05 07 2009 Porsche e Volkswagen alla resa dei conti

(Bloomberg) -- Wendelin Wiedeking, hailed as "the man who outfoxed the market" by Fortune magazine in January, is fighting to save Porsche SE -- and his job -- as a strategy to take over Volkswagen AG unravels.

Wiedeking transformed the 911 sports-car manufacturer, almost bankrupt when he became chief executive officer in 1993, into the automaker with the highest profit margins for the industry. In 2005, he began using cash from the luxury-vehicle business to acquire shares of Volkswagen, a company that builds more cars in a week than Porsche does in a year.

The David-bests-Goliath tactics worked until Wiedeking's efforts to topple power structures at VW, Europe's largest carmaker, failed and the economic crisis thinned profits and spooked banks. That left Stuttgart-based Porsche with more than 9 billion euros ($12.6 billion) in debt. A deal with Qatar may be the CEO's last chance to preserve Porsche's control over VW, and may cost Germany's best-paid manager his job, analysts say.

"Wiedeking's era at Porsche is likely over," said Ulrich Viehoever, author of a German book whose title translates to "The Porsche Chief: Wendelin Wiedeking - With Edges and Elbows to the Top." "He can't hold out long after asking the controlling families to accept a new investor."

Porsche is in talks with Qatar about selling a stake as well as some options that can be converted into VW shares. Porsche, which controls 51 percent of Wolfsburg-based Volkswagen, needs 5 billion euros to ease its financial crunch, a person familiar with the situation has said.

Qatar Talks

An investment by the Persian Gulf state may give Wiedeking, 56, leverage to negotiate a deal to merge with VW. The Porsche and Piech families, which own all of Porsche SE's voting shares, agreed in May with VW to pursue a merger to create a 10-brand behemoth that would include VW marques such as the Audi luxury division as well as the Seat and Skoda mass-market units.

Wiedeking declined to be interviewed, according to his spokesman, Albrecht Bamler. Bamler called contentions that the CEO may step down should Porsche fail to find an investor or be forced to sell its car-making unit to VW "pure speculation."

The CEO, who was initially welcomed in Wolfsburg, fell short of winning support from VW union chief Bernd Osterloh, who asked to quit negotiations with Porsche only two weeks after a May 6 agreement among the families.

He also alienated Christian Wulff, the premier of VW's home state of Lower Saxony, by trying to scuttle Germany's so-called Volkswagen Law, which gives the state a blocking minority. During the tussle, Osterloh said in April last year that Wiedeking bore the "arrogance of an autocrat."

'Audacious' Strategy

The resistance from Lower Saxony prevented Porsche from realizing its plan to acquire 75 percent of Volkswagen, a holding that could have given it access to VW's cash.

"Wiedeking's strategy was very, very audacious," said Christoph Stuermer, an automotive analyst with IHS Global Insight in Frankfurt. "Porsche banked everything on the fact the Volkswagen Law would fall in its entirety."

Wiedeking, who's spent all but five of his 26 years in the auto industry with Porsche, also butted heads with Ferdinand Piech, Volkswagen's powerful chairman and a member of the clan that controls Porsche. In September 2007, the Porsche CEO said there would be no "sacred cows" after Porsche takes over VW, suggesting he may seek to unravel some of the legacy of Piech, VW's CEO until 2002.

Qualified Support

In May, with merger talks between Porsche and VW in their early stages, Piech made a rare public appearance at a Volkswagen event in Sardinia and openly criticized Wiedeking and Porsche Chief Financial Officer Holger Haerter for creating Porsche's problems. He said at the time that Wiedeking had his support "for the time being."

"Piech doesn't like it at all that Wiedeking aims to dictate things at Volkswagen," Viehoever said.

Wiedeking also soured relations with regulators by scoffing at rules to reduce auto emissions and refusing to report Porsche's earnings on a quarterly basis.

When Wiedeking took the helm in 1993, Porsche posted a net loss of 122 million euros on sales of 978 million euros. Last year, profit was 6.29 billion euros, boosted by gains from the VW options, while sales reached to 7.47 billion euros.

