



# CFA Institute

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## CFA Institute Research Challenge hosted by CFA Society Italy

### 250GTO

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INITIATION OF COVERAGE | 14<sup>TH</sup> FEBRUARY 2020

## HOLD

Price	€ 159.75
Target Price	€158.45
Downside	-0.81%
Dividend Yield	0.7%
Total Shareholder Return	-0.1%

Listed on	Italian Stock Exchange
Ticker	RACE:IM
Shares Outstanding [m]	185.53
Market Cap	29,962

### MAIN SHAREHOLDERS

Exor NV	23.95%
Ferrari Piero	10.18%
Baillie Gifford & Co.	7.30%
T. Rowe Price Associates, Inc.	4.60%
Ferrari NV	4.18%
The Vanguard Group, Inc.	1.98%
D1 Capital Partners LLC	1.38%

### STOCK DATA

52w H/L [€]	160.6/108.95
Avg Daily Volumè [3 mo]	0.43

### STOCK DATA

	19A	20E	21E
EPS	3.71	4.08	4.66
DPS	1.05	1.16	1.29
Dividend Yield	0.7	0.7	0.8

	19A	20E	21E
Price to Book	18.8	14.8	11.8
ROE	47%	38%	34%
ROIC	39%	30%	29%

## ITALY | AUTOMOTIVE | LUXURY

### FERRARI NV

	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
Net revenues	2.854	3.105	3.417	3.420	3.766	4.063	4.412	5.053
EBITDA	719	843	1.036	1.115	1.269	1.385	1.551	1.795
% on total Revenues	25,2%	27,1%	30,3%	32,6%	33,7%	34,1%	35,2%	35,5%
Net Income	290	400	537	787	699	659	746	894
% on total Revenues	10,2%	12,9%	15,7%	23,0%	18,6%	16,2%	16,9%	17,7%
EPS diluted	1,52	2,11	2,83	4,16	3,73	3,55	4,08	4,96

Source: Team Estimates

### INVESTMENT SUMMARY

Target price at €158.45 represents a 0.8% downside starting from current price of €159.75. Fair value of the Ferrari stock has been calculated discounting the future cash flows of Ferrari in line with the following considerations:

- HNWIs will continue to increase in the next years (although with a halved growth than in the last 20 years) driving sales volume growth
- Ferrari's bargaining power through exclusivity will continue to drive price increases, however we don't consider an average +5% sustainable in the time: we decided to consider a +2% (net of inflation)
- More frequent Icona launches will have a positive effect on the margins and ASP
- CAPEX will increase in order to develop hybrid and electric technology.

Considering a dividend yield equal to 0.7%, the total shareholders loss is reduced at -0.1%. Therefore, our final recommendation is HOLD.

The following risks are not reflected in the estimated share price, and remain a concern:

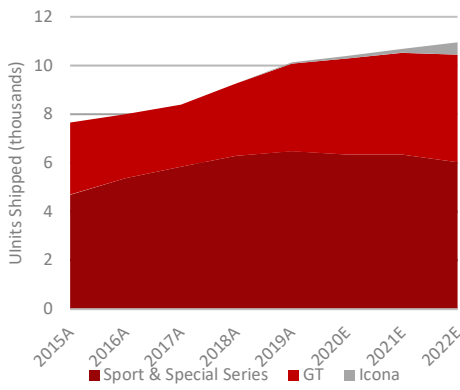
- risks associated with electric car are not fully comprehended, higher investments are forecasted, but their level could be much higher than the expected, according to the effectiveness of Ferrari in developing electric models and entering the segment as a market leader. For example, becoming a leader also in the Formula E could be necessary for Ferrari in order to achieve this position, with consequent important investments to be done. All these further risks are not reflected in the stock price
- Engines are an area of concern, given the recent release that Ferrari will stop selling engines to Maserati by 2022. It remains unclear how they plan to recover these lost sale
- Ferrari may not succeed in preserving and enhancing the value of its brand, whose pricing strategy and revenues depend on. This is a very far scenario and it's not reflected in the current price
- Possible future additional taxes due to emissions

The main business opportunities that the markets (and our estimates) are not discounting in Ferrari's value are linked to the new brand diversification strategy: long-term restructuring to deliver accretive value. 50% of existing retailing contracts will be cancelled and will be substituted by new initiatives with exclusive luxury products and services such as Armani tailoring and Michelin restaurating. Ferrari aims at contributing 10% of the EBIT in 7/10 years from this initiative. Also artificial intelligence could impact positively the financials of the company, even though its excellence is based on high quality craftsmanship. Furthermore, the most important opportunity comes from a financial standpoint: the company's announced share buybacks, together with the impressive capability to repay the debt quickly thanks to an incredible profitability, can contribute to an increase of EPS and shares value.

More specific information and analysis are provided in the following paragraphs of the document.

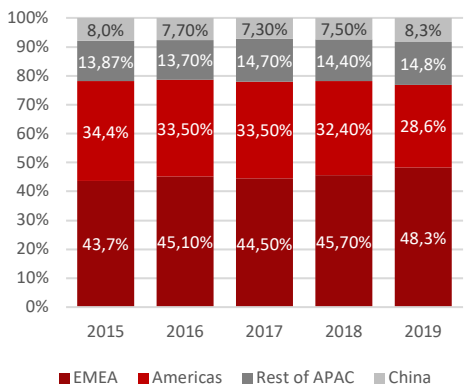
**PRODUCT MIX 2015-2022E**

Source: Team Elaboration



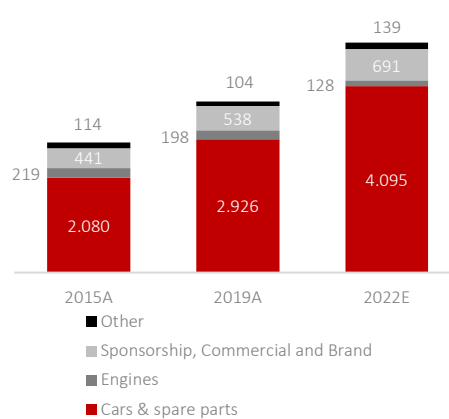
**SHIPMENTS BY REGION 2015-2019**

Source: Team Elaboration



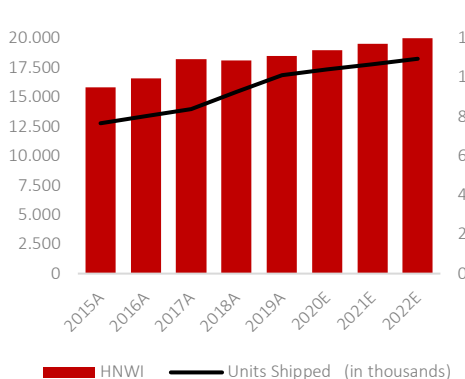
**REVENUES GROWTH 2015-2022E**

Source: Team Elaboration



**HNWI vs TOTAL UNITS SHIPPED 2015-2022E**

Source: Team Elaboration



**COMPANY OVERVIEW**

Ferrari is the world’s strongest brand, worldwide known not only for the design, engineering and production of the world’s most iconic sports cars, but also as a symbol of exclusivity, style and luxury. Since the very beginning Ferrari has been the leader in technological innovation and performance, combining them with the unique appeal of Italian design, in order to create a product that today is much more than a car, is an object of cult for millions of followers. Mr. Enzo Ferrari started in 1929 Scuderia Ferrari in Modena, the place where all their masterpieces are still being designed, engineered and produced. The racing team became the most successful Formula 1 team in history, enhancing Ferrari’s sporting spirit and providing their models with the latest innovations straight from the racing tracks.

**BUSINESS DESCRIPTION**

Materially a two-door sports car powered by an engine producing more than 500hp and selling at a retail price over €150,000, Ferrari is a name that transcends the automotive industry. It was founded in 1939 by Enzo Ferrari and was listed on the NYSE in 2015 and on the Mercato Telematico Azionario (Stock Exchange managed by Borsa Italiana), under the ticker symbol RACE in 2016.

**Business Segments**

Boasting a net revenue of €3420 million, EBIT of €826 million and a net profit of €787 million in 2018, the company offers luxury sports cars, its spare parts, Engines and Sponsorship to Formula 1 events. More than 70% of its revenue is generated by selling cars.

In terms of geographic location, three-fourth of the revenue stream comes from EMEA and the Americas. The recent trend suggests a strong demand in the Asian market thanks to an affluent consumer market developing and more importantly the growing appetite coming from the younger generation.

**Production and Distribution**

While most of the manufacturing process takes place in Maranello and Modena in Italy, a large variety of inputs are outsourced – over 40,000 products from more than 750 suppliers. With fluctuations in the demand of the cars, Ferrari can adjust the output thanks to its accommodative production facility. It is interesting to note that Ferrari, unlike other low volume car manufacturers, has its own foundry department and machining department that help accelerate the product development and meet specifications more closely.

