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(Updates with analyst's comment in fourth paragraph, shares in fifth.)

By Chad Thomas and Dorothee Tschampa

July 5 (Bloomberg) -- Volkswagen AG agreed to buy the 50.1 percent stake in Porsche SE's automotive business that it doesn't already own for 4.46 billion euros (\$5.6 billion), ending a seven-year takeover saga that divided two of Germany's most powerful families.

VW was able to proceed with the transaction after reaching an agreement with German tax authorities, it said in an emailed statement late yesterday. The cash deal is based on an equity value of 3.88 billion euros and also includes what the Porsche holding company would have received in dividend payments and half of the forecast synergies from the combination.

The agreement means Wolfsburg, Germany-based Volkswagen can now fully fold the Porsche automaking business into its stable of brands, which range from Audi sedans to Ducati motorbikes. The two companies agreed to combine in 2009 after Stuttgart-based Porsche racked up more than 10 billion euros of debt in an unsuccessful attempt to take over Europe's largest carmaker.

"It's very positive for VW as they get 50 percent of an asset they value at 26 billion euros on their own books for 4.46 billion euros," said Erich Hauser, a Credit Suisse analyst in London. "If I was a Porsche shareholder, I'd feel slightly short changed though."

Volkswagen gained as much as 5.75 euros, or 4.5 percent, to 133.75 euros and was up 4 percent as of 9:13 a.m. in Frankfurt trading. The shares have climbed 15 percent this year, valuing the carmaker at 59 billion euros. The Porsche SE holding company's stock rose as much as 5.8 percent and was up 3.4 percent to 43.42 euros, giving it a market value of 13.3 billion euros.

Avoiding Taxes

VW said it expects Porsche's automaking business to be fully consolidated in its accounts from Aug. 1. Porsche's earnings contribution for this year will be mainly offset by the purchase price, VW said. By revaluing its existing shares in Porsche, VW expects to book a non-cash gain of more than 9 billion euros and predicts a liquidity drain on its own automaking division of about 7 billion euros. The agreement will result in 320 million euros in additional synergies due to the earlier completion.

Volkswagen is paying the purchase price, plus transferring one share to Porsche, in a move that allows the carmaker to classify the merger as a restructuring rather than a takeover. Doing so means VW avoids a tax bill on the purchase of about 1 billion euros. The agreement with tax authorities has been criticized by some German politicians.

Closer Cooperation

"We can now cooperate even more closely and jointly leverage new growth opportunities in the high-margin premium segment," VW Chief Executive Officer Martin Winterkorn said in the statement. "Combining their operating business will make Volkswagen and Porsche even stronger -- both financially and strategically -- going forward."

The two companies scrapped the plan for a full merger last year with the Porsche holding company, which is controlled by the Piech-Porsche family and still owns 50.7 percent of VW's common stock, because of lawsuits against Porsche in the U.S. and Germany over the failed VW takeover.

"I am not surprised by the deal as such, only by the timing," said Albrecht Denninghoff, a Frankfurt-based analyst at Silvia Quandt Research. "Both parties have wanted the integration for a long time."

Porsche's attempt starting in 2005 to take over Volkswagen, which makes more cars in a week than the sports-car maker does in a year, split the controlling family. Ferdinand Piech, VW's chairman, crossed his cousin Wolfgang Porsche to thwart the plan, which ultimately fell apart after Porsche's debt rose in the midst of the financial crisis.

Solidifying Control

Piech, 75, the former VW CEO who was elected to a third term as chairman in April, has since solidified control of Volkswagen. His wife, Ursula, took a seat on the company's supervisory board earlier this year. In April, VW agreed to acquire Italian motorcycle maker Ducati, fulfilling Piech's vision of a company with a range spanning two-wheelers to 50-ton trucks. VW also controls truck makers MAN SE and Scania AB.

"To have the Porsche clan as owners and the anchor shareholder is good for Volkswagen and for Germany," said Christoph Stuermer, an IHS Automotive analyst in Frankfurt. "This has changed the cultural heart of the company. Volkswagen has become substantially stronger and long-term oriented."

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--With assistance from Nicholas Comfort in Frankfurt and Tommaso Ebhardt in Milan. Editors: Chad Thomas, Heather Harris

To contact the reporters on this story:

Chad Thomas in Helsinki at +49-30-70010-6232 or cthomas16@bloomberg.net; Dorothee Tschampa in Frankfurt at +49-69-9204-1214 or dtschampa@bloomberg.net

To contact the editor responsible for this story:

Chad Thomas at +49-30-70010-6232 or cthomas16@bloomberg.net