Bird's Eye View of Mercedez Benz

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we're gonna do a bird's eye view of the Mercedes Benz group. So we're going to talk about the car company, this is going to be a lot of fun. So we got this great question that's kind of spurred in our conversation today. So I'll go ahead and read it. I have I was wondering what you think of a company like Mercedes Benz group, ticker, MBGAF.

It seems to be a major player in the car industry as well as seemingly having solid financials. The only red flag I'm seeing is a 9% dividend yield, which on the surface is good. I know high dividend yields could be dividend traps. I was curious what your thoughts were Ryan. So Andrew, we'll talk a little bit about Mercedes Benz group, do you want to give everybody the deets on how to find the ticker and how much fun we had with that.

Andrew

0:48

So we're definitely gonna tell you the bird's eye view, what really stuck out to us with the numbers for Mercedes Benz, and talk a lot about the qualitative factors which actually play a big role in looking at a stock like this in our mind. But before we do that, if you're following along at home, and you run into trouble,

like we did, researching Mercedes Benz group, it could confuse you because the company used to be called Daimler AG.

And then they did a spin off where they put the truck segment, which is, you know, big 18 Wheeler kind of trucks that spun off into Daimler truck. And then the other part is now Mercedes Benz group AG. And there's actually two tickers for that they both trade over the counter. There's MBGAF and MBGY. Why the MBG YY is an ADR, which is a way for a US investor to buy shares in an international stock, but you don't directly hold the shares. So it's very confusing if you use like one of my favorite tools, quick fs.com. And I looked for Mercedes Benz, they showed the old ticker, which was DD AI, F. And so you might have some financial websites that show that, but after they did the spin and the merge and they transferred the ticker over, they change their name. So the listener Ryan, right? Yep, he hadn't correct go with the MB G, A, F. And hopefully that clears it up. If you're trying to follow along at home, it takes a little bit of time. But yeah, that's kind of the situation, I guess, a little backstory, if you will, on Mercedes Benz and why they're called that today.

Dave

2:26

Yeah, that's very interesting. That was very helpful to I know, when we were working through that, that was a bit of a challenge. So we're kind of going back and forth on trying to figure out which was which. So hopefully, that clears it up for people that are newer to this. So I guess let's talk a little bit about Mercedes Benz group. When you were looking through kind of the financials of the company. What did you see that kind of stood out as maybe a positive and maybe a negative?

Andrew

2:54

Obviously, Mercedes Benz is a super cool company. If you've stepped outside your door, you've seen how nice their vehicles are. They are nice. They have always been nice. Obviously, this isn't very scientific, but a company called Interbrand ranks the best global brands, actually, a Mercedes Benz is number eight, out of the entire world. So number one is Apple to Amazon, three to Microsoft. And then eight is Mercedes Benz, just behind Toyota and actually ahead of Tesla, which was 14.

That's kind of interesting. So my first impression, obviously is it's a very cool car, very cool company. The other thing looking at the numbers is that the ROIC or return on invested capital had a big boost in the previous year, but historically has been low and so when I say low, it's been and this was like before the spin off, it's been 768 percent. It's a little bit lower than I like to see whether your thoughts on the ROIC the ROIC

Dave

3:56

was definitely lower than I would like to see. For those out there, maybe we could give a kind of a brief overview of kind of what return on ROIC really means. It's a metric that Andrew and I throw around a lot with each other. It's a very important metric for us. But for those of you maybe out there that are not familiar with that, do you want to kind of give them an overview of what ROIC stands for and kind of what it means.

Andrew

4:21

Yeah, I mean, you've spoken many times before on the show, for a company to grow in general, they have to invest capital. So they take some of their profits and they throw it back into the business. And that can take a lot of different forms.

You can have a car company like Mercedes Benz group, they might start a manufacturing plant somewhere and that will be a huge amount of capital they would need but now they can make you know hundreds of 1000s of more vehicles because of their investment. And so what return on invested capital tries to do is tell you how much profit a company is making in general Based on those investments and so a company with ROIC of 20%, is producing a lot more profit per factory than somebody with like a six ROIC. And if the ROIC is too low, it's going to be hard for you to make money as an investor over the long term, because if a company even if they have high profits, if they're taking $100 in profits, and only making like 2% on that, that's only a 2%, gain a 2% growth rate.

