Volkswagen and Porsche Case Study for Corporate Merger PDF

The automobile company Volkswagen and Porsche Case Study with PDF for Corporate Merger; The German Dr. Ing. H. C. F. Porsche (Porsche) automobile manufacturer specializes in sports cars and a new line of all-terrain vehicles. In the mid-2000s, Porsche stood recognized as a leading global brand for its consistent quality and cultural icon status with models including the 911, the Boxster, and the Cayenne.

Here are the articles to explain, the automobile company Volkswagen and Porsche Case Study for Corporate Merger PDF!

The company achieved strong financial performance cementing Porsche's market dominance. Porsche's operating profit increased from 1,204 million in 2002 to 1,832 million in 2006, representing a growth rate of 52.1%. The net profit of the company also increased to 1,368 million in 2006, an increase of 74.8% over 2005. One of the central elements of Porsche's business model is its low manufacturing depth; which means that it does not have huge centralized production plants. Many building processes stand outsourced while Porsche concentrates on its core competencies of development, engine production, quality control, and sale of vehicles. This allows Porsche to keep trim and agile in the luxury market. Volkswagen AG is a manufacturer of passenger and commercial vehicles.

The group markets its vehicles under the following brands; Volkswagen passenger cars, Audi, Skoda, SEAT, Bentley, Scania, and Volkswagen commercial vehicles. A strong brand portfolio enables Volkswagen to provide a competitive advantage over its peers. Leading market position enhanced the brand image of the group and held investors' confidence. In 2007, the group increased the number of vehicles delivered to customers to 6.2 million, corresponding to a 9.8% share of the world passenger car market. However, rising raw material prices threaten the margins of the group by increasing its operating costs.

What are the reasons Porsche takeover Volkswagen?

The Underlying Reasons Why Porsche Attempted to Takeover Volkswagen;

With the protection of Germany's 1960 "VW Law" that long shielded Volkswagen from takeover, no matter how poorly it performed. VW's 174,000 workers exerted a huge influence over management through their Labor Union; which focused on protecting jobs at the expense of efficiency. The German state, with its 20% share, typically sided with labor over the years; because they were reluctant to restructure VW's inefficient operations and eliminate jobs.

With governing bodies that cared more for jobs than future growth, VW became increasingly inefficient and entered the 21st century with a bloated workforce, the highest manufacturing costs, and the shortest workweek [32 hours] in the global automotive industry. Evidence of just how unruly VW had become erupted in a 2005 scandal when evidence stood revealed millions of dollars in funds granted by management to bribe union leaders for their support.

The funds stood used to pay for pleasure trips, parties, and others. After being carried for many news cycles, several managers have pleaded guilty to paying off labor officials and have been fined. In the mid-2000s, VW was palpably vulnerable, but why a takeover bid? Why would the world's most profitable automaker sink billions into mass-market VW with its debilitating cost structure, strong unions, and weak profits?

A closer look reveals that Porsche moved to take VW for their technology development and keep access to a production ally. In effect, though Porsche was financially stronger, it needed VW more than VW needed Porsche. Only about 20% of what makes a Porsche a Porsche-largely the engine and transmission stands made by Porsche workers. The rest exists outsourced, mainly to VW. Porsche co-developed the Cayenne with Volkswagen, sharing parts, production, and development costs.

More reasons;

The joint development and outsourced production help fuel Porsche's profits by keeping its fixed costs and capital investments low. In addition, the planned integration of Porsche into Volkswagen and the associated, closer cooperation will realize significant synergies on both the income and the cost side. Both companies could focus on finding synergies for such items as electronic architectures and engineering work on future vehicle circuitry platforms and common parts such as air conditioning.

For Volkswagen, the merger benefits are clear — protection against a hostile takeover. It may also get a lift from Porsche's image and well-regarded management. VW needs help. With profits of 484 million on sales of 55.4 billion in the first half of calendar 2005, VW's profit margin is less than 1%. Volkswagen has 15 times the annual revenue of Porsche-but Porsche's profit margins are seven times bigger than VW's.

VW was a gold mine for Porsche as they envisioned the future demand for products designed by Porsche but co-produced by Volkswagen. Porsche focused on a particular type of luxury product and VW ran stables of brands producing across many segments. With the threat of materials costs shooting through the roof; Porsche was looking for ways to turn threats into opportunities and garner some serious market power. VW was a goldmine. The only thing that Porsche would have to do was dig day and night.

