

Back of the Envelope Calculation: Ferrari IPO

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Overview

- Ferrari IPO
 - Valuation of IPO
 - Where is the stock now?
-



Scuderia Ferrari

Ferrari History

- ❑ ***Ferrari*** is an Italian luxury sports car manufacturer
 - ❑ Founded by Enzo Ferrari in 1929
 - ❑ Sponsored drivers and manufactured race cars before moving into production of street-legal vehicles in 1947
 - ❑ Ferrari is one the world's most powerful brand (*Brand Finance*)
 - Lego, Google, Coca-Cola, Disney, Rolex
-

Insight



- ❑ 1962 Ferrari 250 GTO
 - ❑ Most expensive car in history
 - ❑ Sold for \$38,115,000 in May 2012
-

Ownership before IPO

- Fiat Chrysler (90%)
 - Italian Cars:
 - Abarth, Alfa Romeo, Fiat, Fiat Professional, Lancia
 - US Cars:
 - Chrysler, Dodge, Jeep
 - Luxury cars
 - Maserati, Ferrari
 - Other companies
 - Engine manufacturers, print,...
-

Basic Stats on October 19, 2015

Basic IPO Info

Ticker	RACE US
Shares in IPO	17.18 mil.
Total Shares	188.9 mil.
Min stock price	48 USD
Max stock price	52 USD
Equity raised through IPO	859 mil. USD
Market Cap	9.45B USD
Place	New York Stock Exchange

Ownership Changes

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Ownership Before IPO

- 90 % Fiat Chrysler
- 10 % Piero Ferrari
 - Son of Enzo Ferrari

Ownership After IPO

- 81 % Fiat Chrysler
- 10 % Piero Ferrari
- 9 % free float

Future-Ownership Changes

- ❑ Fiat Chrysler is getting rid of 9% now
 - ❑ It has plans to get rid of the remaining 81% later
 - ❑ It will distribute it amongst its shareholders
 - ❑ Largest owners
 - Exor 24% - owner of Fiat Chrysler
 - 10% Piero Ferrari
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Size of IPO and Purpose

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Expected Market Cap	9.45B USD
Place	NYSE

- 17,18 mil shares at 50 USD (midpoint) * = *859 mil USD*
- Entire company would be valued at $50 * 188.9 = 9.45B$

Size of IPO and Purpose

- Why are they doing the IPO?
 - Fiat wants investments for its other brands
 - Jeep, Alfa Romeo, Maserati
 - Lower its debt
 - Break Ferrari out of its own portfolio
 - Why is this beneficial?
-

Conglomerates-pros and cons

- The conglomerate model served worked well for FIAT
 - It was a family company
 - Operate in immature financial markets
 - Fiat as a holding company had access to better financial information
 - Value gets trapped
 - Risk diversification within the portfolio
 - Ferrari is attractive enough to be taken out
-

Valuation of IPO

□ P/E

■ Price/Earnings Ratio

$$\frac{P}{E} = \frac{\text{Price per share (Stock Price)}}{\text{Earnings per share (EPS)}}$$

■ How much are you paying per one dollar of earnings?

■ Example

□ Apple: P/E= 13.77

□ Google: P/E= 29.63

Ferarari

- What do you think should it compared to?

 - That is the big discussion- what kind of company is it?
 - Let's assume it is a car company
-

Company	Expected P/E (2015-2017)
Suzuki	15.4
Fiat	11.1
Volvo	10.9
Honda	10.7
BMW	9
Nissan	8.7
Toyota	8.7
Mitsubishi	8.7
Peugeot Citroën	8.3

Company	Expected P/E (2015-2017)
Mazda	8.2
Daimler	8.2
Ford	7.9
Renault	6.8
Kia Motors	6.7
Volkswagen	6.5
General Motors	6.5
Hyundai	6.1
Porsche	4

Min	4
Median	8.2
Max	15.4

P/E Valuation

$$\frac{P}{E} = \frac{\text{Price per share (Stock Price)}}{\text{Earnings per share (EPS)}}$$

□ Car Industry P/E:

Min	4
Median	8.2
Max	15.4

□ Ferrari EPS= 1.6

Valuation

Median

- Ferrari at $8.2 * 1.6 = 13.12$ USD per share
 - IPO at 48 USD-> 265% overpriced
 - IPO at 52 USD-> 320% overpriced