And then you do that year after year after year, they're gonna have to throw a lot of capital to grow. So in the short term, you know, companies can get away with it. But over the long term, it makes it hard to compound this. So that's why in general, in the simplest of terms, that's why ROIC is important and

Dave

5:45

it's very well said, I think one of the things that when people think about a metric like ROIC, it's important to understand it in relevance to what the company is trying to do. And Andrew put it very succinctly, the 2% return is very, very low, or a growth rate of 2% is very, very low. And so a very capital intensive business like a Mercedes Benz would be to build a factory, that's not cheap. And there's a couple of bucks going into doing something like that. And that's really one of the ways that a company like Mercedes Benz can grow,

because if they have more capacity, in other words, they can put out more cars than in theory, if they have a lot of demand for their vehicles, then they can sell more and they can generate more revenue.

But the flip side of that is that it comes down to the cost of what it costs them to build that factory. And the ROIC is a way that a company or an investor can measure those investments. And Warren Buffett always likes to talk about how he looks for companies that do a great job of returning capital to investors, because over a long period of time, a company that has higher returns on capital or invested capital are going to generate better returns over a longer period of time. For those of you out there that are familiar with Costco, that's one of the reasons why the company has succeeded for such a long time is because they continue to return these great returns on capital, over time, after time after time consistently over a very long period of time, even though the company has always been air quote, expensive, during that same period. So that's how a company like that can justify its higher earnings because it's worth more. So I think a way to think about that, when you see a company that's generating a 20% return on capital or invested capital, think of that in dollar terms. So 20% of $1 is 20 cents. So every 20 cents, they're investing, that's the return that they're generating for that investment of $1. So the 2% example that Andrew was showing, that's two cents on $1.

So if you think of the 20 cents versus two cents, which would you rather have, we'd all we would all choose the 20 cents, that's kind of the same idea when you're thinking about looking for companies to invest in is companies that generate those higher returns are going to have better returns over the longer period of time, because they can generate more growth from their investments. And that's really what ROIC is helping you is helping tell you is that a company that has higher returns on invested capital will have greater returns over a longer period of time.

And it's kind of this flywheel if you will, that they the higher their returns on invested capital, the West, they have to invest. And so it just becomes this kind of cycle that that they can just continue to grow and grow and grow. And that's what a company like Google and Microsoft have done so well over the last five to 10 years. And those are the things that I guess we look for. Do we want to touch on? Maybe the differences between? I think, would we agree that Mercedes Benz is probably more on the mature side of a business compared to Tesla, for example, if we wanted to compare ROI C's of those kinds of companies?

Andrew

9:06

Yeah, definitely want to compare the ROI C's and that would be I think the next natural step is ROIC all on its own. It's a good kind of way to take the temperature kind of get your head in a certain spot, but you also

need to put it in context. So because this is a show for beginners, and I want people to learn these concepts, we oversimplify but if you see a company with ROIC of 60, it doesn't mean they're gonna grow 60% Every year, there's a lot of other factors part of the factors they don't generally reinvest all of their profits, they have to do other things with the money so let's remove that first.

I think another thing you want to look at and I see this with Mercedes Benz too, so it's irrelevant just happens to be irrelevant. I'm looking at their old financials, which was pre all the crazy transactions Okay, 2017, ROIC 6.6 2018 Three point Nine 620 19 1.22 So it's a downward sloping ROIC. And now I compare that to Tesla 2017 minus 11 minus four minus three. So Tesla's ROIC goes higher. And by the way, they ROIC positive in 2020, and 2021. Recording quick, I first thought that and in a similar period, Mercedes Benz had a downward slope went up for 2021. But I think we can all agree 2021 was kind of a crazy year. Okay, so what do we determine from all of that? And that's where I think the qualitative part comes into play, and really needs to be part of your bird's eye view process when you're trying to sift through a lot of companies. Because we can't just say, oh, yeah, all car makers are matured, because a lot of them are. But then you have a company like Tesla, who's really the disrupter in that field. So while some of the older players are maturing and losing business, Tesla is very much still in a growth stage.

Because they're still relatively smaller, they have a lot of potential market to grab. And what's that market they're grabbing. It's the old traditional gas powered vehicles ICs and being replaced by these new electric vehicles EVs. So I find it interesting that by looking at the ROIC, you say, why is Mercedes Benz ROIC? Not only is it now it's lower than Tesla's But why was it decreasing? While Tesla's was increasing? And I think you can put two and two together that say, well, probably because Tesla got the Jumpstart on EVs.