Distribution of these quintessential machines is done exclusively through a network of authorized dealers. With a network of 167 dealers and 190 points of sale across the globe, Ferrari manages strict selection criteria to provide best purchase and after sales service to clients ensuring highest level of satisfaction.

**Corporate Governance**

Since Ferrari N.V. is incorporated in the Netherlands, it must comply with the Dutch Corporate Governance Code. One such code expects a minimum of 30% male members and a minimum of 30% female members in the composition of the board. Four of the current ten directors are female and six are male, and therefore Ferrari complies with the above-mentioned standard. Moreover, Ferrari’s board is dominated by independent directors. Eight out of ten directors being independent can better able to protect the shareholders' interest by improving the company's access to external resources and connections. However, the flip side of this domination is the effectiveness of the board that hugely depends on the insights about the company operations provided to non-executive directors by the two executive directors, who can be biased.

An important point to highlight here is that board member John Elkann is the executive chairman in the board as well as the CEO of Exor N.V., which is one of the majority shareholders of Ferrari, consequently, it produces a conflict of interest.

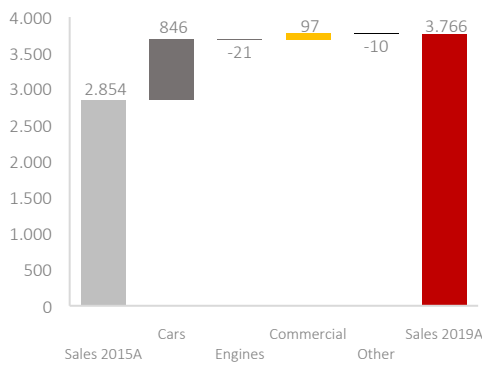
In comparison to the previous year, Ferrari has let go Mr. Lapo Elkann, brother of John Elkann, to comply with one of the best practices of Dutch Corporate Governance Code.

**ESG Score**

In terms of sustainability practices, Ferrari fares better than most of its peers and the automotive industry in general. A controversial level score of 1.0 suggests good practices followed at Ferrari when compared with the category average of 2.6. However, significant effort is still needed as even without the reduction of CO2 emissions by 11%, there still lies a risk of non-compliance with laws, regulations and local standards, which in turn possess the risk of image and brand reputation.

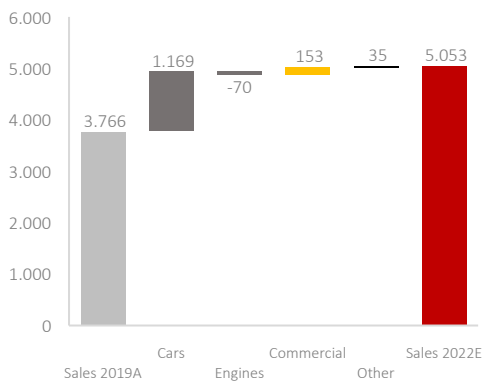
**REVENUES BRIDGE 2015-2019**

Source: Team Elaboration



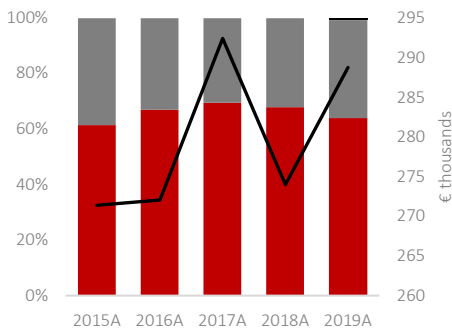
**REVENUES BRIDGE 2019-2022E**

Source: Team Elaboration



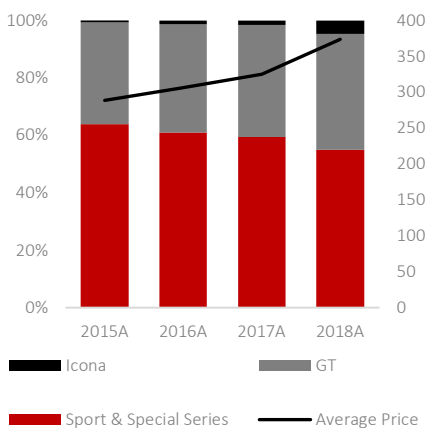
**PRODUCT MIX & AVERAGE PRICE 2015-2019**

Source: Team Elaboration



**PRODUCT MIX & AVG PRICE 2019-2022E**

Source: Team Elaboration



**COMPANY STRATEGY**

**Maintaining Brand Heritage**

Ferrari maintains a strategy of exclusivity by restricting supply below demand and selecting only customers they approve, providing several advantages to Ferrari. Firstly, this creates appetite and desire for the brand, meaning people are willing to wait to buy a Ferrari, which has led to a decrease in volatility versus peers without sacrificing growth. Secondly, this high demand has meant Ferrari is able to demand a premium versus peers in terms of EBITDA margin, averaging 33% versus peers at 20%.

**Distinctive but Complementary Cars**

Ferrari is one of a kind in terms of providing both GT along sports cars. This links to their unique heritage and allows them to diversify their product base without sacrificing the image of the brand. This strategy also means Ferrari is less prone to volatility in the market and changes in customer preferences.

**Nurturing Exclusivity and Enhancing Customer Loyalty**

Ferrari maintains a strong strategy of retaining their customers, both through their exclusivity and brand image and through employing a strategy similar to Hermes wherein loyal customers gain access to models available only to them. Further to this, they have also begun offering branded products such as apparel, which offer a personal touch and keep engagement with their customers.

**Technological and Performance Leadership**

Ferrari remains a vertically integrated business, creating and producing their own engines. This knowledge has allowed Ferrari to maintain a lead versus competitors, both in terms of innovating to meet new regulations and to take advantage of new technology and requirements of customers. This level of expertise has meant Ferrari has been able to move ahead faster than peers and create three new hybrid vehicles, while at the same time maintaining the spirit and sound of a Ferrari, which is crucial to maintaining the image of the car.

**Racing Know-How Constantly Transferred to Road Cars**

As Ferrari maintains a strong racing spirit through their F1 team, unlike many of their peers, Ferrari can employ new innovations in driving straight from the racetrack to road cars. Both capitalising on research and development spent on the F1 car and also once more transferring the racing spirit from track to road. Similar to Ducati, this allows Ferrari to test and leverage best in class automotive solutions on the track, before “mass” producing them for the road, providing the benefit of knowing of something works and leveraging both racing and road teams in unison.

**Marketing Strategy - Market Through F1**

Formula 1 is the pinnacle of technically advanced competitive motorsport, as it allows Ferrari to directly compete with the best technology their competitors have to offer. It serves as Ferrari’s only marketing tool which, due to the success of the team, remains a strong tool. Ferrari does not directly invest in the marketing aspects of F1, rather it invests in their team and car, which if performs well leads to increased exposure and awareness of the brand. This speaks directly to the F1 audience and the customers Ferrari seeks, and provides two further effects. The first being it provides return which they may consider directly attributable to the team, and secondly allows the company test new and best in class technologies against their peers.

**INDUSTRY OVERVIEW**

The supercar industry is highly competitive, with some strong players from the automotive sector, but each one of them appears uniquely diversified from one another. The main players are Ferrari, Lamborghini, Porsche, Bentley, Aston Martin, McLaren and Bugatti, as well as some specific models from Audi, Mercedes and BMW and other smaller boutique producers as Pagani or Koenigsegg.

Data from 2016 show that Bentley leads market share with 37%, followed by Ferrari (24%), Lamborghini (11%), Rolls-Royce and Aston Martin (10% each) and McLaren (6%). The rest is divided by other players with less than 5%.

The luxury car market has grown steadily over the last six years, with revenues expected to hit \$15.9bn in 2023, which is a CAGR of +0.2% versus the previous ten years from 2013 to 2023. The main geographical markets are the United States and Europe, where luxury cars

represent 1.6% and 1.2% respectively of the total car market. Further to this, it is expected the US market will shrink by 2022, with a CAGR of -1.5% for the ten years, while Europe is expected to grow at a CAGR of +3.3%.

In order to analyse the competitive landscape, it is important to understand the specific qualities of the competitive dynamics. Luxury and exclusivity changes the way some rules of the game versus the traditional car selling business, with market share not always being the goal, but instead a KPI to keep under control. Further to this, high competition in this industry induces high investments in R&D and product development, generating high pressure for periodical new launches, in order to keep up with customer demands.

While there is strong competition, it has not generated a price war. As this industry not only about sports or performance, but also about exclusivity and luxury, brands are aware of the importance of maintaining their prices levels and of keeping their investments in innovation, marketing or racing events, as Ferrari does with F1.

