

Ferrari N.V.

Milan – 2020, March 3rd

CFA Institute Research Challenge | Team Cavers

Ticker: RACE:IM

Sector: Luxury Cars | **Industry:** Automotive

SELL

Overvalued

Target Price: €138.24

Downside Potential: -12.9%

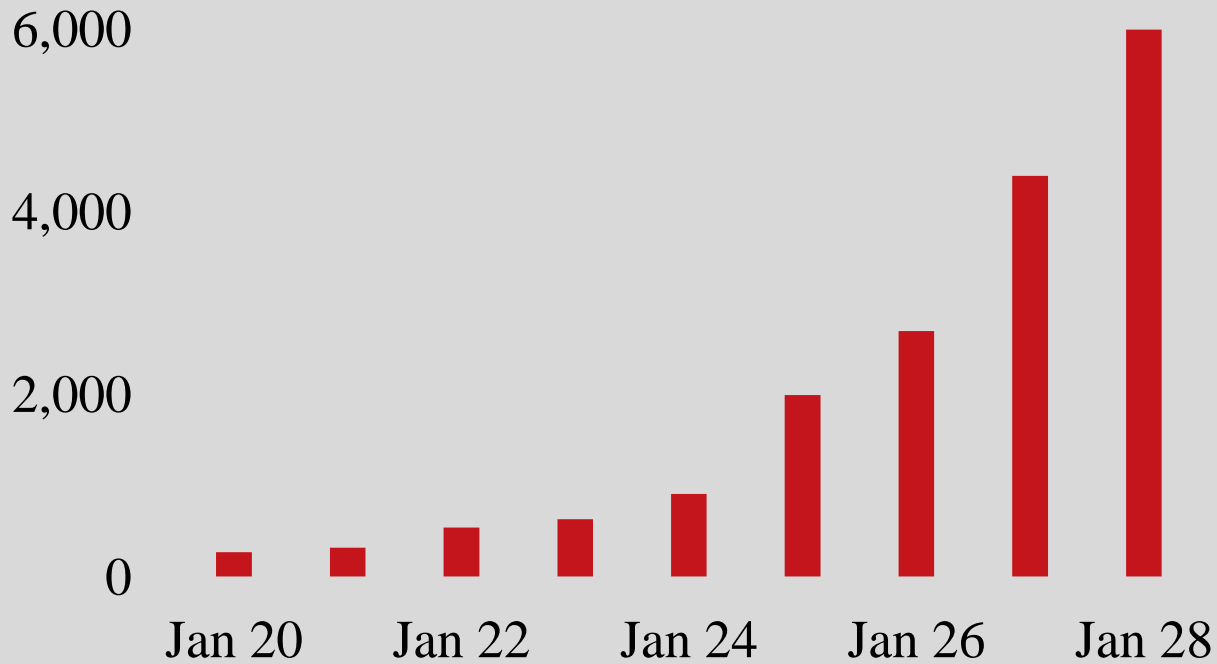
Share Price (Feb. 13th): €158.24

Ticker: RACE:IM

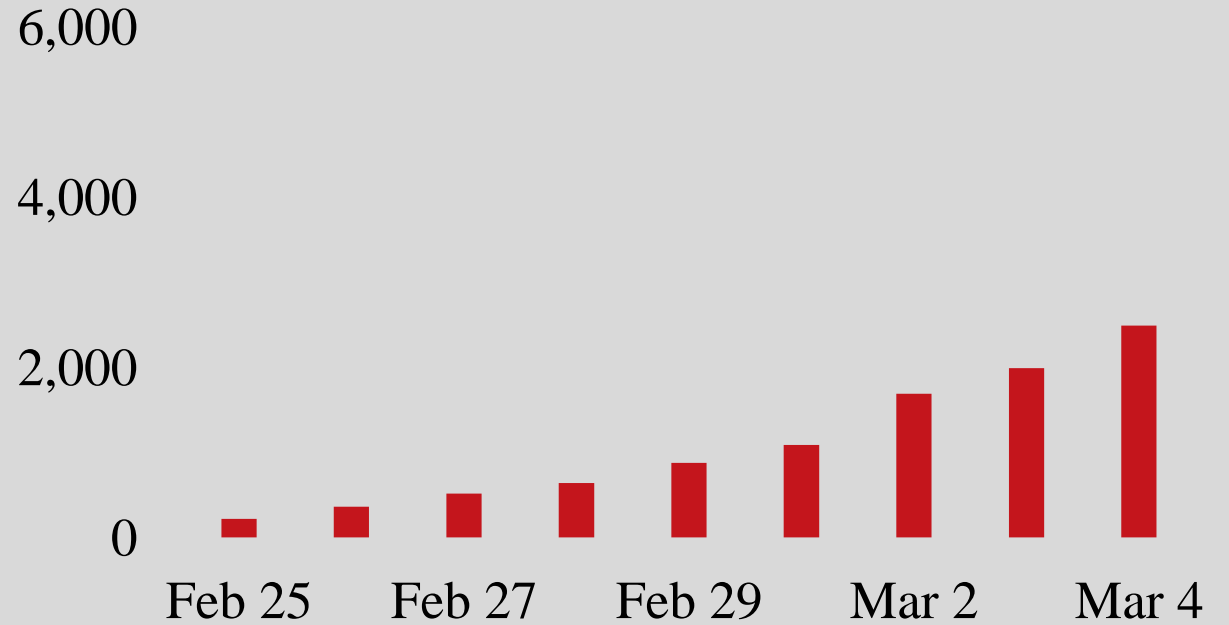
Sector: Luxury Cars | **Industry:** Automotive

Coronavirus spread

Cases in China



Cases in Italy



Latest

Company

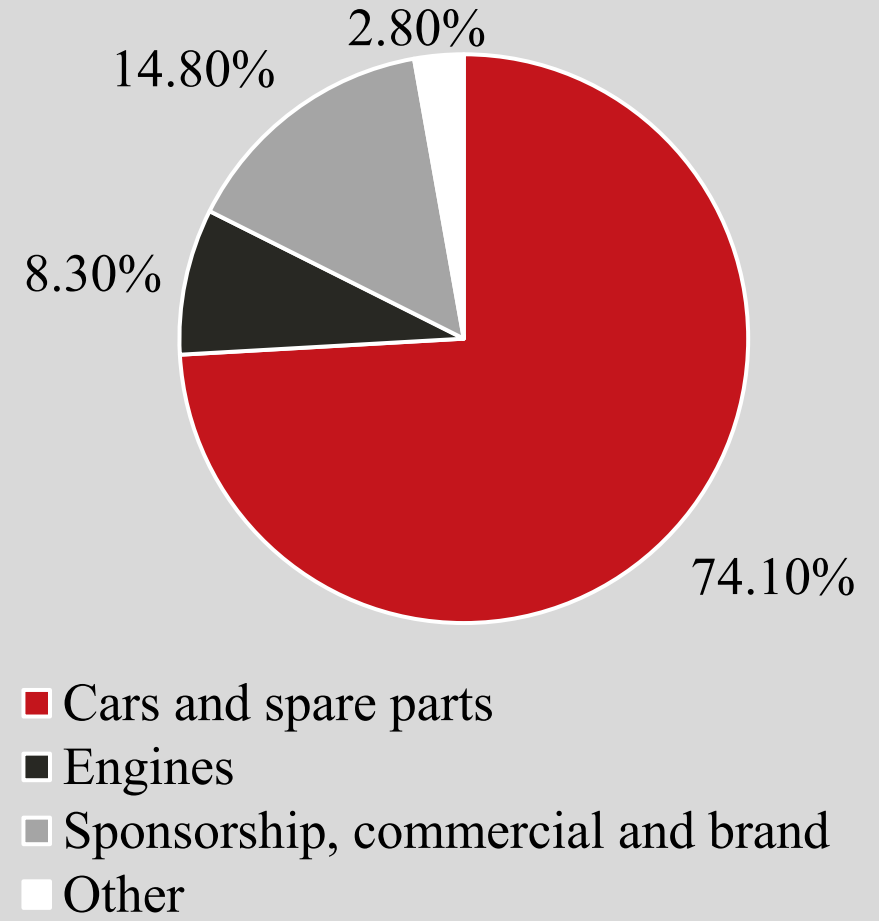
Industry

Financials

Valuation

Revenue streams

- **1 CORPORATE**
- **2 MARKET SEGMENTS**
- **4 REVENUE GENERATING DIVISIONS**



Latest

Company

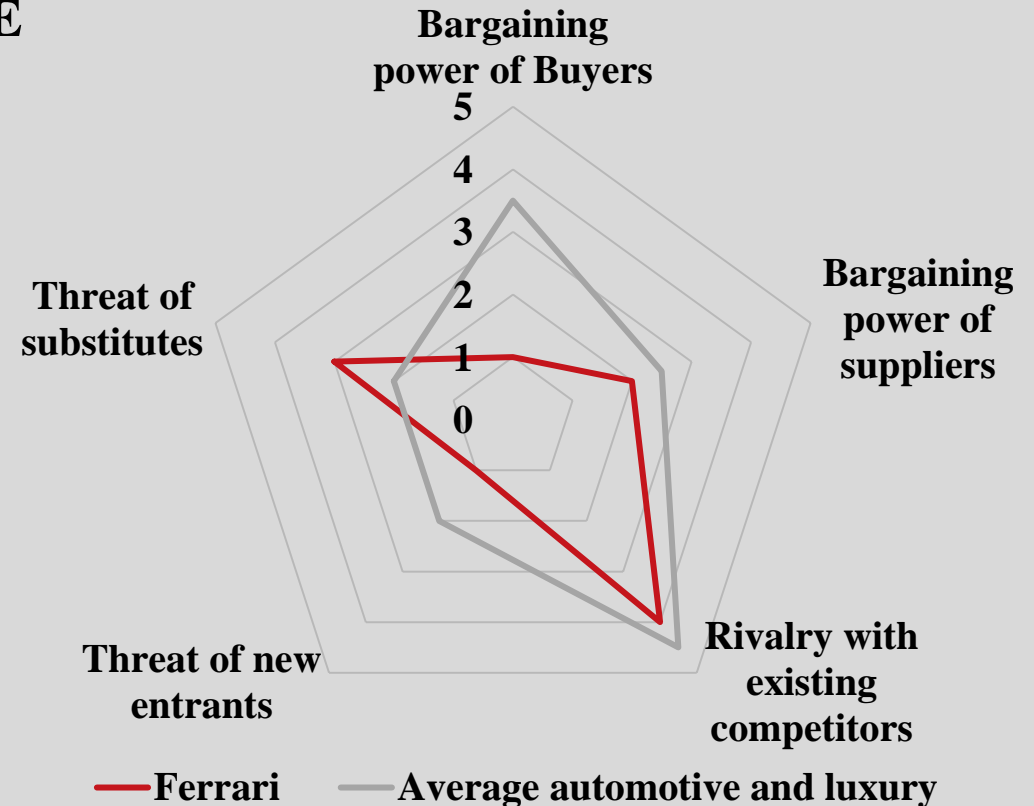
Industry

Financials

Valuation

Competitive environment

- **NOT THE AVERAGE BETWEEN AUTOMOTIVE AND LUXURY**
- **LOW THREAT OF NEW ENTRANTS AND BARGAINING POWER OF BUYERS**
- **HIGH RIVALRY WITH EXISTING COMPETITORS**



