

INVESTOR'S REPORT

# DRIVING FOR DOLLARS

*Five Ways To Reap  
Massive Profits from  
Autonomous Cars*



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# Driving For Dollars:

## *Five Ways To Reap Massive Profits from Autonomous Cars*

Tucked in among my collection of old pilot logbooks; journals that chronicle trips by ship, car and airplane; and pictures of historic events is a photo of four “antique” cars that appear to be lined up for the start of a race.

The story behind that picture – which I’m sharing with you here – is actually much more interesting.

You see, the black-and-white image depicts the birth of the transcontinental highway system.

In the spring of 1915 – over 100 years ago – a man named **Henry C. Osterman** and a special film crew set out on a trip to document the **Lincoln Highway**, the first highway for automobiles to traverse the continent.

A 1912 brainchild of **Indiana** entrepreneur **Carl G. Fisher** (creator of the first auto dealership in the **United States** as well as the **Indianapolis Motor Speedway**), the Lincoln Highway was dedicated on Oct. 31, 1913. The new freeway started in **New York’s Times Square**, ran 3,389 miles through 13 states and terminated in **San Francisco’s Lincoln Park**.

Osterman was the vice president and field secretary of the **Lincoln Highway Association**, the group whose mandate was to promote the new thoroughfare – and auto travel in general. One way to achieve both these goals was to film a documentary that could be shown in theaters across America.

The film crew took four whole months to make the cross-country run and arrived at the **Panama-Pacific International Exposition (PPIE)** in

San Francisco – to cheering crowds and a special “**Lincoln Highway Day**” celebration.

The picture displayed here is a snapshot of that sojourn, taken somewhere along the way. (In fact, if you look carefully, you’ll see an “L” identifier logo on the sides of each of the four cars.)



A special film crew of the Lincoln Highway Association during its 1915 trip across the country to document the Lincoln Highway, the first transcontinental highway in America.

I’m telling you this century-old story for two reasons.

There’s a modern parallel tale: and we’re going to use that story to make you all some money.

So let’s get started ...

## Two-Lane Blacktop

In March 2015, a **Delphi Automotive PLC (NYSE: DLPH) Audi SQ5 SUV** left **San Francisco** to begin a 3,500-mile trip to **New York City**.

The Delphi Audi is special in a lot of ways.

First and foremost, it’s packed with technology – including an array of cameras, laser measuring devices and 22 sensors.

The SUV is special in another way, too.

There’s no driver.

That makes this trip the longest automated drive ever attempted in **North America** – and the first “driverless” auto crossing of the United States.

The Audi's technology package provides the vehicle with 360-degree, 3D vision of the road around it. The SUV is expected to maneuver around bicyclists and pedestrians, navigate four-way intersections and merge with highway traffic.

The only human presence is an engineer who's aboard to monitor the technology and make observations (and, in an emergency, to take control).

**Delphi Chief Technology Officer Jeff Owens** said the car has been successfully tested on streets in **California** and **Las Vegas**, but the cross-country trip will be the car's “ultimate test.”

“The vehicle will be challenged under a variety of driving conditions from changing weather and terrain to potential road hazards – things that could never truly be tested in a lab,” Owens said.

The cross-country jaunt by the Delphi's SUV is an “ignition point” for both the driverless and connected-car markets.

When you really look at this, the trip landed a little media play but hasn't really grabbed the major headlines you'd expect with a story of this magnitude.

But it's actually a major proof point of the technology. This trip illustrates that driverless features are ready now. And I think there's no going back. The driverless market – vehicles with driverless features – will become a meaningful part of the auto-sector economy by 2018.



Folks think of the driverless car market as an “all-or-nothing” gambit. But even if we don’t go “all driverless,” there will be big markets for such “autonomous” technologies as lane following, collision avoidance, parking assistance and anti-drowsiness driving.

If you look at the potential from that perspective, there’s no putting the genie back in the bottle – or the driver back in the car.

And look at some of the predictions, including:

- By early 2017, the **U.S. Department of Transportation** hopes to enact rules – and a deadline – mandating **vehicle-to-vehicle (V2V) communications**.
- By 2020, **ABI Research** forecasts that truly self-driving cars will become a reality – launching a trend that has 10 million of these vehicles every year by 2032.
- By 2035, **Navigant Research** forecasts that sales of autonomous vehicles will reach 95.4 million annually, representing 75% of all light-duty vehicle sales.
- And by 2040, the **Institute of Electrical and Electronics Engineers (IEEE)** estimates that as much as 75% of all vehicles will be autonomous.

