



# Missive

NOVEMBER 1, 2022

## Dial P911 for Value in Porsche and VW

Dear fellow investors,

If you were walking down the street and saw a \$100 bill just sitting near the curb, would you pick it up? Academia would argue that the \$100 bill isn't there. If it were real, it would have already been picked up by someone else. It remains to be asked that should you be standing there over the crisp bill, would you take it?

Most stock market participants believe that markets are there to instruct you, not serve you. The investors of Smead Capital Management believe the contrary and are looking for ways to allow the market to serve us. If we believe the market is giving us \$100, we attempt to grab it quickly from the street.

Starting back in September of 2018, we began looking at Porsche SE (PAH3 GY) as that \$100 bill on the curb of the stock market. At the time, investors could see that they could buy Porsche SE and get a discount to their holdings of the Volkswagen ownership (VOW GY). There were dangers that held investors from piling in. For one, Porsche had tried to merge with Volkswagen unsuccessfully back in 2008. If you want to understand this, [check out this link](#). Then in 2015, it came to light that Volkswagen was cheating on their diesel emissions. The question turned to whether their large owner, Porsche SE, and its leadership were culpable. This left an investor looking at a classic family-led holding company discount with contingent liabilities possibly in the future.

During that time, people talked about the value of the assets that Volkswagen owned like Porsche, Audi and others. The idea of these being spun out or sold were looked at as fantasy or only for deep-value dreamers. In our discussion with the investor relations person at Porsche SE, we asked if the Porsche and Piëch family would be interested in owning more of Volkswagen, as it looked attractive to us. The answer was no. They were interested in other projects, and they didn't consider that to be a place to allocate capital.

Then in the first quarter of 2019 something very interesting happened. Porsche SE began buying Volkswagen. They acquired 2,006,610 shares during the quarter of the voting share (VOW GY). In the 2019 annual report, they stated:

*Porsche SE supports Volkswagen AG with its "TOGETHER 2025+" strategy, which entails both the transformation into a digital technology group as well as increasing the company value. In the past fiscal year, we demonstrated by increasing our investment in Volkswagen Group that we at Porsche SE are convinced of the potential for increasing value added. Our 53.1 percent stake in the ordinary shares in Volkswagen guarantees a stable ownership structure.*

Despite what we were told prior, the news of this purchase was also coming with a partial spin-off of the Volkswagen truck division, Traton Trucks. This whetted our appetite for the story that we already liked with Porsche SE, so we began buying Volkswagen voting shares as well.

The Traton division holds brands like Scania, Man, Volkswagen Trucks and Navistar. Traton spun out 10% of the company by selling 10% to institutional investors at €28. We love strong insider owners, preferably with recent purchases. It's the bridge between the quality and value factors. It was even better to find out that they were beginning to think about showing the market the value of the underlying companies starting with Traton.

You are probably expecting us to tell you how well that worked out, but there's no point in writing about success. You'll know it when you see it. Opportunities must be fought for. Traton's stock price fizzled during 2019 and the pandemic hit causing investors to not think much about the assets of Volkswagen yet again.

Despite the near-term setback of the pandemic and having to look like complete idiots in the spring of 2020, we gained more confidence in what we owned with Porsche SE and Volkswagen because Porsche SE began buying Volkswagen voting shares again in the second quarter of 2020. Those actions took intestinal fortitude with factories completely halted.

Porsche SE acquired another 590,083 of Volkswagen voting shares in the open market at that time. During that year, there was chatter about the Lamborghini and Ducati brands being sold or spun off by then Volkswagen CEO Herbert Diess, but the crown jewel of the story was not these small niche luxury brands. It was Porsche cars or what we now know as Porsche AG (P911 GY).

In 2021, things began to thaw for a Porsche AG initial public offering (IPO) on what seemed like an on-again, off-again saga. For the investors of Smead Capital Management, we were being teased by the media and whispers among the bankers. Some restructuring did take place as RIMAC took ownership of the Bugatti brand with Porsche SE taking a stake in both RIMAC and the Bugatti RIMAC subsidiary. We still had optionality on the \$1 million car makers' electric future in RIMAC's hands.

Fast forwarding to 2022, we got to see our wildest dreams come true with the Porsche AG IPO finally coming. While there was debate around what this luxury brand was worth before the IPO, the market is getting to see for itself. We purchased shares of Porsche AG in the IPO as we believed it provided us with a good price for a business producing strong returns on capital. Volkswagen retained 75% of their ownership in P911. Porsche SE acquired 12.5% of the shares. IPO investors like us acquired 12.5% as well. Volkswagen announced we would get a \$9.25 billion special dividend from the IPO proceeds.

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Why did we tell you there is a \$100 sitting on the street in the stock market and that P911 is our wildest dream? If you take 75% of the value of P911, you get roughly \$67.854 billion. If you add the \$9.25 billion special dividend to that, you come up with \$77.1 billion.

**These are only two of the assets under the hood of Volkswagen!**

Volkswagen's current market cap is \$75.98 billion as of the close on October 28th, 2022. The rest of their assets are being left on the curb like the \$100 bill.

Does this mean that we know we are right? No. The future can't be known. In an unknown future, do we have a large margin of safety? Our investors should believe they do. Already, the current Porsche AG and Volkswagen CEO Oliver Blume has said that all their brands will begin to work on an equity story with bankers as an internal exercise going forward. The P911 IPO was a deep-value investor's fantasy five years ago. It now looks like we live in fantasy land. Price is what you pay. Value is what you get. We believe there is incredible value in Porsche SE (PAH3 GY) and Volkswagen (VOW3 GY) as investors walk past it on the street while their eyes are trained above watching stocks fall from the sky.

Fear stock market failure,



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