Latest

Company

Industry

Financials

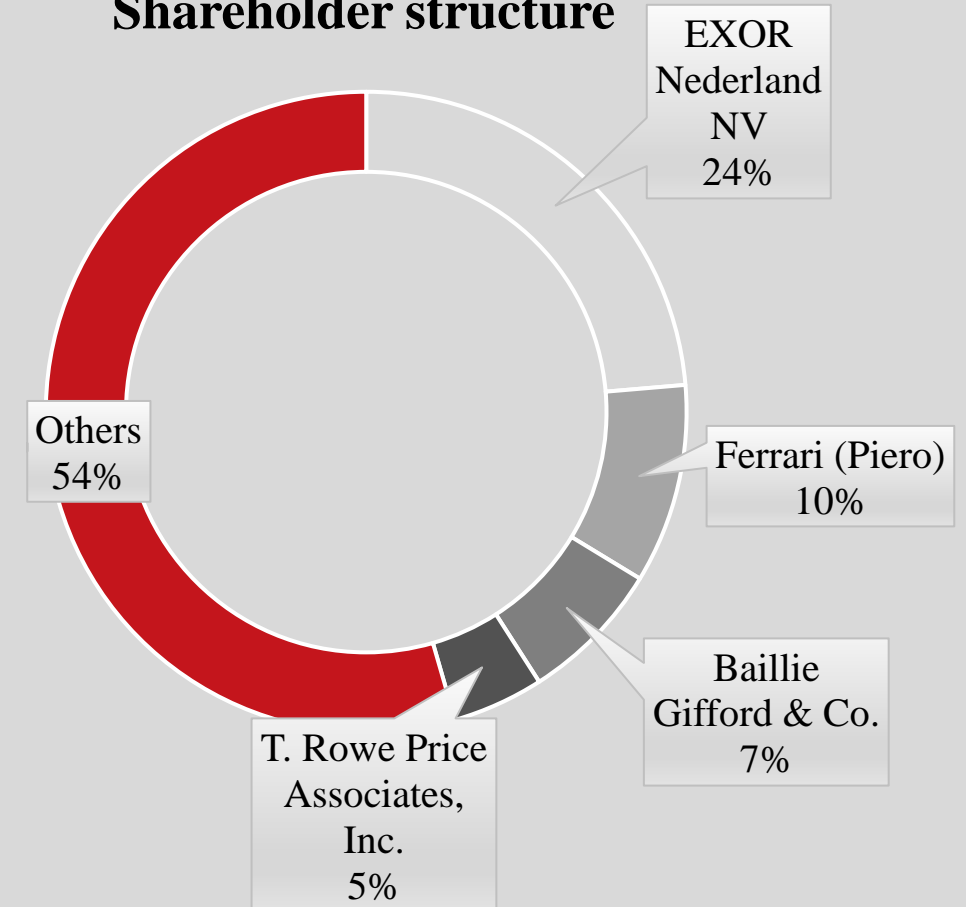
Valuation

Corporate governance

DUTCH GOVERNANCE CODE AND NYSE GOVERNANCE STANDARDS, WITH IMPERFECTIONS:

- **MORE THAN ONE MEMBER OF THE SUPERVISORY BOARD HOLDS MORE THAN 10% OF THE SHARES**
- **NO RETIREMENT SCHEDULE**
- **MEMBERS OF THE BOARD DO NOT ATTEND GENERAL SHAREHOLDER MEETING**