And driverless cars – also known as “autonomous vehicles” – will ignite a massive growth cycle.

One “piece” of the autonomous vehicle market – the so-called connected car sector (and even some interesting offshoots) offers tremendous incremental growth. According to a **PwC** report, the market for “connected” hardware and software will reach \$152 billion in 2020.

And it will grow fast – at a 29% compound annual pace from this year.

Fortunately, you don’t have to wait until 2018, 2020, 2035 or 2040 to grab a piece of the action.

## Driving for Dollars

Here are five ways to get in on the action now.

### *Driverless Vehicle Play No. 1:* **Ford Motor Co. (NYSE: F)**

More than any other company, Ford shaped the U.S. automobile industry.



Founded in **Detroit** by **Henry Ford** in 1903 with \$28,000 of capital, Ford Motor Co. was nearly broke by the time it sold its first **Model A**. But within six weeks, the young company had turned a \$37,000 profit.

In 1908, Ford introduced the **Model T**, a car designed to be easy to maintain and affordable for most Americans. By the time the Model T was discontinued in 1927, 15 million had been sold.

The need to build cars more quickly to meet rapidly rising demand led Ford to innovate several breakthroughs.

The tradition of innovation continued in the 21st century with the **EcoBoost** engine (2009), and, in recent years, a focus on incorporating the latest tech trends into its business including the **Ford Smart Mobility** startup.

By creating the Smart Mobility startup – and hiring former Steelcase CEO Jim Hackett to run it – the “Blue Oval” has created a venture to focus on ridesharing, driverless cars and the “connected” vehicle. And it put an ace exec at the wheel. In just 15 months as the interim athletic director for the **University of Michigan**, Hackett fixed a once-great football program that had become laughable ... and scored a big coup by landing former San Francisco 49ers Head Coach Jim Harbaugh as the college coach. Hackett will help Ford get traction in this realm.

An added bonus with this stock is Ford's impressive 4.8% dividend yield. So Ford stock delivers both growth *and* income. It doesn't get much better than that.

## *Driverless Vehicle Play No. 2:* **NXP Semiconductors NV (Nasdaq: NXPI)**

NXP Semiconductors NV, an **Eindhoven, Netherlands**-based is a leader in the area of known as “near-field communication” technology and is poised to benefit from two big-time catalysts: mobile payments and the emergence of “wireless charging.”



Thanks to its recent \$12 billion merger with Freescale Semiconductor, NXP is already a leading supplier to the automotive market.

In 2015, NXP made a name for itself as a global leader in secure connected car technologies after it released its patented **77GHz radar transceiver**. The NXP chip enables a new generation of radar sensor assemblies, roughly the size of a postage stamp, that can be integrated “invisibly” practically anywhere in the car – a great advantage for vehicle designers as the number of sensors steadily increases on the road towards automated driving. Its power consumption is 40 percent lower than conventional radar ICs. Key safety applications include emergency braking, adaptive cruise control, blind-spot monitoring, cross-traffic alert and automated-parking.

“Building the world’s smallest, fully integrated 77GHz chip will pave the way for self-driving cars and drive increased ADAS adoption in the volume market,” said **Torsten Lehmann**, senior vice president infotainment and driver assistance at NXP. “In self-driving cars, a ‘cocoon’ of radar sensors is required to provide a robust high-resolution, 360 degree view of the environment. This is a real challenge using traditional, bulky radar hardware. Manufacturers are also eager to replace existing ultra-sonic based park distance control systems with “invisible” radar sensors and avoid unattractive holes in the bumper while improving performance and features.”

With Freescale on board, NXP’s auto-related sales will double to 40% of total revenue. It also makes NXP the No.1 supplier of

automotive-related chips in the world, vaulting it ahead of **Tokyo-based Renesas Electronics Corp. (OTC: RNECY)**.

IHS Research estimates radar-based ADAS will increase 23% year-on-year to reach 50 million radar sensors by 2021.

NXP's strategy is to target the entire market: self-driving cars and the higher-volume advanced driver assistance systems category.

NXP currently trades around \$96 and is currently up nearly 64% over the past year.

### *Driverless Vehicle Play No. 3:* **Delphi Automotive PLC (NYSE: DLPH)**

The once-struggling firm is uniquely poised to benefit from the marriage of new vehicles and high-tech systems.



Strictly speaking, Delphi isn't simply focused on the connected car, per se. Instead, it takes a much more wide-ranging approach to supplying the auto industry with must-have technology.

