Ferrari: The 2015 Initial Public Offering

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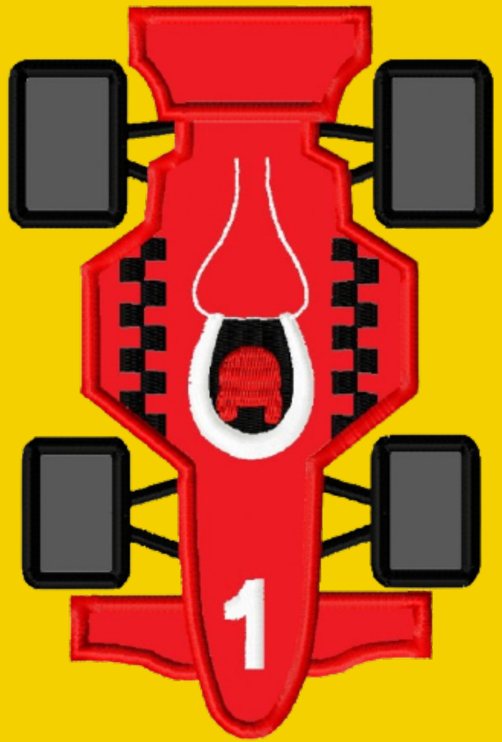
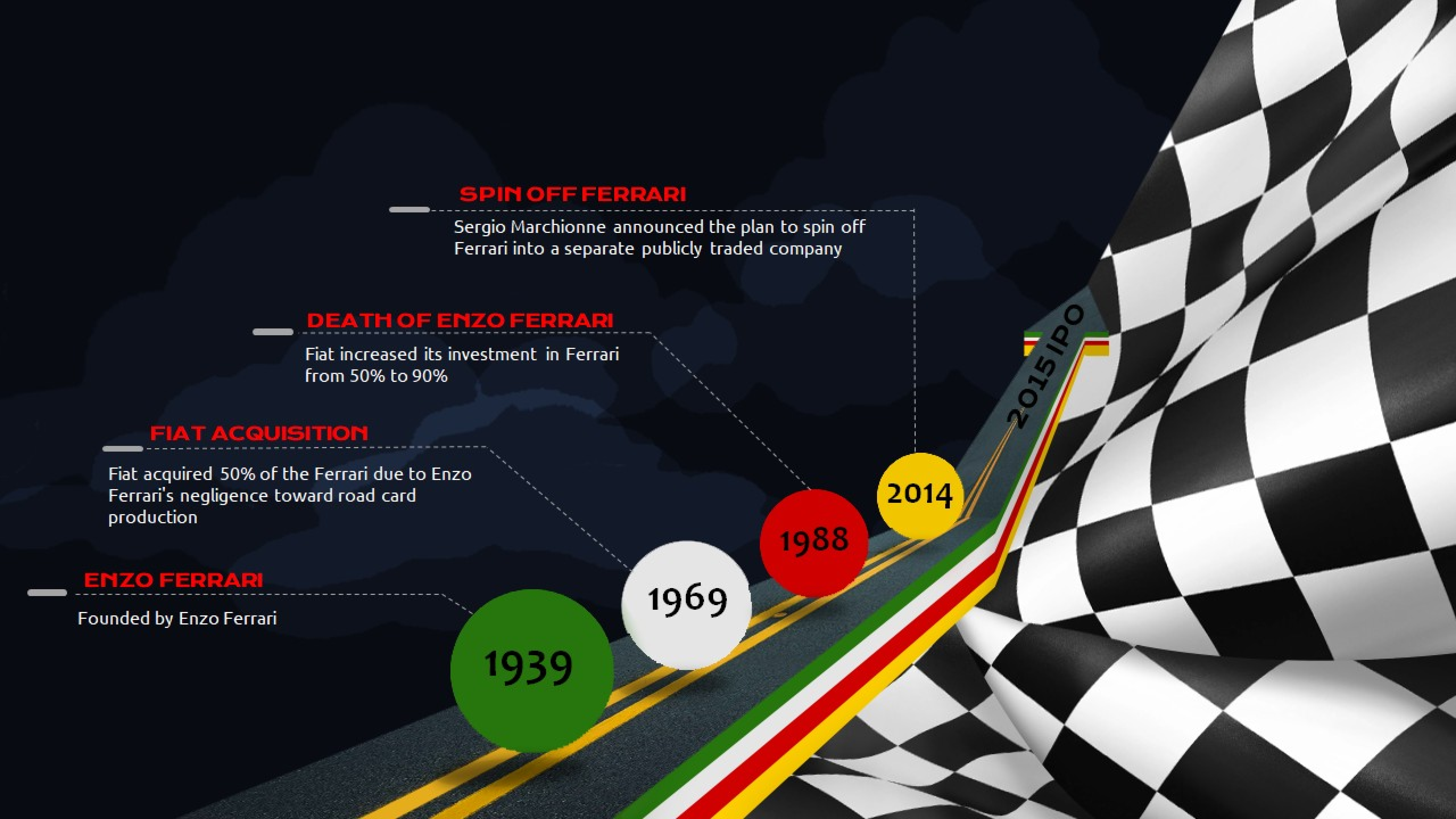
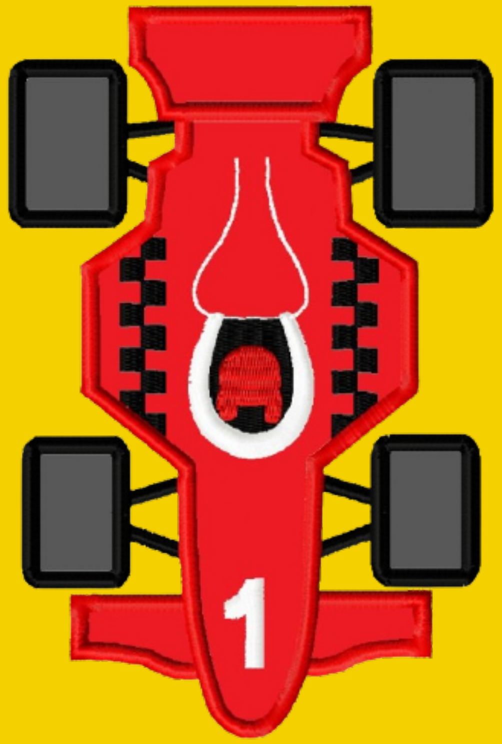
CASE CONTEXT OR BACKGROUND