Last year the company's strategy changed in relation to commercialization of luxury goods, aiming to boost the Ferrari brand in the luxury market, establishing partnerships with renowned producers of luxury goods to sell Ferrari branded products.

In the near future, the strategy of Ferrari is to capture a latent growth opportunity without affecting the exclusivity of the brand, this based on a four-pillar value proposition: controlled growth, regular new models introductions, excellence in racing and controlled growth in adjacent luxury categories. The company expects to do 15 new launches between 2019-22, increase the hybrid mix to 60% and increase the average retail price.

## COMPETITIVE POSITIONING

Historically, Ferrari's revenue has come primarily from supercars, with marginal revenues from branded goods, engines and financial services. It is expected the company will seek to diversify this going forward however, with the goal of increasing the sales from luxury branded goods to 10% of total profits in the next seven to ten years.

In terms of geographic location, three-fourth of the revenue stream comes from EMEA and the Americas. While the income levels and affluence of Asia continues to increase, Ferrari is seeing little appetite there, with their share mix maintained at 8%.

**Sports Cars** The analysis will focus on their main business and the different segments of the car industry where Ferrari participates: Sport cars, Special Series, Gran Turismo and boutique cars (Icona). Sports series are cars specially focused on performance, prioritizing this over elegance or comfort. This segment currently represents around 65% of Ferrari's shipments, and though this is expected to decrease in the future, it will still account for more than 50%. With the launches of the F8 Tributo and the SF90 Stradale, the company is aiming to increase the price of this product mix also. The SF90 is a hybrid car with extremely high performance, even comparable with the LaFerrari, but with a more accessible price.

**Special Series** Normally born from base sports model, the special series are limited edition concepts, offering a premium in performance and technology. The exclusivity and higher performance is reflected in their sale price, which can be around 27% higher than sports series. Examples of this series are the 488 Pista and 488 Pista Spider, based on the 488 GTB.

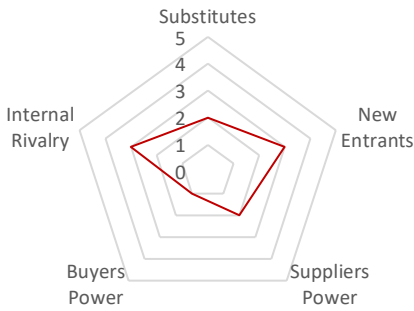
**Gran Turismo** The Gran Turismo is a more balanced series than the sports one, focused more on comfort and elegance, while maintaining the sport spirit and the driving emotions. This represents the level for new customers of the brand, with models such as the California, the Portofino, and soon the Purosangue. Ferrari is placing a growing importance to the Gran Turismo cars in their product mix, with the plan to increase almost to 40% of their shipments by 2022, driven by the launch of hybrid models and eventually the Purosangue. This segment in the market has experienced an important growth in the last 10 years, especially because of the launch of luxury SUV models from important players such as Bentley and Lamborghini.

**Icona** This new segment launch is aligned with the company's objective of increasing EBITDA, without heavily increasing the number of shipments. ICONA cars will allow Ferrari to raise the average price of their product mix by offering attractive and exclusive products to their most loyal collectors. The Monza SP1 and SP2 were thoughtfully allocated, giving each selected client the possibility to get only one unit with a selling price starting at €1.6 million. The plan is to launch new ICONA models periodically, making them almost 5% of their shipments by 2022.

The mentioned segments and projected product mix makes sense with the proposed strategy. Ferrari aims to increase their EBITDA but is not willing to elevate their number of

**PORTER'S 5 FORCES ANALYSIS**

Source: Team Elaboration



**FIVE FORCES**

shipments, to avoid impacting the exclusivity of the brand. Instead of pushing price increment to existing models, the company is adding new models and characteristics to justify higher prices, with hybrid cars (SF90 for example) and the ICONA series. Ferrari bases its competitive strength on their brand, and their current strategy will continue to protect this brand while allowing them to further capitalize on it to improve their profit in the near future.

Ferrari has shown the capacity to win the competitive battle over time, being not only a leader, but an icon in the supercars industry. In the last years competitors such as Lamborghini and Aston Martin have engaged in more bold strategies, like the inclusion of the SUVs, that are changing the competitive landscape, but Ferrari has a solid strategy to face these challenges leveraging on its brand and capacities.

**Industry**

The car industry is highly affected by economic cycles, therefore prone to peaks and troughs. It is important to note however, Ferrari appears unaffected by economic cycles due to their strategy of undersupplying the market, allowing them to weather the storm. The industry is also currently going through major disruption as new competitors enter the market and customers shift towards more eco-friendly products, no longer desiring the V12, and even the V8 engines.

**New Entrants**

Looking into the industry, new technologies and social trends are a potential threat for current players, not only by the introduction of electric, hybrid and autonomous cars, but also by the possibility of new companies entering the super cars market, as Tesla did in other segments. Companies that in the past were offering services for supercars producers, like Pininfarina or Italdesign, have plans to enter the market with disruptive proposals, appealing to the new trends in customers preferences.

**Threat of Substitutes**

New technologies and regulations represent a big threat, as they will promote substitutes versus traditional cars. Even though supercars are not really a transportation solution, but more of a social or cult object, there will still be implications that will directly affect them. The potential ban of internal combustion engines from major cities and the irruption of autonomous cars will make supercars less practical and might, in the long term, reduce their use to racetracks. Even though all these factors will not impact the enthusiasm of the most loyal customers, sustainability trends can impact the industry image among the public. Electric supercars are starting to arise from traditional competitors and new entrants, but most companies have the capacities to eventually follow this trend and adopt new technologies in their product line.

Due to the number of cars produced by each player, and the possibility to charge their clients with any kind of taxation or restriction they face (CO2 emissions for example), substitutes seems like a minor threat in the short and medium term.

**Suppliers**

Most players are highly vertically integrated, producing internally a big proportion of their components and eliminating the risks of depending on third parties. The portion of externally provided components are normally from different small and local suppliers, because customers value artisanship and boutique manufacturing. As for the suppliers a contract with supercars companies is a big opportunity, the bargaining power that the industry players have is high.

**Buyers**

Even though the clients of the industry are very demanding, their bargaining power is low. They only buy in small volumes and are price takers. The main factor empowering buyers recently are the environmental and social trends that are pushing towards more eco-friendly products faster than what the industry responded. The biggest signal of the strength that some players have over buyers are the long waiting lists for base models and how they pick their clients for special series.

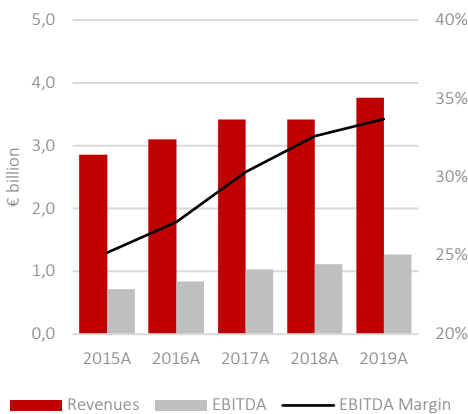
Ferrari is in a very good competitive situation, being the strongest brand not only in the industry, but in general. The company is well prepared to face potential threats, have strong position towards suppliers and competitors and is isolated from the industry's cycle, as their high wealth clients are independent from the economic fluctuations. The long-lasting strategy of contain growth has kept the brand exclusivity and makes Ferrari even more isolated from the economic trends.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>🦄 Extremely strong brand image.</li> <li>🦄 Strong integration of performance with image, leveraging track expertise</li> <li>🦄 Exclusivity has created desire</li> <li>🦄 Innovation &amp; technology are key drivers behind every product</li> </ul>	<ul style="list-style-type: none"> <li>🦄 Ferrari’s business model, based around low volumes, hinders growth and scale possibilities</li> <li>🦄 Due to their “waiting list” model, they may lose out on customers to the competition</li> <li>🦄 Performance and speed so built into Ferrari it is costly to maintain</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>🦄 Growth in the global market for high-performance super-cars due to growing economies &amp; developing nations</li> <li>🦄 Increasing their customer base through adding more family orientated vehicles</li> <li>🦄 Development of technology (for example interfacing electronics with mechanical systems) has opened up new avenues to explore for their products</li> </ul>	<ul style="list-style-type: none"> <li>🦄 Automotive policies being pushed by countries &amp; continents</li> <li>🦄 Tough competition from other iconic supercar brands like Lamborghini &amp; Porsche</li> <li>🦄 A competing brand like Porsche does not follow the same low volumes, high on exclusivity model which is followed by Ferrari &amp; hence sells a lot more of its products &amp; captures a large chunk of the market share</li> </ul>