Shareholder structure



Latest

Company

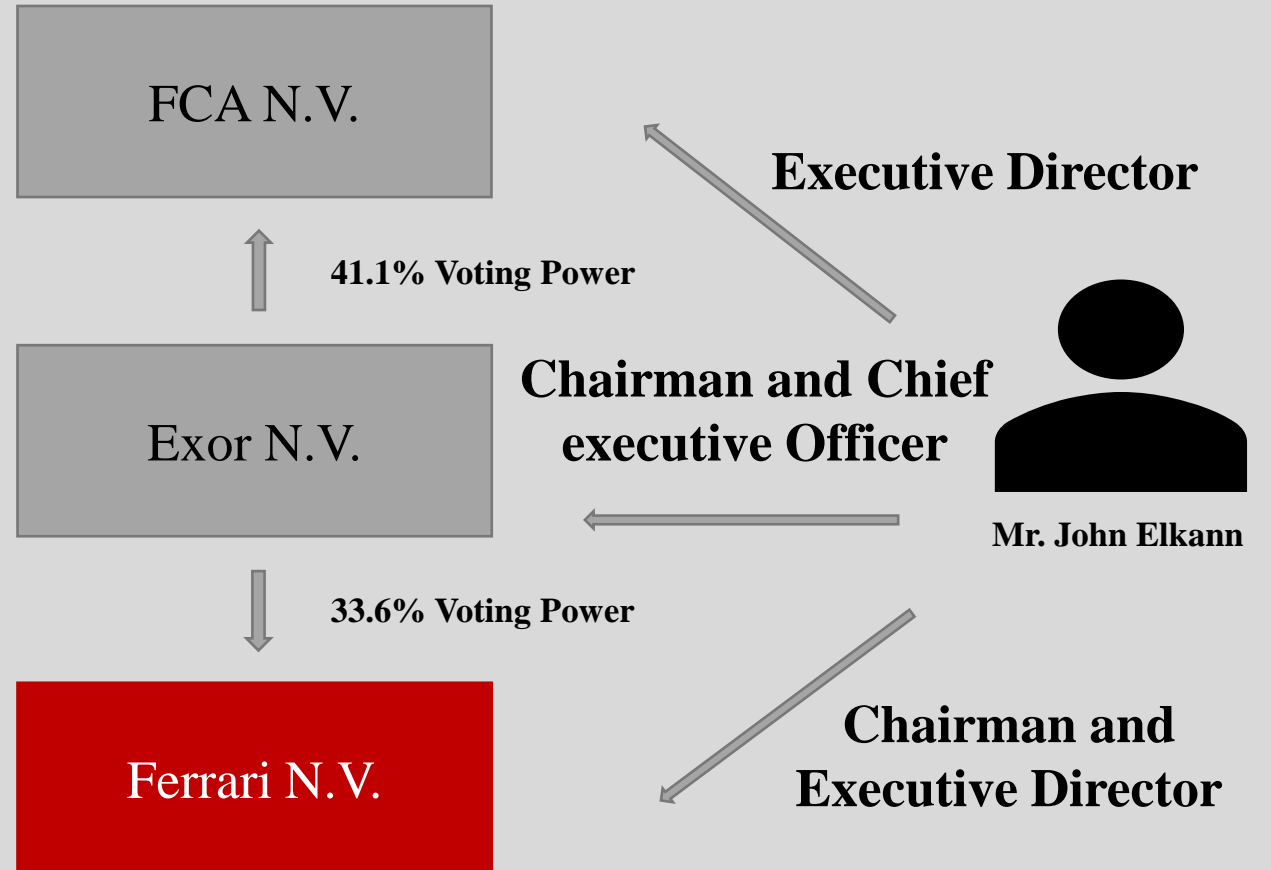
Industry

Financials

Valuation

Governance issues

- **ELKANN'S CONFLICT OF INTERESTS**
- **LOYALTY VOTING PROGRAM**



Latest

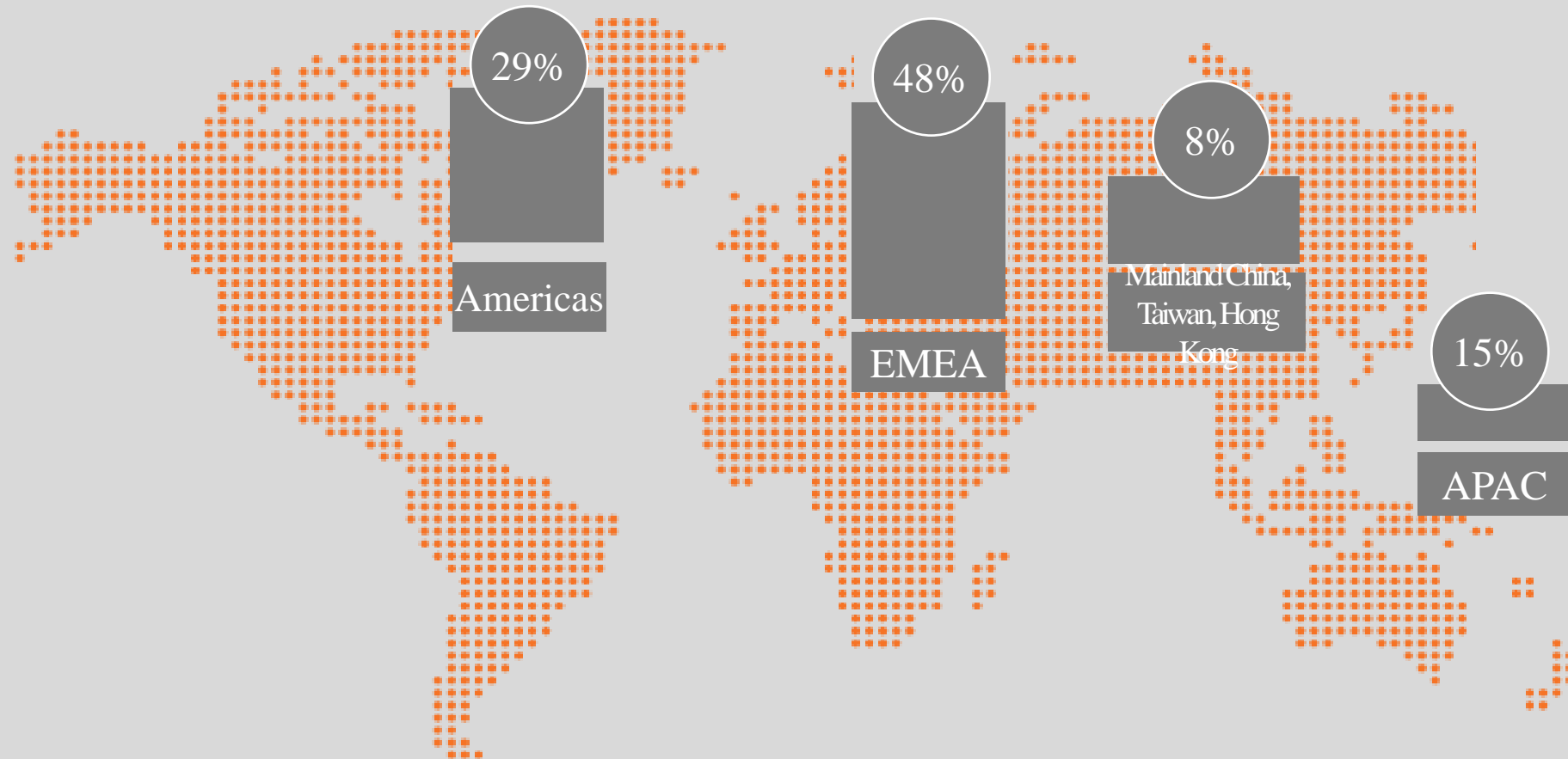
Company

Industry

Financials

Valuation

Ferrari's global presence 2019



Source: Company Information

Latest

Company

Industry

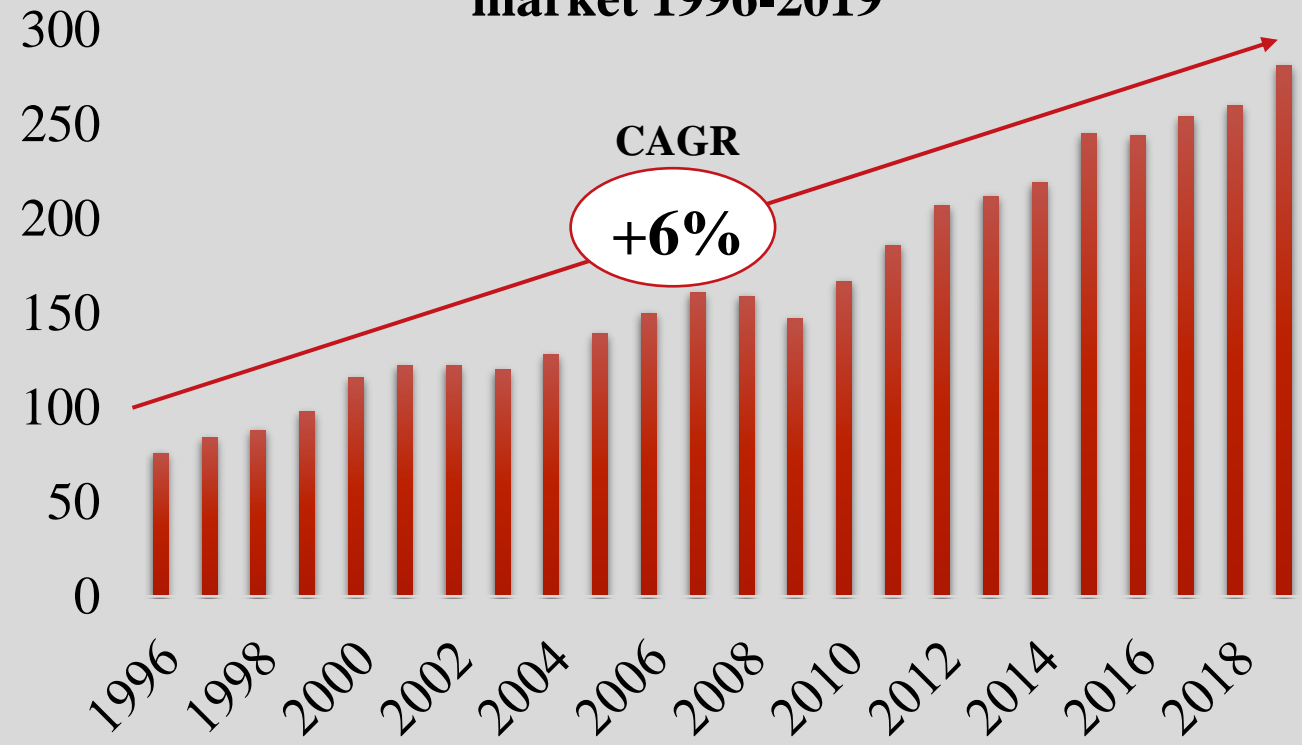
Financials

Valuation

Luxury Industry

- **CHANGES IN COSTUMER SEGMENTS**
- **SUSTAINABILITY CONCERNS**
- **EMERGING MARKETS**
- **CORONAVIRUS OUTBREAK**

Value of the global personal luxury goods market 1996-2019



Latest

Company

Industry

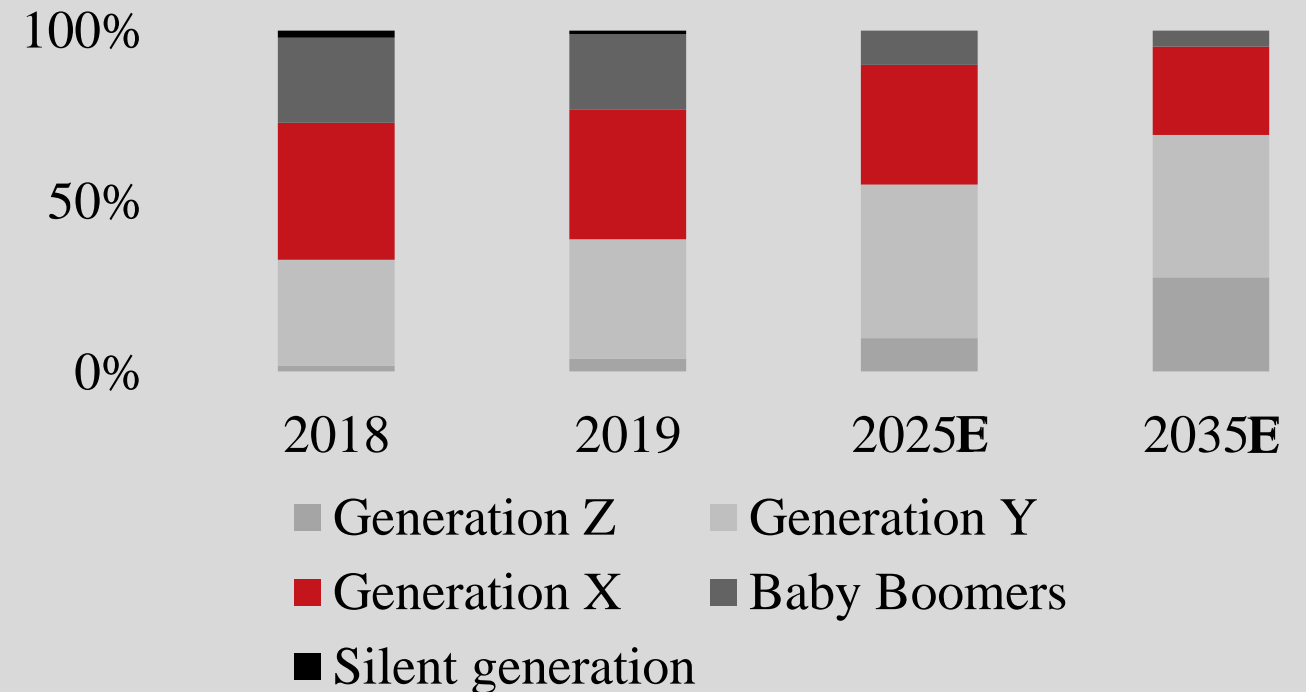
Financials

Valuation

Luxury Industry

- **CHANGES IN COSTUMER SEGMENTS**
- **SUSTAINABILITY CONCERNS**
- **EMERGING MARKETS**
- **CORONAVIRUS OUTBREAK**

Global luxury goods sales by generation



Latest

Company

Industry

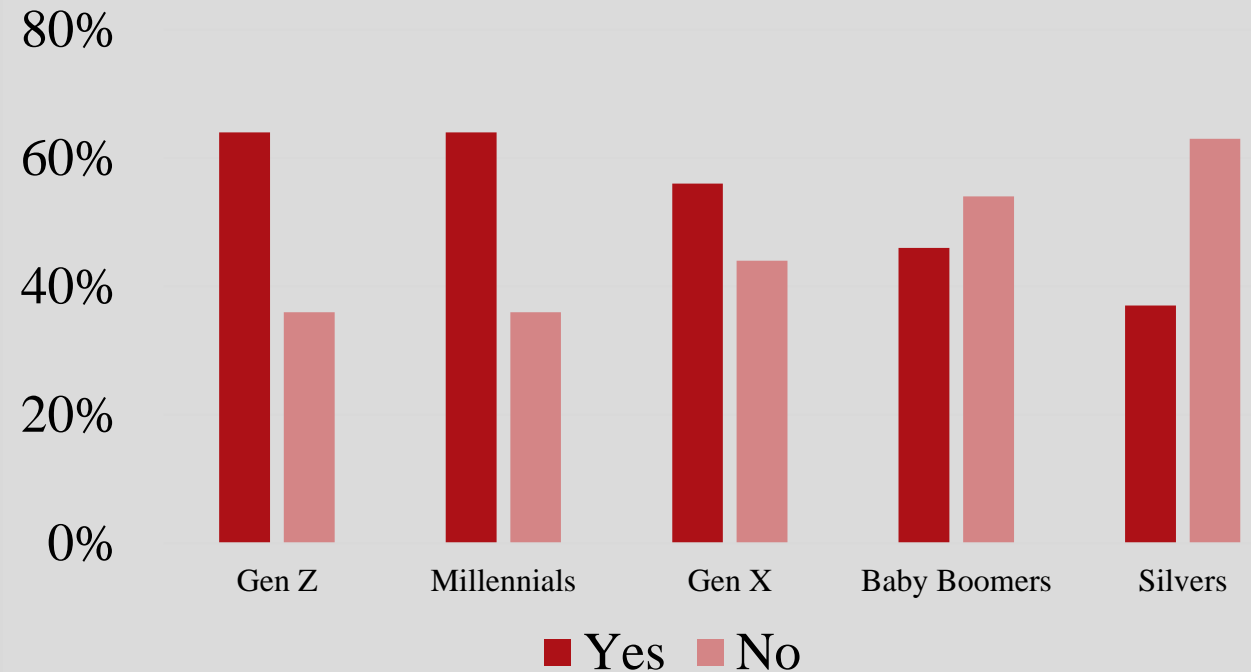
Financials

Valuation

Luxury Industry

- **CHANGES IN COSTUMER SEGMENTS**
- **SUSTAINABILITY CONCERNS**
- **EMERGING MARKETS**
- **CORONAVIRUS OUTBREAK**

Sustainability's influence in purchasing decisions for luxury goods



Latest

Company

Industry

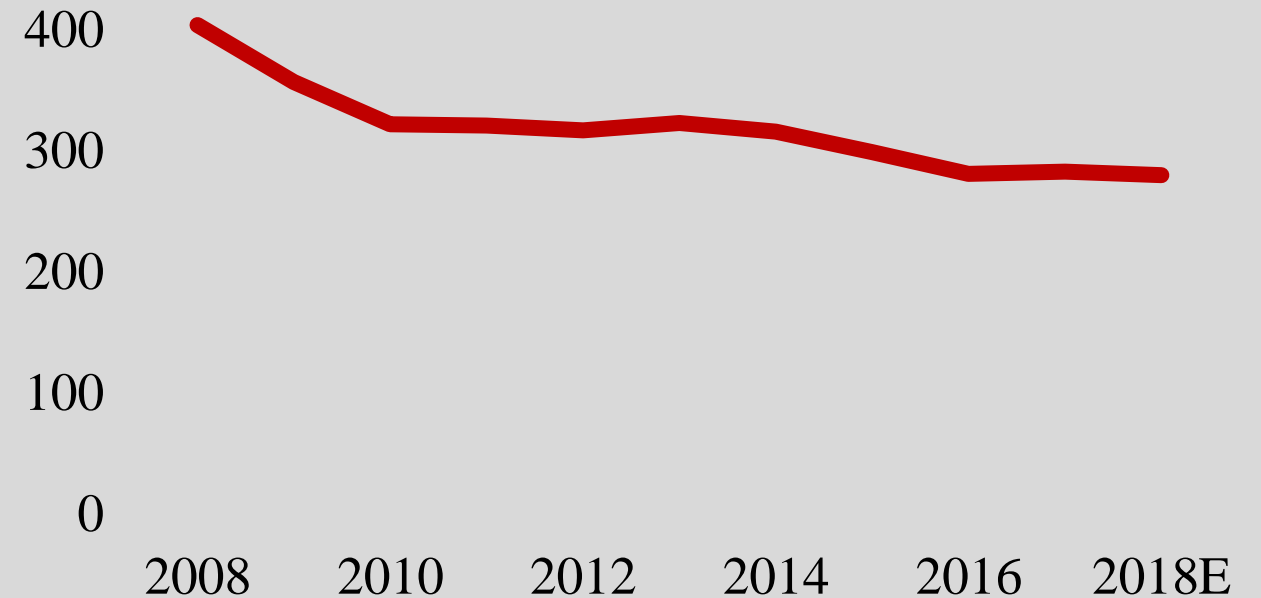
Financials

Valuation