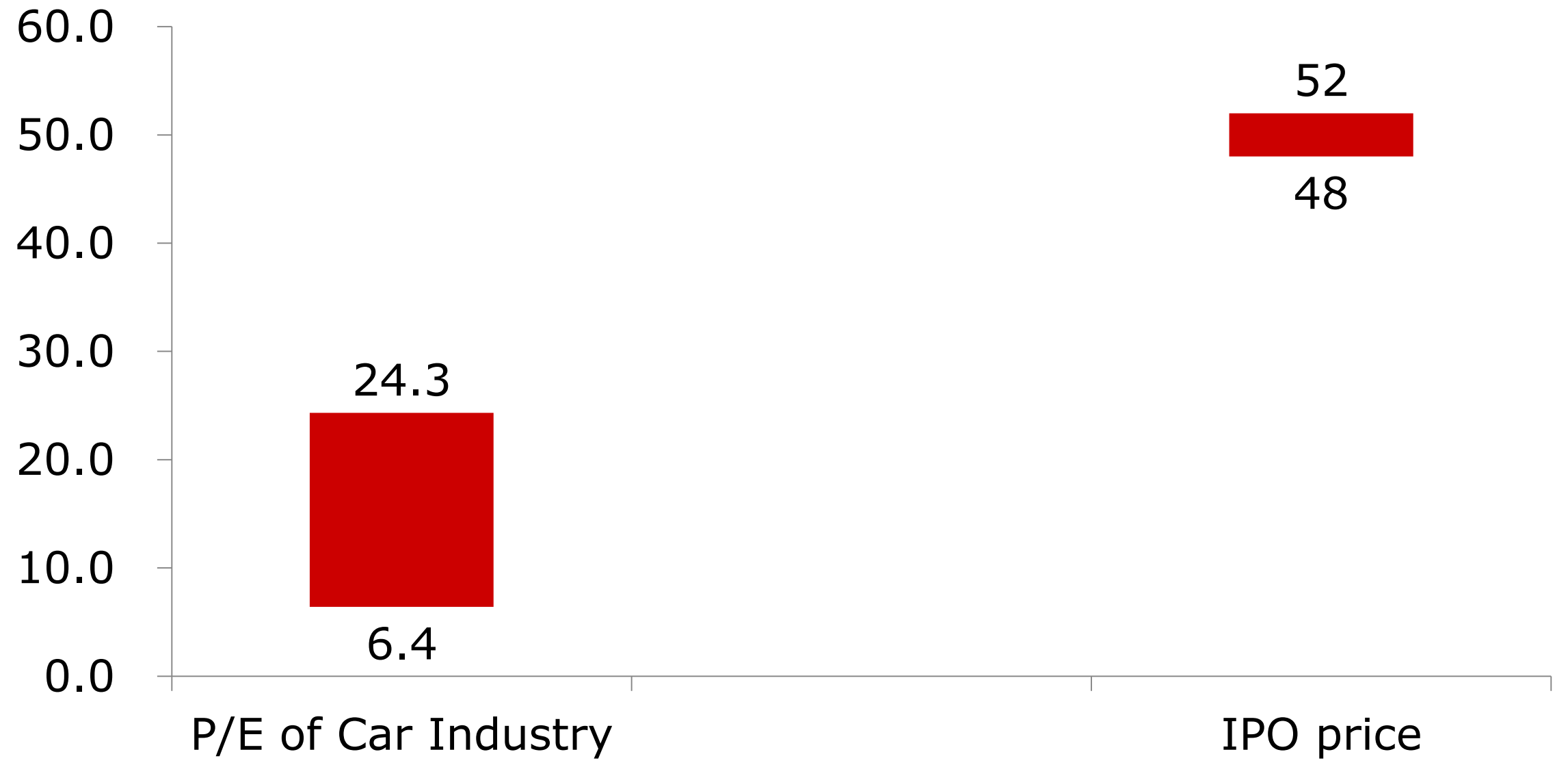
Min

- Ferrari at $4 * 1.6 = 6.4$ USD per share
 - IPO at 48 USD-> 650% overpriced
 - IPO at 52 USD-> 713% overpriced

Max

- Ferrari at $15.2 * 1.6 = 24.32$ USD per share
 - IPO at 48 USD-> 97% overpriced
 - IPO at 52 USD-> 114% overpriced
-

Valuation Summary



Ferrari

- Is Ferrari really a car company?
 - Is it a Luxury goods company?
-

Using our Insight

- ❑ Fiat is pushing for the idea that Ferrari is not a car company
 - ❑ It is a luxury brand
 - The production is limited
 - Value of Ferrari cars increases
 - ❑ How does the valuation look there?
-

Company	Expected P/E (2015-2017)
Kate Spade	29
Remy Cointreau	25.3
L'Oréal	25.1
Prada	19.4
Louis Vuitton Moët Hennessy	19
Hugo Boss	17.7

Company	Expected P/E (2015-2017)
Jimmy Choo	17.2
Pernod Ricard	17.1
Laurent-Perrier	16.7
Christian Dior	15.5
Michael Kors	9.1

