

FIAT



BEHIND THE WHEEL: Fiat Chairman John Elkann drives a Fiat 8V at the start of the "1000 Miglia" International classic car rally in Brescia. REUTERS/PAOLO BONA

John Elkann has to decide between Italian passion and corporate pragmatism

Fiat's young boss steers a tough course

BY JENNIFER CLARK

TURIN, NOVEMBER 9, 2012

FIAT STEERING A NEW COURSE

Whenever Sergio Marchionne, chief executive of carmakers Fiat and Chrysler, appears in public, television crews jostle to beam his words around the globe. Amid the push and shove it's easy to miss the tall, curly-headed young man who often looks on from the sidelines.

He's John Elkann. And he's Marchionne's boss.

The 36-year-old scion of Italy's powerful Agnelli clan became vice chairman of Fiat – founded and still controlled by his family – just under a decade ago, and chairman in 2010. For years, his was the saga of a shy, awkward young heir thrust prematurely into corporate leadership by family tragedy. No more.

Now Elkann is taking the key role in answering the question that faces his family's firm: Is what's good for Italy really good for Fiat anymore?

The question evokes the famous statement – “I thought that what was good for America was good for General Motors and vice versa” – by Charles “Engine Charlie” Wilson, then the president of GM, 60 years ago.

Nobody is calling Elkann “Engine Johnnie.” But many thought Fiat had outgrown Italy in 2009 when it snapped up a controlling stake in Chrysler and left Elkann to wrestle with the politically potent question of how closely the family firm, long the symbol of corporate Italy, should remain tied to the troubled economy of its home country.

Elkann's answer came on October 30, when Fiat announced it would increase its investments by almost 50 percent – to a total of 16-18 billion euros – in the next few years. That includes billions to re-tool its five under-used Italian factories and to push its Maserati and Alfa Romeo brands – with venerable names but checkered reputations – into direct conflict with Germany's formidable luxury-car troika of BMW, Mercedes-Benz and Audi.

If Alfa-Romeo and Maserati succeed, they'll reduce Fiat's heavy reliance on com-



IN THE SQUARE: Fiat put Italians on the road as the country rebuilt after World War Two, in the process creating a design icon – the Fiat 500, pictured here in Turin. **REUTERS/FIAT/HANDOUT**

moditized small cars in Italy and southern Europe, ground zero for the continental crisis. But if they fail, the consequences will be harsh. Europe's mass-market brands, not just Fiat but also Ford Peugeot, and Opel, are reeling from Europe's slumping car market and each will lose \$1 billion or more this year. Ford and Peugeot have an-

nounced plant closings to trim losses, in sharp contrast to Fiat. In short, the new moves amount to Elkann's boldest and riskiest bet on the future of Fiat and the Agnelli fortune.

People who know Elkann well say he can afford to indulge any sentimental ties to Italy because he has already diversified

his family's investment portfolio of 7.5 billion euros away from Italy and from cars. Elkann has not commented on the move, and declined to be interviewed for this story.

So far he is leaving the explaining to Marchionne, in keeping with their respective characters. The two men, in daily contact, are a study in contrasts. The 36-year-old Elkann is tall, blond and soft-spoken, given to awkward silences during conversations. Marchionne, 60, is rumpled, dark and tart-tongued, reveling in his super-star reputation for pulling Fiat from the brink of bankruptcy eight years ago.

A COMPLICATED FAMILY

Marchionne engineered Fiat's takeover of Chrysler after the U.S. firm's 2009 bankruptcy, and has led a Fiat product revival. Fiat executives say the old American quip about the brand's quality - "Fix It Again, Tony" - has given way to a new play on Fiat's initials: Fine Innovation And Technology.

But the source of Marchionne's power is Elkann, who helped pluck the CEO from Swiss-based, Agnelli-owned SGS - the firm provides global inspection and certification services - to run Fiat in 2004.

Elkann controls Fiat through a layer-cake structure of family companies. The first is Exor, a Milan-listed holding company which in turn is controlled by an unlisted limited partnership - Giovanni Agnelli e C. - which is the forum for family decision-making.

All 90 family shareholders gather once a year for an annual meeting. But in a structure designed to avoid family fights, Elkann holds the largest number of partnership shares and thus makes final decisions.