Luxury Industry

- **CHANGES IN COSTUMER SEGMENTS**
- **SUSTAINABILITY CONCERNS**
- **EMERGING MARKETS**
- **CORONAVIRUS OUTBREAK**

Average Specific CO2 Emissions - Ferrari EU Fleet



Latest

Company

Industry

Financials

Valuation

Luxury Industry

- CHANGES IN COSTUMER SEGMENTS
- SUSTAINABILITY CONCERNS
- **EMERGING MARKETS**
- CORONAVIRUS OUTBREAK

Luxury good spending in China vs the World



Latest

Company

Industry

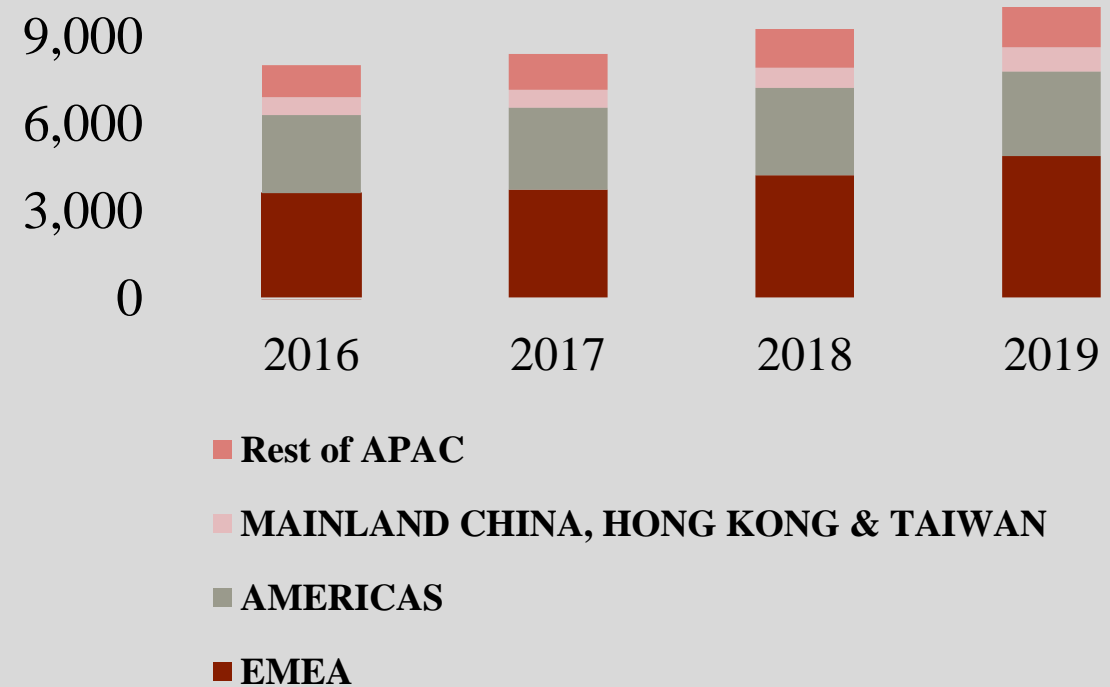
Financials

Valuation

Luxury Industry

- CHANGES IN COSTUMER SEGMENTS
- SUSTAINABILITY CONCERNS
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Ferrari's shipments by region
2016-2019



Latest

Company

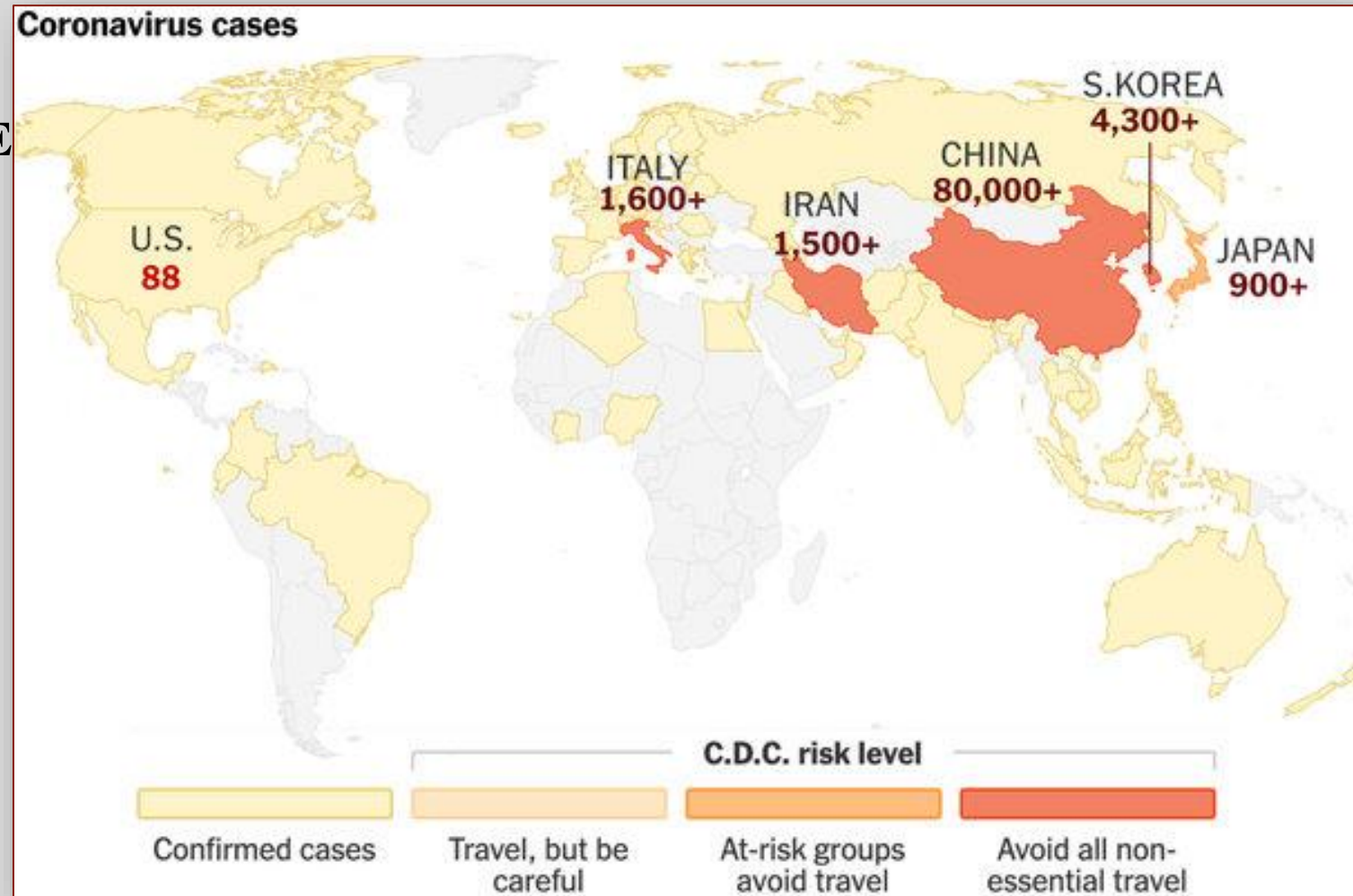
Industry

Financials

Valuation

Luxury Industry

- CHANGES IN COSTUMER SEGMENTATION
- SUSTAINABILITY CONCERNS
- EMERGING MARKETS
- **CORONAVIRUS OUTBREAK**



Latest

Company

Industry

Financials

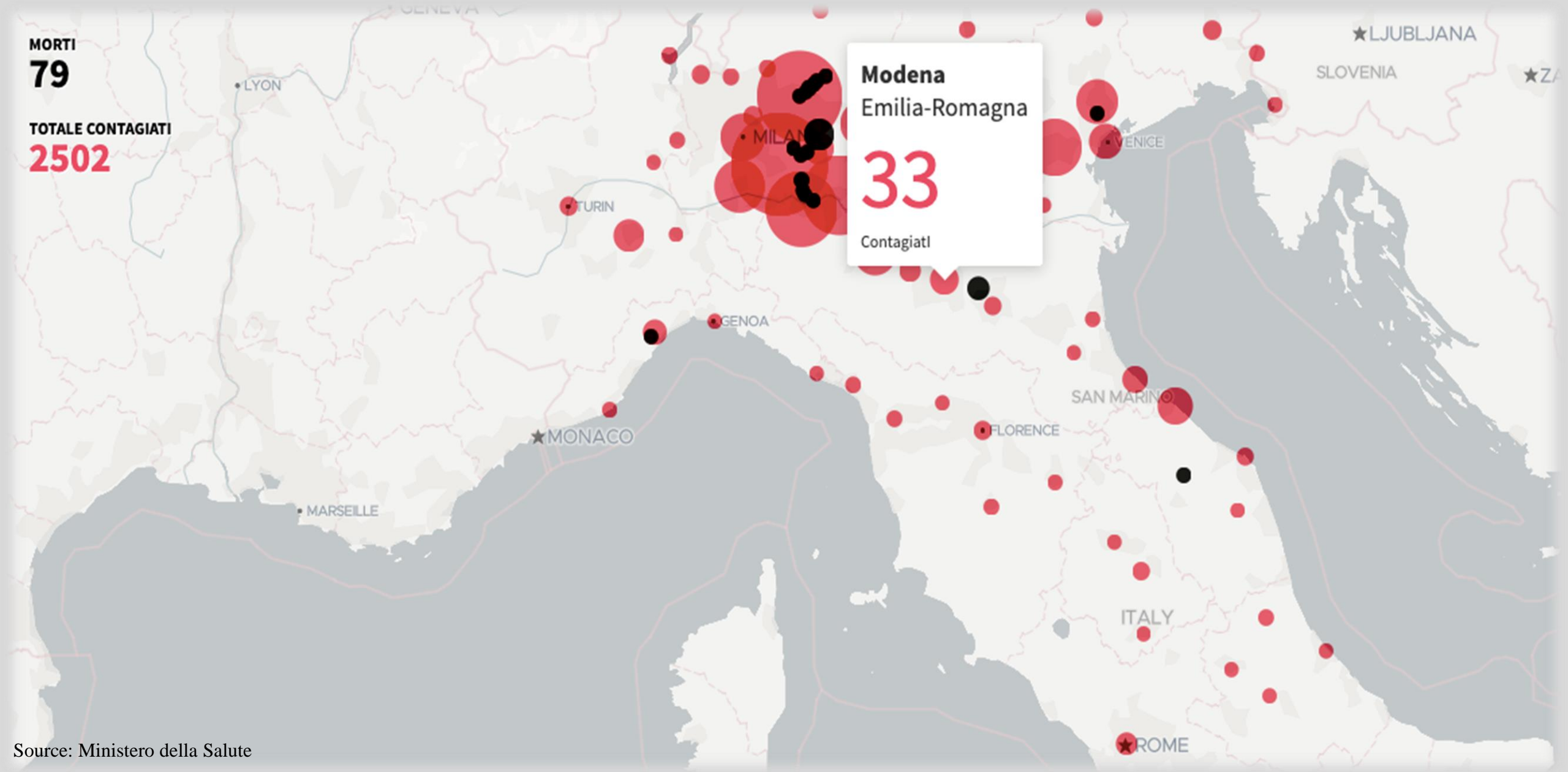
Valuation

MORTI

79

TOTALE CONTAGIATI

2502



Modena
Emilia-Romagna
33
Contagiati

Source: Ministero della Salute



Further Investment Risks

		Impact				
		Negligible	Minor	Moderate	Significant	Severe
Likelihood	Very likely				1 & 4	
	Likely		8	2, 5 & 6	3 & 9	
	Possible			12		
	Unlikely		7 & 11			
	Very unlikely		10			

