Becoming an adult? What Porsche's planned IPO tells us about its future

Introduction

After months of rumours, intentions and promises, Porsche, the famous luxury German automaker, and property of the Volkswagen Group (VW), finally seems ready for its IPO, initially announced in February 2022.

Porsche should start trading by the end of September and the beginning of October on the Frankfurt Stock Exchange, finalizing the IPO by the end of the year. The offering could value Porsche at between €60 billion to €85 billion, according to analysts' estimates. One of its goals would be to inject fresh cash into VW's balance sheet, supporting its transition and investments in electric vehicles. VW Chief Finance Officer, Arno Antlitz, declined to comment on the estimated valuations, saying, however, that the company was confident about demand for the IPO based on the interest expressed by potential investors.

VW is selling 25% of Porsche, split equally into voting shares and nonvoting shares. The shares without voting rights, representing 12.5% of Porsche's capital, will be floated. The voting stock, also 12.5% of Porsche's capital, will be sold directly to the Porsche-Piech family heirs who are VW's largest shareholders. VW will own the remaining 75% of the company. Also, the Qatar Investment Authority has signalled its intention to acquire 4.99% of the German brand's preferred stock, becoming a cornerstone investor. However, VW says the IPO could still be subject to further capital market developments.

Deal rationale

The Porsche IPO, despite the challenging market conditions of raising interest rates and inflation, which have challenged markets and reduced the number of offerings this year, was welcomed by investors with a strong interest. Oliver Blume, the newly appointed CEO of both Porsche, and the entire VW Group welcomed the decision, claiming the IPO would grant Porsche greater independence as one of the world's greatest manufacturers, strengthening its ability to further execute its strategic aims of expanding into the electric vehicle industry and further positioning as a luxury goods manufacturer.

With the launch of the all-electric Taycan in 2019, Porsche began moving into electric vehicles, which the company says will account for 80% of new car sales by 2030. Last year, the Taycan passed Porsche's iconic 911 sports car in sales and became the company's third best-selling model after the Macan and Cayenne sport-utility vehicles (SUVs).

Lutz Meschke, Porsche's Chairman, highlighted the IPO's primary goals – mainly related to the EV segment of Porsche's business, as well as attracting a diversified and strong shareholder base, referring also to retail placement. The Taycan model has been the first successful example of the direction Porsche had highlighted in its prospectus. With the expectations of the younger generation regarding sustainability aspects and CO2 legislation widely differing from that of their parents, Porsche created a product that is 100% in line with its intended transition.

Its future product portfolio and strategic goals will only underscore the already happening shift to the EV market. The IPO will be an attempt at cashing in on the success of a product that blends sustainability and brand without compromising performance. Interestingly, this is also the reason why the IPO might be happening at not the right time – as outside investor pressure, typically associated with the status of a public company, might hinder Porsche's growth momentum and its push to consolidate the brand as the luxury EV carmaker.

Controversies

However, some argue that Porsche's complex ownership and management structure may stop the company from being fully realised. The IPO is not going to give Porsche any capital to invest in the future in EVs, despite the words of the CEO, as the VW group is counting on the potential €10 billion to finance batteries and its new electric car investments. Meschke, Porsche's Deputy Chair, defended the IPO saying that Porsche is in a very strong position when it comes to cash and that the company is ahead of the curve regarding EVs investments.

Still, even more conflicting-interests issues arise, as investors are also concerned about Oliver Blume's dual role as CEO of both VW and Porsche. A survey, carried out by Bernstein after his appointment as CEO at both companies, highlighted that more than 70 per cent of investors viewed this dual mandate negatively, and more than 40 per cent would prefer postponing or fully scrapping the floatation. Also, investors have expressed unease about the structure of the offering, as no voting shares will be offered to the public, leaving VW's current shareholders and powerful unions still in control of Porsche, leaving less space for the "greater independence" the IPO should grant.

Mr Antlitz, VW's CFO, dismissed the concerns, saying VW had taken steps to assure there would be no conflict of interest because of Mr Blume's dual role, as the CEO recused himself from all decisions pertaining to the listing. In a recent statement, VW emphasised that the existing industrial and strategic cooperation between VW and Porsche will be continued after the IPO.

The numerous and different declarations from the management have not made it clear, however, in favour of which of the two companies the IPO will in the end play out.

On one hand, the VW Group will receive a fresh injection of capital to fuel its EV batteries development. Arguably, it could also partly benefit Porsche's research, though without really affecting the company's cash flows. On the other hand, it could be able to faster consolidate its status in the luxury segment of the EV market. Given the likely fact that Porsche, with its planned IPO, is trying to achieve consolidation in the luxury segment, and not necessarily to be an independent standalone company, the IPO structure and the symbiotic management could be just what will allow both companies to align their goals. At the same time, also maintaining strategic and industrial cooperation, benefiting both companies in the long run.

Deal structure

Porsche's ownership structure is all but easy and linear. To understand the IPO better, it is worth mentioning. Volkswagen Group is the only owner of Porsche AG, the car brand that will be listed on the Frankfurt Stock Exchange. However, the shareholder structure of Volkswagen is mainly represented by a holding company named Porsche SE, which owns a 31.4% equity stake in Volkswagen and 53.3% of the voting rights. For its part, Porsche SE is already listed on the Frankfurt Stock Exchange, and it is controlled by the Porsche and Piech family.

