

## **My other car firm's a Porsche**

*Despite a distracting merger, Germany's biggest carmaker is doing well.*

The feud between Porsche and Volkswagen, and between the Piëch and Porsche families that own most of them, had dragged on for two years. First, tiny Porsche, which makes 100,000 cars a year, tried to take control of VW, Europe's biggest carmaker, which makes 6m a year. But the sports-car firm buckled under the debts it acquired along with 51% of VW's shares and options to buy yet more. Then VW tried to take over Porsche, but that deal also stalled until Porsche's boss and finance chief resigned last month.

Now the two companies, with the help of one of Qatar's sovereign-wealth funds, have at last laid out a road map for a merger by 2011 at the latest. Many of the details are still rather vague, especially regarding the Qatari investment, but there is no longer any argument about where the two companies are heading.

VW is buying 42% of Porsche for €3.3 billion (\$4.7 billion). It will pay as much again for a big car dealership Porsche owns, which may be sold later to shore up the merged firm's finances. VW will also raise up to €4 billion in new capital to fund the purchase, in order to keep its balance sheet strong and hold on to its solid credit rating. Qatar Holding will buy 10% of Porsche, plus most of its options to buy VW shares. Later, VW's management says, the two carmakers will merge fully, with the two families owning some 40% of the new entity, the German state of Lower Saxony 20% and Qatar Holding slightly less than that. Barely a fifth of the shares will float freely.

VW's shares have gyrated wildly since the deal was announced on August 13th, as investors tried to work out who would buy what, when and at what price. At one point they fell by nearly 16%, hinting at fears that VW is paying too much to fold Porsche into its large stable of brands.

But VW, which has been one of the few carmakers to hold its own as markets collapsed, claims that closer integration from shared design and pooled purchasing will, in the long term, boost the merged firm's operating profit by €700m a year. The enlarged VW will have eight passenger-car brands, plus bus and truck units.

The underlying strength of the VW group is that it manages to make a range of models that appeal to different segments of the market but use many of the same parts, especially in the bits of vehicles that are normally out of sight. Although this "platform" strategy is now commonplace within the industry, VW has adopted it without eating into sales of more expensive models. The Skoda Octavia is built from the same basic parts as the more expensive VW Golf, but finish, add-ons and marketing have made both models successful in their respective slots. Until now the only collaboration between VW and Porsche has been the Porsche Cayenne, which is a luxury version of the Touareg, a sport-utility vehicle made by VW. As the two companies get closer, Porsche's technology could boost the appeal of VW's more expensive models.

In Europe the VW brand alone outsells all others, with sales in the first six months of the year of 973,000, ahead of Ford with 793,000, according to JATO Dynamics, a research firm. Sales in Europe of VW's star model, the Golf, have risen nearly 16% so far this year, making it Europe's bestselling car, ahead of the Ford Fiesta.

A strong performance in China and Germany (boosted by scrappage schemes in both places) helped VW increase worldwide sales by 7% in July compared with a year earlier, its third

monthly increase in a row. But the group's global sales are still down about 4% so far this year compared with the first seven months of last year, though that is much better than the average for the industry. In Brazil, a relatively buoyant market, VW is vying with Fiat to become the market leader.

If the Porsche merger goes according to plan, a resurgent VW could soon be challenging Toyota for the title of the world's biggest carmaker. VW's managers would doubtless welcome the chance to get on with building cars, and put all the financial engineering behind them.

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