He was born in New York in 1976 to Margherita Agnelli, daughter of family patriarch Gianni, and Alain Elkann, a journalist from a prominent French Jewish family. His parents split when he was five and his mother remarried and started a new family. By the time Elkann was 14 he had five new siblings, in addition to the two

National heavyweights

In 1953, when the Senate Armed Services Committee asked Charles Wilson if he could ever make a decision that might hurt the interests of General Motors, Wilson shot back that he could but that it was hard to imagine such a scenario "because for years I thought what was good for the country was good for General Motors and vice versa."

Wilson, who had been president of General Motors, was duly named Secretary of Defense.

These days, Apple is probably America's most potent corporate symbol, even if it does not dominate in the way GM did in the 1950s. Here's a look at some other past and present heavyweights from around the globe:

NOKIA IN FINLAND

The former pulp mill which grew into the world's largest cellphone manufacturer generated almost half Finland's GDP growth in 2000. In recent years its profits have collapsed as it has struggled against rivals in the smartphone race.

SAMSUNG IN SOUTH KOREA

Author Park Hyun Goon calls South Korea the "Republic of Samsung". The world's top technology firm by revenue, Samsung propels the South Korean economy. Revenue at Samsung Electronics alone equates to about 10 percent of the country's GDP.

SONY IN JAPAN

Sony has been an emblem both of Japan's post-war rebirth and its post-bubble demise. Founded in 1948 as Tokyo Telecommunications Engineering, Sony helped power Japan's recovery by making transistor radios and

magnetic tape recorders.

Renamed Sony Corp. in 1958, it expanded into entertainment and pioneered CD players and game systems. More recently, though, it has struggled to keep up with more innovative rivals.

BP IN BRITAIN

BP started out as the Anglo-Persian Oil Company in the first decade of the 20th century. The British Petroleum brand was originally created by a German firm to market its products in the UK, according to BP's website. The British government seized that company's assets in World War One and British Petroleum adopted the name in 1954, switching more recently to simply BP.

At the beginning of 2010 BP was Britain's biggest company by market capitalisation. But an accident that April on the Macondo oil well in the Gulf of Mexico killed 11 workers, spilled millions of barrels of oil into the ocean, and knocked the firm off its perch.

IKEA IN SWEDEN

IKEA Group, which owns most of the Scandinavian furniture retailer, had sales of about \$35 billion in the fiscal year to end of August, or 7 percent of Sweden's GDP.

The brand's Swedish image was reinforced by plentiful jars of pickled herring on sale in its stores as it expanded through Europe in the 1980s. But its complex

corporate and ownership

structure is mostly Netherlands-based and controlled by a couple of Dutch- and Liechtenstein-based foundations.



REUTERS/KIM KYUNG HOON



POWER COUPLE: Fiat CEO Sergio Marchionne, left, and John Elkann, pictured in 2012. REUTERS/JACKY NAEGELEN

from his mother's first marriage.

Elkann lived in Britain and Brazil before attending high school in Paris. (He speaks four languages.) His limited boyhood experience of Turin was summer visits to his grandparents, who lived in a hilltop villa. In 1994 he enrolled in Turin Polytechnic, eschewing his grandparents' elegant home to live in a dormitory room with a shower but no private toilet.

"It was a good sign of accepting an almost military attitude of effort," says a former Fiat manager, who asked not to be named. "He showed he could adapt."

Two years later Elkann went to the British Midlands to work at a Fiat-owned headlight plant, staying with an English couple who had no idea their lodger was

“It was difficult for John. He learned not to trust people.

Agnelli family member

an Agnelli heir. Elkann usually ate dinner from a tray in front of the television, sitting next to the family dog.

In December 1997 Elkann's cousin, Giovanni Alberto Agnelli, who was being groomed to run Fiat, died of cancer. Elkann was named in his stead to Fiat's board and designated, at age 22, as heir to the controlling stake. Other company-family traumas followed. In 2002 Fiat nearly went bust. In 2003 Gianni Agnelli died, followed by Elkann's great-uncle Umberto Agnelli in 2004.

A few years later Elkann's younger brother, Lapo, nearly died of a drug overdose, and lost his marketing post at Fiat. Then in 2007 their mother sued John over her inheritance, sparking a three-year courtroom and family battle. He and his mother see each other rarely.

"It was very difficult for John," one sympathetic member of the Agnelli clan recalls. "He learned not to trust people."

