Session 4 – Case Study
Timetable - Proposed Merger of Volvo and Renault – 1990-1993

1990
The Swedish vehicle manufacturer Volvo AB and the majority state-owned French vehicle manufacturer Renault establish a "strategic alliance" by purchasing shares in each others' truck and automobile divisions.

Renault purchases 25% of Volvo Car Corporation and 45% of Volvo Truck Corporation. Later, it buys shares representing approximately 10% of the total votes of Volvo AB, the parent company.

Like the majority of Swedish joint stock companies, Volvo has a dual class capital structure. A shares hold ten votes and are held by a smaller group of core shareholders. B shares hold one vote and are widely-traded among individual and retail investors.

Volvo purchases 20% of Renault's motor car division and 45% of Renault's truck division.

Pehr Gyllenhammar is appointed Chairman of the Board of Directors of Volvo in 1990. He served as Chief Executive Officer (CEO) of Volvo from 1971-1990. (When Mr. Gyllenhammar became CEO of Volvo in 1971, he succeeded his father-in-law, who became Chairman of the Board of Directors.)

Beginning of September 1993
The price of each B share of Volvo AB is SEK 500.

September 6, 1993
Pehr Gyllenhammar, Chairman of the Board of Directors of Volvo, and Louis Schweitzer, Chairman of Renault's Supervisory Board, announce a plan to merge the two companies.

The proposed merger is complex. Volvo would contribute its automobile and truck corporations to the merger, but its parent company Volvo AB would remain independent. In contrast, Renault would contribute all its operations to the merger.

Two new companies would be formed: RVC, a holding company and RVA, an operating company. Renault would own 51% and Volvo AB 49% of the holding company RVC.

In turn, RVC would be one of four shareholders of the operating company RVA, as follows: The French government would own 46.36%; RVC 35%; Volvo AB 17.85% and Renault employees 0.79%.

Following the announcement of the proposed merger, the price of each B share of Volvo AB falls to SEK 402.

September 23, 1993
Volvo announces the proposal to merge with Renault.

Volvo issues "Information to Volvo Shareholders" explaining the proposal and convening an Extraordinary General Meeting of Shareholders on November 9 to vote on the merger.

October 5, 1993
Aktiespararna, the Swedish Shareholders' Association (SSA), issues a statement supporting continuing collaboration between Volvo and Renault, but concluding that a commercial valuation of the proposed merger was difficult to assess, because Volvo had presented neither profit-based nor valuation-based information. SSA also notes that the "Information to Volvo Shareholders" failed to prove that a merger was the best and most appropriate option for the two companies to pursue. It questions the advantage of a merger over an ongoing strengthening of the strategic alliance between the two companies.

The SSA notes several problematic aspects of the proposed merger, especially the following:

- The ownership structure of the merged company is complex, making it difficult for Volvo shareholders to understand their new ownership position;
- The creation of the holding company RVC would limit the influence of shareholders of Volvo AB over the operating company RVA;
- Renault is a state-owned company with plans <u>but no specific timetable</u> for privatization;
- The French government, as owner of Renault, would be entitled to hold a "golden share," granting it the right to approve or veto any takeover or sale/purchase of a large block of shares.
- The French government would retain this "golden share" even after the privatization of Renault.
- Mr. Gyllenhammar would retain his position as chairman of the board of directors of Volvo AB and also become chairman of the holding company RVC for eight years;
- Renault, the largest shareholder of Volvo AB, appears to be using its status to influence a decision on a merger with itself, raising the issue of potential conflict of interest.

October - early November 1993
SSA places an advertisement in the October 1993 issue of its monthly magazine calling on its members to vote against the proposed merger. The votes collected represent 2.7 percent of the share capital and 2.3 percent of the votes of Volvo AB. (Like most Swedish joint stock companies, Volvo has a dual-class capital structure consisting of two classes of shares with different voting rights.)

