Porsche accelerates towards VW control
Richard Milne and John Reed

Aggressive share buying may have jeopardised co-operation, write Richard Milne and John Reed

Somewhat overshadowed by the pyrotechnics of Volkswagen's share price was the simple fact that Porsche, the German sports carmaker, has all but reached its goal at its bigger rival.

Porsche now holds 74.1 per cent of VW directly and indirectly and is within touching distance of the three-quarters level needed to impose a domination agreement on Europe's largest carmaker to capture VW's cash flows. If the European Commission and European Court of Justice strike down a new version of the so-called VW law it will leave Porsche in total control.

The feeling of superiority at the sports carmaker will be enhanced after last week's agreement between its two controlling families to stop squabbling. The car world had been set alight by the split between Ferdinand Piëch, the supervisory board chairman of VW and part-owner of Porsche, and the Porsche family, which holds a majority of the sports carmaker. But Mr Piëch was forced to back down and agree to changes at VW that he had previously opposed.

All this marks the near-end of an extraordinary corporate story that has seen Porsche - which sells about 100,000 cars a year and has annual revenues of €7bn ($8.8bn) - take control of VW with its 6m sales a year and €100bn in turnover. More symbolically, it has reunited two of the biggest names in German industrial history, which can trace their roots back to Ferdinand Porsche, who designed the VW Beetle and helped found the eponymous sports carmaker.

But questions are being raised about the tie-up. Some analysts and hedge funds blame Porsche for the extraordinary volatility in VW's shares recently that culminated in a 147 per cent leap yesterday.

Porsche has denied claims that it lent shares out to hedge funds betting on VW's share price falling. Bafin, the German financial regulator, is looking at the share price movements.

Analysts say Porsche's profits from derivatives will be carefully scrutinised in the future, after they made €3.5bn from that business last year - triple the amount made from selling cars.

VW's management and workforce have also been unhappy with Porsche's aggressive public stance. "It is fair to say that nobody appreciates a visit from Porsche these days," says one senior VW executive.

More crucially, on the car-making side analysts have long described the tie-up as an unequal match, benefiting Porsche far more than VW.

"There's very limited industrial synergy between the two companies," said Philippe Houchois, analyst at UBS.

Porsche will probably tap into VW's portfolio of engine and other vehicle technologies as it seeks to bring down its own line-up's C02 emissions to reach EU emissions targets.

It may also step up cooperation: VW already assembles Porsche's Cayenne SUV in Bratislava on the same line that makes its Touareg model and will do the bodywork for Porsche's new fourseater Panamera.

Arndt Ellinghorst, analyst at Credit Suisse, said bad blood stored up during the long-running takeover could hamper the operation of the two companies. "There's a huge hostile environment between the two which is a major threat to the operation. [Porsche] may have done a smart job of acquiring their stake in a very efficient way, but they've done a terrible job of winning over the company."

Fonte: Financial Times, London, October 28 2008, Companies & Markets, p. 19.