

E.V. News - GE's place in the Better Place puzzle

More is hidden than revealed regarding Better Place's strategic cooperation with GE.

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There is more to the partnership agreement signed by Better Place and General Electric (NYSE: GE) last week than meets the eye.

The agreement hints at GE Capital's return to the Israeli vehicle leasing market, the moving up of a gear in the Israel Corp. (TASE: ILCO) project to develop a vehicle in China, and a potentially profitable exit for Better Place's investors. An attempt to understand the entire picture of Better Place's electric vehicle project is a bit like putting together a puzzle with hundreds of pieces. It's all the more difficult when the puzzle is spread over several continents and a few islands. Better Place itself does not help those trying to figure out the puzzle. Despite a sophisticated public relations campaign covering the international media, the company tends not to be forthright when face with questions about specific aspects of the business. One often receives the answer, "We are a private company that is not obligated to report."

Better Place's strategic cooperation with GE is a typical example in which more is hidden than revealed.

Recharging points - the "green" business link

The strategic partnership is a major achievement for Better Place with the name GE able to open many doors in the international business world. In particular, it will help Better Place gain a political and business foothold in key global markets and especially the US market. The partnership also had advantages for GE which is developing its alternative energy division and has invested \$1 billion in "green" projects around the world. These investments include producing thermal and solar energy and car batteries (a subject we will return to). Among other things, GE's flagship project over the past two years has been the WattStation vehicle charging point.

This venture was officially launched in the summer and Better place fits into the project well as a potential customers for hundreds of thousands of such vehicle recharging units. Better Place also makes an ideal R&D partner through the patents it holds and the practical experience it has gained with such recharging points. Cooperation with a player like GE which is already in the field of battery recharging provides serious momentum to Better Place's efforts to formulate a unified international standard for recharging vehicle batteries. Formulating such a standard will give Better Place a considerable competitive advantage and force competitors to fall in line with it.

Making a comeback to the Israeli market

From the point of view of the Israeli market, the most interesting short term issue

is how the electric vehicle batteries will be funded, and this is mentioned in the official announcement about the strategic partnership.

A "pilot" for funding the batteries will be financed by GE Capital, which is one of the largest global players in the financing market.

The company took a major hit in the credit crisis in 2008 but still holds an assets portfolio worth tens of billions of dollars. Estimated financing of \$80-100 million for purchasing and leasing tens of thousands of lithium batteries for electric vehicles in Israel and Denmark is small change for GE Capital.

The name GE Capital rings a familiar bell in Israel. In fact, GE Capital was the founder of Israel's vehicle leasing sector. In 1998 when only financing leasing was available in Israel, GE Capital entered the market as a founding partner (26%) with Discount Investment Corporation Ltd. (TASE:DISI) in the then newly formed Albar Leasing Co. Ltd., the pioneer of operate leasing in Israel. The partnership lasted until 2000 when GE Capital sold its stake.

Will the new financing "pilot" for Better Place's batteries herald GE Capital's return to the operate leasing market in Israel through the "back door." We did not succeed in getting a clear answer. But there is no doubt that Better Place can be helped through such external cooperation in entering the Israeli market from 2011 onwards.

The vast majority of the 100 Israeli vehicle fleets that have signed agreements with Better Place for electric cars are currently customers of the large leasing companies. Assuming that these fleets will not collectively forego operate leasing, Better Place will have to choose one of two options: cooperation with a domestic leasing company or setting up its own operations. As far as is possible to judge, Better Place is not enthusiastic about the first option until it has found a solution for its business model, and in particular what will happen to vehicles once the leasing period ends and they become second-hand.

An investigation published this month by "Reuters" on the Better Place business model said, "The large players in the leasing market, among them two of Israel's largest leasing fleet companies (the article was referring to New Koppel and Eldan) have adopted 'a wait and see' approach regarding the Better Place experiment . Eldan Leasing CEO is even quoted in the article as saying "we are in close contact with Better Place but we won't sign with them until the electric vehicle and infrastructure are in place. When that happens we will positively weigh up relations with the company." Even if contacts between the two companies don't bring in GE Capital as a new leasing partner in Israel, perhaps Daimler Chrysler's Debis, currently a partner of Mercedes, Mitsubishi and Hyundai importer Colmobil Group could come in as a leasing partner.

Batteries - China comes into the picture

Cooperation between Better Place and GE also creates a potentially thrilling link between Israel, China and the US. All sides have contacts with US battery manufacturer A123 Systems Inc. GE's Alternative Energy Division is one of its main investors with a 10% holding and A123 holds patents for sophisticated lithium batteries for electric vehicles. Only last year GE invested \$70 million in the company. Another of A123 investors, albeit a smaller one, is none other than the Ofer family's Israel Corp, which also has a 30% holding in Better Place. Without any declared connection to Better Place, Israel Corp. is committed to investing hundreds

of millions of dollars by 2013 in the Chinese vehicle manufacturer Cherie Quantum, which is focusing on developing high quality electric vehicles for export to Europe and North America.

This month a cornerstone was laid for a new factory in China which will produce 150,000 cars a year by 2012. The Chinese media has reported that A123 will be the main battery supplier for the cars. In a separate development, Cherie has a joint venture with Better Place to develop electric vehicles for the Chinese market. Here too A123 is the battery supplier. Is this coincidence or a complex international cooperation program between suppliers, developers, future customers and entrepreneurs to leverage the entry of Better Place and Israel Corp. into China, which in many ways is the most promising business front in the world for electric vehicles.

It is not clear. But it is worth betting that Better Place's partnership with GE is likely to lead to a direct investment in the company by GE.

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