FERRARI CASE STUDY

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1. COMPANY OVERVIEW

Ferrari N.V, founded in 1939 by Enzo Ferrari and headquartered in Maranello (Modena, Italy), is among the world's leading luxury brands, focused on the design engineering, production, and sale of the world's most recognizable luxury performance sports car. It is also widely known for its Formula 1 racing team *Scuderia Ferrari*, the most successful team in its history.

Ferrari was incorporated as a public limited liability company under the laws of the Netherlands on September 4, 2015, with an indefinite duration. Its official seat is in Amsterdam, the Netherlands.

An Alfa Romeo driver since 1924, Enzo Ferrari, founded his own racing team, Scuderia Ferrari, in Modena in 1929 initially to race Alfa Romeo cars. In 1939 he set up his own company, initially called Auto Avio Costruzioni. The name Ferrari was not used due to contractual clauses that linked Ferrari to Alfa Romeo and prevented him from using his surname on the cars he produced. These clauses were valid until the end of 1944.

In 1947, Ferrari produced its first racing car, the 125 S. The 125 S's powerful 12 cylinder engine would go on to become synonymous with the Ferrari brand. In 1948, the first road car, the Ferrari 166 Inter, was produced. Styling quickly became an integral part of the Ferrari brand.

In 1950, there was its first participation in the Formula 1 World Championship, racing in the world's second Grand Prix in Monaco, which makes Scuderia Ferrari the longest running Formula 1 team. They won the first Constructor World Title in 1952. Their success on the world's tracks and roads extends beyond Formula 1, including victories in some of the most important car races such as the 24 Hours of Le Mans, the world's oldest endurance automobile race, and the 24 Hours of Daytona.

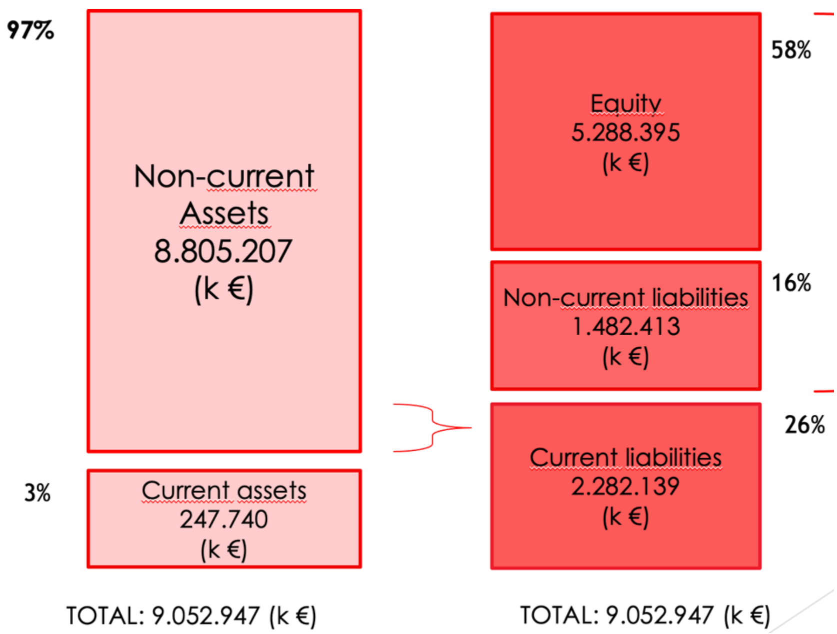
The Fiat group acquired a 50 percent stake in Ferrari S.p.A. in 1969 and increased its stake to 90 percent in 1988 following the death of Enzo Ferrari, with the remaining 10 percent held by Enzo Ferrari's son, Piero Ferrari.

Ferrari became an independent, publicly traded company following its separation from FCA (renamed Stellantis in January 2021, following the merger of Peugeot S.A. with and into FCA), which was completed on January 3, 2016 (the "Separation") and occurred through a series of transactions including an intragroup restructuring which resulted in the Company's acquisition of the assets and business of Ferrari North Europe Limited and the transfer by FCA of its 90 percent shareholding in Ferrari S.p.A. to the Company, the transfer of Piero Ferrari's 10 percent shareholding in Ferrari S.p.A. to the Company, the initial public offering of common shares of the Company on the New York Stock Exchange in October

2015 under the ticker symbol RACE, and the distribution, following the initial public offering, of FCA's remaining interest in the Company to FCA's shareholders. On January 4, 2016, the Company also completed the listing of its common shares on the Mercato Telematico Azionario ("MTA", subsequently renamed Euronext Milan), under the ticker symbol RACE.