Strategy to Gain Control;

Porsche utilized pure financial leverage combined with speculation to attempt to gain control over VW. All of these actions existed not done in complete secrecy; but, the information fed to the public was a time in a very strategic way. On the open market Porsche accumulated shares in VW and accompanied; these actions with simple and believable statements that they were merely trying to secure VW as a partner company in the development of different platforms of cars.

Porsche made statements to the effect that they existed not interested in owning VW; but, merely had a vested interest in the continued cooperation of the two companies for joint ventures. Simultaneously and not so publicly Porsche bought options on VW stock by paying a fee to be able to purchase VW shares at a given price sometime in the future. These types of transactions are extremely common in financial markets; however, the extent to which Porsche did this was tremendous.

In the end, they had accumulated these options to such an extent that they had the right to purchase nearly every free share on the market. Before this information was public, it had little effect on the share prices. However, when Porsche went public with this information, market forces went to work. The financial institutions that had sold these options to Porsche had done so “short” meaning they did not own the shares.

More control;

When these institutions learned of the situation they realized that Porsche would exercise these options to attain 75% of VW; and, they would force to buy VE shares on the open market and sell them to Porsche at the lower agreed price. This resulted in the institutions rushing to purchase all available shares to minimize their losses when Porsche exercised the options. The accumulation of the options and the resulting profits from exercising; these options certainly emboldened Porsche to press for an ever-larger stake in VW.

With stable financing in place, Porsche could have essentially bought 75% of VW; with the government owning 20%, and only 5% of the share would be public. Stable financing and overall economic conditions that existed during the final push for shares severely stressed the financial capabilities of Porsche. As a result, the hostile takeover attempt has morphed into a merger offer. Additionally, the legal battle with the state of Lower Saxony continues. The VW law continues to be an obstacle to the voting right of all other shareholders.

Impact of the Attempted Take-Over on Stock Prices;

The most striking result comes from a comparison of the two company’s stock prices at the beginning of this period and the ending relationship in stock value on a percentage basis. The most divergent area in October of 2006 was the direct result of the secretive accumulation of options on VW stock by Porsche. As stated above the announcement by Porsche that essentially has claims to all the remaining VW shares on the open market sent investment banks scrambling.

These investment banks were the ones that were short VW shares; and, essentially could have the options put at them resulting in huge losses. The attempt to cover all the outstanding options drove the share price of VW through the proverbial roof. As it stands on June 25, 2010, the share price of Porsche is 36.04$ as compared to a share price of 94.04$ on September 3, 2008, the earliest date available on Yahoo Finance.

This represents a 62% decline in the value of the company. During the same period, VW shares have gone from 199.52$ to 79.01. In essence, this merger has been completed although outstanding issues remain. During this attempted takeover now turned merger over 50% of the market value of the two companies has been lost.

Initial Merger Proposal and the Final Outcome;

The saga of the Porsche-VW merger began with an attempt by Porsche to secure production agreements with VW by acquiring a 31% share, which, along with the government's 20% share, would make VW unassailable by threats from outside interests. Whether or not this was the actual intent of Porsche or a disguised initial play to gain control of VW is unknown; but soon after, Porsche began a run to obtain up to 75% of VW, ending up with 51%.

Having gained control, Porsche still faced three obstacles:

- Germany's prevailing "VW Law," limits any shareholder's voting rights to 20%, regardless of the number of shares they own.
- a large amount of debt they shouldered in the acquisition process, and.
- suspicions about the foul play during an options deal on VW stock where Porsche made millions.

One of these obstacles was overcome when the European Commission ordered Germany to repeal the VW Law because it restricted the free flow of capital, but the debt proved to be overwhelming, in part due to the recession and the difficulty firms faced obtaining capital at reasonable rates, and Porsche was forced to turn to VW for help. This was the beginning of the final merger process, which, as of today, is still incomplete due, in part, to lingering suspicions about the options deal.

Although not set in stone, as it stands, VW owns 49.9% of Porsche while Porsche owns 53% of VW, Qatar Holding owns 10% of Porsche and 17% of VW and the government of Lower Saxony retains its 20% of VW. The Piech and Porsche families, the founders of both companies, own about 40% of the merged company and Porsche's CEO and CFO, the guys who engineered the options deal and the takeover bid, and who turned Porsche into a profitable company in the first place, have resigned.

