Ferrari: The 2015 Initial Public Offering

Executive Summary

The Ferrari case study evaluates the initial IPO offering of Ferrari NV(Ferrari) which is owned by the parent company Fiat Chrysler Automobiles NV (FCA). FCA was the world's seventh largest manufacturer with several brands under its umbrella such as Alfa Romeo, Chrysler, Dodge, Fiat, and Maserati to name a few. In the years leading up to the decision of the IPO, Sergio Marchionne the CEO of both Ferrari and FCA, decided to set up Ferrari into an independently traded company and list 10% of its shares on the New York Stock Exchange (NYSE) with ticker symbol RACE. The plan was for FCA to sell 17.175 million shares in an IPO, with earnings going to FCA. Soon thereafter, FCA would spin off 80% of Ferrari stock it held, distributing the value to FCA shareholders as a stock dividend. At this point, 90% of Ferrari's shares would be publicly traded as 10% would be retained by the Ferrari family.

There are several factors that contributed towards this decision as it was assumed to have a positive impact for both companies. The prominent reason was that the initial cash proceeds from the sale of shares will be transferred to FCA. Furthermore, FCA will be able to transfer some of its debt to Ferrari. Secondly, the goal was to provide direct access to equity and debt capital to Ferrari. Thirdly, Ferrari will be able to venture further into the market of luxury goods such as apparel and accessories comparable to premium apparel brands such as LVMH and Hermes International. Lastly, the assumption was that if both companies were separated and traded in the market as separate entities, both would trade at much higher prices. If we look at Ferrari, it falls under the super luxury segment because of higher prices and limited supply along with the exceptional performance of its vehicles.

Therefore, in the calculation of Multiples and DCF we have to account for both the comparable automotive companies and luxury brands because technically Ferrari is part of both sectors.

Valuation Analysis: Unveiling Ferrari's Market Worth using Multiple Approach

To determine the valuation of Ferrari, a multiple approach was used while taking into account pertinent comparable luxury and automotive brands. The selection of multiples and comparable was made with Ferrari's distinct status as a luxury automaker in mind. The following explanations explain why this strategy is especially applicable to the Ferrari case study:

1. **Selection of Comparable Automotive Companies:** The analysis considered BMW and Daimler, the parent firm of Mercedes-Benz, as the two companies which are most similar in terms of their business models as they share Ferrari's positioning and line of products in the luxury market. These companies present a more accurate picture of Ferrari's possible market worth by using the valuation multiples of these companies.
2. **Evaluation of Luxury Brands:** The importance of including premium brand comparable has been highlighted by the fact that Ferrari competes not just in the car industry but also working on growth in the market for high-end clothes and accessories. Hermes International was selected as a pertinent luxury brand comparative because of its premium pricing and substantial margins. Furthermore, Hermes is one of the brands who does collaborate with some premium automotive brands offering car upholstery options to customers. This contrast enables a thorough evaluation of Ferrari's value as a luxury brand, outside of its automobile business.

Comparable	BMW	Daimler	Hermes
Debt	77506	86689	41
Equity	56562	77906	35297
Cash	7688	15543	1481
Enterprise Value	126380	149052	33857
EBITDA	16426	18514	1478
V/EBITDA	7.69	8.05	22.97

Note:

In the case of Ferrari, the average of its last three years' revenues indicated that approximately 80% of its total revenue was derived from its core business of manufacturing and selling cars and considering this breakdown, we have decided to assign an 80-20 ratio to the valuation multiples. We have assigned 80% of the weightage to the multiples of the automotive sector, for which we have chosen Daimler and Mercedes as comparable, given their similar positioning in the luxury car market. The remaining 20% was allocated to the multiples of the luxury goods segment, for which we have taken Hermes as a comparable, considering its premium pricing and substantial margins. Also, the EBITDA & Debt from 2014 is considered since the available data for competitors belongs to 2014 and we wanted to maintain consistency in our report.

Average Car Business Multiple	*7.87*
Luxury Segment Multiple	22.91
Ferrari Multiple	15.39
EBITDA of Ferrari	*678.45*
Enterprise Value	10441.52
Debt (including short term)	2163
Cash	1077
Equity (EV - DEBT + CASH)	9355.52

Evaluating Ferrari's Value in 2015 through the DCF Approach

The DCF approach estimates Ferrari's intrinsic value in 2015, expressed in US dollars, by examining historical financial data and estimating future cash flows. This valuation technique considers a variety of aspects related to Ferrari's financial performance and growth potential, finally delivering a comprehensive appraisal of its value.