**FINANCIAL ANALYSIS**

**EBITDA MARGIN 2015-2019**

Source: Team Elaboration



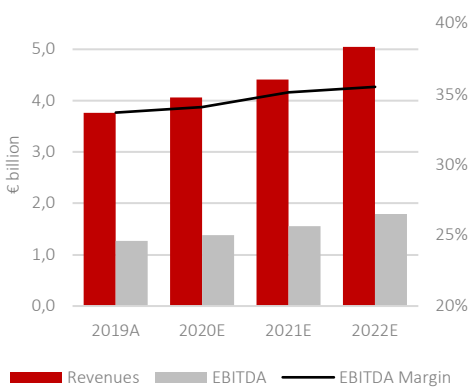
**Revenues: Controlled growth and robust pricing power**

Ferrari’s commercial strategy is clear: the low volume production and restricted supply is a conscious action, intended to control the growth in order to preserve the company’s image, based on exclusivity. In 2019 Revenues were €3.8bn, +10.1% vs PY, mainly driven by volume increase of the Ferrari Portofino, the 812 Superfast and the 488 Pista, partially offset by lower sales of the 488 GTB and the 488 Spider. Focusing on the most relevant business, Cars and spare parts, the average price was higher than 2018 (€289k vs. €274k) mainly thanks to the Icona models delivered this year. Moreover, volumes increased despite the worldwide HNWI estimations staying flat: Ferrari slightly increased its penetration within the high net worth individuals in 2019

Looking at the last 5 years, the Maranello company has shown a compounded annual growth rate of 7.2%, mainly thanks to Cars & Spare Parts higher sales (+8.9% CAGR), driven by both volume (number of shipments: from 7,664 in 2015 to 10,184 in 2019), mix move towards more expensive cars (higher Sports and Special Series weight and Icona models launch) and price increases. Compared to the average revenue growth of the automotive industry, Ferrari’s growth is slightly higher (+32% vs. 29% industry average for the five years). Looking at the luxury industry, Ferrari’s growth is much lower than luxury companies (luxury companies grew by about 46% on average, for the 5 years).

**EBITDA MARGIN 2019-2022E**

Source: Team Elaboration



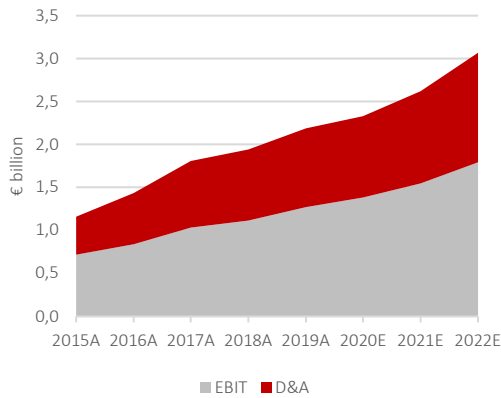
**Margins and profitability: More luxury than automotive**

In 2019, Ferrari showed an EBITDA of €1.27bn, 33.7% of sales, while in line with growth vs. 2018 (when it was €1.12bn, 32.6% of sales), has constantly increased from 2015 (€0.72bn, 25.2% margin), both in absolute value and in percentage of sales. The rise is mainly driven by higher gross margin (from 43% of sales in 2015 to 53% in 2019), driven by higher revenues and lower cost of goods in percentage, due to the higher weighting of Sport and Special Series in the sales mix (which has a higher gross profit than GT) and by the Icona series sales in 2019. SG&A and R&D stayed almost flat in terms of percentage on sales in the last 5 years. This high EBITDA margin is typical only of the highly positioned players in the luxury sector: indeed it almost double the automotive industry average (about 17%) and beats the luxury average (about 26%). Only Hermes, Moncler and Kering have higher EBITDA margin than the Maranello company. This shows the management focus on marginality, which drives the company’s growth, being Ferrari’s strategy inclined to value rather than to volume.

All this can be extended to the EBIT, too: €0.92bn in 2019, corresponding to 24.4% of sales, compared to the €0.44bn of 2015 (15.6% on sales). The growth in EBITDA of €0.55bn for the five years has largely translated to a similar growth in EBIT, though this was partially offset by a D&A increase of roughly €0.08bn, due to relevant capital expenditures which has

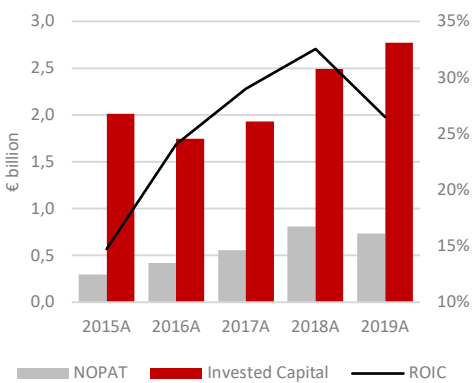
**D&A EVOLUTION 2015-2022E**

Source: Team Elaboration



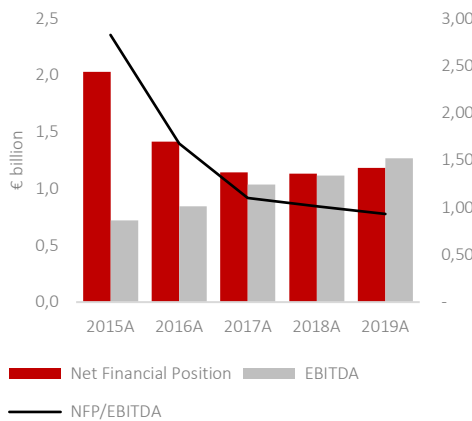
**ROIC 2015-2019**

Source: Team Elaboration



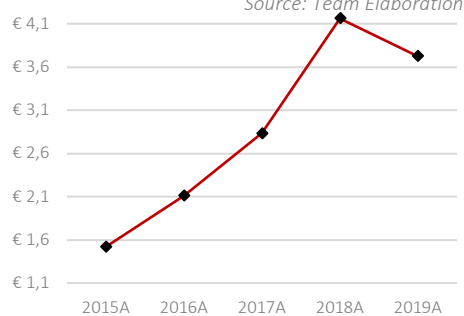
**NFP/EBITDA 2015-2019**

Source: Team Elaboration



**DILUTED EPS 2015-2019**

Source: Team Elaboration



increased the invested capital to be depreciated/amortized. Similar to the story of EBITDA, the automotive industry shows a lower EBIT margin on average (about 9%), while luxury is closer (almost 19%) to Ferrari's marginality.

For 2019 Ferrari has a Return on Invested Capital of 26.5%, though this is lower than last year at 32.5%, mainly due to a higher effective tax rate (Ferrari paid very low taxes last year, thanks to Patent Box benefit). Net of taxes, ROIC is penalised in the last two years by higher investments, which are not fully converted into sales (decreasing Invested Capital Turnover), due to the firm's strategy based on controlling the growth. This effect is only partially offset by a constantly increasing return on sales, driven by the management's focus on marginality. However, looking at the automotive industry, nobody is not even close to Maranello company (industry average: 4.2%) and also in the luxury sector only Hermes and Moncler present a higher ROIC, with the average in luxury being 13.1%, more than 10 percentage points lower than Ferrari. Comparing the ROIC to WACC (Ferrari's one is around 6.2%), we can observe that there is an important spread between the invested capital return and cost, meaning that Ferrari creates huge economic value. Looking at the EVA (Economic Value Added) and considering a WACC of 6.2% (and a spread of 20.3% between return and cost of capital), we end up with a EVA of around 0.56bn in 2019: Cavallino's impressive value creation, thanks to its brand awareness and reputation (not present obviously in its books). Focusing the profitability analysis on the equity side, we can compute a ROE of 44% in 2019, thanks to a book D/E ratio of 0.91, which adds an important leverage effect to the already very high return on invested capital, as mentioned. Though Ferrari's equity is constantly increasing due to high retention rates, thereby causing a constant decrease of the ROE, this still remains 10 times the average of the automotive industry (average: 4.4%) and higher than the luxury one (average: 18.3%).

Moving our analysis from the corporate to the single share, we can observe that earnings per share are constantly increasing, mainly driven by the growth of the net income (following the EBITDA one), except for 2019: 2018 results were facilitated by a lower effective tax rate, thanks to the Patent Box.

**Operating cash generation: Luxury EBITDA coupled with an automotive Capex level**

Thanks to the abovementioned EBITDA, Ferrari's operating cash flows are very generous. Ferrari's constant increase in both amount and margin percentage was only partially offset by the doubled capital expenditure which has occurred since the new industrial plan was launched in 2018. Indeed, a growth in the operating cash flows can be observed in the last four years, not considering the particular working capital impacts.