1. Fundamental shifts in industry sectors
2. Luxury goods demand volatility
3. Political Risks
 - Brexit
 - US-recent trade policies
 - Political instability in Italy
4. Pandemic risks
5. Interest & Currency rates fluctuations
6. Tax regulations risk
7. Liquidity Risk
8. Corporate Governance risk
9. Sustainability risks
10. Formula 1 Team's performance.
11. Credit Risk
12. Low volume strategy



Further Investment Risks

		Impact				
		Negligible	Minor	Moderate	Significant	Severe
Likelihood	Very likely					
	Likely				3	
	Possible					
	Unlikely					
	Very unlikely					

- 3. Political risks**
- Brexit
 - US-recent trade policies
 - Italian political instability



Further Investment Risks

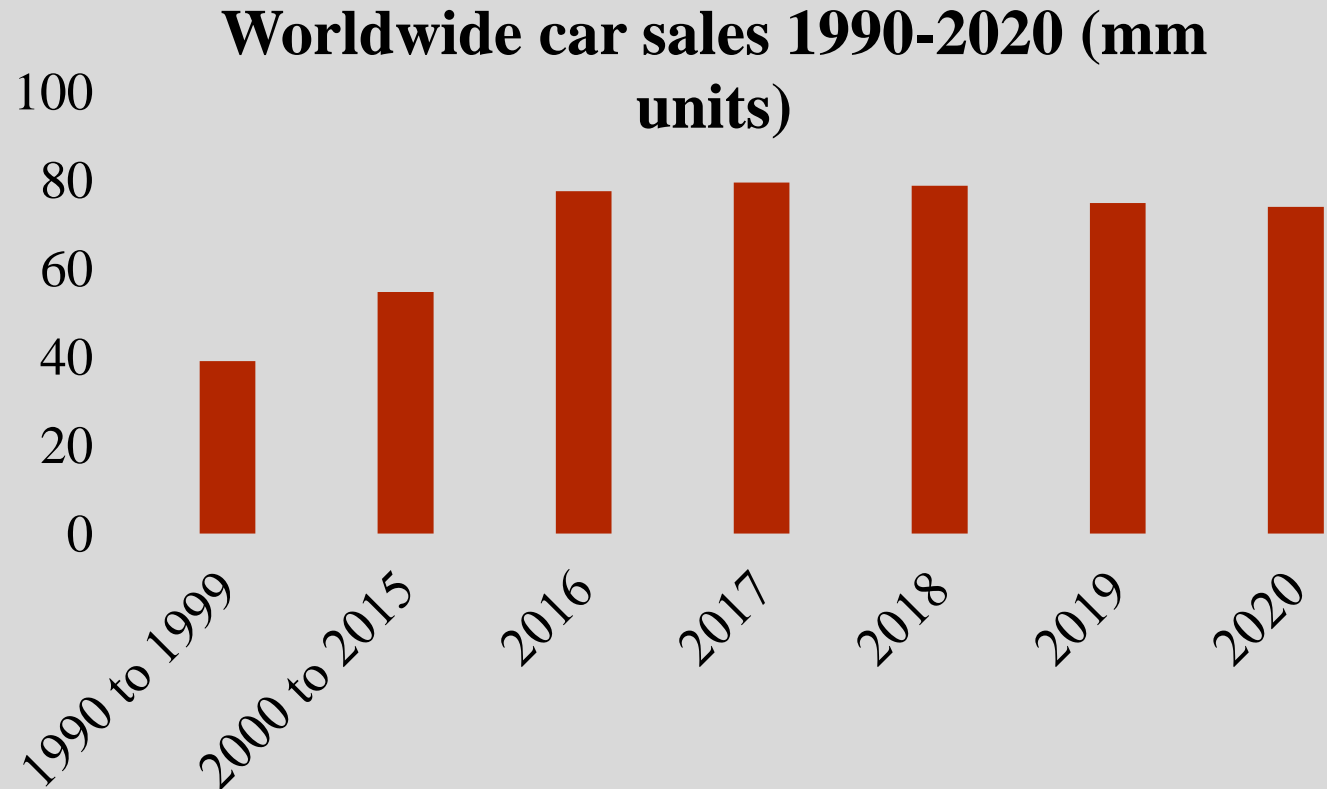
		Impact				
		Negligible	Minor	Moderate	Significant	Severe
Likelihood	Very likely					
	Likely		8			
	Possible					
	Unlikely					
	Very unlikely					