SPIN OFF FERRARI
Sergio Marchionne announced the plan to spin off Ferrari into a separate publicly traded company
DEATH OF ENZO FERRARI
Fiat increased its investment in Ferrari from 50% to 90%
FIAT ACQUISITION
Fiat acquired 50% of the Ferrari due to Enzo Ferrari's negligence toward road card production
ENZO FERRARI
Founded by Enzo Ferrari
1939
1969
1988
2014
2015 IPO

PROBLEM DEFINITION (POV)

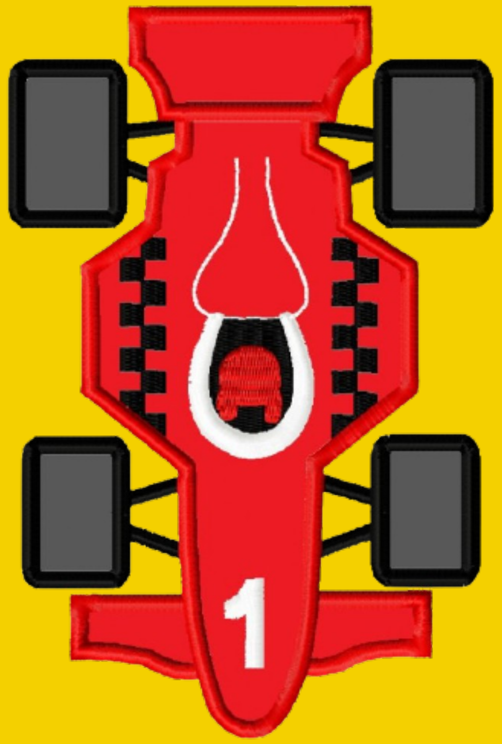


How can Ferrari survive as a separately traded company?

