VW readies Porsche IPO in one of Europe's largest listings

September 28 2022, by DAVID McHUGH

A Porsche 911 GT3 with Touring Package is on display during an event of German car maker Volkswagen on the eve of the opening of the International Frankfurt Motor Show IAA in Frankfurt, Germany, Monday, Sept. 11, 2017, which runs through Sept. 24, 2017. Credit: AP Photo/Martin Meissner,file

Volkswagen was nearing the finish line Wednesday as it readied the sale of shares in luxury carmaker Porsche ahead of an expected market listing that will rank among the largest such offerings in European history.

The German automaker estimates the deal could reap as much as 9.5 billion euros ($9.08 billion) that it can use for its push into software, services and electric and autonomous vehicles in line with the shifting focus of the global auto industry.

Late Wednesday, Volkswagen priced the offering at 82.50 euros a share—at the top end of its estimated range. The shares are expected to start trading Thursday.

The deal enables Volkswagen to tap into investor interest in Porsche, whose fat profit margins of 15% to 20% on vehicles like the 911 sports car and Cayenne SUV are far above the single-digit profits common to mass-market automobiles.

The proceeds will help pay for Volkswagen's "massive" investments in revamping factories and research and development, said Christian Stadler, professor of strategic management at Warwick Business School.

"They need money, and electrification is super expensive," Stadler said. "And when we look ahead, it's getting more and more expensive to simply borrow money" as interest rates rise. Stadler said Volkswagen was also likely mindful of the successful 2015 offering of a minority stake in luxury carmaker Ferrari.

The transaction values Porsche as a whole at around 75 billion euros, compared with 86 billion euros for all of Volkswagen, including Porsche and its nine other auto brands, before the deal.

That outsized value is a testimony in part to expectations that luxury businesses often hold up better during recessions thanks to their well-heeled customer base. U.S. prices for the Porsche 911 sports car start around $106,000 and head up from there.

And companies with different kinds of businesses—in this case luxury and mass-market cars—are often valued less together than their parts would be separately, said Michael Grote, professor of corporate finance at the Frankfurt School of Finance & Management.

Volkswagen "wanted to get rid of the so-called conglomerate discount," Grote said. "So much value is buried in these large firms that any time there is news that they are going to disentangle them, the share price increases."

Company logo flags wave in front of a Volkswagen factory building in Zwickau, Germany, on April 23, 2020. Volkswagen was nearing the finish line Wednesday, Sept. 28, 2022, as it readied the sale of shares in luxury carmaker Porsche ahead of an expected market listing that will rank among the largest such offerings in European history. Credit: AP Photo/Jens Meyer, File

Competitor Daimler did something similar by spinning off its truck business from its Mercedes-Benz luxury car business, and pharmaceutical and chemical company Bayer did the same with its polyurethane and polycarbonate materials division, now Covestro, he said.

Prospects are clouded for the auto industry as inflation and high interest rates lead to recession fears in major economies such as Europe and the U.S.

While Wolfsburg-based Volkswagen will remain the majority shareholder in Porsche and the companies' industrial cooperation will continue, the sale is intended to give Porsche more autonomy. Volkswagen CEO Oliver Blume, who has kept his earlier role as head of Porsche, will continue in that dual role.

Under the offering, 12.5% of Porsche is being sold to investors in the form of non-voting shares. As part of the transaction, another 12.5% plus one share in voting shares is being purchased at a 7.5% premium by Porsche Automobil Holding SE, representing the Porsche and Piech families, descendants of automotive pioneer Ferdinand Porsche. The holding is also Volkswagen's controlling shareholder with 53% of voting shares.

The state investment funds of Qatar, Norway and Abu Dhabi have already agreed to take stakes, along with money manager T. Rowe Price.

Volkswagen took over Porsche in 2012 after Porsche made a failed bid for Volkswagen and wound up laden with debt.

Total proceeds from the sales of the two blocks of shares is estimated to total as much as 19.5 billion euros at the upper end of the offer range of 76.50 euros to 82.50 euros. Of that amount, 49% will be paid out as a dividend to Volkswagen shareholders, leaving 9.5 billion euros for the automaker to use to fund its investments in future technologies.

Volkswagen can use that money to invest in new factories, technologies and lines of business as the global auto industry pivots to electric vehicles in line with a worldwide focus on curbing climate-changing greenhouse gas emissions and as software development plays an ever-growing role in that shift.

The company sold 217,000 battery-only vehicles in the first half of the year, up 27% from the same period a year ago, and plans six battery factories in Europe by 2030.

At estimates of up to 9.5 billion euros, the deal ranks high among Europe's biggest share offerings—behind Italian electrical utility Enel in 1999, valued at $16.6 billion, and Deutsche Telekom in 1996, valued at $12.5 billion, according to figures compiled by financial market data provider Refinitiv.

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