Dave

11:40

They definitely did. When you think about who the target market is for Tesla to go after Mercedes Benz is right at the maybe not the top, but it's certainly right up there with the kinds of people that are going to buy Mercedes are also going to buy Tesla's and I know that Mercedes is working towards having an electric vehicle and they may already have one, I don't know. But they are definitely behind the curve when it comes to where Tesla is. And that is definitely eating into into their profits, their margins, their ROIC, all of those things are being affected because of what Tesla is doing. And I think that kind of illustrates what Andrew was talking about with the qualitative factors without even looking at the numbers. If you think of Mercedes Benz, you think of really luxury, really nice cars, very fancy air quote, if you will, and not cheap.

And then if you think of Tesla, you think of cool hip, you know, kind of up and coming, maybe not as expensive, but certainly still on the same, I guess, you know, luxury level, as Mercedes would be. And so if you kind of think of those, I mean, I personally, I have this vision of, you know, an older gentleman smoking a cigar driving a Mercedes. And I think of a younger, hipper guy like you driving a Tesla. And you know, so that's just my mental image of the different companies. And I think when you're assessing industries and companies, you know, some of those things are, you know, it's a stereotype for a reason. And there's reasons to look at that. But I think if you look at the growth of a company like Tesla compared to what Mercedes Benz is producing, it's very, very low. And I'm not sure what the GDP in Germany is. But if it's anything like the United States, they're not growing as fast as as their economy. And so that's a troubling sign. And so those are things that when you look at the overall scheme of things, I'm not saying that, you know, it's a death knell for Mercedes Benz.

I'm not saying that. But I think when you kind of, I guess, when I think about those kinds of things, that's something that kind of pops into my mind. So, I guess let's kind of maybe try to tie that back into ROIC a little bit more. So if we think about where Tesla is and where they're going and what they're gonna have to do to get there compared to a Mercedes Benz, how do you kind of think that ROIC is going to impact those things? How we can measure that a little

Andrew

14:03

bit? That's a very good question to ask because, again, when you use ROIC and put context into it, you kind of hinted at it earlier, we're trying to determine is this company more mature or more emerging, and so kind of in between that is the sweet spot of not completely matured and not completely emerging, but like a solid player in their field. When you have that kind of a situation. A lot of those kinds of companies can keep the returns on invested capital consistent for a while because they are dominant. They are great businesses, Microsoft, Apple, Google, great examples, right.

You see the high ROIC and you figure well, it can probably stay that way for a while and they'll just kind of grow on their straight line. And as long as nothing goes wrong, you know, you can kind of reasonably expect that for a maturing company like Mercedes Benz or one being disrupted. And you see that declining trend. I think in general, you You start to get a little bit worried about that. And that's what I would say in general for a matured company that's been disrupted. But I think all the automakers again, going back to qualitative, although automakers are in a very unique spot, because it's not just this Tesla fad. If you look at GM, Ford, I haven't looked closely at Mercedes Benz because it just hasn't passed my y filters.

But GM and Ford, they talk a lot about all the EVS that they're coming out with the ones that are on the road now, and the amount of reservations they're getting. And that actually kind of surprised me, because I find it funny that you think I'm hip, but I don't drive a Tesla. And I don't see myself driving one for a while. And so the Eevee thing really shocks me. What's interesting about that, and I think is just very unique to this particular situation is, from my limited knowledge of EVs, they are generally cheaper, and more capital efficient to manufacture than your traditional internal combustion engines were. And so that's going to be very interesting to me, because for a long time, I think, for the stock market, if you thought about GM and Ford as investments, you either think of them as matured, low returns on capital, and went bankrupt in oh nine, and oh, 809 or had to get bailed out. That's kind of how I think of them. And I think a lot of people on Wall Street did.

But we're in an interesting inflection point now where there are Tesla's kind of the maybe the beacon or like the canary in the coal mine kind of signaling that, hey, we have a different kind of business model here. And so that leads to the possibility that the ROI C's of the past may not be the ROI C's of the future. And so I think in different industries, paths ROIC is a good indicator, and then certain ones, it's not. And that all depends on what's going on in those industries.