The board of directors of the Fourth Pension Fund, Volvo's second-largest shareholder (owning 7.5% of voting shares), splits 8-6 in favor of approving the merger. The Fourth Fund is an equity investment fund managed by Swedish trade unions; blue collar unions support the merger, while white collar unions oppose it. Gunnar Hohansson, a former Volvo executive, opposes the deal, arguing that Volvo should remain a vehicle manufacturer and not merge with the conglomerate Renault. Due to continued discussion of this issue, however, the board convenes a second meeting, where it decides to vote against the merger.

November 4, 1993
The SSA issues a statement urging Volvo's Board of Directors to withdraw the proposal. The statement argues that Volvo's articles of association would have to be amended before the proposed merger could be consummated.

November 6, 1993
Volvo issues a prospectus with additional information on the proposed merger. Some shareholders do not receive the information until they have given their voting instructions to the SSA or to depositary banks. Other shareholders do not receive the information until after November 9, the scheduled date of the Extraordinary General Meeting of Shareholders.

In response to significant shareholder opposition to the merger, Volvo postpones the Extraordinary General Meeting of Shareholders until December 7, 1993.

mid-November 1993
Despite attempts by Volvo management to control the situation, shareholder and employee opposition to the merger grows. The SSA continues its demands for more precise information on the structure of the merged company.

Foreign institutional investors analyze the effect of the merger on the corporate governance structures of Volvo, Renault and the merged company.

Volvo postpones the Extraordinary General Meeting of Shareholders for a second time. The meeting is rescheduled for January 19, 1994.

End of November 1993
The French government invites major shareholders of Volvo AB to Paris to meet with Renault supervisory board chairman Schweitzer. The SSA is not included in the delegation.

The French Minister of Finance Edmond Alphandery and Minister of Industry Gerhard Longuet write to Volvo's Chief Executive Officer (CEO) Soren Gyll and Chairman of the Board of Directors Gyllenhammar, pledging that the French government would not use the golden share against Volvo. The French Premier Edouard Balladur provides an additional guarantee that Renault will be privatized within one year following the completion of the merger.

A group of Volvo managers meets CEO Soren Gyll and asks him to suggest at a scheduled December 7, 1993 meeting of the board of directors that the company abandon the proposed merger.

November 30, 1993
At a meeting of 25 senior managers of Volvo Car Corporation and Volvo Truck Corporation, opposition to the merger grows.

December 1, 1993
Volvo CEO Soren Gyll informs Chairman of the Board of Directors Pehr Gyllenhammar that management does not support the merger. Chairman of the Board of Directors Gyllenhammar informs Renault that Volvo is abandoning the deal.

As a consequence of the failed merger proposal, Mr. Gyllenhammar resigns.

Following Mr. Gyllenhammar's resignation, the price of each B share of Volvo AB rises quickly to SEK 700, then settles at SEK 650.

January 19, 1994
Despite abandonment of the merger, the scheduled Extraordinary General Meeting of Shareholders is held to elect a new board of directors following Gyllenhammar's resignation.

Of the former board members, only CEO Soren Gyll is reelected.

Spring 1994
Domestic and foreign investors meet with Volvo to recommend that the company improve its disclosure policy. Disclosure is an important issue at annual general meetings of all of Sweden's largest joint stock companies.

<u>Questions</u>

1. **Did Volvo make any mistakes in preparing this transaction?**

2. **Who is responsible for preparing a merger?**

3. **Which mistakes did Volvo's management make in dealing with the board of directors and with shareholders while preparing the proposed merger?**

4. **Which mistakes did Volvo's board of directors make in dealing with management and with shareholders while preparing the proposed merger?**

5. **Shareholders criticized which aspects of the merger proposal? Why?**

6. **Compare the corporate governance practices of Volvo and Renault.**

7. **Diagram the corporate governance structure and ownership structure of the new (merged) company.**

8. **This case study identifies which corporate governance issue(s)?**

9. **Do you see any relationship between this case and the Skandia case (2003)?**

10. **Which corporate governance issues should the Swedish Corporate Governance Code address?**