

Hedging at Porsche

When Porsche made headlines, it was usually for the engineering of the latest edition of one of its famous sports cars—not for complex financial engineering. But the results presented at the company’s annual press conference on November 28, 2007, stunned the business world. While Porsche made a respectable profit of around €1bnⁱ from manufacturing and selling cars, this number was dwarfed by the huge profits Porsche made from transactions in financial derivatives. Porsche had undertaken large trades in the foreign exchange options market that paid off handsomely as the U.S. dollar weakened. Moreover, Porsche had bought a huge number of options on shares of Volkswagen, Europe’s biggest automaker. These trades together added roughly €4 billion of profit to Porsche’s bottom line.¹

Analysts were divided in their reaction when Holger Härter, Porsche’s CFO, presented these stunning results. Some went as far as to describe Härter as a “financial genius.” Others questioned the wisdom of an industrial company engaging in derivatives trades of this scale. Some analysts remarked wryly that Porsche had become a “hedge fund.”²

Did Porsche simply earn the fruits of prudent and clever risk management? Or did these results indicate that Porsche’s executives engaged in reckless financial policies that exposed the company to outsized risks?

Background

With headquarters in Stuttgart, Germany, Porsche was a manufacturer of performance sports cars. Its product line in 2007 included the 911, Boxster, and Cayman sports cars, and the Cayenne sports utility vehicle. The four-door Panamera was planned to be launched in 2009. The production of the 911 and Cayenne vehicles took place at the company’s German plants in Stuttgart and Leipzig, while much of the assembly of the Boxster and Cayman was outsourced to the Finnish company Valmet.³

The company’s sales were heavily dependent on the U.S. and German markets. Each one of these two markets accounted for about a third of total sales in the fiscal year 2006/07.⁴

ⁱ The exchange rate at the end of November 2007 was 1.47 \$ per €.

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