Dave

16:51

Yeah, that's exactly right. And I love that idea. And I think when you think about the business model for Tesla versus some of the more traditional ice companies, a reason why the ROIC for Tesla is going to improve over a longer period is because they have better margins, than companies like Mercedes Benz, or Ford, or Toyota, because of the nature of how the vehicle that they're producing, as Andrew was saying, it's less capital intensive. And the products and the supplies that they need to put in the vehicles are cheaper. And so they have better opportunity to have bigger margins, which all flows to the free cash flow of the business, which in turn can give them a better return on invested capital, and returns for investors over a longer period of time.

And so it's gonna be very interesting. I think over the next five to 10 years, as more of these traditional ice companies move towards a bigger portion of their production being electric, and how that will impact those margins. And the bottom line of the companies, which flows to the ROIC. And I know that I've looked at GM in the past before, and I was turned away from them, because their margins were quite poor. And it was very, very thin. And that just made me really nervous. And so it's just not something that I'm comfortable investing in. And so I think, as time goes on, it's gonna be really interesting to see kind of how a lot of that evolves. And you know, as Tesla continues to grow, I think that's going to have even more impact on how a

lot of this will happen in, you know, Jeff Bezos said a long time ago that your margin is my opportunity. And I think as these companies start to, you know, see that Tesla is, you know, cashflow positive, and can generate more revenues and grow their margins.

And all those financial metrics that we talk a lot about other companies are going to try to compete that away. And that's why this is going to be a really interesting field over the next five to 10 years. Tesla definitely has a lead in electric vehicles. There's no question about that. But how these other companies can start to compete on that will be interesting. And you'll probably start to see a company like Ford or GM or Toyota, with better returns better returns on invested capital going forward because they have better margins, and they can reinvest at a more efficient rate

Andrew

19:30

would be very interesting to see. Yeah. Does the question by Ryan being troubled by the dividend yield? Does that play any part in all of this? You think?

Dave

19:38

I mean, it's certainly something to give you pause and think about a little bit, you know, I think the car industry is not my forte. You know, I can't even change my own oil. So I mean, you know, take that for what it's worth. So I think the thing that when I think about a company like this, the company is not going bankrupt by any stretch is it did over 144 billion in revenues last year and Euro And so that's a couple bucks. And just for reference, that's almost double what Tesla did.

So it's a big company, and they're not going anywhere, anytime soon. I guess the question I would ask myself is because the returns on invested capital are so low, and I don't know that they're going to be able to improve them much, I don't know how much confidence I would have, that the company would be able to generate returns that I would feel like are worthy of Me investing in the company, the high dividend yield is simply I feel like it's more of a function of the company has kind of been their stock price has been spanked.

And it's not necessarily an indication of, you know, financially strong or weak company. It's just more about the stock price. What are your thoughts?

Andrew

20:45

I pretty much completely agree with all of that doesn't fit with what I'm trying to do. I'm trying to buy something and hopefully forget about it for 10 years or more. And that doesn't fit the bill, at least right now. Yeah,

Dave

20:57

exactly. And I think one thing that I want to kind of take on a little bit, one of the things that when you think about ROIC and kind of how that helps function in how companies operate, you might think that we're maybe negative or you thinking negatively about companies that have have to use a lot of capital to grow. And that's not the case, it's more about the efficiency of the investments, as opposed to the actual dollar amounts that companies are spending railroads, for example, not exactly the sexiest business in the world out there.

But they're very capital intensive. And they have great returns on invested capital kind of across the board as far as the industry goes. And trucking, which is something that Android knows a little bit more about than I do. They seem to have pretty good returns on invested capital, maybe not across the board, but certain players do really well and other ones that are maybe a little more on the struggle bus. So I think when you think about that, try not to focus maybe necessarily in the dollar amount that they're spending but more about the efficiency and that's what the ratio is telling you. Perfect. All right. I have nothing more to add. Sounds good.

All right. Well, with that, we will go ahead and wrap up our conversation on Mercedes Benz and our bird's eye view of the company. We hope you enjoyed our conversation today about Mercedes Benz and Thanks, Ryan for sending us that great question. There was a lot of fun to talk about. If you're curious about ROIC and I know you are, please go to our website investing for beginners.com. There are probably going to be about 25 articles about ROIC on the website ranging from beginners to more advanced level stuff. This is something that Andrew and I have spent a lot of time thinking about writing and learning about so there's lots of great information for you there.

To learn more about ROIC and how the metric can help you become a better investor because again, so without any further ado, I'll go ahead and sign us off you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week. I'll talk to you all next week.

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