Should the company increase production despite its long-standing practice of limited output to maintain its exclusive brand image?

How should the shares be sold?

SWOT ANALYSIS



STRENGTHS

1. Strong brand image and exclusivity
2. Brand recognition through the Formula One marketing platform
3. Deep engagements with their customers
4. Promotes their brand without jeopardizing their customer’s satisfaction
5. No need for extensive capital expenditures

WEAKNESSES

1. Low volume production
2. Miss out on growth prospects
3. Rules and regulatory fines
4. Low accounts receivable turnover
5. High Research and Development costs
6. Not able to maximize its brand value potential

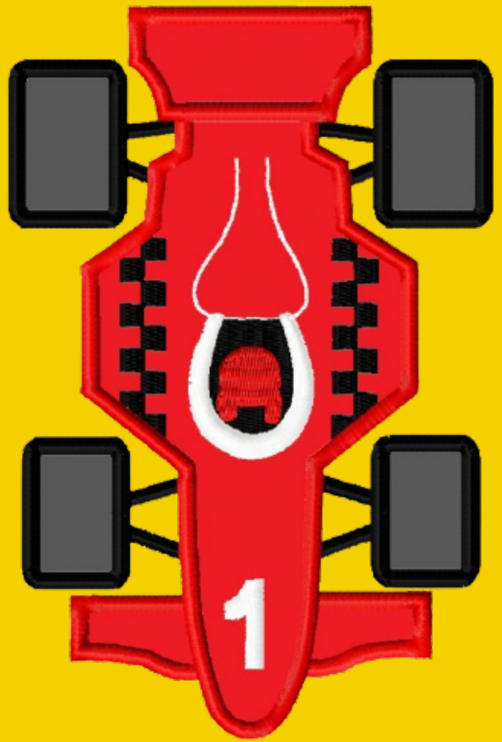
OPPORTUNITIES

1. Growth in the global market
2. Growth in the lifestyle categories
3. Expansion and differentiation of their product line
4. Increase in technological advancements
5. New and emerging markets
6. Technology advancements

THREATS

1. Intense competition in the premium car industry
2. Stricter regulations in the automotive segment
3. Increase in market share of competitors
4. Increasing customer expectations
5. Volatile demand

ALTERNATIVE COURSES OF ACTION



How can Ferrari survive as a separately traded company?

ACA 1

EXPAND BRAND PRESENCE

ADVANTAGES

- Steady stream of income
- Enhances brand experience

DISADVANTAGES

- Small scale
- May be deemed closer to luxury-good firms

Should the company increase production despite its long-standing practice of limited output to maintain its exclusive brand image?

ACA 2

EXPAND PRODUCTION

ADVANTAGES

- Increase in target consumer market
- Satisfy global demands
- No additional marketing costs

DISADVANTAGES

- May affect brand exclusivity
- May affect supply and demand price maximization equation

Should the company increase production despite its long-standing practice of limited output to maintain its exclusive brand image?

ACA 3

INCREASE CAR MODELS

ADVANTAGES

- Contributes positive value to the firm
- Creates long waiting lists

DISADVANTAGES

- Increase research and development costs

Considering the high demand for Ferrari shares during the roadshow, how should the shares be sold/valued?

ACA 4

USE MULTIPLES-BASED VALUATION

ADVANTAGES

- Reduce risk of overvaluing shares
- Simple to comprehend
- More externally verifiable

DISADVANTAGES

- Identifying comparable firms for Ferrari is difficult
- Ignores assumption of long-term profitability and growth

Ferrari EBITDA
687 million
EBITDA multiple x
12.6
FERRARI enterprise value 8,656,
million
Expected Debt
(2,300 million)
FERRARI equity value 6,356
million
Post-money shares outstanding / 189
million
Implied share price in EUR
33.63/share

Considering the high demand for Ferrari shares during the roadshow, how should the shares be sold/valued?