**Financial Structure: Share buybacks and Debt repayment**

The payment of dividends (Ferrari started to reward the shareholders in 2016, €87 million, constantly increasing and more than doubling them to €194 million in 2019) and the share buybacks (€100 million in 2018 and €275 million in 2019) have negatively impacted Cavallino's cash in the last two years. After repaying a part of the debt in 2015 (400 million) and 2016 (100 million), Ferrari increased its net financial position in the last two years. All this results in a financial structure in which the market debt to equity ratio is lower than 5% (considering the net debt, equal to €1.2bn at 2019 year-end). Looking to the leverage from a net financial position to EBITDA standpoint, it's evident that Ferrari decreased it in the last 5 years passing from 2.83x to 0.93x, meaning that, in 2015, 3 years were necessary for repaying the entire amount of debt (assuming to use the whole EBITDA to do it), while now one year is enough. All this thanks to the above mentioned highly performing cash flow generation of the firm.

**FUTURE VIEW**

**Revenues: Growth through Icona series and higher ASP**

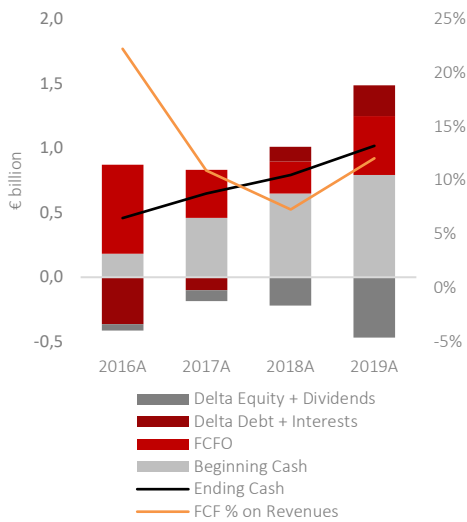
While Ferrari has historically maintained a mix of 66% Sport & Special series, and 34% GT, Ferrari plans to launch and grow their Icona series from 0.6% in 2019 to almost 5% by 2022. The Icona series is positioned as a highly exclusive model, which has a selling price of \$1,600,000, and with maximum volumes of five hundred.

Along with this, we expect the GT Series models to grow in terms of mix, up to 40% by 2022. While the GT has historically traded at a lower ASP of \$210,000 versus an average of \$320,000 for Sport & Special Series, the GT ASP is expected to increase both by the release of new, updated models and the launch of the electric vehicles which have an ASP of \$400,000. We expect these actions to translate into an increase in ASP to \$250,000 by 2022 for the GT series.



**CASH GENERATION 2015-2019**

Source: Team Elaboration



**EBITDA: Strong Product Mix and Cost Management**

**Taxes: Realigning With "Common" Italian Law**

**CAPEX: Increasing Investments**

**Future Analysis: Higher Investments Not Converted Into Sales**

**WACC ASSUMPTIONS**

Source: Team Estimates

Risk Free Rate (rf)	2,68%
Market Risk Premium (MRP)	5,96%
Beta (β)	0,60
IRS	2,76%
Spread	0,63%
Cost of Equity (Ke)	6,25%
Cost of Debt (kd)	3,39%
Tax Rate	27,5%

Both these actions should lead to an overall increase in ASP for the business from \$289,000 in 2019 to \$374,000 in 2022, while units only increasing to 10,816 in 2022 versus 10,952 in 2019. Volume growth is supposed to follow the increase of HNWI, keeping the same penetration of 0.05% (Ferrari’s exclusivity strategy).

With regard to engines, as Ferrari decided to stop the supply contract with Maserati (expiring in 2022), we assumed a slight decrease of sales in 2020 and 2021 (10% less) and a 20% less in 2022. After that year, Ferrari will continue selling engines only to the Formula 1 teams.

Revenues for sponsorship, commercial and brand activities are expected to grow, as Ferrari is reviewing its licensing agreements in order to ensure more made in Italy, more exclusivity. For instance, Ferrari just signed an agreement with the famous Italian stylist Giorgio Armani. Furthermore, increasing flows from coming from the Abu Dhabi Ferrari World are expected to be recorded, as UAE will host Expo 2020.

Other revenues, principally coming by financial services offered by Ferrari through Ferrari Financial Services, were assumed to grow at a stable rate, as for the period we considered, interest rate policies set by Central Banks foresee a flat trend in both short-term and long-term interest rates. Therefore, we expect these revenues to grow at a constant rate of 2.8%, in accordance with Ferrari's overall growth.

All this leads to a €5bn turnover in 2022 (while 2020 and 2021 revenues expected are €4.0bn and €4.4bn).

The revenue growth will strongly impact the EBITDA, which is supposed to increase in the next three years. In particular, as has happened in the past, increases in price and efficiencies will lead to improved gross margins, which is going to reach 55% in 2022, thanks to the almost 5% mix weighting of Icona models in the sold cars mix. SG&A and R&D are supposed to increase slightly in the next three years, remaining stable in terms of percentage on sales, as has happened in the last 5 years. The result of all this is a growing EBITDA, which will reach €1.78bn in 2022, with a margin equal to 35.5% on sales.

Although Ferrari’s historical results were facilitated by Patent Box, the company does not expect to gain any tax benefit from this going forward, which means realigning its tax rate to the Italian one: 24% IRES and 3.9% IRAP, for a total tax rate of 27.9%.

Capex for the next three years is supposed to reach a total amount of €2.3bn, this in tandem with the €1.3bn from the last two years will reach the €3.6bn that the company gave as guidance for the industrial plan. We do not expect the company to deviate from this plan.

All this results in three generous operating free cash flows, with €0.46bn in 2020, €0.45bn in 2021, reaching €0.61bn in 2022. Regarding the conversion of revenues into operating cash, the company is stable at a level between 10% and 13% for the next three years, in line with the past trend (excluding particular working capital dynamics), favoured by higher levels of EBITDA but penalised by increases in capital expenditures.

Analysing the estimated data of the next three years, the trend of the return on invested capital must be highlighted: the lower value of invested capital turnover, in line with the last two years, due to higher investment not converted into higher sales at the previous years level, continues to penalise the company value generation, despite a constantly higher return on sales, driven by the already mentioned focus on margins. As a consequence, after being favoured by lower levels of taxes in the last couple of years, the ROIC is stabilizing at a lower level, compared to the past. However, Ferrari’s return on invested capital degree will continue to be one of the highest in the luxury industry (and also by far in the automotive). That’s also reflected in the return on equity, which will be also penalised by a lower leverage effect, compared to the historical one post IPO.

**VALUATION**

We foresee a year-end price of € 158.45, implying a 0,81% downside on the 14th February 2020 closing price (€159.75), resulting in a HOLD recommendation. Considering also a 0.7% dividend yield, the total shareholders loss would be -0.1%.

As Ferrari is a company generating stable and rather predictable cash flows, the best approach to be followed for estimating the intrinsic value of its shares is the discounted cash flow. This idea is reinforced by the fact that there are not any directly comparable companies in the market, so some hypothesis must be done for assessing the Maranello company with multiples (we used this method only as a sense check).

We decided to limit the analytical phase to the next three years, which in our opinion represent a cycle that will be repeated in the future from a business standpoint, with an Icona model launch each three years, in addition to the fact that this time horizon

## COMPARABLE COMPANIES

Source: Factset

Company Name	EV/EBITDA	EV/EBIT
Ferrari	32,46x	43,91x
Richemont	13,25x	20,75x
Kering	14,82x	17,51x
Burberry Group	12,82x	18,78x
Moncler	19,25x	24,20x
Tiffany	18,72x	25,11x
LVMH	14,40x	20,03x
Hermès	27,75x	31,72x
BMW	9,10x	17,35x
Average	16,26x	21,93x
Median	14,61x	20,39x

corresponds to the one of the current industrial plan. Therefore, this timeframe could be used also for estimating a normalized terminal flow, starting from which the terminal value will be calculated, making it grow as a perpetuity. The normalized terminal flow reflects an average EBITDA level of the next three years (with one year out of three positively impacted by Icona launch) and a capital expenditure equal to the last 5 years average (reflecting the average investment done each year, from the beginning of the new industrial plan).

Regarding the terminal growth rate (at which the terminal cash flow is assumed to grow to the infinite), the main effects impacting it are:

🔍 Prices effect: we assumed a 3.7% price increase each year, given by the long-term inflation rate estimate (1.7%) and price increases net of inflation assumed to be 2% per year (lower level compared to the one assumed in the 20-22 estimates, which we consider unsustainable in the long run).