2. FINANCIAL OVERVIEW

In this section, the financial analysis on Ferrari is presented. We can now proceed with the analysis of the various accounting indicators of Ferrari S.p.a. specifying that the years 2020, 2021 will be taken into consideration. This operation will be carried out taking into consideration the three types of analysis: solidity, liquidity and profitability.
Let's start by analyzing the solidity of Ferrari S.p.a. in such a way as to understand if and how the corporate structure is able to effectively absorb any momentary imbalances without compromising management.



As we can see, we have "Non-current assets" for 8.805.207 (k €), current assets for 247,740 8 (k €). So, the fixed assets represent 97%.

We immediately notice the disproportionate value assumed by equity compared to fixed assets, as well as the low use of long-term liabilities which, even if they involve the payment of financial charges, are certainly more flexible than risk capital.

Let's now evaluate the capital solidity and solvency. The first indicates the financial independence of a company and the ability to cover investments with equity and medium-long term debt. The second, on the other hand, indicates the ability to cope with the financial investments undertaken.

The solidity index is calculated as: $\frac{Equity+non\ current\ liabilities}{non\ current\ assets}$

If the index is:

- 1, the permanent liabilities fully finance the fixed capital and part of the working capital;
- = 1, the permanent liabilities only finance the fixed capital and the short-term liabilities only finance the working capital;
- <1, the permanent liabilities finance only part of the fixed capital and the remainder is financed by the short-term liabilities.

Ferrari has an index of 0.76. This means that part of the fixed assets is financed with short-term liabilities.

Ferrari has a solvency index of 0.11. This tells us that part of the current liabilities finance fixed assets. We can therefore say that the Ferrari S.p.a group does not seem to be in an optimal financial balance.

Let's now proceed with the profitability analysis which, as mentioned, analyzes what is the rate of return on the capital used, whether it is risk capital, or operating capital, and so on.

Let's start by analyzing the return on risk capital, then assessing how much each euro contributed to the company returns as equity. The index to be used for the purposes of this analysis is the ROE. To calculate it, we take into consideration the net profit, which represents the result of management in all its manifestations (operational, financial, extraordinary, net of taxation.

The ROE for Ferrari S.p.a is:

2020: 34% **2021**: 37%

To assess whether the ROE is satisfactory or not, it is necessary to see if the investment is able to remunerate the shareholder by guaranteeing him a gain that derives from the risk he has taken: in other words, the ROE must remunerate the risk premium. To evaluate this aspect, the following parameters must be taken into account:

$$rf + ß\ (rm - rf)$$

where rf indicates the risk-free return typical of government bonds, rm indicates the market return while ß indicates a reaction coefficient of the security in

question to changes in the yields indicated. In our case, the yield on government bonds amounts to 2.3%, while the market yield amounts on average to a value of 5.7% 41 and the average ß of the automotive sector varies from 0.4 to 0, 8542. That said, a risk-rewarding investment should take on the following value:

2.3% + 0.4 (5.7% - 2.3%) = 3.66%

if instead we assume a coefficient ß equal to 0.85, the return that remunerates the risk should have the following value:

2.3% + 0.85 (5.7% - 2.3%) = 5.19%

In both cases, we immediately notice that the ROE in question significantly exceeds these rates of return, so we can confidently say that the rate of return on the risk capital of Ferrari S.p.a. it is absolutely fine. Once we have analyzed the return on equity, let's evaluate the profitability of operating investments, that is, calculate how many euros return for each euro invested in operating activities. In this case, the index to be used is the ROI, which no longer considers the net profit but only the operating income, divided by the net operating investments.

The ROI of Ferrari S.p.a is:

2020: 9,7%   **2021**: 12,1%

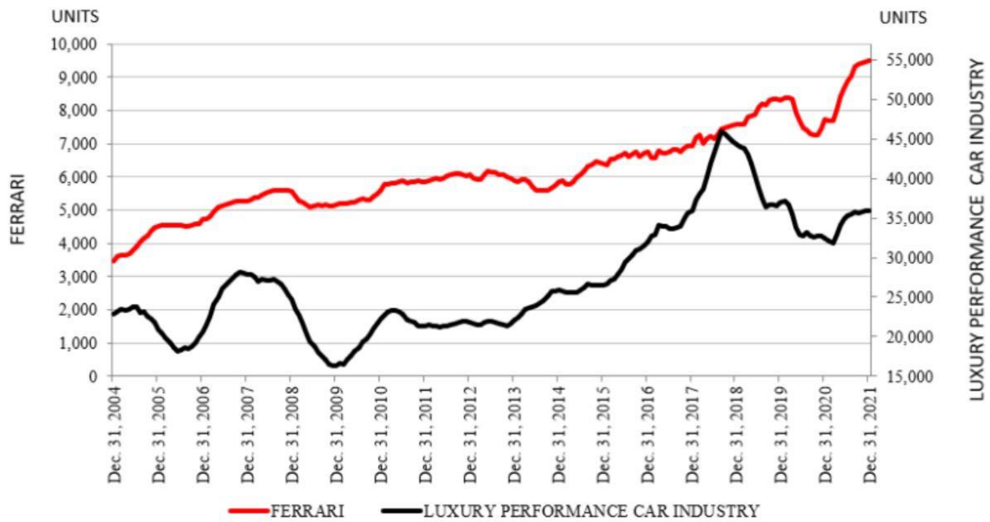
The ROI from 2020 to 2021 also increased in consideration of the fewer restrictions due to an improvement in the pandemic.