Based in the **Detroit** suburb of **Troy, Mich.**, Delphi offers a wide range of products used throughout the industry. For instance, it makes body control panels that feature remote keyless entry and alarms. It also makes digital displays designed to improve driver awareness.

And these days, it's getting a lot of media attention for its sophisticated safety devices. These include adaptive cruise control, lane departure warnings systems, and front and rear cameras integrated with collision avoidance radar.

Company officials say active safety is a major growth area for Delphi, adding that they already have a \$1 billion backlog of orders in this segment.



Its focus on tech and new cash flow both represent a major turnaround for a company that filed for bankruptcy protection in 2005. That was a year after it suffered a stunning \$4.75 billion loss as a company that made sparkplugs, steering wheels, and ball bearings.

Reorganized as a tech-focused auto supplier, Delphi went public in 2011 at \$22 a share and was recently trading at around \$70, for a post-IPO gain of 218%.

But the stock still has plenty of upside because of the huge role it plays in the global auto industry.

It sells to more than a dozen major brand names and boasts some 2 million parts numbers – Delphi ships more than 60 million parts around the world *every day*.

No wonder Delphi earns a stunning 39.9% return on stockholders equity, twice the industry average. It also has an operating margin and a return on assets of 11.2%

Over the past three years, Delphi has grown earnings per share by 35%, meaning they could double in less than three years.

Delphi is much more than just a company reborn. It's a key catalyst for one of the greatest auto-tech booms ever. And it's racking up plenty of profits for its shareholders along the way.

### ***Driverless Vehicle Play No. 4:*** **Neonode Inc. (Nasdaq: NEON)**

An ultra-high-risk play, the **Stockholm, Sweden-based** firm is developing a new “human machine interface sensing product for steering wheel applications.”

It specializes in touch technologies, especially those that help drivers



“interact” with a car’s infotainment system with “eyes on the road and hands on the wheel” – a capability that will benefit from surging demand as cars become more and more connected.

Last year, Neonode announced an important new alliance with a major Swedish automotive safety supplier, **Autoliv Development AB**.

Under the agreement, Neonode and Autoliv will develop a new **Human Machine Interface** (“HMI”) sensing product for vehicle steering wheels.

Neonode will license its **zForce DRIVE** technology to Autoliv in exchange for \$3 million in fees, with \$1.5 million in upfront payments and the remainder to come roughly a year later.

The deal could have a dramatic impact on sales. Last year, they came in at \$4.7 million, up 27% from the year before.

Neonode’s **zForce Drive Steering Wheel** enhances the driver’s ability to keep both hands on the steering wheel and eyes on the road.

The system is based on the use of optical infrared light and is designed to interact with a heads up display inside the dash and in front of the driver.

For instance, instead of having audio and cruise control functions on the steering post, those are moved to the wheel itself. To answer a **Bluetooth** mobile phone, you simply swipe the appropriate light on the wheel to perform that function.

The sensors allow the car to know exactly where on the wheel the driver has his hands at any given moment. If the driver’s hands are not in the right location for a particular task a red light illuminates as a warning.

And it’s designed with autonomous driving in mind. In self-driving mode, a green light at the top of the wheel turns on. If the driver wants to go back to manual, the system’s light sensors guide the driver to the appropriate hand positions.

Founded in 2001, the fast mover counts some of the world’s leading consumer firms as clients. These include **Alpine Group Inc. (OTC: APNI)**, **Amazon.com Inc. (Nasdaq: AMZN)**, **Sony Corp. (NYSE ADR: SNE)** and **Volvo AB (OTC: VOLVY)**.

With a market cap of \$84 million, the stock trades at just under \$2 with an analyst target of \$4 , roughly a 131.2% climb from where it currently trades.

Yes, the young firm is still losing money as it gears up for increased adoption of its technology, particularly in the burgeoning automotive sensor market.

But at this price, I believe the potential upside is well worth the risk inherent in trading in a microcap tech firm.

### *Driverless Vehicle Play No. 5:* **Mobileye NV (NYSE: MBLY)**

One of 2014's top IPOs is also one of the most promising driverless car stocks.

This **Jerusalem-based** company designs and develops software and related technologies for camera-based ADAS.



Mobileye's software algorithms and **EyeQ system-on-a-chip (SOC)** offerings can deliver "lane keeping" – automated steering that keeps a car in the center of its lane and allows for short periods of hands-free driving. It also has lane-departure modules that warn drivers of encroaching vehicles.