🔍 Volumes impact: Since volumes are driven by the HNWI growth, we looked at their yearly growth in the last 20 years (source: Capgemini), equal to 6% (CAGR 1999-2018). Assuming a future growth of the HNWI equal to the half of last 20 years one due to a slowdown, a +3% yearly increase is reflected in a +2.2% at the EBITDA level (and so approximately on cash flow);

🔍 Capex increases: the impact of the capital expenditures on the cash flow is assumed to increase, with a higher level of investments mainly due to the R&D for hybrid/electric. It is reflected in a yearly growth of -1.5%.

Summing up the three impacts, they result in a terminal growth rate equal to 4.5%, while Ferrari's Weighted Average Cost of Capital, used as a discounting factor, is equal to 6.2%.

Discounting the 2020-2022 expected cash flows and the terminal value, an Enterprise Value of €30.74bn results. Deducting the current net financial position (€1.2bn), minorities (€0.01bn) and pension liabilities (€0.10bn), we get an Equity Value of €29.45bn, corresponding to the above mentioned €158.45 value per share. In addition, to further analyse the impact of WACC and growth rate on the final share price, a sensitivity analysis was performed.

Focusing on the multiple valuation, Ferrari cannot be compared to automotive companies, and also in the luxury segment would be considered an outlier, due to its extremely high margins. After different trials carried out by using both industry multiples from automotive and luxury industry, we found Hermes the most suitable comparable for Ferrari, as the two companies EBITDA margin are expected to converge in the future and as they both follow the same strategy based on scarcity and vertical integration. However, at the same EBITDA level, Hermes would show a higher EBIT than the Maranello company, as the former is less capital intensive. Therefore, despite considering a luxury company as a comparable, we decided to use the EV/EBIT multiple, typical of automotive industry valuation. The idea was to include in the valuation the effect of the higher capex of Ferrari (in line with the automotive sector), compared to a luxury company, as it has a relevant impact on the value creation. Considering Hermes' EV/EBIT leading multiple (31.72x) and Ferrari's expected 2020 EBITDA equal to €0.94bn, an EV of €29.88bn comes up, resulting in a value per share equal to €153.86, very close to the DCF one.

## INVESTMENT RISKS

- R&D** Ferrari invests heavily in research and development in order to keep up with the latest technology. As the image of performance is so ingrained in the brand, Ferrari must continue to invest heavily in order to stay ahead of competitors.
- Hybrid Technology** While some of Ferrari past models included hybrid technology, the integration of such technology more broadly over time may be costly and its long-term success is uncertain. Ferrari is expected to increase R&D spending in the medium term particularly on hybrid technology-related projects, as this is a core component of Ferrari's strategy.
- Competitors** Ferrari competes with other international luxury performance car manufacturers which own and operate well-known brands of high-quality cars, some of which may have greater financial resources and bargaining power with suppliers than Ferrari does and are making efforts to push further into Ferrari's territory, particularly in light of its policy to maintain low volumes in order to preserve and enhance the exclusivity of the brand.
- Brand Awareness** Ferrari may not succeed in preserving and enhancing the value of its brand, whose pricing strategy and revenues depend on. The market for luxury goods generally and for luxury automobiles in particular is competitive and consumers tastes are volatile, therefore Ferrari may not be successful in maintaining and strengthening the appeal of the Ferrari brand in the long-run.

<b>Formula 1 Team</b>	Ferrari brand image and marketing is highly related to the success of its Formula 1 racing team, which depends particularly on the company' ability to attract and retain top drivers, racing management and engineering talent. Inadequate pilot replacements or less incentives for drivers, team managers, other key employees or qualified personnel, could threaten the success of Ferrari racing team. Furthermore, revenues from Formula 1 activities may decline and related expenses may grow over the next years.
<b>Emissions</b>	Ferrari is still considered a small volume manufacturer (SVM), therefore still benefits from a derogation from the existing emissions requirement. Future laws, regulations, or policies regarding increased fuel economy requirements, reduced greenhouse gas or pollutant emissions, may have a significant impact on Ferrari costs of operations. Furthermore, any additional taxes and levies designed to limit the use of automobiles could adversely affect the demand for Ferrari vehicles and results of operations.
<b>Forex</b>	As Ferrari incurs a large portion of its operating expenses in Euro while receives the majority of revenues in currencies other than Euro, it is subject to risks associated with exchange rate fluctuations, interest rate changes, credit risk and other market risks. Although the Company seeks to manage foreign currency risk through hedging activities, there can be no assurance that it will be able to do so successfully.
<b>Tax &amp; Tariffs</b>	Ferrari currently benefits from certain tax breaks recognized by Italian tax regulations, the Patent Box regime, which is a tax exemption related to the use of intellectual property assets. Thanks to this special regime in the until FY2019 Ferrari would be able to significantly reduce its tax expenses. Following 2019, Ferrari may not be able to benefit from a comparably favorable regime. In addition, changes in corporate and other taxation policies as well as changes in export and other incentives given by various governments or import or tariff policies could also adversely affect Ferrari results of operations.
<b>Design</b>	Design and styling are an integral component of the Ferrari brand. If the design of Ferrari future models fails to meet the evolving tastes and preferences of actual clients and prospective clients, or the appreciation of the wider public, the brand may suffer and sales may be adversely affected.
<b>Purosangue</b>	The introduction of the Purosangue, a luxury high performance vehicle within the GT range could represent a risk as Ferrari doesn't not have the experience or market presence in the SUV segment.
<b>Stocks &amp; Dividends</b>	The market price and trading volume of Ferrari common shares may be volatile and subject to fluctuations, which could result in rapid and substantial losses for our shareholders. In addition, Ferrari ability to pay dividends on common shares may be limited due to business conditions, financial conditions, earnings, cash balances, commitments, strategic plans and other relevant factors.
<b>Car Recalls</b>	Ferrari may be required to recall its products to address performance, compliance or safety-related issues. This means costs for these recalls, including replacement parts and labor to remove and replace the defective parts. Any such recalls could harm the brand reputation and result in adverse publicity, lost revenue, delivery delays, product liability claims and could have a material adverse impact on Ferrari operating results.
<b>Controlled Growth</b>	Ferrari growth strategy means a controlled expansion of sales and operations, including the launching of new car models and expanding sales, as well as dealer operations and workshops, in targeted growth regions internationally. In particular, this growth strategy requires to expand operations in regions identified as having relatively high growth potential. Ferrari may encounter difficulties and significant competition in entering and establishing in such as markets. Controlled growth strategy may expose the Company to new business risks that it may not have the expertise, capability or the systems to manage.
<b>Emerging Countries</b>	Ferrari operates in many emerging markets, both directly and through dealers, and is experiencing increasing demand in China and other regions in Asia. Developments in China and other emerging markets may adversely affect the business.
<b>Licenses</b>	Ferrari licenses the Ferrari brand to third parties that produce and sell Ferrari-branded luxury goods. Therefore, the Company relies on its licensing partners to preserve and enhance the value of its brand. If the standards of quality and exclusivity consistent with the Ferrari brand are not maintained by the licensees, or if such licensees or manufacturers otherwise misuse the Ferrari brand, Ferrari reputation, integrity and brand awareness may be damaged and operating results and financial condition may be adversely affected.
<b>Suppliers</b>	Ferrari depends on a small number of suppliers, many of which are single source suppliers. If these suppliers fail to deliver necessary raw materials, systems, components and parts of appropriate quality in a timely manner, production operations may be disrupted. In addition, prices for raw materials fluctuate, therefore Ferrari could not be successful in mitigating such as risk.
<b>Maserati</b>	Ferrari produces V8 and V6 engines for Maserati. The multi-year arrangement with Maserati to provide V6 engines is expiring in 2022. In addition, if the sales of Maserati cars decline in the next two years, or do not increase at the expected rate, such an event would adversely affect Ferrari revenues from the sale of engines.
<b>Conflicts of interest</b>	Ferrari may incur in potential conflicts of interest with FCA and Exor, as part of Ferrari directors and officers may also be directors of officers of FCA and Exor, the main Ferrari shareholders. This may raise conflicts as these individuals could review opportunities that may be appropriate or suitable for both Ferrari and such other companies or could pursue business transactions in which both Ferrari and such other companies have an interest.
<b>Financial Services</b>	Ferrari may not be able to provide access to financing for its clients. Furthermore, Ferrari financial services activities are subject to the risk of insolvency of dealers and retail clients, as well as unfavorable economic conditions in markets where these activities are carried out.

