Let there be two Fiats

Italy's biggest conglomerate splits itself in two to promote a carmaking merger.

SERGIO MARCHIONNE, the boss of both the Fiat Group and Chrysler, likes to spring surprises. At a marathon presentation in Turin of his five-year plan for Fiat on April 21st he confirmed, as expected, that he is planning to separate Fiat's other businesses from Fiat Auto as a precursor to creating a combined entity with Chrysler. But he also revealed, to the amazement of many, that Chrysler, in which Fiat received a 20% share last summer as part of a deal with the American government to turn the bankrupt carmaker around, had made an operating profit of $143m in the first quarter. Just as significantly, Mr Marchionne announced that its net debt had fallen from $8 billion in November to $3.8 billion.

Although it may have taken a good deal of financial engineering to produce such numbers, Fiat is easily exceeding its targets for restoring its affiliate to (at least short-term) health. Relatively undemanding milestones will quite soon take Fiat's stake in Chrysler up to 35%. This, along with the news that John Elkann, a 34-year-old scion of the Agnelli family which holds a controlling interest in Fiat, would replace Luca di Montezemolo as chairman, cheered investors. Mr Elkann is also chairman of Exor, the Agnellis' listed investment company which holds a 30% stake in Fiat. He has consistently supported Mr Marchionne in his efforts to transform Fiat's subscale car business. Since last year that has meant backing him in the deal with Chrysler and the failed attempt to carry off a second distressed asset in the form of General Motors' European unit, Opel/Vauxhall. Unlike Europe's other great automotive dynasties—the Peugeots and the Quandts of BMW—Mr Elkann (who is a director of the Economist Group) appears more interested in unlocking value than in preserving family control.

Mr Marchionne believes that spinning off Fiat Industrial, which will include CNH, a producer of farming and construction equipment and Iveco, a truckmaker, will give those businesses, which currently account for 35% of group sales, greater visibility. Meanwhile Fiat Auto, which will remain in the holding company, will be free to gain scale from mergers or partnerships with other car firms and to raise capital.

Inevitably, investors remain focused on Mr Marchionne's efforts to revive Chrysler. Despite this week's good news, some scepticism is still warranted. The target of gaining a 14% share of the brutally competitive American market by 2014, compared with today's 9%, looks optimistic in the extreme. The new model pipeline is still bare, with few genuinely new vehicles due before 2013, when Fiat-based cars should begin to appear. There must also be some doubt whether Fiat, whose main expertise lies in small cars, can steer to safety a firm whose sales have historically depended on light trucks. A recovery in the housing market should give a lift to the still-fresh Dodge Ram pickup, by far Chrysler's most profitable product. But as Max Warburton of Bernstein Research argues, Chrysler came back from the dead in the past thanks to defining vehicles such as the Voyager minivan and the Grand Cherokee SUV. Unless it has a saviour model up its sleeve now, it will struggle.

Even if Mr Marchionne ultimately fails, Fiat will still get something of value—the Jeep brand and cut-price re-entry to North America for Fiat and Alfa Romeo using the remnants of Chrysler's dealer network and manufacturing base. Whether that will be enough to justify the spinning off of Fiat Industrial is hard to say. SERGIO MARCHIONNE, the boss of both the Fiat Group and Chrysler, likes to spring surprises. At a marathon presentation in Turin of his five-year plan for Fiat on April 21st he confirmed, as expected, that he is planning to separate Fiat's other businesses from Fiat Auto as a precursor to creating a combined entity with Chrysler. But he also revealed, to the amazement of many, that Chrysler, in which Fiat received a 20% share

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