The firm's **Automatic Emergency Braking System** detects imminent collisions. It can warn the driver or, as a last resort, trigger self-braking to prevent collisions.

And whether or not regulators will allow it, Mobileye claims its technology will allow hands-free highway driving by next year.

No wonder so many major carmakers are anxious to do business with the firm. It's working with at least 15 global leaders, including Audi AG, Ford, General Motors, Tesla and Volvo AB.

Founded 17 years ago, Mobileye went public in July 2014. Its initial public offering (IPO) was highly successful, jumping some 48% on a day when the markets were slumping.

Mobileye currently trades around \$43.90 a share, Mobileye has a \$9.62 billion market cap – and it's a growth machine. Over the past three years, sales have increased an average 107% annually, meaning they're doubling every eight months.

## *Driverless Vehicle Play No. 6:* **Harman Intl. Industries Inc. (NYSE: HAR)**

There's no question that drivers want access to the Internet for everything from navigation to entertainment. By 2022, 94% of all new cars will be connected to the cloud, up from 34% last year, predicts IHS Automotive. But how will they connect?



The “built-in vs. brought-in” debate has huge implications for companies like Harman International Industries, the leader in embedded technology. It sold \$3.1 billion worth of infotainment systems to carmakers in the fiscal year ended June 30, 2015, accounting for half of its \$6.2 billion in total revenue.

“In today’s digital world, consumers increasingly consider their vehicles as hubs to enable their connected lifestyles,” said **John Fitzgerald**, senior vice president and general manager, Car Audio for Harman. “With improved connectivity and in-car audio innovation, Harman continues to push boundaries and develop new, unprecedented experiences for connected consumers in all vehicle segments and markets.”

On Jan. 28 Chief Executive Dinesh Paliwal said Harman was on track to meet its 2016 financial targets as planned. But investors were spooked by the fact that revenue growth from the company’s connected-car division slowed to 9% from the prior quarter’s torrid 19%, sending the stock down 13%.

It was nothing new for Harman, which despite 11 straight quarters of steady earnings growth has been riding a roller coaster on Wall Street. Shares soared from about \$40 in early 2013 to nearly \$150 last year

before coming back down to earth and settling around \$80. “It’s a big debate stock—second only to Tesla,” said **JPMorgan’s Ryan Brinkman**.

However, Paliwal, the 58-year-old CEO, is so confident that built-in systems will prevail that he has wagered more than \$1 billion in the last year to give Harman an advantage. Since January 2015 the company has made three strategic moves to acquire critical technology for the era of connected cars. It paid \$780 million to buy **California** software maker **Symphony Teleca** for its cloud computing and analytics capability. It spent \$170 million to buy **Israeli** tech firm **Red Bend**, whose software enables over-the-air vehicle updates. And two months ago it added Israeli cybersecurity firm **TowerSec** for its anti-hacking software.

Harman was one of the early recommendations we followed in the autonomous car space.

And it’s easy to see why.

Better yet, we weren’t the only ones who recognized the potential within this ()-based firm.

In 2016, **Samsung Electronics Co. (KRX: 005930)** agreed to purchase Harman in an \$8 million deal – the biggest deal in Samsung’s history.

Acquisitions like this is just another avenue for investors to make money on the autonomous car trend.

## Watch the Early Adopters

I’ve spent some time as an ink-stained journalist – and won a few awards while doing so – and so I’m quite familiar with the saying “never let the facts get in the way of a good story.” And, apparently, so is that **Yahoo Finance** writer.

The author of the story, **Rick Newman**, calls self-driving technology “the next big plaything for the rich” – and then adds that “an automotive revolution may be at hand, but a people’s revolution it is not.”

From where I stand, Newman is dead wrong about the likelihood of autonomous vehicles eventually reaching everyday consumers. However,

he is right about self-driving technology being mostly for the well-off right now.

And that's a good thing.

In my world, the world of **Silicon Valley**, we need early adopters. They are willing to pay top dollar to get the latest tech advances before they go mainstream.

These early adopters pave the way for mass markets by establishing the economies of scale needed to drive down prices so average consumers can afford to buy.

Just look in your living room. In August 1998, *The New York Times* decried what it called “sticker shock” for high-definition televisions, noting the “least expensive ones will cost \$8,000.”

Today, thanks to early adopters, you can find HDTVs that are 50% larger, twice as sharp, use one-quarter the electricity, are 70% thinner and cost up to 90% less.

Similar stories can be told about home computers, cell phones, digital cameras – even the car itself.

The same thing is happening in the self-driving technology today.

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