FCFF method							
Ferrari (FCFF)	In Millions						
	2014	2015	2016	2017	2018	2019	2020
AVG operational profit	398	447	508	567	624	669	682
NOPAT	246.76	277.14	314.96	351.54	386.88	414.78	422.84
Depreciation		317	339	345	353	369	
Change in PPE		81	66	19	23	47	22
Change in NWC		88	54	49	131	128	38
FCFF		424	534	629	586	609	364

Growth Rate: *In order to calculate the average growth rate, we considered all the six relevant luxury brands that were given to us in the excel and took an average of it, which provided us with a 3.5% overall average to be used for the calculations. Although, we see that there is high potential for growth in the luxury goods sector, however overall projected growth in the automotive sector is comparatively difficult to achieve because of the high amount of capital investment required for it. So, we have made an explicit assumption of 2% for growth rate.*

Growth Rate	2.00%
Discount Rate (Given)	5%
Terminal Value FCFF(2021) / Kc - g	12376
PV of terminal value	9235.16
PV of Cash Flows	2662.41
Value of Firm	11897.57
Value of Debt (Including short term)	2163
Value of Equity (Value of firm - Value of Debt)	9734.57

Note:

It is important to note that two different approaches were employed in the valuation analysis of Ferrari: the multiples approach and the discounted cash flow (DCF) approach. In the multiples approach, data from comparable companies were utilized, and the available data for these companies pertained to the year 2014. Therefore, to maintain comparability between the approaches, the multiples approach was conducted using the 2014 data.

To ensure consistency and comparability with the multiples approach, the DCF analysis utilized data from 2014 as well. The projected cash flows were discounted back to the beginning of 2015, aligning with the timeframe of the multiples approach.

By adopting this methodology, both approaches used the same data year for their respective analyses. This approach facilitated a comprehensive and meaningful comparison between the multiples and DCF valuations, allowing for a more robust assessment of Ferrari's market worth.

Share Price Calculation: To calculate the share price, we need a number of outstanding shares. So, prior to the IPO, Ferrari had a total of 172 million outstanding shares. However, as part of its strategic initiatives, the company decided to issue an additional 17.5 million shares of fresh equity. This issuance resulted in an increase in the total outstanding shares of Ferrari to 189 million.

Stock price using Multiples approach			***Stock price using DCF approach***	
Value of equity	9355.52 million		Value of equity	9734.57 mill
Number of shares	189 million		Number of shares	189 million
Stock Price	49.5		Stock Price	51.5

Conclusion

Based on our calculations above we can say that Ferrari fairly valued their share price, but the broader market had different perceptions about the company and gave a slight premium to the share price. The IPO price for Ferrari was set at $52 per share, plus a $1.56 underwriting discount and commissions. Ferrari's stock began at $60 per share on the first day of trade, 15% more than the IPO price. The stock price varied throughout the day, eventually closing at $55 per share, a 7% rise from the IPO price.

Based on these figures, it is reasonable to assume that Ferrari underpriced its shares during the IPO. The motivation for this intentional undervaluation scheme was varied. For starters, by lowering the selling price, Ferrari hoped to create a sense of favorable investment opportunity and enhance demand for their shares, attracting a bigger pool of possible buyers. This technique was designed to generate high demand and secure the success of the IPO. The stock's strong opening and closing prices indicated instant investor interest and suggested an undervalued investment opportunity. This upbeat market sentiment and impressive debut performance bolstered investor confidence and positioned Ferrari as an appealing investment option.

Ferrari also attempted to reduce short-term risk and volatility by purposely undervaluing its stock. The lower IPO price drew in more steady, long-term investors who were more inclined to keep their shares. This strategy helped to stabilize the stock price and reduce short-term fluctuations, resulting in a smoother entry into public markets.

In conclusion, Ferrari's deliberate undervaluation of its shares during the IPO suggests that they underpriced their shares. This technique was motivated by the need to generate strong demand, build favorable market mood, and mitigate short-term risk. Ferrari wanted to attract investors, develop market confidence, and position the company for future growth and funding prospects by setting a lower offering price.