FINANCIAL REVIEW

SE Companies and Markets

HD **Picasso hands control of Peugeot over to Degas**

BY Michael Stothard and Henry Foy
WC 988 words
PD 21 February 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 19
LA English

LP

Paris After more than 100 years in control of one of Europe's great industrial groups, it was no wonder the Peugeot family became divided over the deal that would take their flagship business out of their hands.

Robert Peugeot, who runs the family holding **company**, and Philippe Varin, the car maker's chief executive, had agreed a deal with **Chinese** car maker Dongfeng Motor and the French government, announced yesterday, was essential.

TD

Not only would the €3 **billion** ($4.6 **billion**) capital injection put the group on a firmer footing for investing in Europe, where car sales have been at their worst for 20 years, but it would also enable Peugeot to grow its footprint in Asia.

Dongfeng had let it be known it might be willing to help out at the start of 2013. Preliminary discussions with Dongfeng and the French state began in July, and a plan of action was hatched.

Code names were even chosen, based on famous artists.

In secret documents, the Peugeot family was "Picasso", Dongfeng was "Degas", General Motors, which until recently owned a small **stake** in Peugeot, was "Gauguin" and the French state was "Fragonard".

But Thierry Peugeot, set to lose the chairmanship and weighed down by a sense of responsibility over the legacy of a mighty French dynasty, had other ideas. There were other ways to fend off disaster, he felt.

He argued the family, which survived two world wars and multiple financial crises at the helm, was giving away too much and, while it needed a new direction, it could raise the money on the markets without the **Chinese**.

Last month, he penned a letter to his brother Robert, which later appeared in the press, saying the deal was a "bad idea" and adding: "I am worried about the strategy of withdrawal from Peugeot that you seem to want to carry out."

He is not the only one with reservations, which will see the French state and Dongfeng pay €800 **million** for 14 per cent each of Peugeot, Europe's second-largest car maker by sales, alongside a deeper industrial partnership with the **Chinese** group.

The three main shareholders: Dongfeng, Paris and the family, have committed to not increasing their stakes above 14 per cent for the next 10 years, Mr Varin told the Financial Times in an interview yesterday.

But Harald Hendrikse, Nomura head automotive analyst, said: "For Dongfeng this is an absolute bargain . . . and a game changer for the Chinese car industry. Peugeot had no choice for negotiation in any part of this deal."

Some analysts have argued it would have been better for Peugeot to sell its financing arm, which lends money to new car buyers, or its parts division, Faurecia, if it really needed money to invest in cars and power trains.

Critics also argue that sales in Asia, while clearly welcome, will not address the core issues of its weakness in Europe, and that the new ownership arrangement by Beijing, the Elysée Palace and the Peugeot family has the potential to create conflict.

"We see a risk of a Pyrrhic victory," Max Warburton, Bernstein Research analyst, said. The Dongfeng deal "will close out strategic options", and government involvement "is hardly likely to lead to improved efficiency, competitiveness and growth".

However, these objections, and those of Thierry, have been overruled after months of disagreements.

On Wednesday, Peugeot said it had begun a new chapter in its history and its global expansion. "PSA is back on the attack," Mr Varin said .

Now, the question remains over how successfully the group can execute its plan under the aegis of new chief executive Carlos Tavares, an industry veteran and former number two at Renault, who takes over in March but took charge of operations yesterday.

"The company is now in a much stronger position to move forward, but there are still some important questions to be sorted out," said Mr Varin.

"I am not saying everything is solved. A lot of work still has to be done."

Peugeot's first problem has always been its small size and focus on Europe, which became untenable as European sales began to tumble after the 2008 economic crisis. It still relies on the continent for 58 per cent of its sales. A turnaround here will be tough. The European market shrank for the sixth straight year in 2013, and Peugeot's market share in the region is down from 12.8 per cent in 2007 to 11.9 per cent, although it has shown recent signs of improvements.

With little help likely from wider markets, Mr Tavares will need to squeeze costs and suppliers as much as possible, try to regain market share, and invest part of the €3 billion in the next generation of cars and power trains.

However, further cost-cutting will be hard with the government on the board, and with Peugeot having agreed with unions last March it would not close any plants in France for three years and would increase French production.

Peugeot already accounts for 60 per cent of France's car production and employs nearly 100,000 people, in an industry that accounts for about one in ten French jobs.

"It's an absolutely strategic investment," said Pierre Moscovici, French finance minister. "The idea for the state is to guarantee the presence of PSA in France. We'll be a stable, sound and non-sleeping shareholder."

Mr Tavares's second challenge is the crucial but tough task of trebling sales in China to hit a 1.5 million target by 2020, part of a wider goal to sell 50 per cent of its cars outside Europe by 2015.

Finally, Mr Tavares will have to manage potentially conflicting forces in the board room, with likely two seats each going to Beijing, the Elysée and the divided Peugeot family.

CO peugct : PSA Peugeot Citroen SA

IN i351 : Motor Vehicles | i35101 : Passenger Cars | iaut : Automotive

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140220ea2l0000o