ACA 5

USE DISCOUNTED CASH FLOW MODEL

ADVANTAGES

- Most conceptually sound approach
- Uses financial numbers that are based in reality

DISADVANTAGES

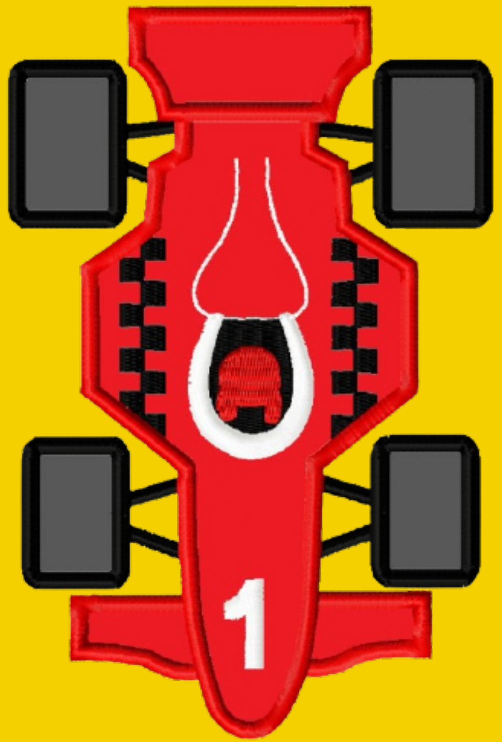
- Presumptively assumes that the firm being valued will continue to exist and operate indefinitely

Tax rate = 38%
Discount rate = 5%
Growth rate = 2%.

(Millions of Euro)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
NOPAT	277	315	352	387	415	**423**
Change in PPE	81	66	18	23	47	**22**
Change in NWC	88	55	49	130	128	**38**
Free Cash Flow	108	194	285	234	240	**363**
PV of Cash Flow	**103**	**176**	**246**	**193**	**188**	

PV of cash flows 906 million
PV of terminal value 9,489 million
FERRARI enterprise value 10,395 million
Expected debt (2,300 million)
FERRARI equity value 8,095 million
Post-money shares outstanding / 189 million
Implied share price in EUR 42.83/share
EUR to USD exchange rate x

DECISION & RECOMMEDATION



5-year Business Plan

COMPETITIVE THREATS

ECONOMIC THREATS

RISE ABOVE THE COMPETITION

ENHANCE FIRM PRODUCTIVITY

RESOLVE UNBALANCED BENEFITS

Purposes of Ferrari IPO

01 Generate cash payments & transfer debts

02 Promote brand

03 Access to sources of equity and debt capital

04 Attract American investors

05 Direct ownership

06 Unlock the hidden value of Ferrari

RECOMMENDATION # 1
Expand brand in lifestyle categories

Stability &
Market Presence

Perceived Value

Steady Cash Flows

Company-Customer
Relationship

Easier Brand
Access

RECOMMENDATION # 2

Maintain Limited Output System

Innovation & Upgrades through New Models

Exclusivity & Preferred Customer Privileges

Advertising Opportunities

Brand Image Protection

RECOMMENDATION # 3
Utilize DCF Valuation Model

$38.25

EV/EBITDA Multiple

$48.72

DCF Valuation model

PRE-IPO ANALYSIS

TARGET PRICE RANGE :

$48-$52

IPO RESULTS

RECOMMENDED STOCK PRICE:

$52

IPO RESULTS

$ 52.00

In order to maximize the high pricing power of the company. The pricing set at $52 dollars is justifiable and acceptable as it is neither too low nor too high from its computed intrinsic value.

RECOMMENDED STOCK PRICE

$ 52.00

On Tuesday, October 20,2015 FCA Management set the Ferrari IPO price at $52.00 per share. The offer price reflected an EBITDA of over 14 times

CLOSING PRICE= $55.00

ACTUAL PRICE OFFERED

THANK YOU