Payback for Piëch

Only now is the extent of Porsche's defeat becoming apparent.

Alamy - Piëch in the driving seat

If there is one certainty in the European car industry it is that it does not pay to cross Ferdinand Piëch, the 72-year-old chairman of Volkswagen (VW). This week, in bullish mood at the launch of the new VW Polo hatchback in Sardinia, Mr Piëch declared victory over the Porsche family and Porsche's headstrong chief executive, Wendelin Wiedeking.

After reaching an agreement on May 6th to call off Porsche's improbable attempt to take over VW, a company 15 times its size, the Porsche and Piëch families, who control 100% of the voting stock in Porsche Automobil Holding, gave themselves four weeks to hammer out the terms and structure of a merger between the two firms. But Mr Piëch, who personally owns 10% of Porsche, has now made it quite clear that it is he and VW that are in the driving seat and not, as seemed likely only a few months ago, his cousin, Wolfgang Porsche, or Mr Wiedeking. The final shape of the merged group has yet to be fixed, but Mr Piëch dropped some pretty broad hints.

Although there are supposedly two other options still on the table, it looks almost certain that Porsche will be fully integrated into the VW Group, joining its seven other car brands—VW, Audi, Skoda, Seat, Bentley, Lamborghini and Bugatti. And it will be the chief executive of VW, Martin Winterkorn, who will run the show. A gloating Mr Piëch said that he "could not imagine" Mr Wiedeking would be willing to become a mere divisional chief within the merged company, as a man used to "marching through" his career "would have to climb down very many stairs" and practise "humility".

Nor could Mr Piëch imagine VW taking on the €9 billion ($12.2 billion) debt that Porsche racked up acquiring its 50.8% in VW. And as for giving a senior job to Holger Härter, Porsche's once-feted chief financial officer—well, the joint-architect with Mr Wiedeking of the attempt to win control of VW must now shoulder the blame for the consequences of its failure.

More than two years in the making, the two men's bold plan unravelled in a matter of weeks. At the end of last year Porsche's strategy still seemed on course. In October the company triggered a sensational squeeze on short-sellers when it was slow to admit that it had raised its stake in VW voting shares to 42.6% and had acquired a further 31.5% in the form of secured options. In late November, announcing record profits that exceeded revenue, thanks to a €6.83 billion gain in the value of its VW shares, Mr Wiedeking confirmed that he wanted "dominant control" of VW and would use a €10 billion credit line to realise the options.

It never happened. Three things thwarted Porsche. In January the firm increased its stake in VW to its present 50.8%, almost tripling its net debt to €9 billion in the process, just as sales at Porsche's car business were tumbling—leaving less cash to pay the interest on the debt.

Second, conditions in the credit markets made it harder to go on borrowing more. On March 24th Porsche was able to roll over its existing loan only by pledging its VW shares to the banks and promising to pay back €3.3 billion within six months.

Third, Porsche was counting on the repeal of the so-called Volkswagen Law that restricts individual shareholders to 20% of the voting rights, regardless of the number of shares they own, and gives the state of Lower Saxony a veto on major decisions. The law's abolition would have allowed Porsche to use its anticipated 75% stake in VW to get its hands on the bigger company's cash reserves, which stood at €10.7 billion at the end of the last quarter.

But despite a recent amendment by the German federal government, the law still guarantees Lower Saxony's veto. The state's premier, Christian Wulff, sees Porsche as an opportunistic would-be plunderer. With his support and that of Bernd Osterloh, the head of the powerful VW works council, Mr Piëch feels he is in a position to dictate terms to Porsche.

The trickiest matter to be settled is Porsche's debt, which Porsche wants to reduce by at least €5 billion. Mr Piëch says he opposes selling a stake in Porsche to an outside investor. Yet he is adamant that VW will not absorb the debt for fear of damaging its own credit rating. That leaves two alternatives. Either the two families will have to dig into their pockets, or VW will simply buy Porsche's car business—Adam Jonas of Morgan Stanley values it at €5 billion-€6 billion on a stand-alone basis—leaving the holding company as a purely financial entity. Both options would give Mr Piëch what he wants: uncontested control of the world's second-biggest car firm and sweet revenge.

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