## APPENDIX

## FERRARI CARS MAIN COMPETITORS

Model	Range	ASP	Competitor	ASP
Ferrari 812 GTS	SPORT	\$370.000	Aston Martin DBS Superleggera Volante	\$370.000
Ferrari F8 Spider	SPORT	\$274.280	Lamborghini Huracan Evo Spider	\$287.400
Ferrari Portofino	GT	\$215.000	Bentley Continental GT	\$240.800
Ferrari Roma	GT	tbc	Aston Martin DB11 Coupe	\$198.995
Ferrari F8 Tributo	SPORT	\$276.550	Lamborghini Huracan Evo	\$261.274
Ferrari SF90 Stradale	SPORT	\$625.000		
Ferrari 488 Pista	SPECIAL SERIES	\$330.000	McLaren 720s	\$299.000
488 Pista Spider	SPECIAL SERIES	\$350.000	McLaren 720s Spider	\$315.000
812 Superfast	SPORT	\$363.730	Lamborghini Aventador	\$393.695
GTC4Lusso	GT	\$300.000	maserati quattroporte gts granlusso	\$302.500

## INCOME STATEMENT

DATA (in thousands €)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
<b>Net revenues</b>	<b>2.854.369</b>	<b>3.105.084</b>	<b>3.416.890</b>	<b>3.420.321</b>	<b>3.765.773</b>	<b>4.063.305</b>	<b>4.411.896</b>	<b>5.053.201</b>
Cost of sales	1.498.806	1.579.690	1.650.860	1.622.905	1.762.382	1.909.753	2.029.472	2.273.940
Selling, general and administrative costs	338.626	295.242	329.065	327.341	361.533	390.098	423.564	485.133
Research and development costs	561.582	613.635	657.119	643.038	716.100	812.661	882.379	1.010.640
Other expenses, net	11.035	24.501	6.867	3.195	5.543	5.981	6.494	7.438
Result from investments	-	3.066	2.437	2.665	2.723	2.723	2.723	2.723
<b>EBIT</b>	<b>444.320</b>	<b>595.082</b>	<b>775.416</b>	<b>826.507</b>	<b>917.493</b>	<b>942.089</b>	<b>1.067.264</b>	<b>1.273.327</b>
Net financial expenses	( 10.151 )	27.729	29.260	23.563	42.000	28.153	31.991	33.884
Profit before taxes	434.169	567.353	746.156	802.944	875.493	913.936	1.035.272	1.239.443
Income tax expense	144.115	167.635	208.760	16.317	176.000	254.988	288.841	345.804
<b>Net profit</b>	<b>290.054</b>	<b>399.718</b>	<b>537.396</b>	<b>786.627</b>	<b>699.493</b>	<b>658.948</b>	<b>746.431</b>	<b>893.638</b>
Net profit attributable to:								
Owners of the parent	287.816	398.762	535.393	784.678	697.760	657.315	744.582	891.424
Non-controlling interests	2.238	956	2.003	1.949	1.733	1.633	1.849	2.214
<b>EPS diluted</b>	<b>1,52</b>	<b>2,11</b>	<b>2,83</b>	<b>4,16</b>	<b>3,73</b>	<b>3,55</b>	<b>4,08</b>	<b>4,96</b>

Amortization and Depreciation	274.757	247.717	260.606	288.748	351.551	442.746	483.566	521.651
<b>EBITDA</b>	<b>719.077</b>	<b>842.799</b>	<b>1.036.022</b>	<b>1.115.255</b>	<b>1.269.044</b>	<b>1.384.835</b>	<b>1.550.829</b>	<b>1.794.978</b>
<b>Net profit</b>	<b>290.054</b>	<b>399.718</b>	<b>537.396</b>	<b>786.627</b>	<b>699.493</b>	<b>658.948</b>	<b>746.431</b>	<b>893.638</b>

## REVENUES FORECAST

DATA (in million €)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
<b>Revenues</b>	<b>2.854</b>	<b>3.105</b>	<b>3.417</b>	<b>3.420</b>	<b>3.766</b>	<b>4.063</b>	<b>4.412</b>	<b>5.053</b>
<i>growth</i>		8,78%	10,04%	0,10%	10,10%	7,90%	8,58%	14,54%
<b>Cars and spare parts</b>	<b>2.080</b>	<b>2.180</b>	<b>2.456</b>	<b>2.535</b>	<b>2.926</b>	<b>3.188</b>	<b>3.478</b>	<b>4.095</b>
<i>growth</i>		4,8%	12,7%	3,2%	15,4%	8,9%	9,1%	17,8%
<i>% on total Revenues</i>	72,9%	70,2%	71,9%	74,1%	77,7%	78,4%	78,8%	81,0%
<b># of shipments</b>	7.664	8.014	8.398	9.251	10.131	10.405	10.679	10.952
<i>growth</i>		4,6%	4,8%	10,2%	9,5%	2,7%	2,6%	2,6%
<b>Average Price</b>	271	272	292	274	289	306	326	374
<i>growth</i>		0,2%	7,5%	-6,3%	5,4%	6,1%	6,3%	14,8%
<b>Volumes</b>								
High Net Worth Individuals	15.400.000	16.500.000	18.100.000	18.000.000	18.500.000	19.000.000	19.500.000	20.000.000
<i>% penetration</i>	0,05%	0,05%	0,05%	0,05%	0,05%	0,05%	0,05%	0,05%
<b>Mix</b>								
<i>Sport &amp; Special Series</i>	61,4%	67,0%	69,6%	68,0%	64,0%	61,0%	59,5%	55,0%
<i>GT</i>	38,6%	33,0%	30,4%	32,0%	35,4%	37,8%	39,0%	40,3%
<i>Icona</i>	0,0%	0,0%	0,0%	0,0%	0,6%	1,2%	1,5%	4,7%
<i># of Icona</i>					61	125	160	515
<b>Engines</b>	<b>219</b>	<b>338</b>	<b>373</b>	<b>284</b>	<b>198</b>	<b>178</b>	<b>160</b>	<b>128</b>
<i>growth</i>		54,3%	10,4%	-23,9%	-30,3%	-10,0%	-10,0%	-20,0%
<i>% on total Revenues</i>	7,7%	10,9%	10,9%	8,3%	5,3%	4,4%	3,6%	2,5%
<b>Sponsorship, commercial and brand</b>	<b>441</b>	<b>488</b>	<b>494</b>	<b>506</b>	<b>538</b>	<b>584</b>	<b>649</b>	<b>691</b>
<i>growth</i>		10,7%	1,2%	2,4%	6,3%	8,5%	11,2%	6,4%
<i>% on total Revenues</i>	15,4%	15,7%	14,5%	14,8%	14,3%	14,4%	14,7%	13,7%
<b>Other</b>	<b>114</b>	<b>99</b>	<b>94</b>	<b>95</b>	<b>104</b>	<b>114</b>	<b>125</b>	<b>139</b>
<i>growth</i>		-13,2%	-5,1%	1,1%	9,5%	9,5%	9,5%	11,5%
<i>% on total Revenues</i>	4,0%	3,2%	2,8%	2,8%	2,8%	2,8%	2,8%	2,7%

