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Business

**Upheaval at Porsche
Exit Wiedeking**

Jul 23rd 2009
From *The Economist* print edition

The predictable end of a long battle



Wiedeking and Härter, in happier times

AP IN THE morning of July 23rd, Porsche announced the departure of its chief executive, Wendelin Wiedeking, and its chief financial officer, Holger Härter. The German maker of sports cars thus succumbed to what had appeared inevitable since May, when it called off its improbable attempt to take over Volkswagen, a carmaker 15 times its size.

The departures of both men will pave the way for a merger, but one very much on VW's terms. Porsche, which under Mr Wiedeking became the highest-margin producer in the car

industry, will now be fully integrated into the VW Group, joining seven other car brands: VW, Audi, Skoda, Seat, Bentley, Lamborghini and Bugatti. As *The Economist* went to press, a meeting of VW's supervisory board was expected to confirm the commitment to bring Porsche into the fold.

For VW's chairman, 72-year-old Ferdinand Piëch, who is also a major shareholder in Porsche, it will have been a moment to savour. As recently as late last year, Mr Wiedeking appeared on course to oust Mr Piëch and complete the acquisition of VW, the fruition of an audacious plan conceived by Mr Härter as long ago as 2005. The hard-charging Mr Wiedeking had come to see Mr Piëch as an obstacle in his path and the arch-representative of the old ways of doing things at VW. These included cosy relationships with the unions and the state of Lower Saxony, which has a veto on important decisions thanks to a 20% stake and the archaic "VW Law".

Last October Porsche triggered a sensational squeeze on short-sellers when it was slow to admit that it had raised its stake in VW voting shares to 42.6% while acquiring a further 31.5% in the form of secured options. For a time, VW was the most valuable company in the world. A month later Mr Wiedeking unveiled profits that exceeded revenue thanks to the appreciation of €6.8 billion (\$8.7 billion) in

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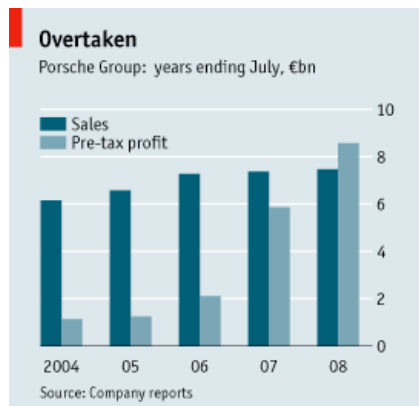
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the value of its stake in VW. He declared that with the help of a €10 billion credit line to realise its options, Porsche would press for “dominant control” of the larger firm.



That proved to be the high point of Mr Wiedeking’s vaulting ambition. Although Porsche increased its holding in VW to 50.8% in January, it could only do so by almost tripling its net debt to €9 billion —at just the moment when its car sales were going into free fall and the credit markets were shutting up shop.

Perhaps if Porsche had managed to get the VW Law overturned, everything might still have worked out for Mr Wiedeking. He would then have been able to exploit Porsche’s anticipated 75% stake in VW to pay down the debt with the help of the bigger company’s €11 billion cash pile. But at the prompting of Christian Wolff, Lower

Saxony’s premier and a fellow Christian Democrat, Angela Merkel, the German chancellor, risked the wrath of the European Commission by refusing to end the state’s blocking minority.

On May 6th the warring Porsche and Piëch families, which own all the voting stock of the holding company that controls Porsche, agreed to find a way of merging the two carmakers. The game was all but up. As Mr Piëch gloated, Mr Wiedeking and Mr Härter made a last desperate attempt to salvage something from the wreckage of their plans. Their hopes rested on selling a substantial stake in Porsche to a Qatari sovereign-wealth fund and then negotiating with VW from a position of greater strength. However, the Qataris were reluctant to become involved in the feud between the families and had their eye on a substantial shareholding in the merged group. They insisted that they would invest only once the parties had come to terms.

For Mr Wiedeking and Mr Härter that meant one thing: a dignified exit. A statement from Porsche said that they saw their departure “as a significant contribution to the appeasement of the situation and to support the forming of an integrated car manufacturing company.” Not too many tears should be shed for the pair, who last year earned more than €100m between them. But for Porsche, it is a sad end to 78 years of proud independence.

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