

# **CAPITAL JUNKIE**

HOW SERGIO MARCHIONNE SAVED FIAT AND CHRYSLER



REUTERS BREAKINGVIEWS

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## HOW SERGIO MARCHIONNE SAVED FIAT AND CHRYSLER

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Cover image: Sergio Marchionne arrives at the New York Stock Exchange to ring the closing bell to celebrate Fiat Chrysler Automobiles' listing on the bourse October 13, 2014. REUTERS/Eduardo Munoz

# CONTENTS

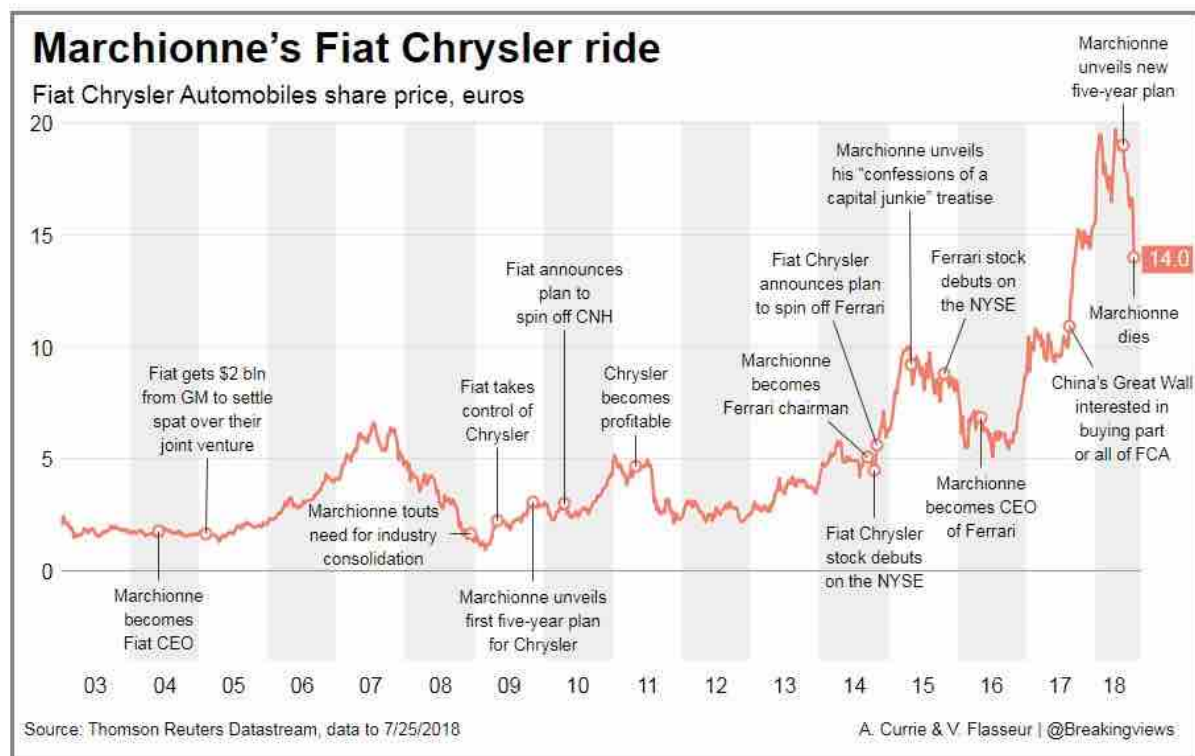
<b>PREFACE</b>	<b>4</b>
<b>MARCHIONNE FIXES FIAT</b>	<b>5</b>
Agnellis' grip on Fiat weakened Fiat overtakes GM in value	
<b>FROM CRISIS TO CONSOLIDATION</b>	<b>7</b>
Fiat swerves to avoid impending crash Fiat's clever deal revives Chrysler's corpse Fiat risks coming away empty-handed Fiat goes all in with Chrysler Marchionne's Chrysler blueprint needs a road test	
<b>BREAKING UP</b>	<b>12</b>
Fiat demerger scheme sounds sensible Is Marchionne Italy's Thatcher? Fiat's Marchionne gets auto deal of the century Fiat may find Chrysler deal is ticket out of Italy Fiat-Chrysler debut marred by Agnelli power grab Fiat Chrysler spins onto NYSE with hefty price tag More Porsche than Prada: Why Ferrari's worth \$7 bln	
<b>DEALING WITH CAPITAL JUNKIES</b>	<b>19</b>
Sergio Marchionne a man on someone else's mission Fiat boss fights for car M&A with hand behind back Don't underestimate Exor's John Elkann Ferrari parks its \$9.8 bln IPO in hybrid spot	
<b>THE COMPETITION CATCHING UP</b>	<b>25</b>
Peugeot-Opel deal steals a march on Marchionne Politics aside, Chinese bid for FCA has some merit Jeep sale would leave Marchionne nowhere to hide Fiat Chrysler looks boxed in by M&A options Wanted: Italian-American carmaker seeks new driver Fiat Chrysler powers ahead in carmaker wacky races Fiat Chrysler investors fear capital-junkie return	
<b>THE DOPO-SERGIO</b>	<b>35</b>
Sergio Marchionne leaves giant sweater to fill Marchionne's reformist legacy at risk in Italy The Agnellis will miss Marchionne most of all	

## PREFACE

Sergio Marchionne, who has died at 66, took the driver's seat at a battered and indebted Fiat in June 2004. Thus began the start of a remarkable turnaround, which he repeated five years later when Fiat took control of Chrysler from the U.S. government.

Having rescued them from the wrecker's yard, he pushed for breakups within the combined company and consolidation across the industry. These all helped him produce better shareholder returns than his main rivals. This new selection of Breakingviews columns offers a taste of his 14-year tenure and the influence he wielded.

*Rob Cox and Antony Currie  
Reuters Breakingviews  
July 30, 2018*



## MARCHIONNE FIXES FIAT



Sergio Marchionne at a news conference about his appointment as Fiat CEO in Turin June 1, 2004. REUTERS/Daniele La Monaca

### Agnellis' grip on Fiat weakened

By Breakingviews staff

Does Sergio Marchionne's arrival mark a shift in the balance of power at Fiat? That may not be how it looks after the Agnelli family's weekend defeat of a palace coup by the former chief executive. But the tectonic plates may be shifting.

Two things should strengthen Marchionne's hand at the expense of the Agnellis. First, he has a considerable reputation as a turnaround specialist. He dramatically restructured Swiss industrial conglomerate Alusuisse-Lonza in the 1990s, making money for shareholders. And in his last job at SGS, he turned around the Swiss surveillance group faster than expected. The stock more than doubled during his tenure.

Second, changes in the family representation on the board may allow him to impose his will more effectively than his predecessors. While the Agnellis haven't exactly abdicated control, new Chairman Luca Cordero di Montezemolo doesn't have the authority that Gianni or Umberto Agnelli used to enjoy. And given Fiat's still-rocky financial condition, the family will be wary of kicking out the company's fifth chief executive in two years.

But hang on, haven't we been here before? The Agnellis have brought in credible bosses in the past, only to spit them out later. Remember Paolo Fresco? This time round though, they don't have long to do so. Fiat's banks are likely to convert a 3 billion euro loan they hold into equity next year, diluting the family and weakening its power. Fiat's feudal days are almost over.

*June 2004*



## Fiat overtakes GM in value

By Rob Cox

Two years ago, Fiat was the wreck of the car industry. Its absorption into General Motors looked pre-ordained. How things have changed. Today Fiat's market cap is nearly \$15 billion – a fifth greater than GM's. Apart from savoring this stunning reversal of fortunes, is there a lesson the Italians might provide GM and its investors?

The Detroit automaker's current travails certainly mirror those from Fiat's darkest hours. Car sales have plummeted, market share is sliding, factories and workers are idling and the business is devouring cash. The stock has skidded, the dividend has been slashed and debt rated junk.

Fiat surmounted these obstacles by jettisoning assets not central to its industrial focus on cars, trucks and heavy machinery. But it also cut closer to the bone, not only selling most of its financing arm but a chunk of its crown jewel, Ferrari. It swapped debt for equity, sold new shares and wangled \$2 billion from GM for giving up the right to force it to buy Fiat Auto. That allowed Fiat to re-invest in its area of expertise, cheap and cheerful cars. Last year, Fiat snapped a 17-quarter run of losses and the stock has surged 80 percent.

GM's playbook is not too far off Fiat's. One notable distinction is the slower pace at which GM's board appears to be moving. It halved the dividend instead of dropping it, for example. And management appears unwilling to part with ancillary marks, such as Hummer and Saab, something its new, hard-nosed director Jerry York called for.

But there are two other critical differences. Fiat had nothing like GM's long-term healthcare and pension liabilities. These may be insurmountable without a bankruptcy filing. Oh, and Fiat's board did something else that GM hasn't – it fired four chief executives before it found the right turnaround artist in Sergio Marchionne. If GM studies Fiat's lesson closely, that can't be far behind.

*March 2006*



The new Fiat Punto, Sept. 6, 2005. The Punto was at the time Fiat's best-selling model. REUTERS/Daniele La Monaca

## FROM CRISIS TO CONSOLIDATION



Chrysler auto assembly workers wave their signs at passing traffic as they rally to save their jobs and protest plant closings in front of the Sterling Heights Assembly plant in Sterling Heights, Michigan May 21, 2009. REUTERS/Rebecca Cook

### Fiat swerves to avoid impending crash

By Rachel Sanderson

Fiat has tried to jumpstart consolidation in the European auto sector by announcing it cannot face the future alone. Boss Sergio Marchionne's doom-mongering may in the meantime raise enough nationalistic fervour to elicit a shot of state aid. But it is clear that Fiat's days as the definitive Italian industrial are numbered.

Until November, the carmaker looked relatively protected from the crisis ripping through the sector. But a 25 percent sales slump that month in Brazil, its biggest growth market, has left Italy's largest industrial employer vulnerable. A sharp rise in working capital has put its debt rating at risk of a downgrade to junk.