Costs and Benefits for both Volkswagen and Porsche;

Highlight both Costs and Benefits for both Firms under the Proposed Merger;

The benefits of the merger are that VW's operating profit is expected to increase by 700 million euros a year, Porsche engineering may boost the appeal of VW's more expensive models, and the "platform" system of cutting costs by using standard parts for multiple car models will be expanded as Porsche lines are integrated into VW's stable. Another benefit, which may not be a benefit so much as a bragging right; is that an expansion of VW brings it that much closer to becoming the world's biggest carmaker.

Finally, and although not directly tied to the merger an issue; that gained additional attention from it, is the EU-ordered repeal of the VW Law. Porsche's former boss, Wiedeking, was looking forward to changing VW's culture from a socialized, semi-protected concern to a capital-efficient machine-like Porsche, and if VW does indeed become more competitive in the global market as a result of the merger or the repeal of the law they could see an increase in profits.

Part 01;

In contrast to the more speculative nature of the merger's benefits are its costs. At the top of the list is the debt load acquired by both companies during the process, particularly Porsche; which racked up 12 billion when it was buying VW stock. During the merger, Porsche has been losing billions due to costs associated with combining with VW. In the second half of 2009, Porsche's net income dropped by 83% and is planning to raise 5 billion through stock issuance.

Porsche's exposure in the options lawsuit has expanded to nearly 2 billion. For its part, VW is paying 3.9 billion for 49.9% of Porsche and is selling 135 million preferred shares in the next few years to cover some of the cost. Meanwhile, both VW and Porsche seem to be counting on increasing sales in Brazil and China to cover those debts.

Secondly, there is the tension created by putting the competing brands of Audi; Bentley, Porsche, Bugatti, and Lamborghini under the same, corporate umbrella; a move that should naturally result in a reduction in the number of models offered and price increases in the luxury car market.

Finally, there is also the issue of management to consider. Porsche was the world's most profitable, small carmaker when the process began; and its initial steps to acquire VW shares were motivated by that company's weakness. Now with the merger, the new company is larger and more debt-ridden; and VW's leadership will be taking over Porsche rather than the other way around. In essence, a larger, weaker company has absorbed a smaller, stronger one; and while Porsche seemed to have a strategy of turning VW into a more cost-efficient and profitable company; VW is merging with Porsche only because it can, or must.

Part 02;

On paper, with its 53% share of VW, Porsche seems to have control, since VW only owns 49.9% of Porsche. However, Bloomberg is reporting that "Volkswagen AG considers naming Matthias Mueller; its chief product strategist, to run the sports-car maker (Porsche)"; which is a strong indication that VW is calling the shots and supports the frequent descriptions of VW's "reverse take-over". However, the reality is that the ownership of the two companies is so closely tied; that it is easier just to say they remain under the control of the Piech and Porsche families; with large portions held by Lower Saxony and Qatar.

There are so few shares left available that VW's ordinary shares might remove from the German stock exchange. As previously stated, we don't believe that the merger was particularly worthwhile because the costs involved outweigh the benefits. Certainly, the 2008 recession exasperated the cost involved because Porsche's access to cheap capital became harder to come by. It racked up more debt acquiring VW stock than it would have a year or two earlier. In this sense, Porsche choose a poor time to embark on an aggressive, financial maneuver; and VW, who performed their own "reverse take-over" later on, did so in the same environment.

Part 03;

New car sales were down globally in 2008; and the general reduction in sales should've affected both companies equally, making it a moot point. Although it isn't explicitly mentioned, Porsche should've suffered more in the recession; because they only sell luxury products, a category of goods that is very elastic about income levels. VW, in contrast, has a wider variety of products, including more affordable cars; which might help to keep them afloat as sales of their many luxury brands fall off.

Rising oil prices shouldn't be that important to VW or Porsche. Owners of luxury cars that sell for more than 100,000 don't blink if the cost of gasoline goes up; so, Porsche sales should unaffected. VW's luxury models should also see the same effect. However, VW should see a short-term drop-off in sales of their affordable, high consumption models like their SUVs; but partially make up for that drop-off in increased sales of more fuel-efficient models; although those tend to have smaller profit margins.

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