Westlaw Today
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How major automakers and aircraft manufacturers are moving fast to innovate with smart strategies and big investments

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AUGUST 13, 2021

The future of the auto industry has arrived, driven by technological advances that once seemed to be only science fiction. This technology, combined with an increased focus on sustainability, has led to a boom in investment in startups by major automakers.

Today, automakers are increasingly funding startups producing next generation batteries and electric vehicles, technology related to autonomous cars and trucks, as well as electric aircraft. According to data from Crunchbase, automakers led $9.6 billion in private funding rounds for startups since the beginning of 2020.

This investment by automakers is being spurred by a need to invest in the future, expand their tech capabilities and capitalize on the transformation of the industry. Some automakers choose to innovate in-house, however, those who choose to invest in startups can still achieve these goals and contribute to industry innovation without using up all their R&D budget. They can also cast a wider net and help to minimize risk.

Crunchbase reported that since 2020, Volkswagen has been the most active automaker investing in startups, participating in 24 deals, with the largest concentration of funding in batteries. They were the lead investor in $3.4 billion in funding for Northvolt, a Swedish company that manufactures lithium-ion batteries.

Crunchbase data also showed that Toyota came in second place, participating in 20 deals since 2020 and leading a $590 million Series C for electric aircraft maker Joby Aviation. Toyota has stated their VC fund is investing in startups that help them refine processes, improve supply chain management and bring better robotics to their factories.

BMW recently announced the creation of their BMW i Ventures Fund II, with $300 million to invest in early and mid-stage autotech startups. The fund focuses on sustainability, as well as transportation, manufacturing and supply chain. BMW i Ventures has already invested in over 50 early and mid-stage startups since it was created in 2016.

Truck rental company, Ryder, has even launched a VC fund, Ryder Ventures. The fund invests in "innovative companies creating the technology and applications that will drive the industry forward." This includes next generation vehicles, supply chain automation and e-commerce fulfillment.

We have seen something similar in the tech sector as the tech giants invest in the up and coming startups developing cutting edge, innovative products.

While purchasing minority stakes in promising startups is one way to get exposure to technology, automation, clean energy and autonomous driving, some automakers are doing this by forming joint ventures.

For example, Volkswagen also announced in July the formation of a joint venture with Croatian based startup Rimac[1] (formed by Mate Rimac in his garage in 2009) with its Bugatti brand to create a new electric supercar.

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Rimac Group will continue to develop, produce and supply battery systems, drivetrains and other EV components through Rimac Technology. Rimac Group is backed by Korean auto-manufacturer Hyundai Motors and Germany's Porsche.

In China, Geely has been actively acquiring stakes in other global automotive manufacturers and bringing technology and products back to China. China has committed to an electric vehicle fleet inside of this decade and is sprinting to meet this goal.

The aircraft sector is not to be outdone by the automotive sector. In August 2021, Boeing announced plans to spin-off its venture capital arm, HorizonX, to forge a broader investment fund.

As part of the deal, Boeing will partner up with AE Industrial Partners (AEI), a specialist private equity firm, and other third party capital providers, to broaden the investor base, access more outside innovation and develop new technologies.

Boeing's archrival Airbus maintains its own captive venture arm with global operations. Each of Boeing and Airbus have deployed hundreds of millions of dollars into startups in the past several years, and are expected to continue their rivalry here, albeit now using different strategies.

The private and public capital markets are working hand-in-glove with the automakers and aircraft manufacturers.

Special purpose acquisition corporations have been formed, raised and transacted with industry players to forge newly public vehicles to disrupt the transportation space, from Virgin Galactic to JOBY Aviation. The SPAC 2.0 product has enabled public financing of vehicles that were previously thought to be unfinanceable, enabling whole new ways of transporting people and cargo.

Others are looking to provide alternative sources of capital to startups based on the assets produced rather than the purported value of the enterprise. Case in point: former helicopter and fixed-wing operator lessor and lessee Hooman Yazhari has formed Mobility Capital[2] to deploy non-dilutive assed-based financing to enterprises developing the next generation of the mobility and transportation economy.

Rather than invest in the companies building technology, Mobility Capital aims to finance the production and sale of the transportation vehicles themselves.

As technology continues to disrupt and transform the automotive, aircraft and transportation industries, we can expect to see a continuation of manufacturing giants investing in startups and partnering with other sources of capital to create the economy of the future.

With electrification of the global fleet of automobiles and aircraft in full swing, autonomous driving may not be far behind. The financial markets are working with manufacturers to accelerate technology leaps required to get there.

Notes

[1] https://tcrn.ch/3m0Kbux

[2] https://bit.ly/3iFUMt1

About the author

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This article was first published on Westlaw Today on August 13, 2021.