8. Corporate Governance Risk



Automotive industry

- **FLAT MARKET**
- **ELECTRIFICATION**
- **GDP GROWTH**
- **ECONOMIC UNCERTAINTIES**
- **CORONAVIRUS OUTBREAK**



Latest

Company

Industry

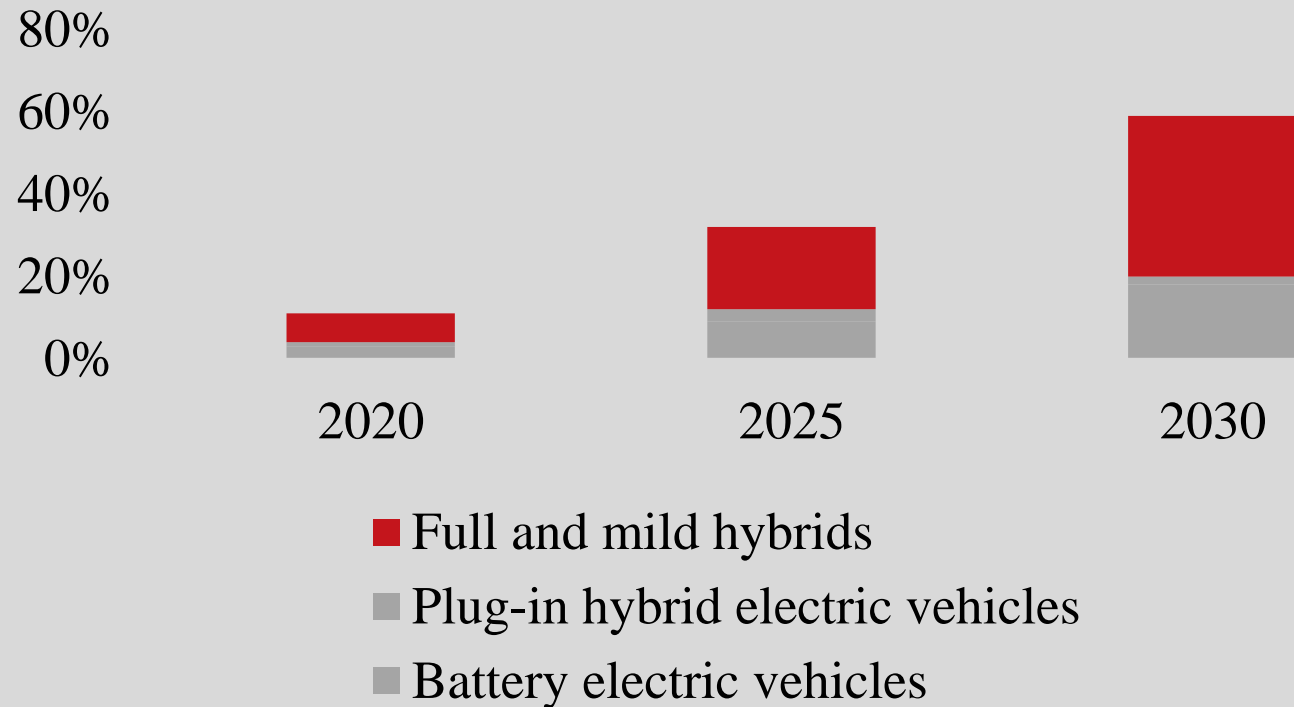
Financials

Valuation

Automotive industry

- FLAT MARKET
- **ELECTRIFICATION**
- GDP GROWTH
- ECONOMIC UNCERTAINTIES
- CORONAVIRUS OUTBREAK

EVs: global sales breakdown by segment
2020-2030



Latest

Company

Industry

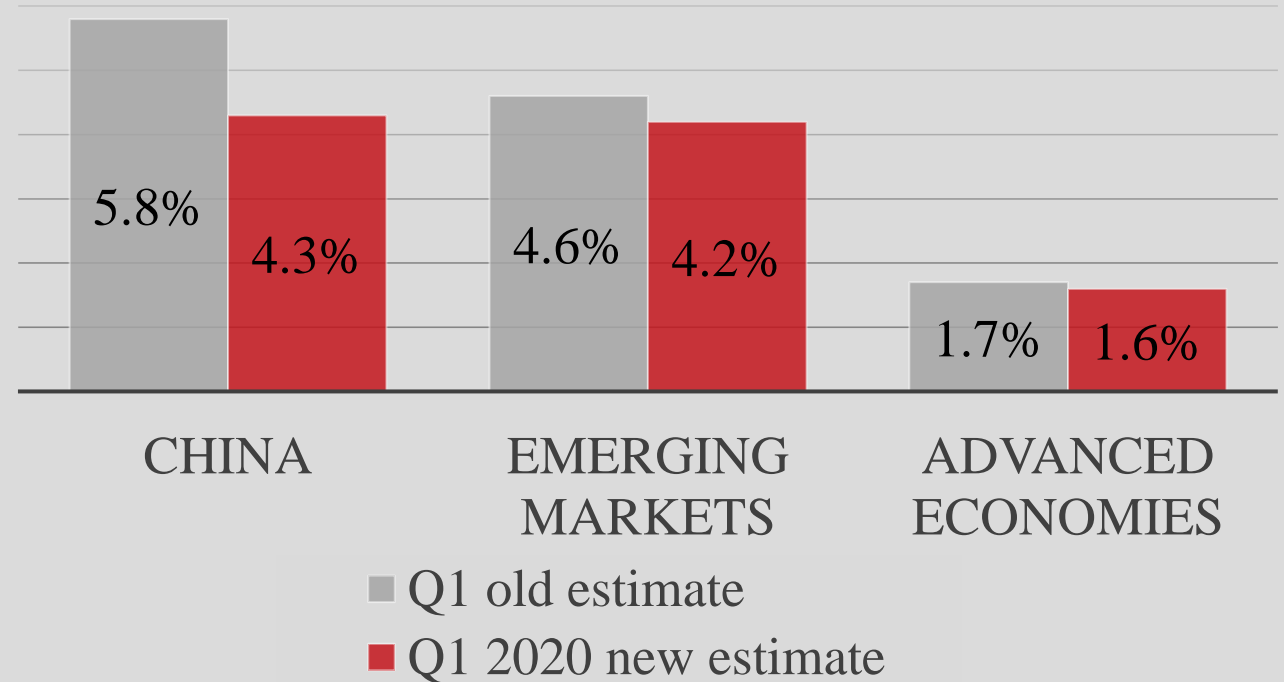
Financials

Valuation

Automotive industry

- FLAT MARKET
- ELECTRIFICATION
- **GDP GROWTH**
- **ECONOMIC UNCERTAINTIES**
- **CORONAVIRUS OUTBREAK**

Estimated impact of Covid-19 on the growth of global GDPs



Latest

Company

Industry

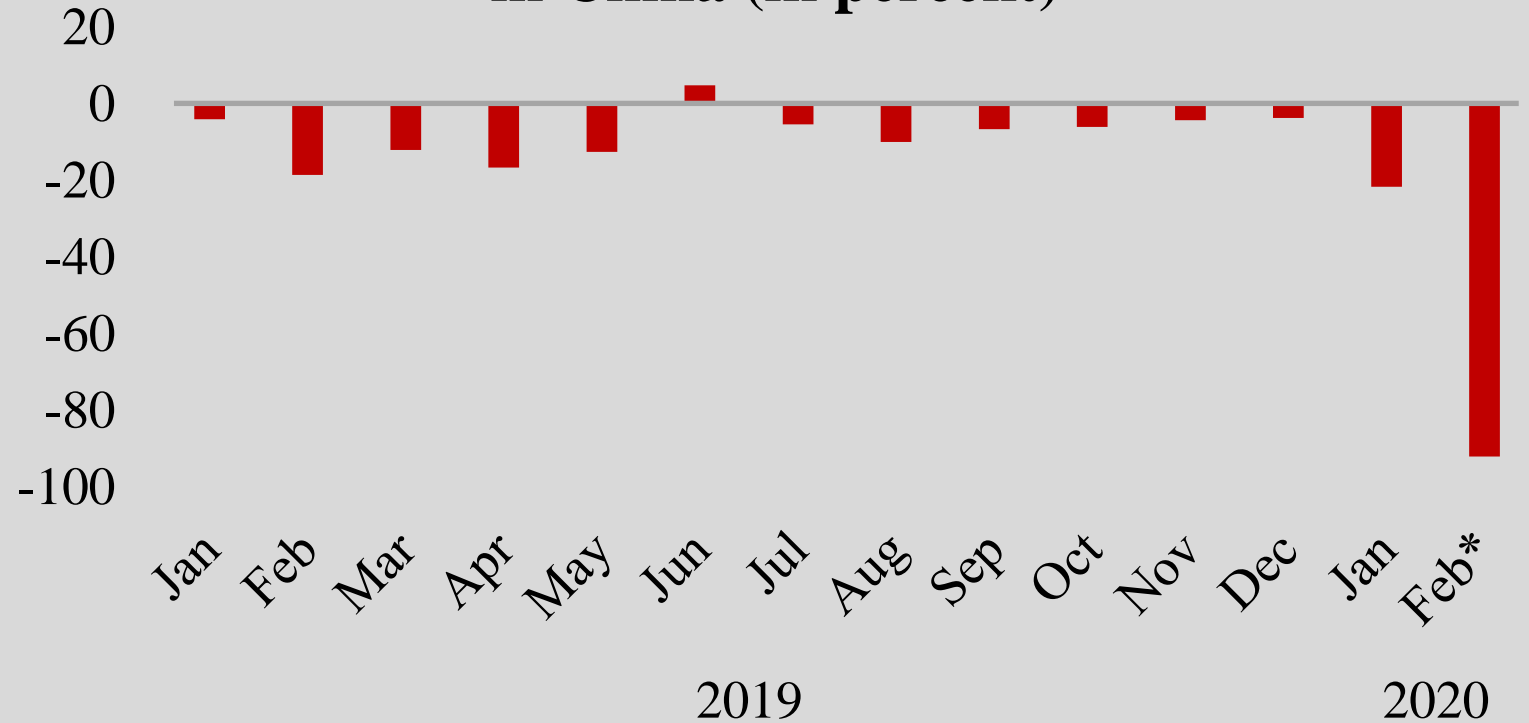
Financials

Valuation

Automotive industry

- FLAT MARKET
- ELECTRIFICATION
- GDP GROWTH
- ECONOMIC UNCERTAINTIES
- CORONAVIRUS OUTBREAK

Monthly YoY change in passengers car sales in China (in percent)



Latest

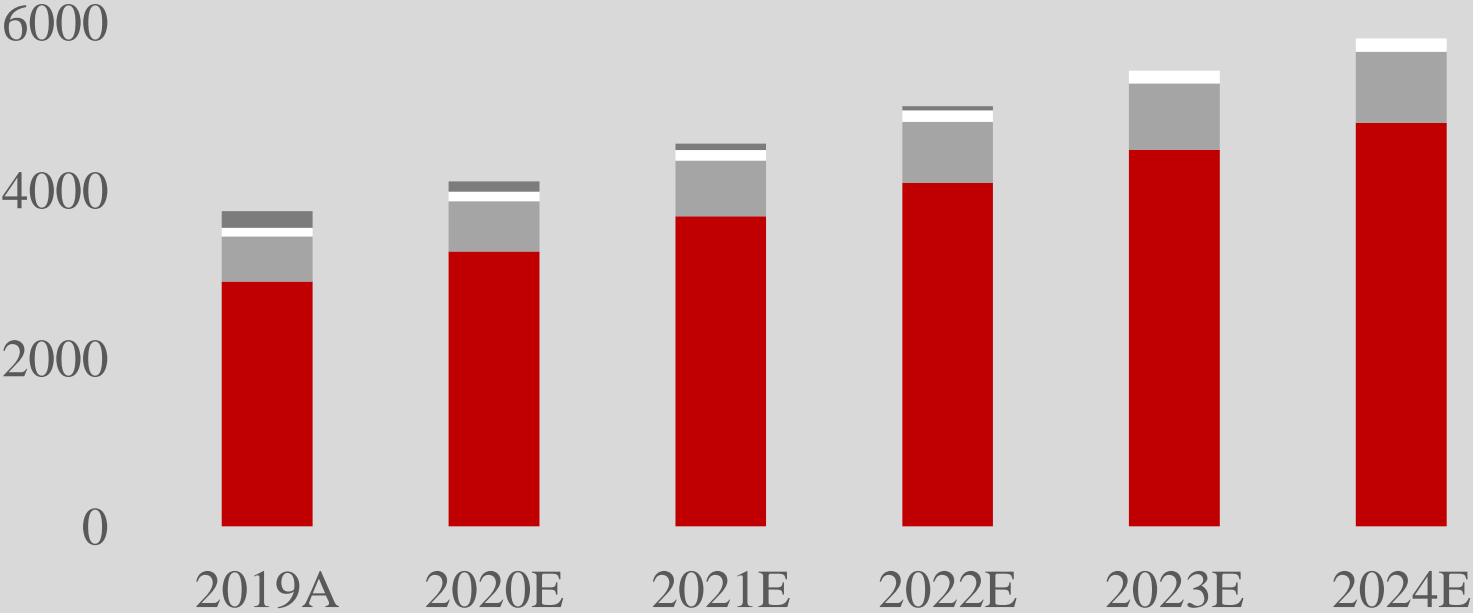
Company

Industry

Financials

Valuation

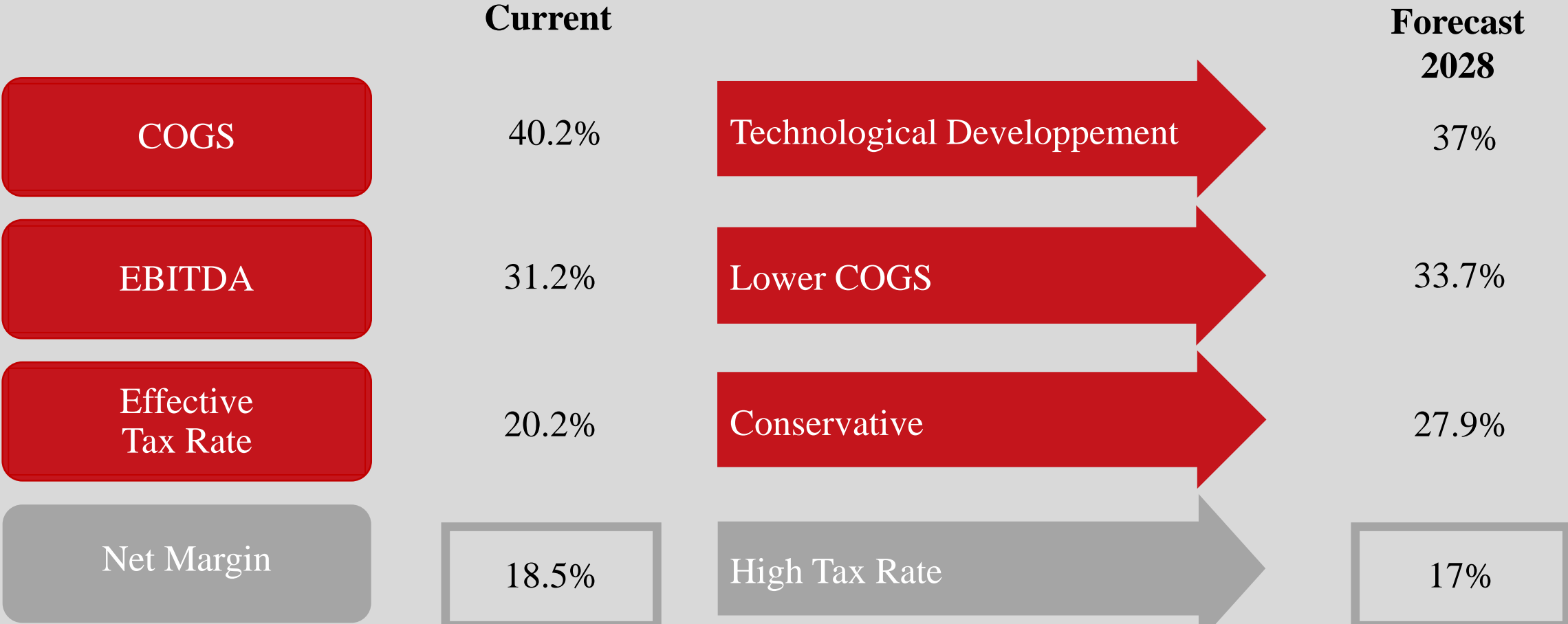
Sales Growth



■ Cars and spare parts
 ■ Sponsorship & Brand
■ Others
 ■ Engines

Divisions	CAGR
Cars & Spare parts	+10.59 %
Sponsorships & Brand	+9.4 %
Engines	-24.9 %
Others	+9 %

