



Porsche AG

By: Sreeshya Vaman
Investment Analysis Group
Friday, 20 April, 2001



Goals of Presentation

- Breakdown next generation of major players in auto industry
- Explore major trends in the auto sector
- Seek reasons for and benefits of consolidation
- Explain why Porsche wants independence
- Dream about our future cars and vehicles



Porsche 911 Cabriolet



Market Segments

- Low-End Cars – Kia, Hyundai
- Mid-Size Cars – Toyota Camry, Volkswagen Passat, Honda Civic, Ford Taurus
- Luxury Cars – BMW, Mercedes-Benz, Lexus
- Novelty Cars – Porsche, Lamborghini
- Sport-Utility Vehicles – Ford Explorer, Jeep Cherokee, Lexus LX/RX, Mercedes M-Class
- Minivans – Dodge Caravan, Plymouth Voyager
- Light Trucks – Ford F-150, Dodge Ram
- Heavy Trucks – Ford F-350, GMC Jimmy



Tiers of Auto Producers

- Tier I – Conglomerates
 - Volkswagen, DaimlerChrysler, GM, Toyota
- Tier II – High-End Specialists
 - Porsche, Lamborghini, Aston Martin, Jaguar
- Tier III – Low-End Specialists
 - Daewoo, Kia, Hyundai





Industry Trends

- Consolidation
 - Add more distribution and supplier power
 - Different lines share parts, platforms, making production, distribution and service much easier
 - “Companies don’t compete; supply chains do.”
 - ITWO Board Member
 - Conglomerates compete with each other on all fronts
- E-Procurement, cost cutting across supply chain
- Boom times coming to a close
 - Brand Loyalty and Price become major sales drivers
- More engineering done by suppliers, not just in-house



Concerns with Trends

- Brand Dilution
 - How can Mercedes share anything with Chrysler?
- Too few suppliers, longer supplier interruptions
 - If one supplier fails, that affects many different platforms and lines; power of suppliers increases
- Sales in US slowing after rise in February
 - Ford, Daimler, GM, Toyota all announce weak sales
 - Few experts think trend will reverse soon
- Dependence on Petroleum
 - No end in sight for alternative fuel source search



Major Auto Players

Volkswagen

- All cars built off of four platforms
- Leader in mobile communications services
- Taking advantage of troubled domestic rivals

Toyota

- Supply Chain Keiretsu
- Other businesses
 - Import/Export, Energy
- Innovator in alternative fuel sources and hybrids

Ford

- Supply chain revolutionaries
 - E-Procurement Leader
- Acquisition Spree
 - Volvo, Jaguar, Hertz
- Lead in every segment

DaimlerChrysler

- Sheer size allows it to play in every major market segment
- Many integration problems
 - Brand Dilution
 - Cannibalization



Who is Porsche?

- Germany's Big Five Automakers
 - Audi, Volkswagen, BMW, Daimler, Porsche
- All going through major identity crises
 - Volkswagen, BMW becoming conglomerates
 - Audi bought by Volkswagen
 - Daimler buys Chrysler
- Porsche still independent
- Traditional focus on luxury sports cars
- Starting to expand while staying independent



Two Major Platforms

Porsche relies on two major platforms

911 Series

Seven models of the 911 series

Classic models ranging in price from \$66,000 to \$110,000

New Carrera GT expected to revive series

Boxster Series

Boxster – 2.7 Litre, 162 kW, 260 Nm Torque, 4,750 RPM, 0-100 kmph in 6.6 seconds

Boxster 5 – 3.2 Litre, 185 kW, 305 Nm Torque, 4,500 RPM, 0-100 kmph in 5.9 seconds

Personality and Individualism at the highest Level



Lessons from History

- Appealing to mass market customers ruins Porsche's brand reputation
 - Costly experiments with 928, 944, 968 series
 - Elimination of Boxster series for one year
- External Partners are sources of short-term, but not long-term, capital
 - Finnish outsourcing company paid per car with no long-term commitments



