

# Ferrari N.V. (RACE)

Rating	<b>OUTPERFORM</b>
Price (20-Jul-18, US\$)	140.00
Target price (US\$)	156.00
52-week price range (€)	127.44 - 86.53
Market cap(US\$ m)	26,449
Enterprise value (€ m)	27,644

Target price is for 12 months.

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## COMPANY UPDATE

### RACE Loses a Winner, but the Path Forward Remains Unchanged; Reiterate Outperform

- Ferrari Loses a Winner:** We're saddened to hear CEO Marchionne will not return to RACE due to health issues. He leaves with one of the strongest track records we've seen: RACE stock +155% since IPO and a history of achieving ambitious targets. While we expect near-term volatility as the stock digests the leadership change, we'd buy the stock on any pullback. Marchionne didn't achieve RACE's successes alone. Further, proposed CEO Camilleri (Philip Morris Chairman, RACE board member) has a strong track record and knows RACE intimately, which should mitigate any disruption risk.
- Key Catalyst: Analyst Day Will Go Forward, with Well-Vetted Plans:** Importantly, per IR, RACE will still present its 5-year plan in/around Sept. Management/board have already vetted the plan details (RACE presented the plan to its board, including Camilleri, over a year ago). Targeting €2B in EBITDA by '22 at margins in line with Hermès (36.5% vs. 30% today) implies a 5-year EBITDA CAGR of +14% (in-line with RACE over past 3 years, but upside to Street's +11% over next 3 years). Our ongoing confidence in RACE doubling EBITDA (& upside to the Street) should continue to push multiples toward the high end of luxury peers (RACE 20x EBITDA vs. Hermès 23x).
- New CEO Comes with Strong Reputation and Deep RACE Ties:** Camilleri was CEO of PMI from '08-'13, where he added +90% to the stock. He also has a close relationship with Marchionne. Camilleri is Chairman at PMI (Marchionne is on Board) and he has been on the RACE board since '15—meaning he already has intimate knowledge of RACE's 5-year plan.
- Valuation:** Our \$156 TP is ~20x our '19 EBITDA (in line with RACE multiples today & still below pinnacle luxury brands like Hermès at 23x), and 1.17 FX rate (vs. 1.19 prev). Risks: Macro volatility, competition, regulatory changes.

## Share price performance



On 20-Jul-2018 the S&P 500 INDEX closed at 2801.83  
Daily Jul21, 2017 - Jul20, 2018, 07/21/17 = US\$100.02

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.65	0.72	0.74	0.72
2018E	0.78	0.81	0.83	0.83
2019E	0.87	0.94	0.95	0.98

## Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (CS adj.) (€)	2.83	3.25	3.75	4.38
Prev. EPS (€)	-	-	-	-
P/E rel. (%)	196.8	209.4	199.4	188.4
Revenue (€ m)	3,416.9	3,553.7	3,984.9	4,380.9
EBITDA (€ m)	1,036.0	1,135.7	1,288.1	1,456.9
OCFPS (€)	3.49	4.83	5.33	6.16
P/OCF (x)	25.0	24.7	22.4	19.4
EV/EBITDA (current)	22.8	20.8	18.4	16.2
Net debt (€ m)	1,158	1,011	893	708
ROIC (%)	28.75	27.74	27.12	27.33
Number of shares (m)	188.92			1,942.41
BV/share (Next Qtr., €)	4.9			11.2
Net debt (Next Qtr., € m)	1,197.7			Dividend (current, €)
Net debt/tot eq (Next Qtr., %)	129.5			2.84

Source: Company data, Thomson Reuters, Credit Suisse estimates

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Ferrari Loses a Winner

*It's with a heavy heart that we read the news of Mr. Marchionne's departure from Ferrari for health reasons. From our earliest days knowing him around the Ferrari IPO, he inspired us with his visionary approach to the brand and his against-the-grain insistence that this brand was more valuable than anyone in the financial community could imagine at the time. He set ambitious targets, hired and trained the best people, and delivered on what we thought was a stretch goal from the onset (driving €1B in EBITDA)...and he did it two years ahead of the IPO plan.*

We know Ferrari is entering a period of change as Mr. Marchionne departs, given how important he is to the culture of the company. But we very much look forward to watching the next chapters of the story he's written at Ferrari. We believe the next five year plan has already been formulated and heavily vetted under his watch. We believe he will leave the brand in very capable hands for a next generation of management that knows the brand well and has consistently demonstrated the talent to execute his next plan.

Proposed new CEO Louis Camilleri has a close relationship with Mr. Marchionne. Mr. Camilleri is the Chairman of the Board for Philip Morris International, where Mr. Marchionne is a board member, and Mr. Camilleri has also been on the Ferrari board since 2015—**meaning he already has intimate knowledge of Ferrari's 5-year plan that was presented to the board over a year ago.**