In this context, Marchionne's thesis is sound. But his forecast for consolidation to be wrapped up in two years may be a push. Focusing on mergers during a global cataclysm needs a leap of faith or the threat of a collapse. The current crisis may not be bad enough to concentrate minds.

Western European volumes are expected to slump by 14.5 percent next year, on top of a 7.5 percent fall in 2008. But suspended dividends and rights issues could provide a cash buffer. Also, governments won't relish the massive job losses that would be triggered by cross-border tie-ups such as Peugeot or Renault or Volkswagen with Fiat. Indeed, avoiding that prospect might encourage the Italian government to soften its opposition to an auto bailout.

Still, Marchionne is right to say Europe's car industry cannot continue as it is. The outlook is ugly. Morgan Stanley expects the total European auto sector's earnings before interest and tax to fall from a positive 11.7 billion euros this year to a negative 2.3 billion in 2009.

The fact that family groups back Europe's auto houses may, in the end, smooth the path to consolidation, if only after the worst of the crisis. The descendants of Fiat's fabled founder Gianni Agnelli whose other assets include real estate and financial services have said publicly the family is ready to cede control.

*March 2006*

## Fiat's clever deal revives Chrysler's corpse

By John Foley

Fiat has come up with a clever deal to re-animate the corpse of Chrysler. The Italian carmaker is set to take a 35 percent stake in its cash-strapped U.S. rival, paying not in cash or shares, but with technological know-how.

For Fiat's biggest shareholder, the Agnelli family, it marks the realisation of a longstanding dream to sell Fiat's nifty small cars into the American market. For Chrysler, the transaction should keep the blood flowing through at least some of its appendages.

Chrysler badly needs almost any deal. Its chances of surviving as a standalone company are negligible. It suffers from excessive debt, an over-reliance on its spluttering domestic market, and almost no presence in small cars, pretty much the only part of the vehicle market that's growing. Its deliveries of new cars fell 30 percent last year. Chrysler is burning around \$50 million a day, by one analyst's estimates, and a \$4 billion loan from the U.S. government this month barely touched the sides.

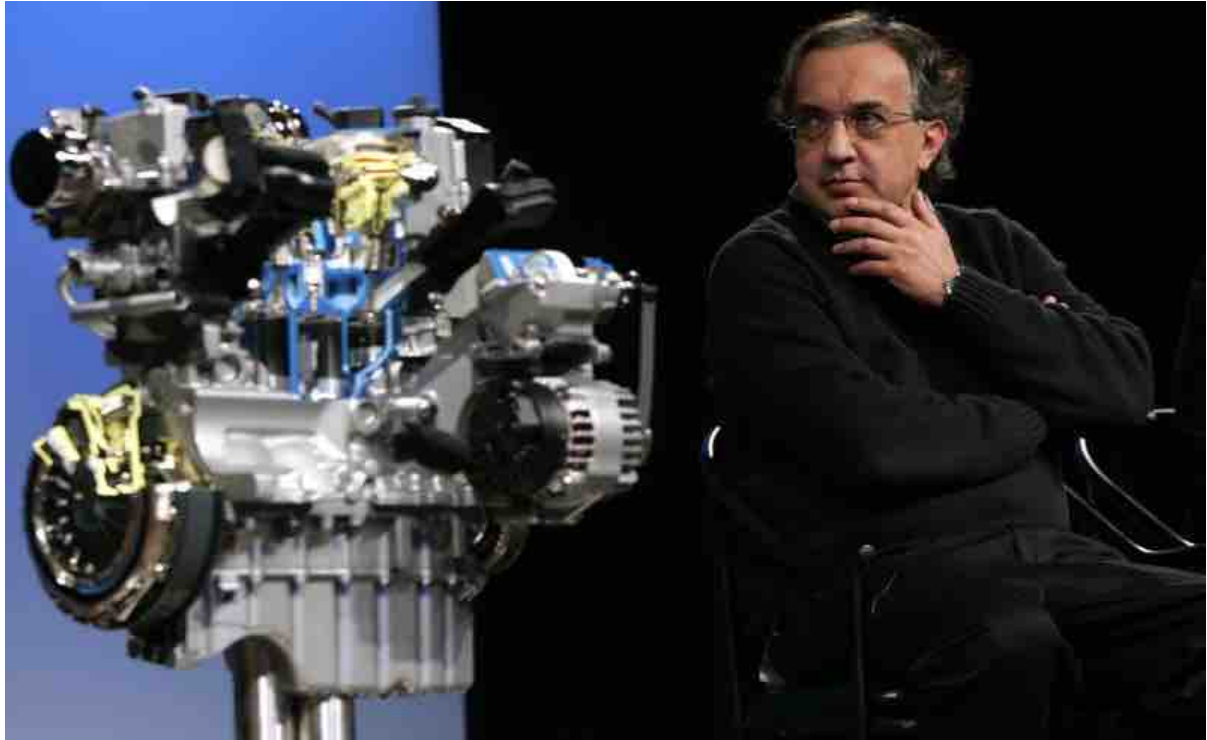
Fiat's plan is to bodysnatch Chrysler facilities and dealerships, with a view to modernising them and developing models jointly in future. This will keep factories humming and workers working, to the relief of the U.S. government. But it isn't a slam dunk. Consumers care about cutting vehicle emissions, but right now they care more about whether they can afford a new car at all.

Nor is the tie-up a quick-fix for Fiat's strategic challenges. Even adding Chrysler's entire 1.5 million-unit annual production to Fiat's 2 million doesn't get the company to the 6 million target set by boss Sergio Marchionne. It's no more than a good start, although it may give the pair an advantageous position from which to negotiate other joint ventures that add further volume.

That leaves Cerberus, the private equity firm that owns 80 percent of Chrysler. Assuming Fiat's stake in the enlarged company is minted in new shares, Cerberus's holding falls to just over 50 percent, and then to a third if Fiat exercises its option. Cerberus might not emerge with anything like a decent return. But at least if Chrysler runs out of road, the firm won't be the one caught squarely behind the wheel.

*January 2009*





Sergio Marchionne sits next to a display of a Fiat engine at Chrysler headquarters in Michigan, Dec. 17, 2009. REUTERS/Rebecca Cook

## Fiat risks coming away empty-handed

By Rachel Sanderson

Chrysler may be not enough for Fiat. The Italian carmaker has also shown interest in taking on GM Europe. Ambitious boss Sergio Marchionne's new gambit might be largely aimed at Chrysler's truculent unions and creditors. But Fiat's multiple cash-free offers could end up with no takers.

Marchionne has put Fiat in the running for Opel just five days ahead of the U.S. government deadline to find a deal with the creditors and unions of Fiat's near-bankrupt American peer.

The Canadian-Italian executive has been clear about his thinking. He believes there are too many carmakers in the world and that the current Fiat is too small to prosper, even after the recession ends. That sounds right. But these talks will test two other parts of the Marchionne worldview: carmakers should be bartering, not buying, their alliances; and governments should pay for restructuring.

The mooted Chrysler deal would fit in well. Fiat pays nothing but gets access to a U.S. dealer network and \$6bn of state aid. There could be something similar at the less structurally troubled Opel: 3 billion euros of loan guarantees.

Marchionne's proposal demands attention because his premise is correct. But some powerful players don't buy the notion of a barter-subsidy economy. Governments, unions and especially creditors on both sides of the Atlantic want to see some cash. They are not impressed enough with Fiat's industry-leading powertrain and green technologies.

As a result, both deals are doubtful. In the case of Opel, Fiat is just one of many interested parties. It would also need to stump up 500 million euros to clinch a deal. Fiat is the preferred industrial partner for Chrysler, but the U.S. government and bondholders are far apart on terms. Fiat may not have what it takes to keep bankruptcy away.

The missing ingredient is cash. Fiat generated 158 million euros of working capital in the first quarter. That's a big improvement over last year's 1.3 billion euro outflow. But the company is still loss-making. It can't afford to add a cheque to its offer of patents and Marchionne's exemplary leadership.

At the end of these negotiations, Fiat may end up as the industry's supreme consolidator. But if both deals fall apart, it will become more difficult to disguise that Fiat is pretty desperate for an alliance too.

*April 2009*

## Fiat goes all in with Chrysler

By Robert Cyran

Fiat has pulled off a remarkable coup with the help of the U.S. government. In exchange for non-cash bits and bobs, it has secured a path to control Chrysler after it emerges from bankruptcy. But running a sprawling carmaker is difficult - just ask Renault's Carlos Ghosn.

In exchange for allowing Chrysler to use its distribution network, licenses for its small cars and engine technology, Fiat will receive 20 percent of the company. Once certain benchmarks are hit, Fiat gets another 15 percent. Finally, there's an option to buy another 16 percent by June 2016. Moreover, the U.S. government is kicking in up to \$8 billion in loans to help Chrysler exit bankruptcy.

Fiat should be happy if everything goes smoothly. The subscale manufacturer gets size, which will help it reduce purchasing costs. It gets a dealer network in the United States. And if the U.S. auto market rebounds, it will have bought in at the bottom.

Of course, things may not go according to plan. Daimler already tried to run Chrysler and failed. Of course, Fiat has a big advantage: bankruptcy will allow Chrysler to shed lots of unwanted assets such as its cash-sucking dealership network. And dowdy Chrysler probably makes a better match for econocar specialist Fiat than it did for glamorous Daimler, which should facilitate integration.

But running a sprawling car group is difficult. Renault's Ghosn, for example, is widely regarded as one of the most talented managers in the car business. He did wonders when parachuted in to troubled Nissan. And he turned in good results managing Renault at the same time, by combining the two groups purchasing and production at least for a while.

Eventually running two groups caught up with him and Renault was forced to seek aid from the French state. Fiat boss Sergio Marchionne should take note. Pouncing on Chrysler is an impressive feat. Turning it around will be harder.