When he inherited Fiat, Elkann got much more than a company. Just as General Motors and Ford have shaped America, Fiat's history is tightly entwined with Italy's transformation from a poor agricultural nation to a top industrial power.

Elkann's stewardship has been complicated by the Agnellis' prominent social role as Italian capitalism's "first family." This heritage means that shrinking car sales creates a problem that goes beyond mere numbers. Fiat expects to lose 700 million euros in Europe this year, while profits - 286 million euros in the third quarter - have been propped up by a resurgent Chrysler. But some Italians seen the firm's recent lack of investment in new models as treasonous.

That may be why Fiat recently added a sixth Italian factory to build new Maserati models for export. Both Elkann and Marchionne have repeatedly said the company does not intend to close its Italian factories - though it has long idled five around the country, drawing the ire of union leaders, politicians, car dealers, parts suppliers, and even the government.

Elkann meets regularly with Prime Minister Mario Monti, an old family friend who has served on Fiat's board. At a Sept. 22 meeting both Elkann and his CEO complained about the obstacles faced by companies doing business in Italy, said a person briefed on the meeting.

"The meeting persuaded the government that it needed to improve the ability of companies to export out of Italy," the person said, referring to possible tax cuts for exporters.

But business leaders like Diego Della Valle, chairman of shoe and leather goods-maker Tod's, and Florence's ambitious mayor Matteo Renzi, increasingly paint the family as the uncaring face of Italy's old guard.

"The Agnelli family should open its wallet and invest," Della Valle said on a televi-

REUTERS TV



See the video:
<http://link.reuters.com/feh83t>



HANDS ON: Employees of Fiat SpA work on a new Panda at the Fiat plant in Pomigliano D'Arco, near Naples. REUTERS/ALESSANDRO BIANCHI

sion talk show in September. “Otherwise it should go back to doing what it does best: great skiing, great sailing. Go back to playing golf and leave Italy’s problems to serious people.”

Marchionne has taken most of the heat for Fiat’s decisions, but some people say Elkann needs to speak up more.

“They give the impression they don’t care,” said a Milan banker. “Either he quickly corrects this attitude or the criticism will get worse.”

The real challenge for Elkann is how to diversify the Agnelli family’s investment portfolio. He is making progress.

Ten years ago, when Elkann’s grand-

father died, the bulk of the company’s investments were in Italy and France. By last year, one third of revenue came from North America, 38 percent from Europe, and 29 percent from the rest of the world.

90

members of the Agnelli family who currently receive dividends from holding company Exor

Source: Exor

The firm owns 69.3 percent of New York-based real estate company Cushman & Wakefield, a controlling stake in Turin’s Juventus soccer team, 17.4 percent in Milan-based Banca Leonardo, 18.7 percent of French paper-maker Sequana, and 4.7 percent of British news magazine The Economist. Cars account for just 20% of revenue.

But many still see Exor as simply the owner of an Italian automaker. “There is still a noticeable mismatch in perception of where our shares happen to be listed and where our businesses actually generate their revenues and profits,” Elkann pointed out in Exor’s letter to shareholders earlier this year.

Exor has a BBB+ Standard & Poor’s



PAST MASTER: Gianni Agnelli ran Fiat for three decades from 1966. He died in 2003, opening the door to Elkann's rise. REUTERS/FIAT/HANDOUT

credit rating and about 750 million euros to spend. But Elkann is a cautious investor, the family member said, in part because he saw Fiat lose money through bad investment decisions a dozen years ago.

A spin-off of Ferrari from Fiat would increase the value of Exor, analysts say. But Elkann shows little inclination to sell it or Alfa Romeo. Another solution would be to merge Fiat with Chrysler, which would increase its value but might mean moving

“They (the family) give the impression they don't care. Either he quickly corrects this attitude or the criticism will get worse

Milan banker

the group's corporate headquarters out of Italy. Elkann is ready to do this if it is good for the company, people who know him say, though it would spark an uproar in Italy.

He has also said he would dilute the family's control of Fiat - something the Peugeot family has not been willing to do with their firm.

Exor's staff and board is already more international. Once run by foreign-educated native Torinesi, its chief operating officer is now former Goldman banker Shahriar Tadjbakhsh, a U.S. citizen of Iranian origin. In May Jay Y. Lee, Samsung Electronics' chief operating officer and president,

and Mina Gerowin, a partner at Paulson Europe LLP and also a U.S. citizen, were named as independent directors.