In the period analyzed (2021), the company has seen all the main economic and financial aggregates grow, indicating that the company is able to produce a constantly growing volume of business and that the company is able to effectively absorb operating costs. It indicates that the company is able to produce value for the entire financial structure of the company, from shareholders to bondholders.

3. INDUSTRY OVERVIEW

Historically, the luxury performance car market has followed closely growth patterns in the general luxury goods market. Unlike in other segments of the broader luxury market, in the luxury performance car market, a significant portion of demand is driven by new product launches. The market share of individual producers fluctuates over time reflecting the timing of product launches. New launches tend to drive sales volumes even in difficult market environments because the novelty, exclusivity and excitement of a new product is capable of creating and capturing its own demand from clients.

As shown in the following Figure, Ferrari's volumes present lower volatility than its competitors. This is due to its strategy of maintaining low volumes compared to demand, as well as to the higher number of models in its range and its more frequent product launches compared to its competitors.



As testified during the Subprime Crisis and the stock market slide at the end of 2018, differently from Ferrari, the luxury performance car market has been subject to further economic downturn and stagnation in the broader economy. In 2019, the company had a market share of 23% in the luxury performance car market; with 25% of market share in the sports car segment and 19% in the GT segment.

Competitors

Competition in the luxury car market is concentrated in a rather small number of manufacturers, including large automotive companies that own luxury brands as well as small manufacturers focused on luxury cars.
Ferrari is the first in the world when it comes to selling luxury sports cars. However, the "luxury" category takes over, leading Ferrari to compete with top-level manufacturers. Despite this, Ferrari still ranks third in the global ranking when it comes to luxury car sales.

The main competitors are:

1) **Rolls Royce**: is a British car manufacturer and is today considered the symbol of luxury in the automotive sector. Rolls-Royce is currently in the

top position when it comes to luxury car sales. Rolls Royce shares are priced at $ 94.64

2) In second place we find another British car manufacturer, **Bentley**. Bentley currently produces fantastic luxury cars that convey elegance, power, and comfort.
3) In fourth position we finally find another luxury sports car manufacturer. **Lamborghini** is an Italian company that has belonged to Audi since 1998. Lamborghinis are cars that exude pure power and speed, focusing on aerodynamics and young style.
4) We also have **Porche**, a German car company listed in Frankfurt. The repayment of his shares is 83.12.

4. RISK FACTORS AND OPPORTUNITIES

To analyze the risks and opportunities of Ferrari s.p.a, I considered it appropriate to carry out a SWOT Analysis to better identify also the strengths and weaknesses.

Strenghts

- Extremily strong brand image
- Is looked upon as a status symbol
- Innovation and technology are key drivers behind every product.
- Product that are a fine combination of beauty & aesthetics combined with unforgettable performance.

Weakness

- Ferrari's business model, based around low volumes, removes the possibility of employing certain technological solutions;
- Due to their "waiting list" model, they lose out on customers to the competition.
- Ferrari stocks depend on the F1 results.

Opportunities

- Growth in the global market for high-performance super-cars due to growing economies & developing nations.
- Expansion of the brand through entering into new & important automotive markets like India wherein competitors like Porsche have already set up base.
- Developments of technology (for example interfacing electronics with mechanical systems) has opened up new avenues to explore for their products.

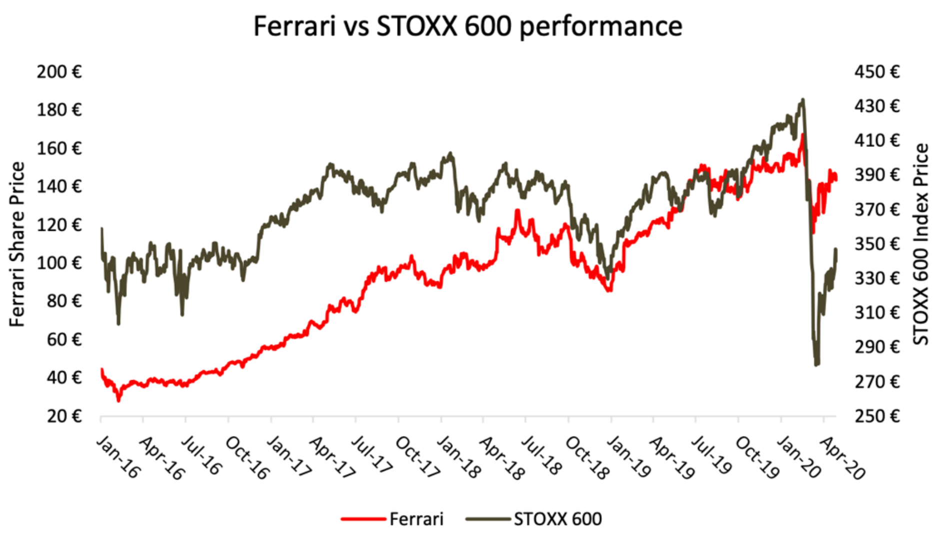
- Customer expansion- Ferrari should expand its customer by producing products according to their need, wants. Product is categorised by price lower-middle-class people prefer to purchase good at cheap price. Through digital marketing, they can advertise and expand their customer.