Margin Performance Drivers



Source: Company information



Key predictions

Working Capital

Capex

Debt & Equity

Days of
Receivables

58

Days of
Inventory

95

Days of
Payables

164

Source: Company information

Latest

Company

Industry

Financials

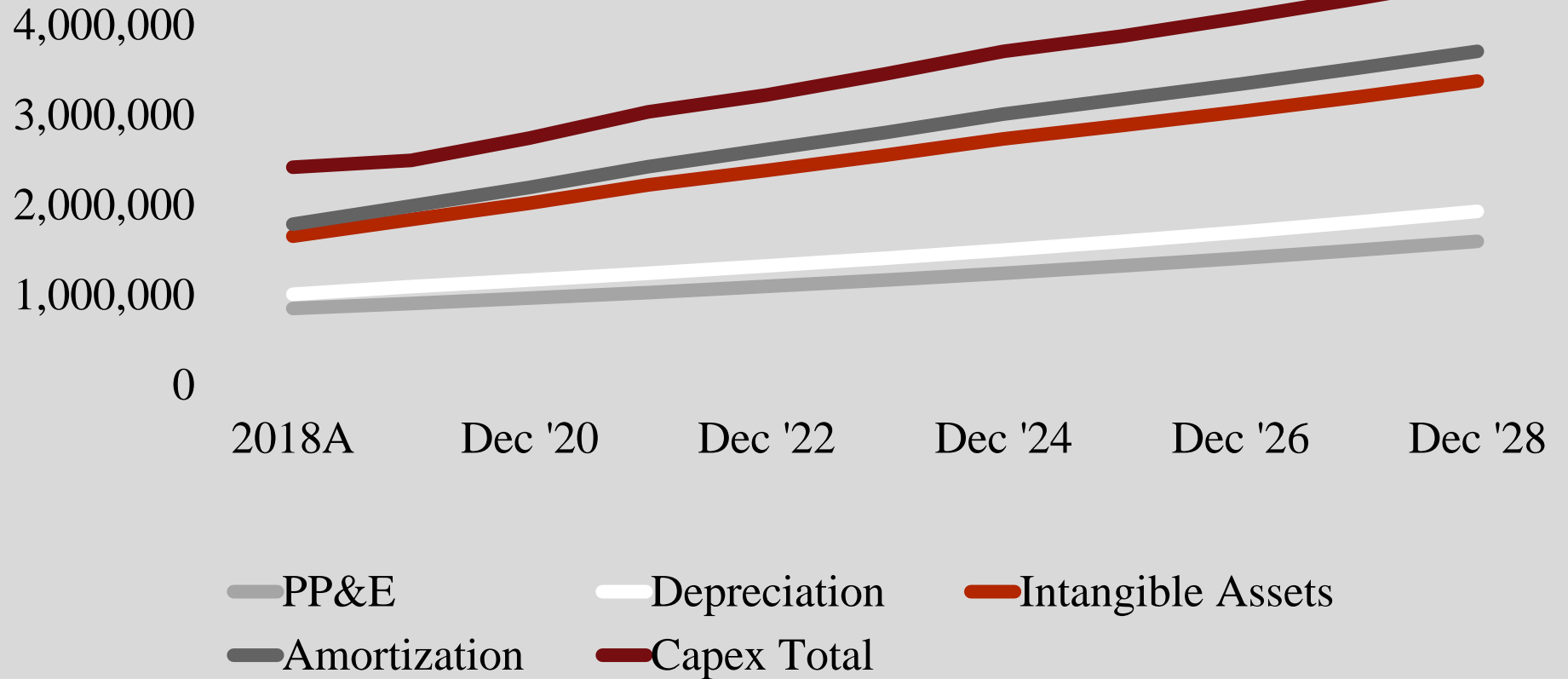
Valuation

Key predictions

Working Capital

Capex

Debt & Equity



Source: Team Estimates, Company Data



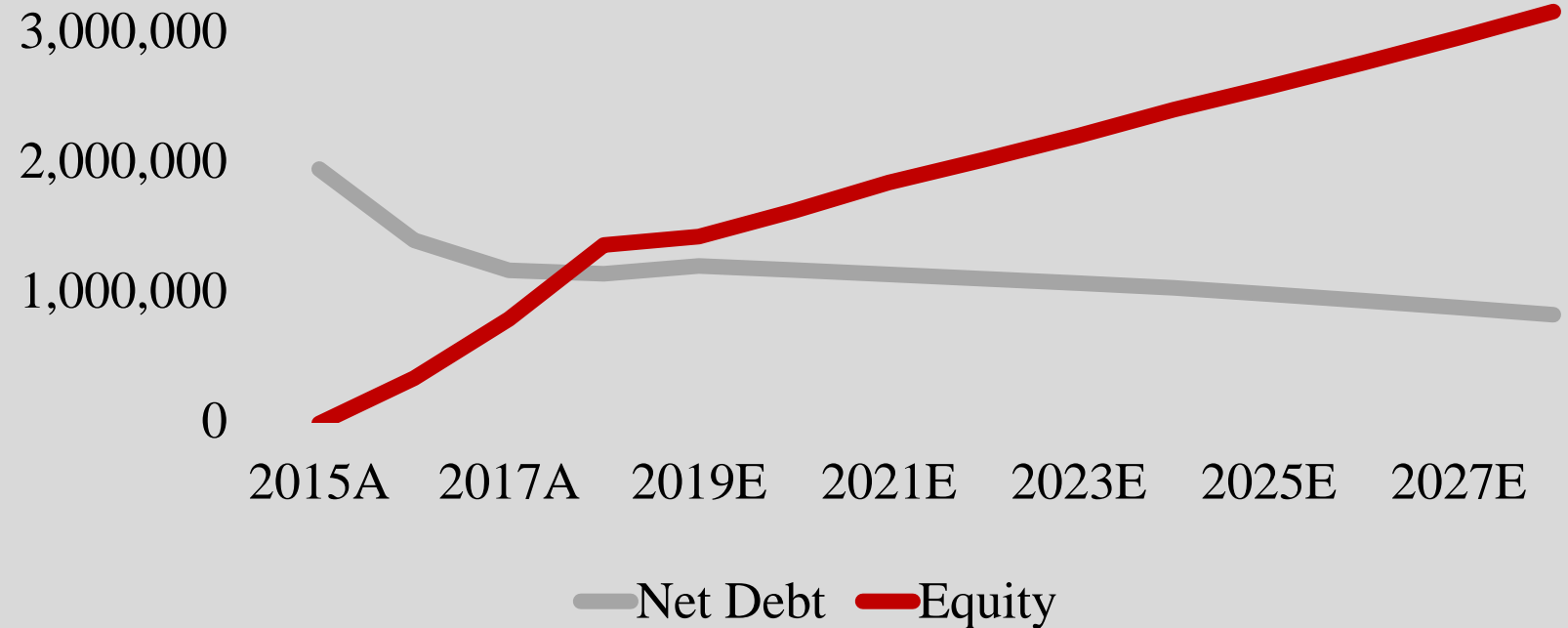
Key predictions

Net Debt to Equity

Working Capital

Capex

Debt & Equity



Source: Team Estimates, Company Data

Latest

Company

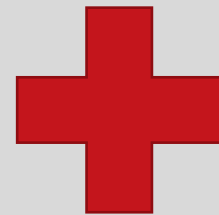
Industry

Financials

Valuation

DCF Outcome

PV of FCFs
€ 11,918m



Discounted TV
at $g = 2.5\%$
€ 14,970m

44%

56%

Latest

Company

Industry

Financials

Valuation

DCF Outcome

EV:
€ 26,887m

Minority
Interest: € 5m

Net Debt:
€ 1,192m

Mkt Value:
€ 25,695m

Latest

Company

Industry

Financials

Valuation

DCF Outcome

TARGET PRICE € 138.24

Latest

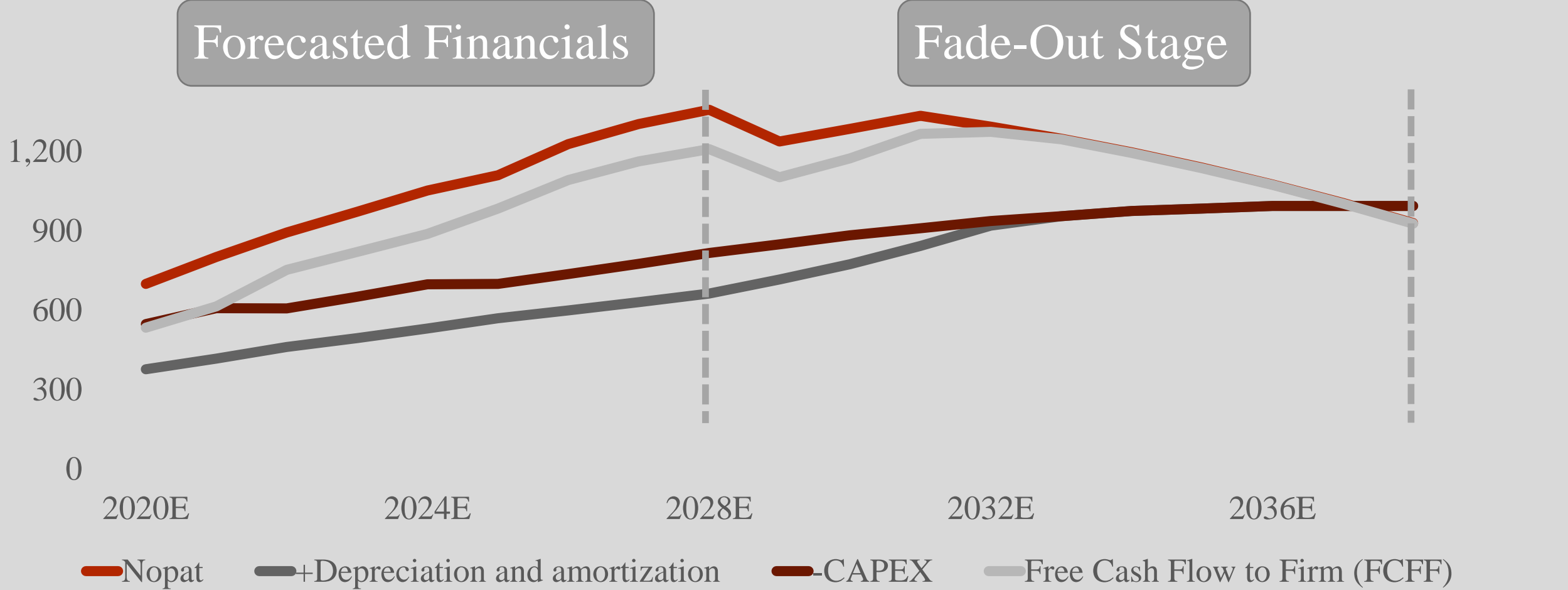
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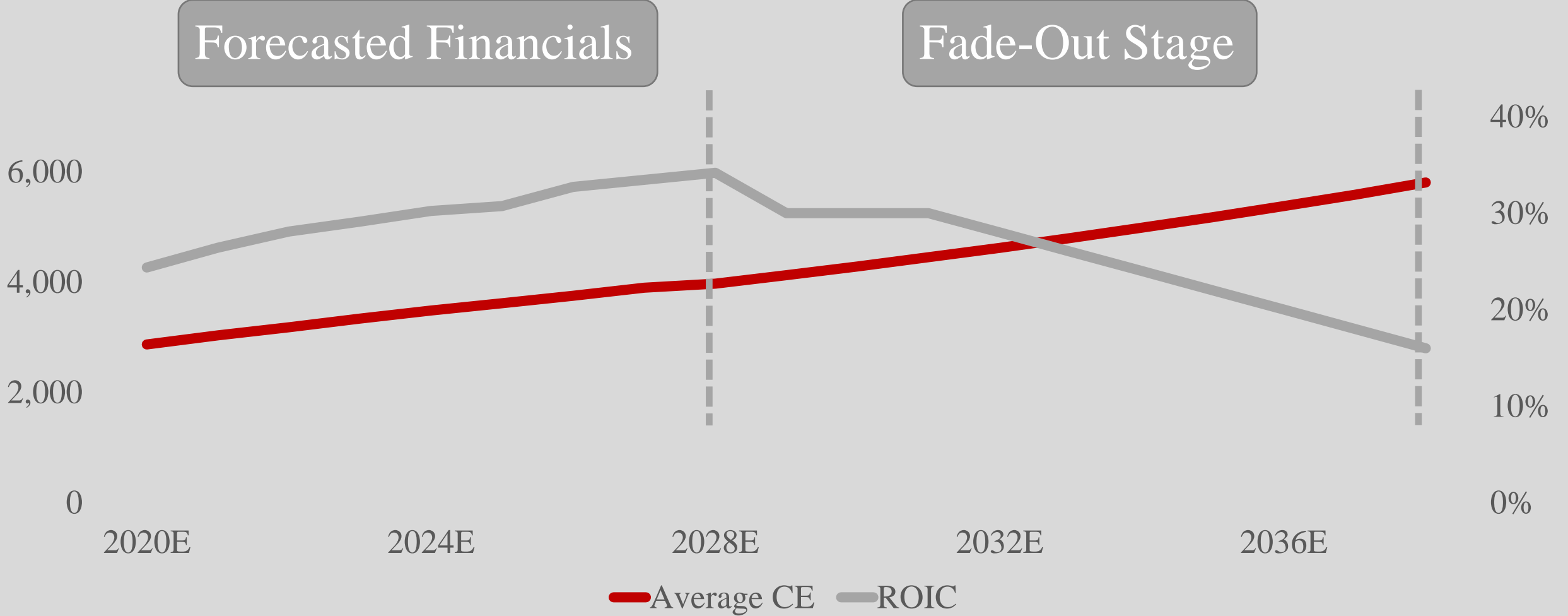
Financials