*April 2009*

## Marchionne's Chrysler blueprint needs a road test

By Antony Currie

Sergio Marchionne has drawn up an ambitious blueprint for driving Chrysler out of the wrecker's yard. Some five months after the Motown carmaker emerged from its turbo-charged, government-funded bankruptcy, the new capo and his top executives treated industry observers to 16 presentations over some seven hours laying out their plans. But his vision needs to do more than look good on paper.

Unsurprisingly, he is importing some of the strategies that served him well in turning Fiat around. Chrysler, for example, is instituting Fiat's World Class Manufacturer policies, which aim to get workers more fully involved in decisions and to improve all manner of working conditions from cleanliness and lighting to assembly line workers posture and access to the tools and parts they need.

By 2014 the two firms are also going to share production platforms, which will reduce the total from 11 to seven. They are to share strategies for buying all commodities and supplies which could save some \$3.4 billion by 2014. And Chrysler will start installing Fiat's superior powertrain technology in its vehicles next year.

Of course, Marchionne isn't starting quite from scratch. The U.S.-sponsored bankruptcy process restructured the balance sheet for him. And if nothing else, former owner Cerberus had already started to improve quality control, overhauling a shambolic process that, according to quality head Doug Betts, meant it used to take an average of 71 days to find someone to agree to fix a problem.

But he's not above making the numbers look as good as possible. Take his statement that the unprofitable firm's cash pile increased by almost half to \$5.7 billion in three months. It did, but almost certainly only because, while it had money coming in from selling inventory, it had few bills to pay: Chrysler factories stood largely idle until mid-summer.

And some of the assumptions look very punchy: he reckons revenue should grow by 20 percent a year and by 2014 expects Chrysler's U.S. market share to jump back to 13 percent, from less than 9 percent this year, and its operating margin to hit what would be a market-leading 7 percent. Success turning Fiat around certainly gives Marchionne credibility. But his prototype needs a test drive first. So far he's merely provided a road map.

*November 2009*

## BREAKING UP



A worker adjusts the logo on a new Fiat Punto at a Fiat factory in Kragujevac, Serbia, March 18, 2010. REUTERS/Ivan Milutinovic

### Fiat demerger scheme sounds sensible

By Hugo Dixon

Fiat lux. The Italian industrial group has seen the light and is launching a sensible demerger plan. By splitting itself into a pure-play car group and a capital goods maker, the Agnelli-controlled conglomerate is expecting two potential benefits. The conglomerate discount that has long weighed on the group's shares would be lifted; and the company would be freer to cut deals with other auto makers. The market's reaction as news leaked on Tuesday was positive - immediately boosting Fiat's shares by 9 percent.

Over the past decade, Fiat has taken significant steps to rationalise its portfolio. But it is still an awkward mix. In addition to churning out sporty Alfa Romeos and cheerful Cinquecentos, not to mention deluxe Ferraris and Maseratis, the group also manufactures trucks, robots, auto parts, tractors and earthmovers.

Fiat has concluded that this structure militates against shareholder value. Pure auto stocks aren't the market's cup of tea, especially since the badly hit European car industry's prospects are still uncertain. Capital goods are more appealing. In Fiat's case, the two big assets are truck maker Iveco and CNH Global, the agricultural- and construction-equipment maker. Fiat's management believes that the whole group has been valued as if it were a car maker.

The structure hasn't stopped the Italian group from doing deals in cars - notably taking a 20 percent stake in Chrysler. However, it clearly makes it harder. Fiat doesn't, for example, have a currency that it could use to acquire another auto group - nor could it engage in a full-scale merger with a rival.



Spinning off the non-car business, though, would open up these possibilities - and with them the chance to play more fully the global automotive consolidation game.

Fiat still needs to set out the detailed plans for these two businesses. That will be the first task of John Elkann, the grandson of Giovanni Agnelli, as he takes over as chairman. But, for now, the market likes what it sees.

*April 2010*

## Is Marchionne Italy's Thatcher?

By Alexander Smith

Sergio Marchionne's handling of Italy's unions is reminiscent of Margaret Thatcher's battles in the UK in the 1980s. And the Fiat chief executive's no-nonsense approach is working. He's achieved more labour flexibility at the carmaker in months than Italy managed in years. Marchionne needs the changes for his transformation of Fiat to succeed. Other Italian employers should ride his slipstream.

Marchionne needs more workers to fulfil his intention to double production in Italy by 2014. He can offer the unions jobs, but only if they guarantee good labour relations and much higher productivity. Fiat's Polish plant produces almost as many vehicles as its five Italian factories, but with 30 percent of the workforce. Hence Marchionne's threat to shift production to eastern Europe if he doesn't get more flexible contracts.

One plant, Pomigliano d'Arco, has become the front line in the conflict. True, four out of five unions at the underperforming facility near Naples accepted Marchionne's pledge of job creation and signed up to a landmark productivity deal. But Italy's main engineering union, FIOM, which represents the plant's remaining workers, dug in its heels. It may have underestimated Marchionne's resolve.

Like Thatcher, who famously took on Britain's coal-mining union and won, Marchionne is not for turning. His response was to simply set up a new company. This sits outside the Confindustria business lobby and so is not covered by national job contracts. Most workers represented by the four other unions at the plant, where Fiat will produce the new Panda model, signed up to new contracts in July. Marchionne has given FIOM union members until the end of September to follow suit.

Nasty confrontations could ensue, although a sharp fall in Italian car sales in August is likely to focus the minds of the union's members. Even if agreement is not reached, Pomigliano is only working at 15 percent of capacity, so production shouldn't suffer.

Marchionne has already got much of what he wanted. Earlier this month, Italy's main industry body said it would pull out of engineering labour contracts from 2012 and negotiate more flexible terms for the automobile sector. And other sectors are expected to follow. Perhaps Fiat should be seen as repaying a debt to the nation after years of state support.

*September 2010*

## Fiat's Marchionne gets auto deal of the century

By Antony Currie

It may not look it at first glance, but Fiat's Sergio Marchionne may have engineered the auto deal of the century. When the Italian automaker agreed to take bankrupt Chrysler into its workshop two years ago, it looked like a relatively risk-free, if out-of-the-money, bet on a turnaround: the U.S. government gave Fiat management control and a 20 percent stake – since increased to 30 percent – for nothing. Had Detroit's number three proved unsalvageable, Fiat would have lost little but time spent.

Only now is it becoming clear how good a bargain Marchionne negotiated. The catalyst is Chrysler's financial performance, which has now improved enough for it to be able to refinance the \$7.5 billion of U.S. and Canadian government debt that kept the company afloat in 2009. Doing that allows Fiat to buy a 16 percent stake, for \$1.3 billion.



New Jeeps are pictured on a lot at a Chrysler/Jeep dealership in Vienna, Virginia April 26, 2012. REUTERS/Kevin Lamarque

On its own, that's hardly a steal. It values the Motown manufacturer at \$7.9 billion by using Fiat's multiple of enterprise value to trailing EBITDA – a calculation stipulated in the 2009 agreement with the U.S. Treasury. As a standalone entity, Chrysler shouldn't command such a sum. Using Ford's multiple of 8.2 times 2011 earnings, for example, would value Chrysler's equity at just \$7.4 billion. And Chrysler only ekes out a 1.6 percent pre-tax margin – around a fifth of far-stronger Ford's.

But overpaying is hardly a concern for Fiat. For starters, it got 30 percent as a freebie and should add another 5 percent later this year. Fold in the stake it's paying for, and Fiat becomes the majority owner. That's when the real juice should appear – from squeezing costs. Marchionne has doubtless found synergies already. But imagine if he can slash 3 percent, or \$3 billion, of the two firms' combined costs, just as Daimler and Chrysler

promised when announcing their 1998 merger. That may even be too conservative: 18 months ago Fiat talked about saving \$3 billion in purchasing costs alone by 2014.

Once taxed, discounted and capitalized, those are currently worth some \$17 billion to shareholders – more than double Chrysler's implied value. True, the car sector's recent past (Fiat included) is littered with similar promises that never materialized. But with such a large margin for error, only extraordinary incompetence on Marchionne's part can prevent turning the Chrysler deal into the industry's shining exception.

*May 2011*

## **Fiat may find Chrysler deal is ticket out of Italy**

By Rob Cox

Italy is a global leader in fashion, food and art but comes up short on multinational corporations. That's likely to change as Fiat plots a full takeover of Chrysler. Going global, though, comes at a price: Fiat's Agnelli family may need to put pragmatism over sentimentality and move its headquarters from Italy.

Fiat is already becoming less Italian. This marks the first year the company is not a dues-paying member of Confindustria, the federation of Italian employers. Just a couple of years ago, when Fiat's chairman led Confindustria, this would have been unthinkable. Chief Executive Sergio Marchionne withdrew Fiat largely to forge its own destiny with labor unions.

But the bigger catalyst for Fiat's global graduation lies ahead. The launch of the Fiat-engineered fuel-efficient Dodge Dart allowed Fiat to raise its stake by 5 percentage points to 58.5 percent this week. Buying the remainder of Chrysler from a trust established to fund healthcare costs for retired UAW workers comes next, but will be far trickier.

The two sides are supposed to work out a deal in the first quarter of 2013. Though negotiations have yet to begin, they're already far apart on price. Moreover, even if Fiat could snag a valuation in line with the price it paid for a 16 percent stake last year, it would cost around \$3.3 billion. But given Fiat's debt is nearly 6 billion euros – dwarfing its market value of 4.8 billion euros – that would be tight.

That suggests the best option would be to offer a combination of equity, with some cash, to the UAW trust as part of a full merger. The net present value of synergies that could be squeezed out – estimated by Breakingviews at some \$17 billion – might also appeal to the trust. But it's hard to imagine it would want its primary asset to be in Italian stock.