Speaking about the new shares of Porsche AG, some reports suggest that the company will issue 911 million shares, alluding to the brand's most famous car model. Those shares will be divided into two: 50% ordinary and 50% preferred shares. The latest ones will not have voting rights but a priority over receiving dividends, while the ordinary shares involve voting rights and a lower priority when distributing dividends. Only the preference shares will be involved in the IPO, and 25% of them will be listed. Thus only 12.5% of Porsche AG shares will be floated, for a total amount of around €10.6bn, and new investors will have no voting rights. Porsche shares will firstly be offered to retail investors in Austria, France, Germany, Italy, Spain and Switzerland.

As part of the plan, 25% plus one of the voting shares will be acquired by the holding company Porsche SE, which is planning to buy the stake in Porsche AG at a 7.5% premium to the placement price of the preferred shares. It's clear that, even after the IPO, the luxury car brand will remain under the control of Volkswagen and the Porsche and Piech family, who is going to become a direct shareholder again after losing the position in 2009 when Volkswagen took control of Porsche AG in a reverse takeover.

In this regard, the tangled relationship between Porsche and VW is making investors discuss. Indeed, not only the ownership of the two companies will remain deeply connected, but also Porsche's Chief Executive, Blume, has recently taken charge of VW. The dual role is seen by investors differently - as an accelerator tool for the IPO or as a negative factor with a potential conflict of interests. However, the IPO is designed to make Porsche more independent to carry out its objectives. Therefore, by the end of this year, Volkswagen AG would no longer be a party to the domination agreement and profit and loss transfer agreement that are presently in effect. Volkswagen and Porsche have also decided to keep up their productive partnership and to set the terms of their future industrial and strategic cooperation.

Impact of the IPO

To analyse the potential impacts Porsche's IPO will produce on the automotive industry, let's focus on the intended consequences of the IPO. The leading example in the sector is Ferrari's IPO which occurred in 2015; the Italian carmaker reported a substantial increase in the share value since the listing took place. Porsche aims to perform the same way, positioning itself as a luxury brand, similar to Ferrari's status. However, experts hold that the German carmaker presents huge differences from its Italian competitor, from the products' price range to the internal corporate structures of the companies.

The focus should be on positioning the two companies in the automotive sector. While Porsche is mainly considered a sport utility vehicle producer, Ferrari is undoubtedly positioned as a luxury brand. To clarify, customers could own a Porsche for about $65,000, but at the same time, they must spend at least $250,000 to drive a Ferrari. Moreover, Ferrari is independent of FIAT and Agnelli's Family; therefore, it trades solely on the market. As opposed to its competitor, Porsche will offer only 10% of the shares, remaining strictly connected to Porsche and Piech ownership. Considering this and the period of uncertainty that markets are experiencing, it's evident that the listing is probably just in the interests of the Porsche and Piech family's desire for greater control.

Specifically, Porsche's ace in the hole is the aspiration to expand its EV section. The IPO is expected to raise funds to quickly develop Porsche's electric sector innovation. The latter led to record revenues thanks to the Taycan EV model, with which the German factory showed the world its capabilities in the field. Moreover, the announcement of the battery-powered Macan model would potentially incur a jackpot hitting if combined with the IPO itself.

Let's now look more in-depth at expectations around Porsche's IPO from the valuation perspective. Considering long-term average multiples of the comparable luxury brands such as Hermès, Aston Martin and others, analysts expect Porsche's P/E multiple in two years to be between 16 and 25, meaning a market capitalization between €67bn and €105bn. The most plausible values are the lower ones if we compare, for example, the margins of Porsche and Ferrari. Operating profit for the German carmaker is around 18%, meaning a delta of about 7% if compared with 25% of Ferrari's margin.

Porsche's valuation as a luxury brand is something from which VW can benefit too, since a higher valuation implies more cash flow injections. Moreover, for VW Group the listing of Porsche will be an important step in creating a vertically integrated mobility group and contributing to financing plans as top-notch software for autonomous driving, constructing battery cell plants and building EV supply chains and charging infrastructure. Volkswagen could therefore be Tesla's most dangerous competitor, with 10% of the EV market compared to Tesla's nearly 21%. A Porsche IPO could be Volkswagen's best chance of securing the necessary financing to promote its electric transition.

VW owns a variety of brands, from budget-friendly Skoda to high-end Lamborghini, Ducati, Audi, and Bentley. Porsche AG has been one of the more successful brands among this group contributing 12% of Volkswagen's total revenue and 26% of its operating profit in 2021, despite making up only 3.5% of all deliveries made by the firm. Considering this, Volkswagen is hopeful that a spin-off will enable Porsche to realize its full potential in addition to helping to raise some funds for Volkswagen's ambitious investment plans.

Summary

The actual outcome of Porsche's IPO will, therefore, only be visible in the coming months. In fact, even if Porsche is a solid brand and can be valued as a luxury carmaker, other companies' valuations like Aston Martin and Ferrari have been prone to turbulence, indicating that this is probably not the right time to go public. However, after months of rumouring, VW seems to have everything ready to go on with the Porsche IPO. The new injection of cash in the group can be a game changer in the automotive industry, aiming to create new industry leaders in an era where the electric will be the protagonist.

TAGS: Porsche, Volkswagen, IPO, Taycan, EV