Avoiding Mergers

- Mergers do not make sense for Porsche
 - Who is Porsche going to share with?
 - Lower cars dilute Porsche brand name
 - Other high-end cars are too expensive to share parts with
 - How does a lower supplier base help Porsche?
 - There aren't that many Porsche suppliers to begin with.
 - Does Porsche need a better distribution system?
 - Porsche's sales still primarily from the showroom
 - Because of brand reputation, customers will pre-order and wait for their Porsches for months on end; some Porsche owners waited as much as 14 months
 - Best margins per car in the industry at approximately 12%



Two Huge Developments

- New SUV: Porsche expands with up-scale SUV
 - As now with cars, there will be two tiers of SUVs
 - Same companies (BMW, Lexus, Porsche) in top tier
 - Most Porsche car owners also own an SUV
 - Reduce cannibalization by selling both on brand and quality
 - Attract newer audience who wants SUV, not a sports car
 - Expand product line without alienating customers
- 10:1 Stock Split scheduled for Monday, April 23
 - Price just outright too expensive at these levels
 - Stock split will make it more affordable
 - New investors should give the stock a big lift



Risks of New Developments

New SUV

- Porsche is first exclusive luxury car maker to enter market
- Auto markets are slowing in US, Europe
- Will a Porsche buyer buy another Porsche?
- Porsche might alienate its core audience

Stock Split

- Stock split might cause stock to drop as portfolios can be better allocated
- Stock will become more volatile
- Stock slump expected in many parts of the world

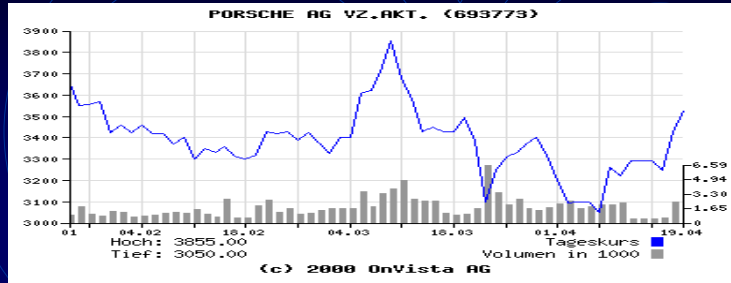


Foreign Equities

- In each market, there are rules of thumb that we take for granted. Those rules of thumb will be different for each market.
- However, fundamental business principles still hold, depending on political structure.
- Germany's capitalist structure means that revenues and cost drivers behave similarly to that of the United States.



Price Charts (in Euros)



3 Months



1 Year



Key Financial Numbers

- Earnings Per Share Projections
 - 2000: 109.05 EUR (actual)
 - 2001: 162.16 EUR (estimated 48.3 % increase)
 - 2002: 194.02 EUR (estimated 19.7 % increase)
- Market Capitalization:
 - 52-week : High: 3,865 EUR, Low: 2,960 EUR
 - P/E : 29.56613 USD, P/S : 2.7484 USD
 - 10:1 Split scheduled for Monday, April 23



P/E Ratios Across Industry

	Porsche	Daimler	BMW	GM
P/E	29.56613	22.45	50.078	13.75
P/S	2.748421	0.34		0.17

- Can suppliers handle Porsche's new SUV?
- Can Porsche introduce its SUV without alienating fans?
- Can Porsche keep sales of existing platforms strong?
- How will markets react to Porsche's independence?
- Will the stock split give the stock a boost?



Conclusion

- Auto Sector sees two major trends
 - Massive consolidation
 - Supply chain management revolutions
- Porsche bucks both trends
 - Remains independent
 - Did not restructure suppliers nor change strategy
- Porsche's two major changes will help
 - New SUV will not cannibalize sales as expected
 - Stock split will give stock tremendous boost