Valuation

DCF Input



DCF Input



DCF Input

WACC assumptions	
Risk Free Rate (R_f)	0.10%
Market Risk Premium (MP)	5.97%
Cost of Equity (K_e)	6,41%
Beta (β) levered	0.90
Cost of Debt (K_d)	0.40%
Tax rate	27.90%

Latest

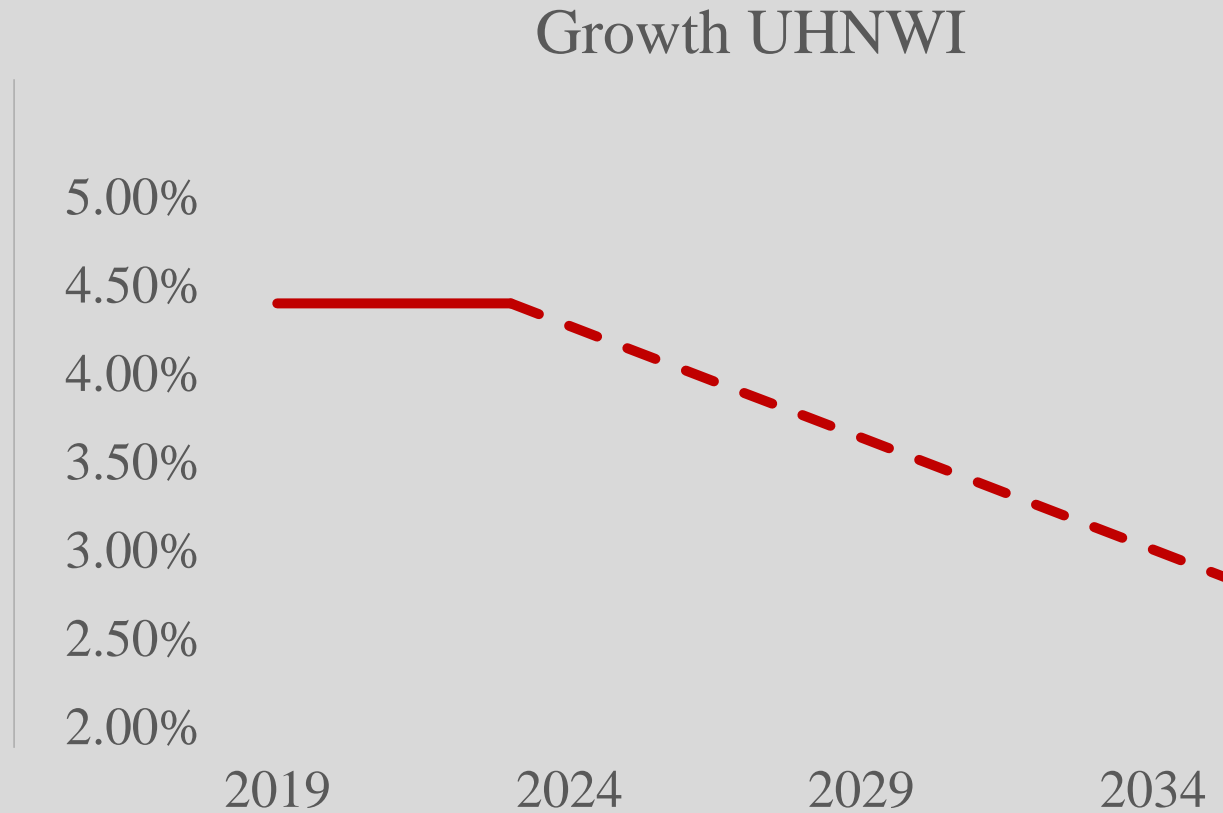
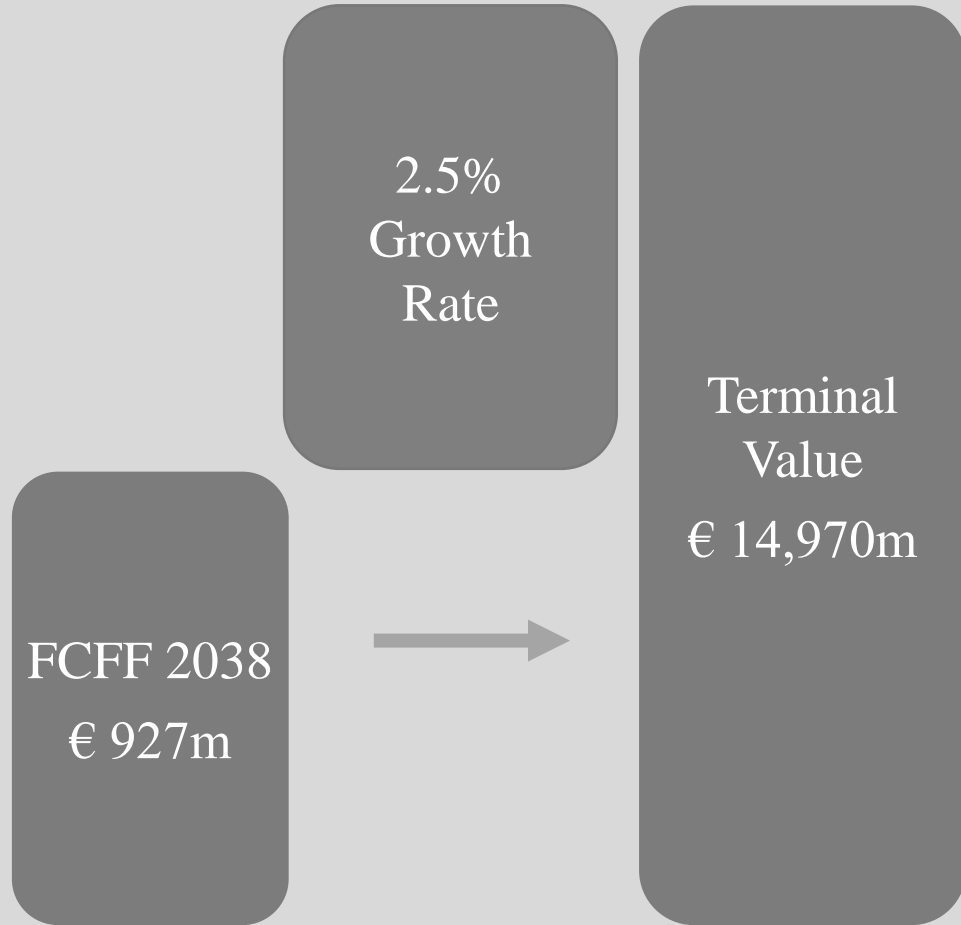
Company

Industry

Financials

Valuation

Terminal Value



Latest

Company

Industry

Financials

Valuation

Terminal Value

Terminal Value Growth

		2.00%	2.25%	2.50%	2.75%	3.00%
Beta	0.70	194.74	215.02	242.76	283.04	346.81
	0.80	151.84	162.39	175.70	193.03	216.52
	0.90	124.60	130.79	138.24	147.39	158.86
	1.00	105.67	109.60	114.19	119.60	126.10
	1.10	91.70	94.34	97.34	100.80	104.82

Latest

Company

Industry

Financials

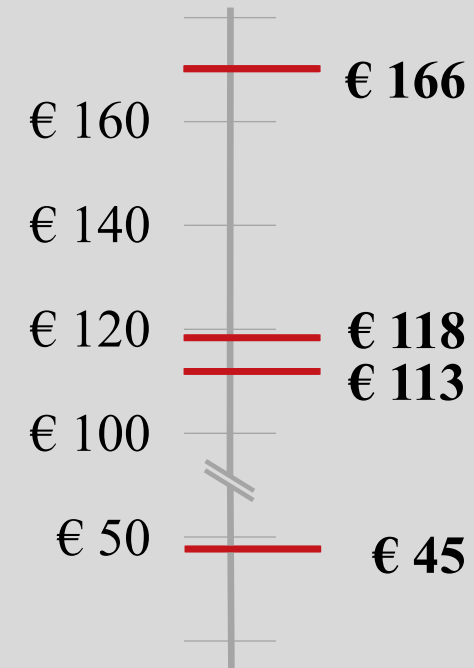
Valuation

Multiples

	Luxury Benchmark	Target Price
Median	31x	118€
Average	44x	166€

	Automotive Benchmark	Target Price
Median	8x	45€
Average	17x	113€

Price Range



Recommendation

- + Exclusive brand
- + Stable past growth
- Coronavirus spread
- Shifts in automotive technology
- Increasing environmental awareness
- Decrease in brand loyalty in future generations



SELL

Latest

Company

Industry

Financials

Valuation

A large red graphic element at the top of the slide, featuring a series of white triangles of varying heights and widths, creating a jagged, mountain-like silhouette.

**Thank You for your
Attention**

Q&A SESSION