few customers will care who makes it, or so the theory goes.

Suppliers are also preparing for the future by separating out businesses they feel won't chime well with the future needs of their customers. For example, Schaeffler last year sold off its timing chain business to a private equity fund, saying it "reduced risk".

Meanwhile, mega-supplier Continental spun off its ICE business in 2021 into a firm called Vitesco, which is now moving into EVs itself with electric motors and associated drivetrain technology. The new company reckoned that 80% of its order book in the second quarter of 2022 was "from the area of electrification". Vitesco also acts as a contract manufacturer for Continental, which is one way the original

Engines still an attractive investment for some global players; Porsche IPO will fund VWG EVs

parent company can guarantee income for the new compnay and help it attract investment.

Other top-tier suppliers distancing themselves from ICE technology include Germany's BASF, which last year announced that it was spinning off its exhaust treatment division to focus on the more in-demand business of cathode battery materials, one of very few companies in Europe to offer that.

The other big reason for spinning off a company is to unlock value, mainly by floating part of it on the stock market. In the case of Porsche, it is handing its current owner Volkswagen a healthy chunk of money to invest in cash-consumptive technologies like electrification, software and autonomous driving. "VW is using the IPO to effectively raise capital," the bank Jeffries said in an investor note.

Geely, meanwhile, has floated part of Volvo-controlled EV brand Polestar

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and also wants to also list the electric 'lifestyle' SUV and saloon division of Lotus, dubbed Lotus Technology. The spider web of joint ventures, floated companies and technology tie-ups within Geely both reflect the more opaque ownership structures of Chinese companies and the more innovative ways it helps finance its business. Going forward, expect to see more complicated company make-ups as firms cushion legacy costs including pension liabilities.

Audi E-tron GT and R8 are built together in Germany