Porsche, which has made more money on every car it sells than any other automaker since at least 2002, generated an operating margin of 13 percent last year, compared with 1.5 percent at BMW AG and VW's 5.9 percent, data compiled by Bloomberg show.

Shares Slump

Porsche has lost 51 percent in the past year, compared with a 14 percent decline of the Bloomberg Europe Autos Index. The stock fell 59 cents, or 1.3 percent, to 45.27 euros today in Frankfurt trading. Volkswagen shares rose 2.1 percent to 233.69 euros. Porsche has a market capitalization of 7.87 billion euros and VW is valued at about 74.2 billion euros.

Wiedeking turned around Porsche by streamlining production with the help of experts from Toyota Motor Corp. to have components delivered on time and in the order of assembly. Shortly before he became CEO, Wiedeking shocked production workers by sawing down parts shelves to demonstrate the change.

Wiedeking also focused Porsche on the iconic 911 sports car and then added the Boxster roadster in 1996 and Cayenne sport- utility vehicle in 2002 to broaden the brand's appeal. The costs of those two models were kept low by outsourcing Boxster production to Valmet Corp. in Finland and partnering with Volkswagen on development and parts for the Cayenne.

The father of two, who drives a vintage Porsche tractor in his spare time, invested 10 million euros in two foundations that provide lunches and day-care for children in Beckum, said Karl-Uwe Strothmann, the mayor of Wiedeking's hometown, about 70 miles (113 kilometers) northeast of Cologne.

CEO's Salary

"Wiedeking is totally natural, exactly the opposite of a slick businessman who only thinks about filling his pockets at the expense of his staff," said Strothmann, who regularly dines with Wiedeking at the Porsche chief's restaurant Pulverschoppen, where a schnitzel dinner costs 7.90 euros, including salad and a side. The Cayenne, Porsche's cheapest model, starts at $45,000.

Wiedeking's salary contract stipulates that he earns 0.9 percent of Porsche's pretax profit, spokesman Bamler said. Based on the 8.57 billion-euro pretax income reported for the year through July 2008, the CEO received about 77 million euros, making him better paid than any leader of the 30 companies in Germany's benchmark DAX Index, which includes VW and not Porsche.

Wiedeking, with the aid of CFO Haerter, backed his swoop for Volkswagen with share options that allowed Porsche to profit from increases in VW's share price. The gains were so robust that profits of 5.62 billion euros exceeded sales of 3.04 billion euros in the six months ended Jan. 31.

Credit Worthiness

While the options were a coup for Porsche, they created animosity in the financial community, contributing to Porsche's difficulties to renew a 10 billion-euro credit line this year.

"Wiedeking clearly misjudged the problems in financial markets that arose after the crisis took hold," said Claus Schmiedel, leader of the Social Democratic Party in the state parliament of Porsche's home state of Baden-Wuerttemberg. "Market rules have changed completely since then, Porsche's credit worthiness isn't what it used to be."

Investors betting on a falling VW share price were forced to cover positions in October 2008 after Porsche revealed that its options gave it control of 74 percent of VW's shares. The historic short squeeze, which briefly made VW the most valuable company in the world, caused German financial regulator BaFin to investigate Porsche for market manipulation.

While Porsche was cleared of those allegations, another inquiry was opened in May and is pending, according to Anja Engelland, a BaFin spokeswoman in Bonn.

Family's Wealth

Porsche turned to the German government for help, applying to the state-owned development bank KfW Group for a 1.75 billion-euro loan. The request was rejected last month, and Porsche is now seeking to tap its current lenders for more funds, a person familiar with the situation said June 30.

While Wiedeking's strategy is collapsing, the Porsche boss is credited with having the foresight that the manufacturer is too small to survive alone for long in the global auto industry.

"The strength of Wiedeking was to recognize that the sports-car business was challenged, while they were still successful," said Philippe Houchois, an analyst at UBS AG in London. "He's done a fantastic job for the wealth of the family."

Only a few months ago, Wiedeking thought the acquisition of a majority in VW was enough to ensure the carmaker's future amid the worst crisis in the auto industry in decades.

"Can you imagine what would be happening now if we hadn't done this?" he told Fortune. "Imagine the discussion that would be going on about Porsche's ability to survive!"