The solution, then, seems relatively simple. The companies combine and the trust gets shares in the new group, which transfers its incorporation and primary stock listing to the United States. Fiat becomes Italy's first global company. It's just not very Italian anymore.

*January 2012*

## Fiat-Chrysler debut marred by Agnelli power grab

By Olaf Storbeck

Never underestimate Sergio Marchionne's creativity. Fiat's chief executive announced on Jan. 2 a surprise deal whereby it bought its U.S. rival Chrysler on the cheap. Now he has presented a plan that will silently tighten the grip of Fiat's controlling shareholder, the Agnelli family, over the merged company.

This power grab marks the debut of Fiat Chrysler Automobiles (FCA). The company is preparing a so called loyalty scheme giving long-term investors additional voting rights. Initially, all of Fiat's existing shareholders will benefit, provided they are represented at the general meeting that will vote on the company's transformation. Each investor will receive one FCA common share for every Fiat share he owns.

On top come additional loyalty voting rights. These will have a limited life span and disappear when the share is sold. The scheme mirrors one used in the merger between Fiat Industrial and CNH Industrial, the tractor and truck maker.

In the long run, the Agnelli family, which currently holds 30 percent in Fiat, will be a major beneficiary of the scheme. Its share of voting rights will rise whenever other investors sell FCA shares. Suppose all FCA shares not owned by the Agnellis change hands: then the family's voting rights theoretically increase from 30 percent to 46 percent.

Fiat says the scheme is designed to foster a stable shareholder base for far-sighted investors. In the new group, extra voting rights will be given to investors who keep their holding for at least three years. That may help ward off activist investors with short investment horizons. What's unclear is why the Agnellis need incentives to stay loyal.

Over time, the plan will create a dubious two-tier system where some shareholders are more equal than others. The fact that publicly traded shares in Fiat Chrysler will de facto have fewer privileges than non-traded ones may weigh on the stock.

Long-term investors can indeed be helpful for a company. Think BMW, which owes its success to a long-term strategy made possible by the Quandt family. But the Quandts do not discriminate against other shareholders. Neither should the Agnellis.

*January 2014*





Sergio Marchionne (C) rings the closing bell to celebrate Fiat Chrysler's listing at the New York Stock Exchange, Oct, 13, 2014.  
REUTERS/Eduardo Munoz

## Fiat Chrysler spins onto NYSE with hefty price tag

By Antony Currie

Fiat Chrysler is spinning onto the New York Stock Exchange – looking decidedly overvalued. Boss Sergio Marchionne revealed earlier this year that he wants to sell 60 percent more cars by 2018, costing perhaps \$10 billion a year. That's a big ambition for a debt-laden manufacturer with lagging margins. Yet the Italo-American carmaker, which started trading on the Big Board on Monday, sports a similar multiple to more profitable rivals Ford and General Motors.

Marchionne has done well to get the newly merged company this far. Fiat was on the brink of a financial crash when he took the wheel a decade ago. And President Barack Obama's administration would have sent Chrysler to the wrecker's yard in 2009 if Fiat hadn't offered to gradually take it over. Now it's on far firmer footing: September's U.S. sales, for example, were the company's best for that month since 2005.

Financially, though, Fiat Chrysler is still behind. Analysts expect its pre-tax margin to be a paltry 1.4 percent this year, according to Thomson Reuters data. And it's only expected to hit 3.1 percent by 2016. Ford, by contrast, is heading for just under 5 percent this year and 7.4 percent in two years' time. GM is likely to be around a percentage point lower than Ford.

On top of that, Detroit's top two automakers have pristine balance sheets, boasting ample and growing net cash. Fiat Chrysler may end this year with \$16 billion in debt. That's a tough position to start an ambitious expansion from, not least when Marchionne wants to increase sales at three times the rate research firm IHS expects the industry to grow over the next four years.

Yet Fiat Chrysler hits the NYSE trading at seven times 2016 estimated earnings. That's barely behind Ford's multiple of 7.1 and better than GM at 6.3 times earnings. Granted, both companies' shares have been hit this year – GM's by recall woes and Ford's by a revision to guidance caused by problems in Russia and Latin America. Marchionne's Big Board debut may mark the company's best showing for a while.

*October 2014*

## More Porsche than Prada: Why Ferrari's worth \$7 bln

By Olaf Storbeck

Ferrari is more Porsche than Prada. Fiat Chrysler Chief Executive Sergio Marchionne aims to spin off the Italian sports carmaker in 2015, and wants it to be valued like a luxury-goods company, with an enterprise value of up to 10 billion euros (\$12.4 billion). Fast cars, however, are harder to craft than handbags or high heels. A more reasonable price tag would not be much more than half that.

With cars costing up to 1.3 million euros, a Formula One team, a deliberate shortage of product, and its famous prancing horse logo, Ferrari is one of the industry's shiniest names. Brand Finance, a consultancy, judges it the world's most powerful brand. That creates high barriers to entry. But staying ahead is expensive. And while Ferrari does have a small sideline in clothes and merchandise, it's really all still about the cars.

Each year, Ferrari spends up to a fifth of sales on capital investment and research and development. That's above industry peers and more than twice the average outlay by European luxury-goods companies such as Tod's, LVMH, or Hong Kong-listed Prada. That has two effects. The heavy investments carried on the balance sheet depress Ferrari's returns on capital. Europe's carmakers as a whole earn just half the return on capital made by luxury groups.

Secondly, research costs charged to the profit-and-loss account crimp margins. At 15.6 percent, Ferrari's operating margin is about a fifth below the European luxury goods median. Ferrari beats the 10 percent margins at BMW and Volkswagen's Audi brand, but trails the 18 percent at Porsche, another part of the VW empire.

Marchionne thinks Ferrari can lift EBITDA above 1 billion euros, and should trade on a luxury-like multiple of nine to 12 times that figure. Not quite. Daimler and BMW trade on more like four times. Ferrari's growth potential merits a premium – of, say, 50 percent, to six times. But even then, that implies an enterprise value of 6 billion euros.

*December 2014*

## DEALING WITH CAPITAL JUNKIES



Sergio Marchionne at the North American International Auto Show in Detroit, Michigan Jan. 12, 2015. REUTERS/Rebecca Cook

### **Sergio Marchionne a man on someone else's mission**

By Antony Currie and Olaf Storbeck

Sergio Marchionne is a man on someone else's mission. On Wednesday the Fiat Chrysler boss spent almost two hours outlining why he thinks the car industry desperately needs consolidation. He makes a good case and harangued analysts into the bargain – sounding a bit like an activist investor. Yet his bizarre plea for help with mass mergers sent Fiat Chrysler's shares down 5 percent. That kind of backfire smacks more of Ferdinand Piech.

Piech was, until this week, the seemingly all-powerful chairman of Volkswagen. But in recent weeks he tried to have Chief Executive Martin Winterkorn removed, even though the Wolfsburg-based manufacturer's boss had been performing, if not perfectly, then at least just fine.

Marchionne's analyses of the structural inefficiencies of the global car industry are pretty much spot on. They're also nothing new. Analysts and shareholders have long pointed out the overcapacity in the mass car market and its players' inability to earn their cost of capital – with a few notable exceptions like Volkswagen and Toyota.

What's new is the refreshing invective Marchionne leveled at his peers – and himself. Carmakers waste too much time duplicating processes that have little if anything to do

with what persuades consumers to buy a vehicle. This, and the resultant poor returns, are “defensive”, “irrational” and even “immoral”, Marchionne spat.

He made these comments, though, not just in public, but when unveiling the company’s first-quarter earnings. These reinforced the pressures of the industry, but also that Fiat Chrysler is one of its weakest players. It burns cash, has 8.6 billion euros of net debt and earns feeble margins even in the United States.

What’s more, his exhortations for consolidation are at odds with his own strategy: He is, after all, preparing to spin off Ferrari. Without the highly profitable luxury car brand, Fiat Chrysler will be in an even weaker position to ignite some M&A.

So what’s a man frustrated with his rivals to do? “The capital markets need to push for change,” he argues. That verges on the naïve – an unusual place for Marchionne to be. It’s much easier, and better for returns, for investors simply to shun unattractive companies or industries, not try to fix them.

Still, Marchionne has managed in the past to pull off what seemed to be impossible. He surely has an agenda. For now, though, it is well hidden.

*April 2015*

## **Fiat boss fights for car M&A with hand behind back**

By Antony Currie

Sergio Marchionne is fighting for automobile-industry mergers with one hand tied behind his back. The Fiat Chrysler boss argues consolidation will reduce expenses, improve shareholder returns and better prepare carmakers for a boom in assisted and driverless cars. General Motors has already rebuffed his approach, according to the New York Times, in part perhaps because such deals are messy, complex and distracting. Marchionne doesn’t help his cause, though, by playing down the scale of potential cost cuts.

He laid out a strong but surprisingly public case for mergers last month, arguing that about half the capital spending on new car development duplicates rivals’ efforts. The waste, he said, stops the industry from beating its cost of capital and causes auto stocks to trade at low multiples.

Yet he pegs the maximum amount of synergies from potential deals at just 4.5 billion euros a year. That’s almost 2 percent of total industry sales, roughly what Daimler and Chrysler reckoned they could trim in their ill-fated 1998 merger. Applying the figures to a GM-Fiat Chrysler tie-up would imply a 2014 pre-tax margin of 6.4 percent for the combined company, excluding one-off items.

That easily beats the 1.75 percent Marchionne managed last year, but it’s not much more than what counterpart Mary Barra achieved at GM. It would take several years to accomplish, too. Meanwhile, Detroit’s biggest carmaker, presumably the buyer, would be saddled with lower returns and higher debt and have few benefits to look forward to.



GM and Fiat Chrysler have far more overlap than Daimler-Chrysler, though. Marchionne's analysis excluded reductions in staff and brands, probably to avoid angering unions and governments fearful of mass job losses.

