The New York Times https://www.nytimes.com/2022/09/29/business/dealbook/porsche-ipo-volkswagen.html

Porsche Shares Jump in Blockbuster Market Debut

Volkswagen spun off the German carmaker on the Frankfurt Stock Exchange, where its stock began trading higher despite a broader decline in European markets.

By Michael J. de la Merced

Sept. 29, 2022 Updated 10:00 a.m. ET

Amid fears of recession, tumbling stock prices and heightened market turmoil, the biggest market debut of the year is that of a carmaker whose vehicles can cost six digits.

Porsche, the 91-year-old German company behind iconic models like the 911, became the breakout star of the markets when it began trading on Thursday, in one of Europe's largest initial public offerings ever.

Shares in Porsche rose 2 percent in their debut on the Frankfurt Stock Exchange, to 84 euros each, valuing the company at €77 billion, or $75 billion. That defied the broader decline in European market indexes on Thursday, including in Germany's DAX.

The deal's underwriters had priced the offering the night before at €82.50, the top end of its expected range.

The stock offering is Porsche's return to the public markets for the first time in a decade. The company had been acquired by the Volkswagen Group after a failed attempt by Porsche in 2008 to buy the much larger German automaker, and since then has become the standout in Volkswagen's stable of brands.

Porsche's listing has also become a rare bright spot for the once-booming business of taking companies public, which has suffered from whipsawing markets as investors flee for safe assets like the United States dollar. Globally, the number of initial offerings has fallen 40 percent over the last year, according to Refinitiv.

The public portion of Porsche's stock sale raised €9.4 billion euros for Volkswagen — or double the entirety of proceeds raised by initial offerings in Europe so far this year. The offering included several nods to Porche's best-known model, the 911: Its total share count is 911 million, and its ticker symbol is P911.

At that size, Porsche's debut trails only those of the Italian energy company Enel and Germany's Deutsche Telekom in the rankings of European initial offerings, according to Refinitiv. And it is the largest I.P.O. to be held on the continent since the turn of the millennium.

Executives at Volkswagen and their bankers have insisted that Porsche could buck the dismal trend for I.P.O.s. In recent weeks, they have tried to convince prospective investors that the sports car maker had healthy business prospects, with an operating margin of nearly 20 percent; a recognizable brand; well-heeled customers willing to spend on expensive cars regardless of economic conditions; and a strategy for moving into battery-powered vehicles, spearheaded by the Taycan sedan.

Much was at stake in the initial offering. Volkswagen is planning to use about half of the proceeds from the initial offering — which raised nearly €20 billion in total — to finance its shift to electric vehicles. The remainder will be paid out to Volkswagen's shareholders.

Under the terms of the initial offering, Volkswagen sold 12.5 percent of Porsche's stock to the public in the form of nonvoting shares. About 40 percent of that was bought by four big investors, including sovereign wealth funds associated with Qatar, Norway and Abu Dhabi and the American money manager T. Rowe Price.

Another 12.5 percent of Porsche stock — consisting of voting shares — was sold to the Porsche and Piëch families, descendants of the man who designed the original Volkswagen Beetle for Adolf Hitler, and the majority shareholders of Volkswagen. That deal will give the families enough voting power to veto any business decisions at Porsche they dislike.

But some aspects of the offering drew scrutiny from critics.

Porsche's multibillion-dollar valuation suggests that the business accounts for 90 percent of what Volkswagen is worth on the stock market, despite generating only 4 percent of the company's automotive revenue. That is not a ringing endorsement of the rest of Volkswagen, which has been struggling to overcome problems with software for its line of electric vehicles.

Skeptics raised other concerns about Porsche and its stock sale. Among them is the company's corporate governance: Oliver Blume, Volkswagen's chief executive, will also hold that title at Porsche. The offering's own prospectus acknowledges that the interests of Volkswagen and Porsche may not always align and that Mr. Blume's dual role could "result in conflicts of interest."

In a research note earlier this week, analysts at HSBC valued Porsche at €44.5 billion, pointing in part to questions about the company's independence.

Others questioned whether Porsche deserved a valuation that is loftier than rivals like Mercedes-Benz, whose market valuation as of Thursday was €57.5 billion despite producing more vehicles. Both command valuations lower than that of Ferrari, which shipped just 11,155 of its handmade supercars last year, compared with Porsche's 300,000.

But investors in Porsche's initial offering appeared undeterred by those questions.

The order book for the offering was oversubscribed within hours of its opening last week, according to a person with knowledge of the deal, who spoke on condition of anonymity because he was not authorized to speak publicly about the process.

A higher than normal percentage of prospective buyers included individual investors and Porsche fan clubs, this person added. Some investors had even sent pictures of their 911 sports cars, in an effort to convince Porsche executives and bankers to sell them more shares.

Jack Ewing contributed reporting.