## SUMMARY OF FINANCIALS

DATA (in million €)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
<b>Revenues</b>	<b>2.854</b>	<b>3.105</b>	<b>3.417</b>	<b>3.420</b>	<b>3.766</b>	<b>4.063</b>	<b>4.412</b>	<b>5.053</b>
growth		8,8%	10,0%	0,1%	10,1%	7,9%	8,6%	14,5%
<b>Gross Profit</b>	<b>1.356</b>	<b>1.525</b>	<b>1.766</b>	<b>1.797</b>	<b>2.003</b>	<b>2.154</b>	<b>2.382</b>	<b>2.779</b>
% on total Revenues	47,5%	49,1%	51,7%	52,6%	53,2%	53,0%	54,0%	55,0%
SG&A on Revenues	12%	10%	10%	10%	10%	10%	10%	10%
R&D on Revenues	20%	20%	19%	19%	19%	20%	20%	20%
<b>EBITDA</b>	<b>719</b>	<b>843</b>	<b>1.036</b>	<b>1.115</b>	<b>1.269</b>	<b>1.385</b>	<b>1.551</b>	<b>1.795</b>
% on total Revenues	25,2%	27,1%	30,3%	32,6%	33,7%	34,1%	35,2%	35,5%
<b>EBIT</b>	<b>444</b>	<b>595</b>	<b>775</b>	<b>827</b>	<b>917</b>	<b>942</b>	<b>1.067</b>	<b>1.273</b>
% on total Revenues	15,6%	19,2%	22,7%	24,2%	24,4%	23,2%	24,2%	25,2%
<b>Pre-Tax Income</b>	<b>434</b>	<b>567</b>	<b>746</b>	<b>803</b>	<b>875</b>	<b>914</b>	<b>1.035</b>	<b>1.239</b>
Tax Rate	33,2%	29,5%	28,0%	2,0%	20,1%	27,9%	27,9%	27,9%
<b>Net Income</b>	<b>290</b>	<b>400</b>	<b>537</b>	<b>787</b>	<b>699</b>	<b>659</b>	<b>746</b>	<b>894</b>
growth		37,8%	34,4%	46,4%	-11,1%	-5,8%	13,3%	19,7%
<b>EPS Diluted</b>	<b>1,52</b>	<b>2,11</b>	<b>2,83</b>	<b>4,16</b>	<b>3,73</b>	<b>3,55</b>	<b>4,08</b>	<b>4,96</b>
Free Cash Flow from Operations	707	1.047	757	886	1.159	1.187	1.205	1.390
Capex	( 317 )	( 358 )	( 384 )	( 636 )	( 706 )	( 726 )	( 756 )	( 776 )
<b>Free Operating Cash Flow</b>	<b>390</b>	<b>690</b>	<b>374</b>	<b>249</b>	<b>453</b>	<b>461</b>	<b>449</b>	<b>614</b>
% on total Revenues	13,7%	22,2%	10,9%	7,3%	12,0%	11,3%	10,2%	12,2%
Net Working Capital	281	( 99 )	( 38 )	175	100	35	83	133
Fixed Assets	1.733	1.843	1.966	2.314	2.668	2.952	3.224	3.478
<b>Invested Capital</b>	<b>2.014</b>	<b>1.743</b>	<b>1.928</b>	<b>2.489</b>	<b>2.769</b>	<b>2.987</b>	<b>3.307</b>	<b>3.611</b>
ROIC	14,7%	24,0%	29,0%	32,5%	26,5%	22,7%	23,3%	25,4%
IC Turnover	1,42	1,78	1,77	1,37	1,36	1,36	1,33	1,40
ROS	10,4%	13,5%	16,3%	23,7%	19,5%	16,7%	17,4%	18,2%
<b>Net Financial Position</b>	<b>2.033</b>	<b>1.414</b>	<b>1.144</b>	<b>1.135</b>	<b>1.184</b>	<b>1.281</b>	<b>1.455</b>	<b>1.541</b>
NFP/EBITDA	2,83x	1,68x	1,10x	1,02x	0,93x	0,92x	0,94x	0,86x
<b>Equity (Book Value)</b>	<b>( 19 )</b>	<b>330</b>	<b>784</b>	<b>1.354</b>	<b>1.584</b>	<b>1.706</b>	<b>1.852</b>	<b>2.069</b>
ROE	na	121%	69%	58%	44%	39%	40%	43%

## DCF VALUATION

DATA (in million €)	Normalized FCFO	DATA (in million €)	2020E	2021E	2022E	NORMALIZED	TERMINAL VALUE
EBIT	1.094	FCFO	461	449	614	573	35.205
Taxes	305	Discounted FCFO	434	399	513	-	29.392
D&A	483						
<b>Potential Self Financing</b>	<b>1.272</b>	<b>OTHER DATA</b>				<b>BRIDGE TO EQUITY</b>	
delta NWK	21	WACC	6,2%			Enterprise Value	30.738
		g	4,5%			- Net Financial Position	1.184
<b>Net Self Financing</b>	<b>1.293</b>					- Pension Liabilities	96
Capex	- 720					- Non controlling interests	7
	<b>573</b>					<b>Equity Value</b>	<b>29.451</b>
						Shares Outstanding	185.865.925
						<b>Value per Share</b>	<b>158,45 €</b>

**SENSITIVITY ANALYSIS ON ENTERPRISE VALUE**

**SENSITIVITY ANALYSIS ON SHARE PRICE**

		WACC										
		5,20%	5,40%	5,60%	5,80%	6,00%	6,20%	6,40%	6,60%	6,80%	7,00%	7,20%
Terminal Growth Rate	4,00%	44005	37701	32974	29297	26356	23949	21943	20247	18792	17532	16429
	4,10%	47925	40534	35114	30969	27697	25048	22860	21022	19456	18107	16931
	4,20%	52630	43839	37559	32850	29187	26257	23860	21862	20172	18723	17467
	4,30%	58380	47744	40381	34982	30853	27593	24955	22775	20944	19384	18040
	4,40%	65567	52431	43673	37418	32727	29078	26159	23771	21781	20097	18654
	4,50%	74808	58159	47564	40230	34851	30738	27491	24862	22691	20867	19313
	4,60%	87129	65319	52233	43509	37278	32605	28970	26062	23683	21700	20023
	4,70%	104379	74525	57940	47385	40079	34720	30623	27388	24770	22607	20790
	4,80%	130254	86800	65073	52037	43346	37138	32483	28862	25965	23595	21620
	4,90%	173379	103984	74244	57722	47207	39929	34591	30509	27286	24678	22523
5,00%	259628	129761	86472	64828	51841	43184	37000	32362	28755	25869	23508	

		WACC										
		5,20%	5,40%	5,60%	5,80%	6,00%	6,20%	6,40%	6,60%	6,80%	7,00%	7,20%
Terminal Growth Rate	4,00%	229,83	195,92	170,48	150,70	134,88	121,93	111,14	102,01	94,18	87,40	81,47
	4,10%	250,93	211,16	182,00	159,70	142,09	127,84	116,07	106,18	97,76	90,50	84,17
	4,20%	276,24	228,94	195,16	169,82	150,11	134,35	121,45	110,70	101,61	93,81	87,05
	4,30%	307,17	249,95	210,34	181,29	159,07	141,54	127,34	115,61	105,76	97,37	90,14
	4,40%	345,84	275,17	228,05	194,40	169,16	149,53	133,82	120,97	110,26	101,20	93,44
	4,50%	395,56	305,99	248,98	209,52	180,58	158,45	140,98	126,84	115,16	105,34	96,99
	4,60%	461,85	344,51	274,10	227,17	193,64	168,50	148,94	133,30	120,50	109,83	100,81
	4,70%	554,66	394,04	304,81	248,02	208,71	179,88	157,84	140,43	126,34	114,71	104,93
	4,80%	693,87	460,08	343,18	273,05	226,29	192,89	167,84	148,36	132,78	120,02	109,40
	4,90%	925,89	552,54	392,53	303,63	247,06	207,90	179,18	157,22	139,89	125,85	114,26
5,00%	1389,94	691,22	458,32	341,87	272,00	225,42	192,14	167,19	147,78	132,26	119,56	

**MULTIPLES VALUATION**

Company Name	Sales (€m)	Net Income (€m)	EBITDA (€m)	EBIT (€m)	EBITDA Margin	EBIT Margin	EV/EBITDA	EV/EBIT	EV/Sales
<b>Ferrari</b>	<b>3684,46</b>	<b>718,10</b>	<b>1213,25</b>	<b>896,92</b>	<b>32,9%</b>	<b>24,3%</b>	<b>32,46x</b>	<b>43,91x</b>	<b>10,69x</b>
Richemont	14.578,31	1.396,77	3.137,13	2.003,89	21,5%	13,7%	13,25x	20,75x	2,85x
Kering	14.871,70	2.025,10	5.209,30	4.410,50	35,0%	29,7%	14,82x	17,51x	5,19x
Burberry	3.146,18	404,61	782,75	534,24	24,9%	17,0%	12,82x	18,78x	3,19x
Moncler	1.496,78	340,76	541,87	430,98	36,2%	28,8%	19,25x	24,20x	6,97x
Tiffany	3.902,98	484,36	873,07	650,91	22,4%	16,7%	18,72x	25,11x	4,19x
LVMH	53.670,00	7.171,00	15.936,00	11.458,00	29,7%	21,3%	14,40x	20,03x	4,28x
<b>Hermès</b>	<b>6.396,90</b>	<b>1.451,10</b>	<b>2.561,10</b>	<b>2.240,80</b>	<b>40,0%</b>	<b>35,0%</b>	<b>27,75x</b>	<b>31,72x</b>	<b>11,11x</b>
BMW	99.864,00	4.906,00	15.955,00	8.369,00	16,0%	8,4%	9,10x	17,35x	1,45x
<i>Average</i>	<i>24.740,86</i>	<i>2.272,46</i>	<i>5.624,53</i>	<i>3.762,29</i>	<i>28,2%</i>	<i>21,3%</i>	<i>16,26x</i>	<i>21,93x</i>	<i>4,90x</i>
<i>Median</i>	<i>10.487,61</i>	<i>1.423,94</i>	<i>2.849,12</i>	<i>2.122,35</i>	<i>27,3%</i>	<i>19,2%</i>	<i>14,61x</i>	<i>20,39x</i>	<i>4,23x</i>

MULTIPLES VALUATION	
Ferrari EBIT 2020E	942
Hermes EV/EBIT	31,72x
Enterprise Value	29.883
- Net Financial Position	1.184
- Pension Liabilities	96
- Non controlling interests	7
<b>Equity Value</b>	<b>28.596</b>
Shares Outstanding	185.866
<b>Value per Share</b>	<b>153,86 €</b>