When a GM-Chrysler merger was mooted in 2008, cost cuts were estimated at \$10 billion. Factor in meshing Fiat and GM-owned Opel in Europe, and the figure could hit \$15 billion or more. That would be worth almost \$100 billion to shareholders, once taxed, capitalized and discounted – more than the two companies' current market value. The resulting pre-tax margin of 10 percent could make the deal more than a little enticing.

*May 2015*



John Elkann, chairman of Fiat Chrysler Automobiles, speaks with the media at the New York Stock Exchange, Oct. 13, 2014.  
REUTERS/Eduardo Munoz

## Don't underestimate Exor's John Elkann

By Rob Cox

Everyone in the auto industry knows Sergio Marchionne's views about consolidation. For years, the Italo-Canadian executive who welded former laggards Fiat and Chrysler into a coherent whole has shouted from the rooftops that the only way to ensure long-term viability for manufacturers like his is to crunch them together and take out capacity.

Yet Marchionne's public campaign wouldn't be happening without the backing of John Elkann, the 39-year-old Agnelli family scion who leads Exor, the investment group that owns a controlling stake in Fiat Chrysler. The soft-spoken Elkann may not project the stylish swagger of his grandfather, Italian business legend Gianni Agnelli, who once crashed a Ferrari going 120 miles an hour into a meat truck on the Corniche above Monte Carlo. It would be a mistake, though, to underestimate his resolve.

Exor's aggressive bid for PartnerRe may offer a glimpse of what General Motors and others can expect as Marchionne ratchets up his coercive charm offensive. For the first time in his career, which began with a stint at General Electric and a seat on Fiat's board at 21, Elkann is pursuing a big unsolicited takeover – and trying to derail an agreed deal between the reinsurer and Axis Capital with an all-cash \$6.8 billion offer.

GM's leadership, which rebuffed an approach Marchionne made in March about a potential tie-up, would be unwise to think that's the end of it. True, Fiat Chrysler, with a market capitalization of just \$20 billion, is a lot smaller than \$58 billion GM. It's also less profitable and has \$9 billion of net debt. But Marchionne's thesis, bluntly articulated in his manifesto-cum-investor presentation in April titled "Confession of a capital junkie," is nearly irrefutable. As one large GM investor put it to me: "The guy is totally right."

Marchionne's basic argument is that there is too much capital being deployed by too many carmakers. The time to act is while the car business is booming – U.S. annualized sales hit a decade high in May – not during one of its inevitable cyclical troughs. Even now, the return on investment by mainstream carmakers is barely 8 percent, below their cost of capital, according to Marchionne. This results in valuations – around four times EBITDA – for the whole sector that are lower than for most other industries.

By sharing research and development, power-train, transmission and engine portfolios, Marchionne argues, Fiat Chrysler could squeeze out as much as \$5 billion in savings in a merger with a rival, a process that would boost returns on capital above 12 percent, and warrant a valuation of around seven times EBITDA. Though deals in the industry have tried to capture these benefits (think Daimler's ephemeral ownership of Chrysler), they failed because "it is ultimately a matter of leadership style and capability," says Marchionne.

The subtext, of course, is that Marchionne is a different class of leader. Fiat's extraordinary turnaround and integration of Chrysler suggests that may be true. At any rate it's easy to see why Elkann and the 70-odd other members of his extended family who have their wealth tied up in Exor have confidence in the man. Since 2009, when Marchionne nabbed Chrysler out of bankruptcy, Exor's stock price has surged from just under 6 euros a share to 45 euros, valuing his family's 51.4 percent stake at around 5.6 billion euros today.

The experience convinced Elkann – an admirer of Warren Buffett and Jorge Paulo Lemann, the aggressive Brazilian entrepreneur behind 3G Capital – that the car industry needs to continue consolidating. As he wrote in his 2014 letter to Exor shareholders: "Hopefully this will be driven by reason and common sense rather than by crisis and will take into account the importance of identity and culture, as we have done, avoiding the all too typical divisive trappings of a takeover and creating instead a shared transnational culture."

As much as that sounds like a pitch for GM to absorb Fiat, the Agnellis aren't looking to sell out. Cars are their bloodline. In a no-premium all-stock merger with GM, the Agnellis would, of course, see their 29.2 percent stake in Fiat Chrysler diluted, to around 7.5 percent of the merged entity. That would still make the Agnellis the largest shareholder, ahead of the healthcare trust of the United Automobile Workers.

The benefits of owning a smaller piece of a larger canvas on which to apply Marchionne's brushwork would be sizable. Max Warburton, an analyst at Bernstein Research who sparred with Marchionne over his treatise on capital, suggests a combination could

credibly promise cost savings of \$10 billion. "These kinds of numbers are not insane, at least in theory," he wrote.

The net present value of those synergies could be worth something close to \$60 billion for shareholders, with the Agnelli family's stake alone reaching almost \$5 billion, nearly equal to the value of its current interest in Exor.

Getting GM to play ball is understandably proving tricky: a reverse takeover by Marchionne is hardly at the top of Chief Executive Mary Barra's to-do list. But the logic for a transaction is sound. Marchionne, who turned 63 last week, isn't getting any younger. And Elkann is developing an appreciation for the art of the deal. Don't discount Exor's determination.

*June 2015*



A Ferrari parked outside the New York Stock Exchange Oct. 21, 2015. REUTERS/Lucas Jackson

## Ferrari parks its \$9.8 bln IPO in hybrid spot

By Antony Currie

Ferrari has parked its \$9.8 billion initial public offering in a hybrid spot. Shares of the high-end carmaker being spun off by Fiat Chrysler were priced at the top of the previously announced range and traded up about 10 percent early on Tuesday. That's a better performance than most recent IPOs have delivered. But Ferrari doesn't merit top-whack valuations commanded by luxury retailers like Prada.

Six of this month's 10 IPOs in the United States launched below the price range marketed to prospective investors, according to Thomson Reuters. That's up from 50 percent last month, 25 percent in August and between 10 percent and 20 percent from March to July.

The increase is due in part to shakier markets that make investors less eager to buy riskier-looking deals. Private equity-backed IPOs and tech-company offerings have had an especially difficult time. China's economic slowdown could hurt Marchionne's hopes of enticing the growing number of multi-millionaires in Asia and elsewhere to buy his speedy automobiles.

Ferrari does, though, have loyal customers, with 60 percent of each year's buyers having purchased the cars before. Its debt is also manageable, unlike that of many companies owned by private-equity firms. And it has decent earnings. Preliminary third-quarter results show profit growing faster than revenue and an EBIT margin of almost 20 percent – up from 16 percent in the first half of the year.

Matching the lofty multiples of luxury retailers, though, is hard to justify. Investors have at least denied Marchionne the \$12 billion market cap he was aiming for. Research and development costs need to stay high for Ferrari to keep pace with Porsche and other rivals. And Marchionne must prove that he can sustain earnings and margins growth. Annualized EBITDA of 750 million euros for the first nine months of this year needs to increase by a third to hit the longer-term target he has set.

The carmaker's zippy valuation of almost 16 times last year's EBITDA – putting Daimler's five-times multiple to shame – suggests shareholders may believe he can get there. For now, though, having Ferrari speed along in the middle lane may be a better option.

*October 2015*



## THE COMPETITION CATCHING UP



Carlos Tavares (C), CEO of PSA Group, Mary Barra (L), CEO of General Motors, and Dr Karl-Thomas Neumann, CEO of Opel Group, pose during a news conference in Paris, France, March 6, 2017. REUTERS/Christian Hartmann

### Peugeot-Opel deal steals a march on Marchionne

By Olaf Storbeck

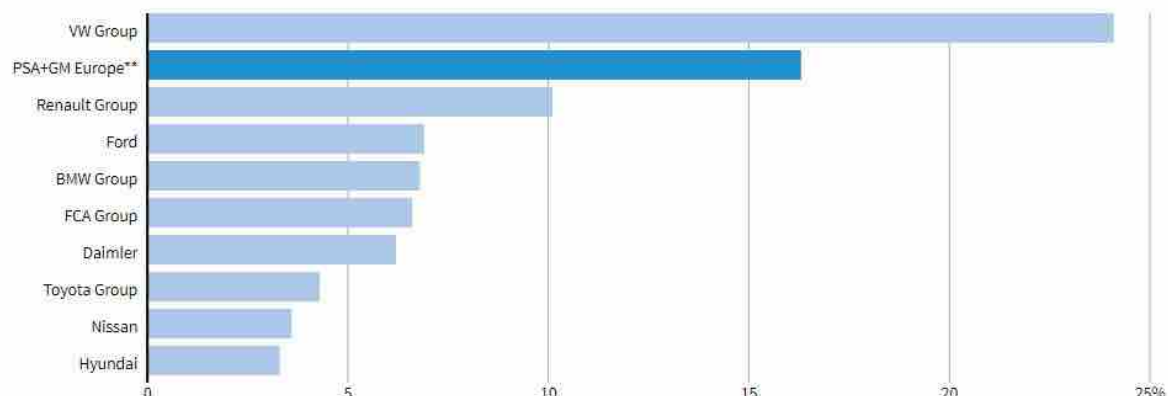
Fiat Chrysler boss Sergio Marchionne has for years advocated consolidation in the car industry. A tie-up between Peugeot and Opel would prove his point but hurt his company.

If the Opel deal happens, Volkswagen, Peugeot and Renault-Nissan would control 54 percent of the European market. Fiat has a measly 6.6 percent share. Worse still, many of its plants on the continent are located in Italy, which has high labour costs and tight employment laws. Even in a good year like 2016, when the overall European market grew by nearly 7 percent, the automaker's regional operating margin was 2.5 percent. Neither Germany's high-margin premium brands Daimler and BMW nor Toyota – which together have a 17 percent market share – are likely to want to hook up with such an unattractive rival.