Elkann lives in Turin but spends half his time travelling, mostly in the United States, where he visits New York, Detroit, Chicago, Los Angeles and Washington DC. He chats with William Clay Ford Jr, Henry Ford's great-grandson and executive chairman of Ford Motor. The relationship between the Agnellis and the Fords goes back to the start of the 20th century, when Giovanni Agnelli, Fiat's founder, travelled to Detroit to meet Henry. Gianni Agnelli kept a photo of Giovanni with Henry Ford on his desk.

"John is very thoughtful, and I think he is wise beyond his years," said Byron Trott, founder of Chicago-based BDT Capital, which invests in and advises large family-controlled companies, including Exor. "People comment about how young he is, but frankly he is a visionary on a global scale and can stand with any experienced businessman on any topic."

While many of his U.S. contacts stem from his grandfather, Elkann has built his own network in China, where he met Chinese Prime Minister Wen Jiabao last year. He also attends meetings of the International Business Leaders' Advisory Council in Shanghai.

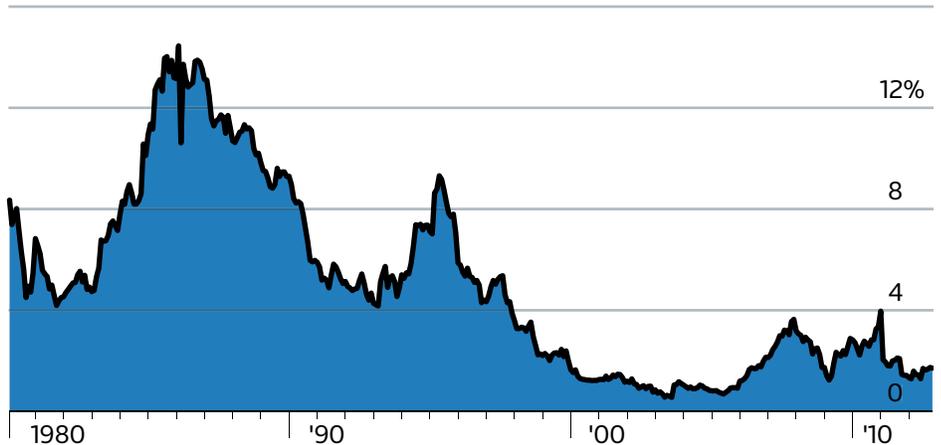
In Turin, Elkann sits in an office opposite Marchionne's in a building next to the Renzo Piano-designed renovation of a factory. He has sold the family villa in downtown Turin where Exor used to have its offices.

He has a black-and-white photo of his ancestors on his desk, photos of his children scattered about, and modern art hanging on the walls. In a corner is a model of Mephistopheles, a barrel-shaped red Fiat that broke the world speed record in 1924.

He spends his free time with his wife Lavinia Borromeo, a former model from one of Italy's oldest aristocratic families, and their three children, Leone, Oceano and Vita. Earlier this year, Elkann and his

Italy's shrinking car giant

Fiat share of Milan stock market



Source: Thomson Reuters Datastream



NIGHT AT THE OPERA: Elkann and his wife Lavinia Borromeo at La Scala in Milan. REUTERS/ALESSANDRO GAROFALO

FIAT STEERING A NEW COURSE

wife drove a vintage Fiat through the Italian peninsula in the historic Mille Miglia road rally, sending Twitter messages and photos along the way.

The mix of history and modernity is obvious in other ways. On a 2008 trek with Lavinia in Bhutan, John was given a fabric neck cord by a monk who said it would help keep him safe. He wears it around his

neck all the time. When he briefly lost it on a Miami-New York sailing race this year, he and the entire crew were worried until he found it again. With his big bets on the future of Fiat and the family fortune, he might need it.

With reporting by Paul Ingrassia in Turin; writing by Jennifer Clark; edited by Sophie

Walker and Simon Robinson

FOR MORE INFORMATION

Jennifer Clark

jennifer.clark1@thomsonreuters.com

Sophie Walker

Sophie.walker1@thomsonreuters.com

Michael Williams, Global Enterprise Editor

michael.j.williams@thomsonreuters.com



OLD AND NEW: Old models of Fiat 500 on display at the launch of Chrysler's flagship showroom in Los Angeles.

REUTERS/MARIO ANZUONI