

# Bloomberg

## **Porsche to Increase Volkswagen Stake Today, Make Takeover Bid**

By Chad Thomas and Jeremy van Loon

March 26 (Bloomberg) -- Porsche AG, the world's most profitable carmaker, plans to raise its stake in Volkswagen AG today to 31 percent, triggering a legal requirement for a takeover bid as it solidifies control over Europe's largest carmaker.

Porsche, based in Stuttgart, Germany, will offer 100.92 euros an ordinary share, 14 percent less than the March 23 close in Frankfurt trading that valued the company at 42.7 billion euros (\$56.7 billion), the sports-car maker said March 24.

Volkswagen Chairman Ferdinand Piech, whose family controls Porsche, has steadily increased his influence since Porsche first bought a stake a year and a half ago, installing Porsche executives on the Volkswagen board, forcing out the Volkswagen chief executive officer and winning another term as chairman. A bid now will help block any rival offer as a German law that prevents a Volkswagen takeover is invalidated by a European court.

"With such an unattractive offer they certainly do not run the risk of winning a majority stake," said Christopher Kummer, the director of the Institute of Mergers, Acquisitions and Alliances at Webster University in Vienna. "In the long run, however, anything short of a majority stake won't make any sense."

Porsche has secured a 35 billion-euro line of credit to finance the purchase of Wolfsburg-based Volkswagen, though doesn't want a majority stake at this time, Frank Gaube, a Porsche spokesman, said yesterday. "We want to be able to act, to increase our stake when it suits us," Gaube said. The credit facility to finance the takeover has been arranged by ABN Amro Bank NV, Barclays Capital, Merrill Lynch International, UBS Ltd. and Commerzbank AG, Porsche said.

### Profit Margin

The sports-car maker's net income as a proportion of sales is the highest in the industry at 19 percent, based on figures in the fiscal year ended July 31. That compares with 7.5 percent at Toyota Motor Corp., the world's second-biggest carmaker, for the year ended March 31, according to data compiled by Bloomberg.

Porsche said in a statement March 24 that its lower offer for the common shares reflects the fact that the share price has more than doubled since it first purchased a stake.

Volkswagen's common shares rose 6.90 euros, or 6.2 percent, to 117.70 euros on March 23 amid market speculation Porsche would launch a takeover bid. Porsche rose 21.56 euros to 1114.93 euros.

Porsche will increase its stake today by exercising a purchase option, taking its holding to 31 percent from 27.3 percent, Gaube said. German law requires a takeover offer to all shareholders once an investor passes the 30 percent threshold.

### Future Action

The benefit of bidding now is that Porsche is freed up to make future Volkswagen stake purchases as it sees fit. Once having made the minimum legal bid to all shareholders, Porsche is no longer required by law to present further purchase offers to all stakeholders, the company said March 24.

Porsche first bought into Volkswagen in September 2005, saying it wanted to protect its partnership with its largest supplier. Since then, Porsche has pushed to gain more influence, installing Chief Executive Officer Wendelin Wiedeking and Chief Financial Officer Holger Haerter on the

Volkswagen supervisory board, which is similar to an American board of directors. Wiedeking has said there is "huge potential" for productivity gains at Volkswagen, the world's fourth-largest carmaker, which sold a record 5.73 million vehicles in 2006, including Volkswagen, Audi, Seat and Skoda brand vehicles. Porsche's sales in the 2006 fiscal year ended July 31 rose 9.5 percent to 96,794 cars and sport-utility vehicles.

"Porsche wants to get the process started before we start to see good first-quarter numbers from Volkswagen and continued positive news from Audi," said Adam Jonas, an analyst at Morgan Stanley in London who has an "overweight" rating on Volkswagen shares. "Piech and Wiedeking are looking at this as a 1,000 year investment. This isn't a hedge fund making a trading investment that they'll get rid of in a few years."

#### European Court

A month ago, Porsche won a victory at the European Union's highest court, which moved to eliminate a law protecting Volkswagen from a takeover. Porsche is "confident" that the law will be struck down, Gaube said.

An advocate general at the Luxembourg-based court European Court of Justice Feb. 13 recommended scrapping the 47-year-old German law protecting Volkswagen because it "restricts the free movement of capital." The EU court, expected to rule within the next three months, follows the recommendations in most cases.

The so-called Volkswagen Law caps shareholders' voting rights at 20 percent regardless of the size of the stake. Porsche currently has the same voting rights at Volkswagen as the German state of Lower Saxony, which owns 20.5 percent. Eliminating the law would give Porsche more say in decisions than Lower Saxony, the second-largest shareholder.

#### Lower Saxony

Christian Wulff, Lower Saxony premier, said March 24 that Volkswagen benefits from having two stable shareholders who have a "shared vision for Volkswagen." He made no reference to selling the state's holding.

Piech, a former Volkswagen CEO, in November helped orchestrate the ouster of Chief Executive Officer Bernd Pischetsrieder in favor of Martin Winterkorn, a long-time Piech protégé.

He reached an agreement last month with Wulff to remain chairman for another five-year term after he received the backing of the 10 labor representatives on the 20-member board. Piech, 69, was previously set to step down next month because of shareholder opposition to his dual roles as Volkswagen chairman and a member of Porsche's board.

Volkswagen is Porsche's largest supplier. The two companies build the Porsche Cayenne, Volkswagen Touareg and Audi Q7 sport-utility vehicles at Volkswagen's plant in Slovakia. Volkswagen will build the body for Porsche's planned Panamera four-door model at its Hanover, Germany, factory.

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