That's a headache for Fiat, which is under pressure to ramp up costly investment in cleaner cars. The company has the worst CO2 emissions footprint of any volume carmaker on the German market, according to the Center of Automotive Management, a German think-tank. Without drastic steps, Fiat risks missing Europe's legally binding 2021 targets and may face fines. And if U.S. President Donald Trump relaxes American emission rules, the automaker would end up developing the costly technology only for the relatively small number of vehicles sold in Europe. Bad news for a company which already has net industrial debt of 4.6 billion euros.

## Consolidating Europe's passenger car market

2016 MARKET SHARE\* | WITH COMBINED PSA/GM EUROPE



\*EU + EFTA countries

\*\*Opel Group including the brands Opel/Vauxhall &amp; Chevrolet

Source: ACEA

By V. Flasseur | BREAKINGVIEWS

The Opel deal would also make Marchionne's vision of merging Fiat Chrysler with General Motors – an idea previously rejected by the courted rival – even harder to achieve. After hiving off the perennially loss-making European operations, GM boss Mary Barra will have little appetite for another underperforming business in the same region. Even if she did, Marchionne has a weaker hand, since getting rid of loss-making Opel will lift GM's operating margins and free around \$1 billion of capital expenditure per year. As others prove fleetier at turning his visions into reality, the Fiat boss could find his options dwindling.

*February 2017*

## Politics aside, Chinese bid for FCA has some merit

By Rob Cox

Fiat Chrysler boss Sergio Marchionne has said the car industry needs to come together, cut costs and stop incinerating capital. So far, his confessions have mostly fallen on deaf ears among competitors in Europe and North America. But it appears Marchionne has finally found a receptive audience – in China.

FCA shares soared Monday after trade publication Automotive News reported the \$18 billion Italian-American conglomerate controlled by the Agnelli family rebuffed a takeover from an unidentified mainland carmaker. As ugly as the politics of such a combination may appear at first blush, a transaction could stack up industrially, and perhaps even financially.

A Sino-U.S.-European merger would create the first truly global auto group. That could push consolidation to the next level elsewhere. Moreover, China is the world's top market for the SUVs Jeep effectively invented, so it might benefit FCA financially. A combo would certainly help upgrade the domestic manufacturer; Chinese carmakers have gotten better at making cars but struggle to build global brands, and they need to develop export markets.

Though frivolous overseas shopping excursions by Chinese enterprises are being reined in by Beijing, acquisitions that support the modernization and transformation of strategic industries still receive support, and the government considers the automotive industry to be strategic. A purchase of FCA by Guangzhou Automobile, Great Wall or Dongfeng Motor would probably get the same stamp of approval ChemChina was given for its \$43 billion takeover of Syngenta.

What's standing in the way? Apart from price (Automotive News said FCA's board deemed the offer insufficient) there's the not-insignificant matter of politics. Even as FCA shares soared, President Donald Trump interrupted his vacation to instruct the U.S. Trade Representative to look into whether to investigate China's trade policies on intellectual property.

Seeing storied Detroit brands like Jeep, Chrysler, Ram and Dodge handed off to a Chinese company would provoke howls among Trump's economic-nationalist supporters. It might not play well in Italy, either, to see Alfa Romeo and Maserati answering to Wuhan instead of Turin – though Automotive News said they might be spun off separately.

Yet, as Morgan Stanley observes, "cars don't ship across oceans easily," and political considerations increasingly demand local manufacture of valuable products. Combining with General Motors, as Marchionne once proposed, would have led to massive job cuts and plant closures. Opposing a Chinese bid for FCA makes an easy, inflammable tweet. Keeping Americans employed takes something a bit more rigorous.

*August 2017*

## Jeep sale would leave Marchionne nowhere to hide

By Antony Currie

Selling Jeep would leave Sergio Marchionne nowhere to hide. The Fiat Chrysler Automobiles chief executive advocates using M&A to stop carmakers wasting precious capital. Offloading the company's top brand to China's Great Wall Motor, whose president has indicated interest, could raise billions. But it would leave an emaciated rump.

Great Wall's interest may stall in any event. With a market value of some \$15 billion, it may struggle to secure financing or Beijing's approval for a deal larger than itself. Even if it succeeded, the Trump administration and the U.S. Congress are likely to balk at allowing such a large and iconic U.S. brand to end up in Chinese hands.

Fiat Chrysler, though, does need to do something. It is already the earnings straggler among the major automakers. Its pre-tax margin last year, at 2.8 percent, was the lowest of the group; Ford Motor and General Motors both cranked out just over 7 percent. Things are improving as Marchionne shrugs off more of the debt that resulted in part from taking over Chrysler after the U.S. government-backed bankruptcy exit in 2009. But Fiat Chrysler is the only one of the top 12 that sell-side analysts reckon will fail to earn more than a 6 percent pre-tax margin in each of the next three years, according to Thomson Reuters data.



A U.S. flag covers the grill of a Chrysler Jeep vehicle in Boston, Massachusetts, U.S., June 27, 2018. REUTERS/Brian Snyder

The \$23 billion a Jeep sale might bring, according to Morgan Stanley, could be tempting, whether Great Wall or another carmaker ends up the buyer. It would clean up the balance sheet. Deep-pocketed players like Google, Apple and Intel are new rivals in the race towards autonomous driving. Lacking investment firepower, Marchionne has stayed largely on the technological sidelines, though last week he took his company into the Intel-Mobileye-BMW alliance.

Yet handing the keys to Jeep to a new owner would combust even the modest earnings that are currently anticipated. The brand may account for almost three-quarters of EBITDA next year, reckons Morgan Stanley. Ram trucks, Maserati and three captive parts makers are still profitable, but Alfa Romeo, Dodge and Chrysler are in the red. On top of that, the company still has more than \$5 billion of both net debt and unfunded pensions.

Marchionne is due to step down next year to concentrate on running Ferrari. A radical move like selling Jeep would certainly leave a mark. But it would set up his last lap at what remained of Fiat Chrysler to be a dismal one.

*August 2017*

## **Fiat Chrysler looks boxed in by M&A options**

By Antony Currie

Forty billion euros. That's what it would take to bring the Agnelli family to the table to discuss selling Fiat Chrysler Automobiles, some industry insiders reckon. Chief Executive Sergio Marchionne's overhaul is picking up speed, as shown by the 5.5 percent pre-tax margin the carmaker cranked out in the third quarter, according to results released on

Tuesday, up from 3 percent in the same period last year. But even after an 80 percent-plus run-up in the stock this year, Fiat Chrysler is worth barely more than half the magic M&A number.

The Italian-American carmaker now trades at some 6.7 times estimated earnings in 2018, according to Thomson Reuters data. It lags Ford Motor and General Motors, whose multiples are just shy of eight times earnings, but the gap has narrowed.

It's hard to justify Fiat Chrysler being worth much more. A 40 billion-euro sale would value the company at more than 12 times next year's forecast profit. Even industry leader Toyota trades at under 11 times. Fiat is also a laggard in the race to develop connected and autonomous cars. It initially outsourced much of the work to Alphabet's Waymo, and only recently joined a consortium led by BMW and Intel.

While the gain in Fiat Chrysler's shares owes much to acquisition interest from Great Wall Motor, that price tag is out of reach for the Chinese company. Even buying just Jeep would be a stretch – it's worth around \$23 billion, according to Morgan Stanley, against the Chinese carmaker's \$16 billion. Hiving off Jeep would also strip out perhaps three-quarters of Fiat Chrysler's EBITDA, leaving a smaller, much less profitable – possibly money-losing – company.

General Motors might be able to reach the Agnelli's figure on paper. A merger with Fiat Chrysler could generate \$5 billion of annual cost savings, Marchionne hinted in 2015. Those could be worth \$35 billion to shareholders, taxed and capitalized. But they might take a decade to fully materialize and cost \$10 billion or more to implement. And that doesn't even factor in antitrust concerns and cultural conflict.

The Agnelli – who own 29 percent of Fiat Chrysler – and the company's board might of course settle for less. Unless it's a lot less, though, the company's M&A options look limited.

*October 2017*

## **Wanted: Italian-American carmaker seeks new driver**

By Lisa Jucca

*Chief Executive Sergio Marchionne will soon be heading for Fiat Chrysler's off ramp. As directors consider who should succeed him, Breakingviews imagines what advice a consultant might give.*

Distinguished members of the FCA board,  
Thank you for giving us the opportunity to share our thoughts on Fiat Chrysler Automobiles, after Sergio Marchionne's planned 2019 departure. His extraordinary achievements, unique management style and dominant presence will be a tough act to follow.

Marchionne was the right person for the job, despite a lack of industry experience when he took the wheel in June 2004. His direct, pugnacious and intrepid approach was what was needed to turn around a moribund Fiat and get insolvent Chrysler back on the road.



Shareholders, including top owner Exor, have so far received a 900 percent total return on FCA stock, 2.6 times the industry average. Those who held on to their stakes in spun-off CNH and Ferrari have even more to cheer about. Combined, these two were worth \$37 billion as of Dec. 7, 45 percent more than their erstwhile parent company.

There are, however, gaps to be addressed: FCA's pretax margin may almost double to 5.3 percent in 2017, an admirable achievement. But it remains lower than most competitors and the company is subscale – points Marchionne has acknowledged.

Spending a lot more time both in and on China is critical for Marchionne's replacement. The Middle Kingdom is now the world's biggest car market: vehicle sales surpassed 28 million in 2016, about a third of global demand.



Sergio Marchionne poses next to the new Alfa Romeo car Stelvio during an event at an FCA plant in Cassino, southern Italy, Nov. 24, 2016. REUTERS/Tony Gentile

FCA's 2014 deepening of its alliance with Guangzhou Automobile Industry Group has not gone far enough. Its sales were 176,000 in 2016 against about 4 million for VW. Your company is falling a long way short of its 2014 goal of selling 850,000 vehicles by 2018.