Min	9.1
Median	17.7
Max	29

P/E Valuation

$$\frac{P}{E} = \frac{\text{Price per share (Stock Price)}}{\text{Earnings per share (EPS)}}$$

□ Luxury Brands Industry P/E:

Min	9.1
Median	17.7
Max	29

□ Ferrari EPS= 1.6

Valuation

Median

- Ferrari at $17.7 * 1.6 = 28.32$ USD per share
 - IPO at 48 USD-> 70% overpriced
 - IPO at 52 USD-> 84% overpriced

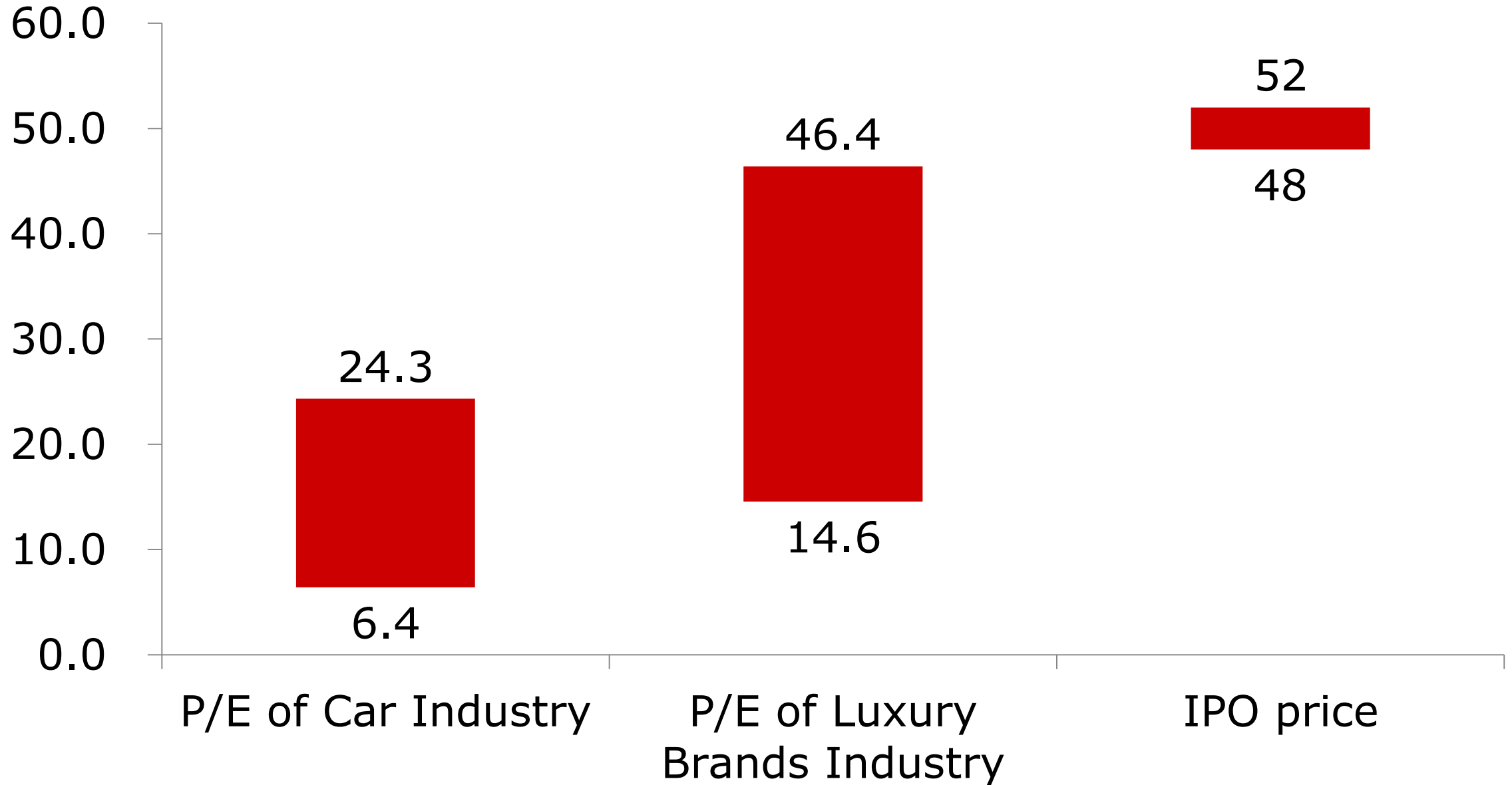
Min

- Ferrari at $9.1 * 1.6 = 14.56$ USD per share
 - IPO at 48 USD-> 230% overpriced
 - IPO at 52 USD-> 257% overpriced

