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
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

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

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

**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 independant
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
- Boxter – 2.7 Litre, 162 kW, 260 Nm Torque, 4,750 RPM, 0-100 kmph in 6.6 seconds
- Boxter 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 Boxter 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.
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

<table>
<thead>
<tr>
<th></th>
<th>Porsche</th>
<th>Daimler</th>
<th>BMW</th>
<th>GM</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>29.56613</td>
<td>22.45</td>
<td>50.078</td>
<td>13.75</td>
</tr>
<tr>
<td>P/S</td>
<td>2.748421</td>
<td>0.34</td>
<td>0.17</td>
<td></td>
</tr>
</tbody>
</table>

• 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