Next, the new chief needs a solid understanding of the tech world to steer FCA through unprecedented industry disruption. Marchionne has been reluctant to make big financial bets in new technology, in large part because he has been a vocal sceptic of electric cars. He has a point. Questions remain about the environmental impact of lithium batteries and the availability of cobalt and other materials. Now, though, China is vowing to ban petrol and diesel cars by 2040, so having battery-powered vehicles will be essential to compete. France and the United Kingdom are talking a similar line.

Fiat Chrysler also lags rivals in connected and autonomous cars, having outsourced most work to Alphabet's Waymo. Such a conservative R&D approach made sense given FCA's high debt. And getting regulators and customers comfortable with self-driving vehicles may well take a while. Marchionne has been speeding up in this area lately. But General Motors' plan to get robo-taxis in U.S. streets by 2019 suggests FCA needs to move even faster.

That brings us on to our next point. M&A skills, a defining Marchionne trait, remain a requirement. Preparing FCA for the future calls for more joint ventures, taking stakes in startups or buying them outright. The prospect of FCA merging with a more traditional rival currently appears to be off the table, but it cannot be ruled out; as Marchionne himself said in his 2015 presentation "Confessions of a Capital Junkie", carmaker returns are being hurt by each of them spending vast amounts replicating basic or non-differentiating functions. The push for electric and autonomous vehicles will exacerbate this.

We would also caution against choosing just one replacement for Marchionne. There's no need for joint CEOs. But we'd note that Marchionne put on too many hats. He runs the entire company, is chairman and CEO of both North America and Ferrari, where he'll stay on after leaving FCA, and is chair of Maserati and CNH.

We laud your decision to seek stability by looking to promote people who are graduates, shall we say, of the "Marchionne School". Finance chief Richard Palmer, Jeep boss Michael Manley and EMEA Chief Operating Officer Alfredo Altavilla are all worthy choices. But we urge you not to dismiss the idea of outside candidates, if only for some of the roles below the CEO level.

Finally, the sooner you can announce the new CEO, the better. Marchionne is planning to unveil a new five-year plan in 2018. That could constrain his successor, who needs to own the plan, not simply inherit it. After all, FCA does not need a Marchionne copycat, but someone who can decisively drive it into the future.

*December 2017*

## **Fiat Chrysler powers ahead in carmaker wacky races**

By Antony Currie and Lisa Jucca

Fiat Chrysler is powering ahead in carmakers' increasingly wacky races. Shares in the Italian-American manufacturer are the industry's best performer of the past year by miles. And its multiple leaves several sleeker rivals for dead, despite only so-so earnings. That sets up a tricky lead to defend for whoever succeeds Sergio Marchionne as boss.

The Italo-American car company certainly looks better under the hood. It made 6.2 billion euros of pre-tax profit in 2017, the company revealed on Thursday, taking its margin to 5.6 percent, almost five times higher than three years earlier. The success is thanks to a shift in production towards more SUVs and trucks and a reduction in net debt by around 9 billion euros since 2014.



A vintage Fiat is lifted for display to mark the International Fiat 500 Meeting in Switzerland, June 2, 2012. REUTERS/Arnd Wiegmann/File

Shareholders cottoned on to the changes last year: the stock is up about 172 percent since the end of 2016, helped in part by reports of China's Great Wall Motors being interested in a deal. Tesla's 62 percent jump leaves it in a distant second place.

Marchionne's driving has boosted Fiat Chrysler's multiple to 8.7 times 2017 earnings. That puts it ahead of Ford, which makes sense: America's second-largest carmaker, which reported earnings on Wednesday evening, is struggling and doesn't expect to reap many benefits of its revamp until 2021.

Less rational, perhaps, is that Fiat Chrysler's earnings multiple also bests that of General Motors, Renault, Volkswagen, BMW and Daimler, even though each sports better margins. Shareholders may be hoping that the company will be sold or broken up, despite Marchionne and Chairman John Elkann's protestations to the contrary. Whether investors are focusing too much on short-term improvements, or betting on a mega-deal, they are clearly ignoring the threat of electric and autonomous vehicles. Fiat's need to cut debt means it has invested less than peers in these new technologies, making it vulnerable if customers embrace "Autos 2.0".

Marchionne reiterated some of his own doubts at last week's Detroit auto show, saying he knows no major car manufacturer "making money selling electric vehicles". But he also admitted that they will be the only way to hit European emissions targets.

For now, Marchionne's caution is playing well with shareholders. Whoever succeeds him when he steps down next year, though, will have a tough time defending Fiat Chrysler's current lead.

*January 2018*



Sergio Marchionne jokes with a tie next to FCA chairman John Elkann during media conference in Balocco, northern Italy, June 1, 2018. REUTERS/Massimo Pinca

## Fiat Chrysler investors fear capital-junkie return

By Antony Currie

Fiat Chrysler shareholders have waved the yellow flag on Sergio Marchionne's victory lap. The Italian-American carmaker's chief executive on Friday pledged to pay a dividend, cut costs and at least double last year's earnings before interest and taxes by 2022. He even wore a tie for part of the all-day investor event – the first time in 11 years, reckons the Detroit Free Press. But other parts of the new five-year plan involve sharply increased spending. That may explain why investors wiped more than 7 percent off the company's New York-listed shares.

Three years ago, Marchionne called for the industry to deal with its profligacy – mostly via consolidation – in his “confessions of a capital junkie” presentation. Rivals rejected his advances. Since then, Fiat Chrysler's earnings have improved and its stock has more than doubled. By the end of this month, it'll have net cash on its balance sheet.

Getting there required some tough choices. Fiat Chrysler effectively outsourced much of its autonomous-driving work to Alphabet unit Waymo. And it mostly avoided electrification, with Marchionne pointing out how rivals were losing money on it and would continue to do so for some time.

He's keeping self-driving investments modest, but has now sanctioned putting 9 billion euros over the next five years into hybrid and electric vehicles. He also plans to create a captive finance unit in North America, another idea he pooh-poohed in the past “largely because we couldn't afford one,” he said on Friday.

Its previous iteration, Chrysler Financial, was hived off as part of the 2009 bankruptcy and ultimately sold to Toronto Dominion Bank. This time round, the company will either build a unit from scratch or by acquisition – it has already discussed taking a stake in Santander Consumer USA, which currently provides financing for Chrysler brands.

Marchionne offered some soothing words of caution to investors on Friday, saying he won't turn the financing arm into a bank or ramp up risk, as others did in the past. And he plans to offset the new investments by slashing 10 billion euros of costs elsewhere – in part by ditching unprofitable vehicles.

Although he is retiring next year and won't see the initiatives through, all the internal candidates to succeed Marchionne "own this plan at least as much as I do," he said on Friday. Judging by their reaction, investors aren't comforted by that thought.

*June 2018*



## THE DOPO-SERGIO



Marchionne (L) and then-Jeep Brand President and CEO Michael Manley laugh together during a celebration to launch the all-new 2011 Jeep Grand Cherokee at the Jefferson North Assembly Plant in Detroit, Michigan May 21, 2010. REUTERS/Rebecca Cook

### Sergio Marchionne leaves giant sweater to fill

By Antony Currie and Lisa Jucca

Sergio Marchionne leaves a massive sweater to fill. Fiat Chrysler's board replaced him as chief executive on Saturday after complications from recent surgery caused his health to deteriorate. His successor, Mike Manley, runs Jeep – the Italian-American automaker's most profitable brand that's also at the core of Fiat's new five-year plan. That ought to provide continuity. But without Marchionne at the wheel, 30 billion-euro Fiat may be a more attractive takeover target.

Marchionne, who was due to retire early next year, rescued Fiat from the brink of collapse in 2004. He then took over Chrysler after its taxpayer-funded quick-rinse bankruptcy in 2009 and confounded industry observers by turning it into the earnings engine for the entire group. That allowed him, just last month, to announce FCA's balance sheet was about to switch from having net debt to net cash, an occasion he marked by briefly swapping his trademark black jumper for a necktie.

It's fitting, then, that the board is replacing him with the man behind much of the company's progress. Manley, a Brit, led a quadrupling of Jeep sales since taking over in 2009. And at last month's capital-markets day to unveil the company's plans up to the end of 2022, Marchionne said he wants Jeep to account for one in every 12 utility vehicles sold by the industry. Taking a "wild guess," it would mean doubling sales.

Jeep's crucial role at FCA became clear last year when news swirled that Chinese automaker Great Wall was interested in buying the brand. Selling Jeep, Marchionne said, would leave just a "stump" behind that "cannot run." A new five-year plan is meant to address that by reducing the number of small cars on offer, and increasing sales of Jeeps and other SUVs in both Europe and China.

Those will be big challenges for Manley. Fiat Chrysler has missed its own China targets. And Europeans are not as wowed by SUVs as Americans. Manley also needs to find a way to get FCA up to speed on both electric- and autonomous-vehicle development.

The new strategy, with which Manley would've been intimately involved, laid out Marchionne's vision for keeping FCA independent. That was after his public overtures in 2015 for a merger partner fell on deaf ears. Perversely, losing such a charismatic and blunt boss may end up making the firm he saved a more attractive target in the future.

July 2018

## Marchionne's reformist legacy at risk in Italy

By Lisa Jucca

As Fiat Chrysler's former boss Sergio Marchionne fights for his life in a Zurich hospital, his reformist legacy is already at risk in Italy. Over his 14 years atop Italy's leading industrial group, Marchionne became known to global investors for turning a troubled regional automaker into a debt-free global player. But Marchionne will also be remembered in the country where he was born for boldly challenging rigid labour rules and providing a new model for productivity.

Standing up against unions and lobbies, including the powerful Confindustria, he demanded productivity gains in exchange for capital investments. His approach left Italy divided. Critics of his modus operandi, like left-leaning union Fiom, said he never fully delivered on a promise to invest over 20 billion euros in Italian plants under his 2010 "Fabbrica Italia" project. They also accused him of moving production abroad to save costs.