Max

- Ferrari at $29 * 1.6 = 46.4$ USD per share
 - IPO at 48 USD-> 3.4% overpriced
 - IPO at 52 USD-> 12% overpriced
-

Valuation Summary



Conclusion of IPO

- Ferrari is a prosperous firm
 - Nice margins for car companies
 - But it doesn't offer much of an upside
 - Limited car production to keep luxury status
 - Possibility is to branch out into other segments
 - Time will tell

 - Stock price is high
 - Driven by the opportunities of the brand
 - Conclusion
 - Buy the car and not the stock
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-

After IPO

- Let's look at it!
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56.38 0.00 (0.00%)

Pre-market: 56.90 +0.52 (0.92%)

Oct 26, 8:59AM EDT

NYSE real-time data - Disclaimer

Currency in USD

Range -
52 week 55.00 - 60.97
Open -
Vol / Avg. 8,807.00/9.67M
Mkt cap 10.65B
P/E 35.14

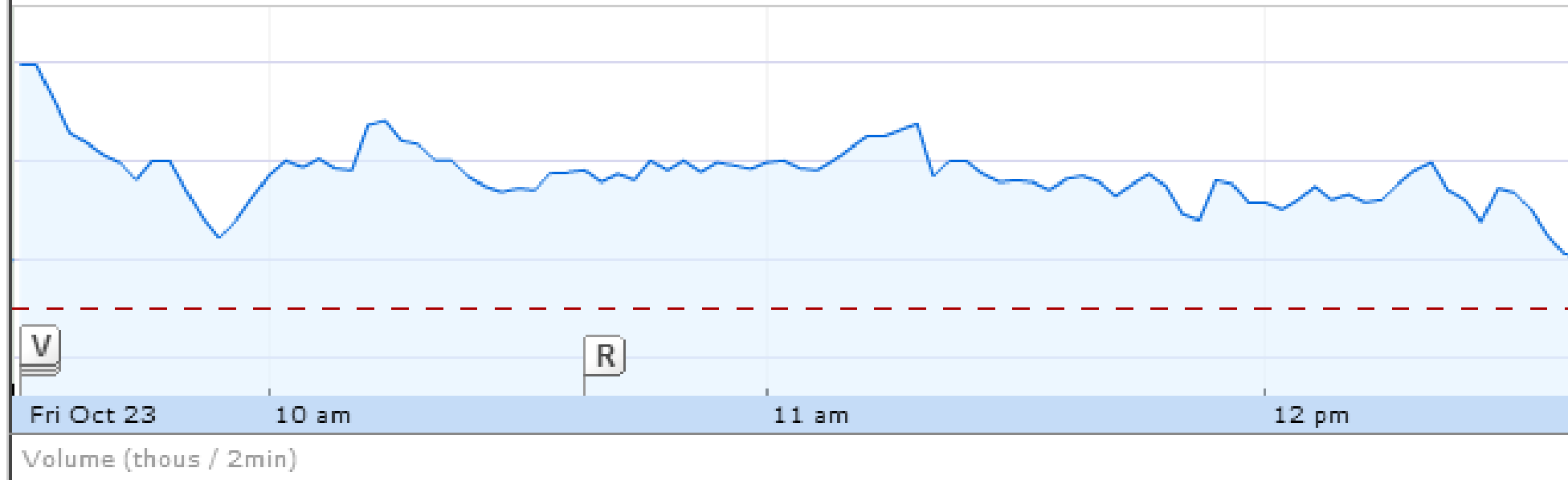
Div/yield -
EPS 1.60
Shares 188.92M
Beta -
Inst. own -

G+1 19

Compare: Dow Jones S&P 500 FIATY EXOSF BAMXF P...

Zoom: 1d 5d 1m 3m 6m YTD 1y 5y 10y All

- -0.15 (-0.26%)



Overview

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Summary

- ❑ Wall Street Finance is not only about numbers
 - ❑ It is about stories
 - ❑ But to tell stories - you have to master the numbers
 - Financial Statement Modeling and Valuation Modeling
 - ❑ But you have to master the financial statements
 - Excel skills
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How to get Wall Street Skills?

US Training Providers are Expensive

- Wall Street Prep, Wall Street Training, Breaking Into Wall Street

Regional Solution

- Prague-based educational venture *Professional Knowledge Applied(pkA)* represents them in Central and Eastern Europe
 - pkA provides subsidies for students and professionals from the region, pkApplied.com
 - Wall Street Skills :
 - <https://www.pkapplied.com/acquire-wall-street-finance-skills>
Regional discounts
 - If interested talk to me after class or email me (jtresl@gmail.com)
-

Thank you

Questions?

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