THREATS

- Tough competition from other iconic super car brands like Lamborghini & Porsche
- Automotive policies being pushed by countries & continents all over the world which are being strictly enforced like the emission norms of 130g/km of CO_2 are very difficult to keep up with due to the performance-oriented nature of the engines built by Ferrari.
- Demand and supply: It is a very difficult task to maintain the demand and supply in the market. The market always has a sudden flustration in demand and supply, so we must mentally and physically prepare.

5. SHARE PERFORMACE

Ferrari's share price performance experienced a tough post-IPO phase, but subsequently recovered and even exceeded the initial price by the end of September 2016.



The drop in the company's share price began in July 2018 when Louis Camilleri was named CEO of Ferrari after Sergio Marchionne retired due to his illness. In October, due to the European Commission's rejection of the Italian government's budget due to its rising deficit, uncertainties over the Brexit negotiations, most

stock markets around the world collapsed and Ferrari stock price continued its negative trend.
As of January 2019, the company's share price recovered thanks to the readjustment of the generalized market sell-off in Q4 2018, but mostly thanks to the strong earnings report. The trend was then slowed by the recent global contraction that began in February 2020, due to Covid-19 pandemic.

Finally, it is worth mentioning that Ferrari's share price appears to follow pretty closely the dynamics that influence the broader market. On the other hand, since its IPO it constantly outperformed the STOXX 600 Index with a staggering 69.55% increase since January 2016, compared to the index decrease of -4.89% over the same period, with an average annual return of 38.15% and 4.62%, respectively.

6. INDICATORS

Ferrari positions itself in a specific niche of the automotive industry, making it extremely difficult to identify comparable companies within the sector. Analyzing the performance of the shares, we can say that Ferrari is following more closely the dynamics that influence the luxury industry, namely the growth rate, profitability and size. After selecting the group of companies as similar as possible to Ferrari, the most suitable multiples were computed through data extracted from Thomson Reuters. Consequently, these should be taken as a reference point to gather insights about how the market views and prices companies operating in the luxury industry. For this reason, I decided to compare Ferrari with Hermes, Prada, Moncler S.p.a.

In order to isolate possible different capital structure decisions, entity value multiples were considered such as *EV/EBITDA, EV/EBIT* and *EV/Sales* which measure operating performance and are not affected by different tax rules. Among them, EV/EBITDA was chosen since it is free of arbitrariness concerning the accounting for D&A expenses. The average is set at 17.2x against Ferrari's 19.7x, meaning that the company trades at the high-end compared to its peers.

Company Name	Enterprise Value	EV/EBITDA	P/E
Ferrari	31.773	19,7x	36,6x
Hermes	73.110	25,9x	41,6
Prada	11.377	13,0x	53,4x
Moncler S	9.680	14,8x	25,4x
Average	31.270	17,2x	38,5x

Moreover, pricing multiples were incorporated in the valuation. Even though, *Price-to-Earnings (P/E)* multiple can be manipulated by changing capital structure, and different accounting policies affect net income as the bottom-line value, it can be seen as a reliable indicator. Hence, considering the luxury industry where firms report solid earnings, are subject to relatively uniform accounting policies, and operate with similar capital structures, the integration of pricing multiples appears justified. Namely, the *P/E* avarage is 38.5x against Ferrari's 36.6x which means that on average its comparable companies trade at a slightly higher premium.

7. CONCLUSION

In conclusion, we can say that Ferrari has an acceptable financial structure and having a Β of 0.85, so it is not affected by the economic situation, which can be an advantage especially in this period of pandemic. Moreover, in the industry overview, we have seen that Ferrari's volumes present lower volatility than its competitors. To invest in Ferrari, you must first be convinced that you are investing in the luxury sector. Having made this decision, we have seen how Ferrari has an above average EV/EBITDA compared to its stock market competitors and a P/E very close to the sector average. It could therefore be considered a reasonable investment over the long term.

SOURCES

www.ferrari.com

it.finance.yahoo.com