### Marchionne's Italian years

Fiat's vehicle production in Italy over the past two decades



\*From 2012 IVECO's figures include ASTRA

Source: ANFIA

Vincent Flasseur | REUTERS GRAPHICS

Yet, the reality is somewhat different. When Marchionne became Fiat's chief executive in 2004, Italy's biggest industrial group was nearly bankrupt. Inefficiencies and chronic absenteeism made producing in Fiat's birthplace uneconomical. Breaking a taboo, Marchionne did away with Italy's tradition of national labour accords by putting his proposal to workers through referendums, which he won. He focused production on premium brands and models. He revamped a plant in Melfi, in the impoverished south, to make FCA's flagship Jeep Renegade in Europe.

When the first deal with workers was clinched in 2010, the year after Marchionne won control of Chrysler, Italy's struggling plants made fewer than 700,000 vehicles a year. An ensuing economic crisis made things worse. But last year, FCA's Italian production crested above 1 million, enough to free some 95 percent of local workers from subsidized schemes, local union FIM says. During his tenure, Marchionne only closed one of Fiat's original production plants, in Sicily.

Marchionne's approach to labour earned him the moniker "Thatcher of Italy". His willingness to challenge Italy's norms was partly due to his outsider status – he left Italy for Canada when he was just a teenager.

But that reformist legacy is under pressure from a new government hostile to global business. Anti-establishment Industry Minister Luigi Di Maio, who grew up not far from Fiat's Pomigliano factory, wants to roll back on job-market liberalization and seeks to punish companies that move production offshore. If he makes things too painful for Fiat at home, Marchionne's British successor Mike Manley may be less sentimental about Italy.

*July 2018*

## The Agnellis will miss Marchionne most of all

By Rob Cox

After reading a Breakingviews column in January arguing that Sergio Marchionne's successor as Fiat Chrysler Automobiles chief executive would struggle to defend the carmaker's lead when he retired, Marchionne fired off an email: "This is considered thinking?" It was the kind of challenge I had come to expect since first interviewing him in 2006.

While he was quick to confront the press, he also proved a jovial guest at dinner debates in Italy and the United States, whether gamely taking his place beside a police chief with two holstered handguns, holding court with fellow Italian executives, or good-naturedly needling Roman politicians. The sparring has, sadly, come to an end with Marchionne's death at 66 in a Zurich hospital.

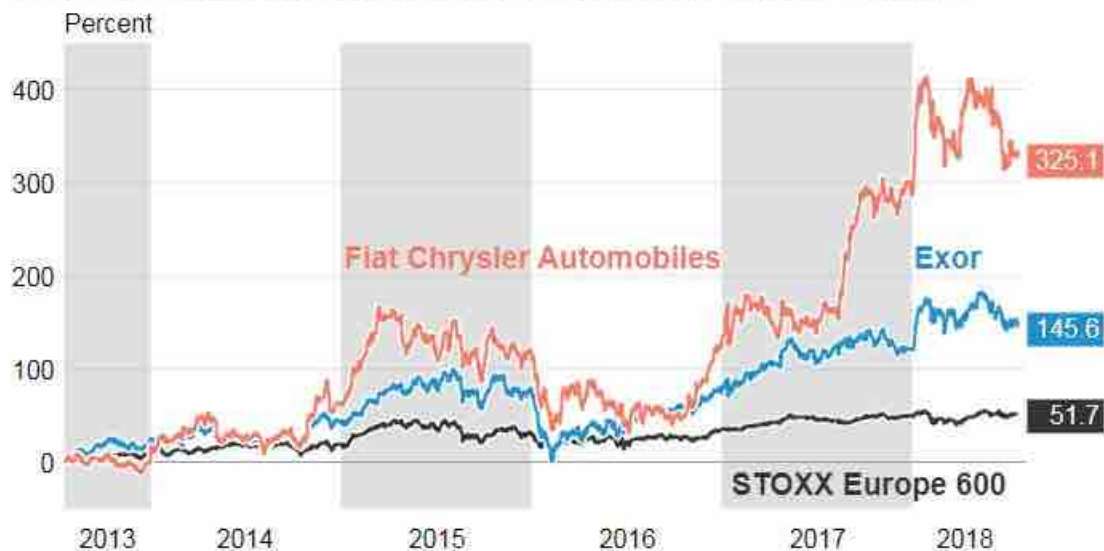
But perhaps nobody will miss Marchionne's instinct to question the status quo as much as the Agnellis, Italy's first family of industry, whom he served for 14 years. It was a series of family tragedies, not unlike the medical crisis which forced Marchionne's abrupt exit from Fiat over the weekend, that put him into the driver's seat at Fiat. John Elkann, the family's then-28-year-old figurehead, made a wise call to tap the Canadian executive who was born in Chieti, Italy. It led to what may be the most impressive turnaround in automotive history – and an unusually successful relationship between a family and a professional executive.

In June 2004, Marchionne became the fifth Fiat CEO in two years. The business was indebted and struggling. On top of that, he arrived amid a family trauma sparked by the untimely death of Umberto Agnelli, the chairman and grandson of Fiat's founder. Umberto's son had been groomed to lead Fiat, but had died of cancer at 33 just a few years earlier. Marchionne's predecessor, Giuseppe Morchio, had tried to take advantage of the situation to consolidate his power, a move that led to his ouster.

Two years later, in an on-the-record interview at Fiat's Lingotto headquarters, Marchionne told me he had "underestimated the severity" of Fiat's problems when he took the job. "But I came here because the family asked me to come. I was 14 when I left this country and the Agnellis are the Agnellis. So, when the family asks you to come and help, you do."

## Fiat Chrysler and Exor beat the market

Total shareholder returns including reinvested dividends over five years



Source: Thomson Reuters Datastream, data to 07/21/2018

V. Flasseur | @Breakingviews

At the time Fiat had a stock market value of around 5.5 billion euros. Marchionne focused first on turning the core car business around, investing cash he had squeezed out of General Motors, with whom a previous CEO had negotiated a right to sell Fiat Auto, and by arranging a debt-for-equity swap with lenders. Later, he clinched control of Chrysler following a U.S. government-assisted bankruptcy. He separated sports-car maker Ferrari and took it public. He also spun off CNH Industrial, a maker of agricultural vehicles.

The combined equity value of the three companies is now about 60 billion euros. Apart from Tesla, no car company of late has come close to creating that sort of value for its owners. Thanks to Marchionne's work, the worth of the Agnelli family's Fiat interests surged from around 1.6 billion euros when he got there to nearly 17 billion in the three companies today. He didn't just save the Agnelli fortune, he arguably made it.

Marchionne's illness and death came as a shock. He was, however, already planning to retire from Fiat next year, so the board was in a position to rapidly name his successor: Mike Manley, previously in charge of the Jeep brand. Fortunately for Manley, after masterminding Fiat's turnaround Marchionne ensured the company was in a state that



made him replaceable. FCA's new boss inherits a company with no debt. Moreover, Jeep is key to Fiat's recently unveiled five-year plan.

Over at Ferrari, the board named an experienced consumer goods executive, Louis Camilleri, as CEO, a position Marchionne had planned to retain after leaving FCA. Camilleri, a career tobacco seller, may not have Marchionne's touch at the wheel of a 12-cylinder 812 Superfast, but he knows how to run a corporation.



A black band on the car of Ferrari's Sebastian Vettel at the Hungarian Grand Prix, a tribute to Former Fiat Chrysler CEO Sergio Marchionne, July 26, 2018. REUTERS/Bernadett Szabo

Though his departure is premature, Marchionne fulfilled the promises he made to Fiat's owners when he landed the job – and then some. Even in 2006, when his primary concern was to make money, stop burning cash, and “prove we have staying power,” he was thinking about a breakup of Fiat's conglomerate structure. “There will be a point in time when we will look our valuation and ask whether the pieces fit together,” he told me. “When that time comes we will do the right thing.” And he did.

When we first met at Lingotto, Marchionne was already trying to figure out how to wean Fiat from the high-risk capital-investment cycle that contributed to the bankruptcies of Detroit rivals a few years later. “Making cars is a bloody risky business,” he said between puffs of the Muratti cigarettes he used to chain smoke before giving up over a year ago. “If you screw it up it costs you billions.”

The financial crisis that followed afforded him a path to acquire Chrysler, partly in exchange for know-how and expertise. It also inspired him to pen a 26-page presentation entitled “Confessions of a Capital Junkie”. The paper, dubbed an insider's perspective on the cure for the car industry's “value-destroying addiction to capital”, caused a sensation



in the industry and with investors, even if it failed to entice General Motors into exploring a merger, which was Marchionne's hope.

That option is now for Manley to explore. But the decision will be Elkann's. The FCA chairman, who also oversees Exor, the investment vehicle consolidating the Agnelli family's 29 percent stake in the carmaker and its other interests, is no longer inexperienced, as he was back in 2004. He has spent 14 years working with Marchionne. "For me, he has been someone with whom to share thoughts and in whom to trust, a mentor and above all a true friend," he said in a statement on learning of Marchionne's illness. "It has been my privilege to have had Sergio at my side for all these years."

Under Elkann, Exor has gone beyond Fiat, prevailing in a contested battle in 2015 to acquire Bermuda reinsurer PartnerRe for \$6.9 billion. It snapped up Pearson's stake in the Economist Group to become the largest shareholder of the publisher. The stock has done well, too, clocking up a total shareholder return of nearly 150 percent over the past five years, far outpacing the STOXX Europe 600 Index, according to Eikon.

Much of Exor's success lay with Marchionne: Fiat shares returned over 300 percent during that same span. Elkann was smart enough, even at a young age, to see the wisdom in handing his family's most important asset over to a pushy iconoclast. With Marchionne, he proved that after five generations a dynasty can not only preserve, but expand, its wealth.

With Marchionne's passing, the auto industry has lost one of its most prominent and provocative leaders. But his capital confessions, the trademark black sweater – which he even wore to visit Donald Trump in the Oval Office – and his influence on Elkann and the Agnelli's global industrial complex will endure.

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