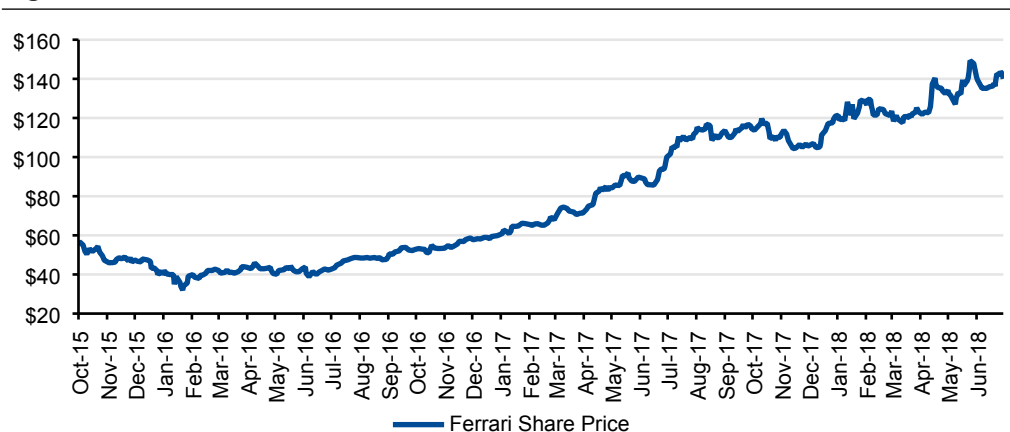
In our view, the clear evidence is that Mr. Marchionne complimented Ferrari's unique brand heritage by establishing strong business principles at Ferrari that have led to significant value creation since the IPO (stock up +155% since the IPO)—and we believe those principles would be very difficult for a change in leadership to derail. We still believe that this brand has very high-value opportunities ahead (particularly as it extends to new categories like Hybrid/SUV, and pushes the GT business into new categories), **and we absolutely still believe this business can deliver on its current informal targets of doubling EBITDA to €2B.**

While the stock may focus on the near-term uncertainty around the abrupt change in leadership, we believe the continuity plan (and Mr. Camilleri's deep knowledge of the Ferrari brand) is strong and should help mitigate any potential disruption risks as the Ferrari team prepares to execute on the next five-year plan.

We recommend looking through any near-term stock volatility based on our ongoing confidence that Ferrari will double its EBITDA over the next five years.

**Mr. Marchionne's vision that RACE was worth significantly more than the financial community realized resulted in +155% stock upside since the 2015 IPO**

**Figure 1: Ferrari Share Price Performance Since IPO**



Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

## Near-Term Leadership Change Is Not Enough to Stop RACE’s Value-Creation Plan

As mentioned above, we believe Ferrari’s intention to present its new five year targets at an Analyst Day this fall will go forward despite Mr. Marchionne’s departure (**from our conversations with IR over the weekend, we still expect the Analyst Day to take place in/around September**).

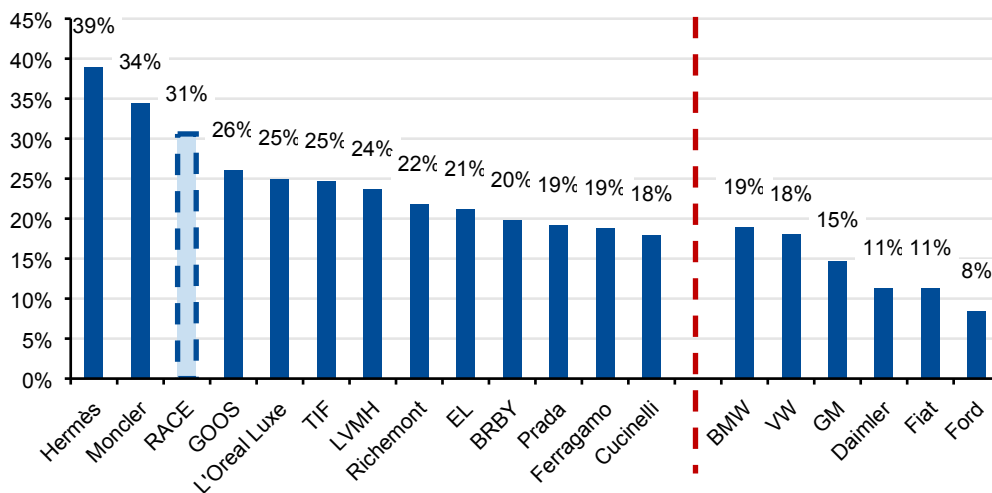
Importantly, we would note that Ferrari management has already spent significant time laying out the detailed financial plan and new car launch roadmap, and already presented the detailed plan to its board of directors (including proposed CEO Louis Camilleri as a board member) over a year ago. Said differently, Ferrari’s plan has already been vetted for over a year. And we still believe Ferrari will detail a plan to double EBITDA to €2B by 2022 from €1B in 2017 (a +14% CAGR—above current Consensus estimates that assume EBITA will grow only +11% over the next three years).

Ferrari has historically traded at a ~12% EV/EBITDA premium to the global luxury peer group over the past three years. With our confidence in Ferrari’s ability to double EBITDA (which should put upward pressure on Street estimates), we continue to believe Ferrari multiples can push towards the high end of luxury peers given:

- 1) **Demand Significantly Outstrips Supply:** Current waitlists are 12-24 months long for Ferrari’s key models (488, Superfast 812).
- 2) **Highly Predictable Revenues and Cash Flows:** In addition to high visibility into sales due to the waitlist, 60% of cars are sold to existing Ferrari owners, and 36% of customers own more than one Ferrari (high customer loyalty).
- 3) **Ultra-High Pricing/Margins:** Even on its underutilized manufacturing base, Ferrari has luxury-type EBITDA margins at 30% (more than 2x the average of Auto manufacturers)—and has reiterated over and over for years that it can push margins to be in line with pinnacle luxury names (like Hermès in the high-30’s).

Even on an underutilized manufacturing base, RACE has luxury-type EBITDA margins (more than 2x the avg of Auto OEMs)

Figure 2: EBITDA Margins (TTM): Luxury Peers vs. Auto OEMs



Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

## The Path to €2B in EBITDA by 2022

Based on our conversations with Ferrari over the weekend, we believe Ferrari continues to plan host an Analyst Day in/around September to lay out the detail behind its previously announced/informal target for reaching €2B in EBITDA by 2022. If Ferrari is able to reach its 5-year target for €2B in EBITDA by 2022, and assuming EBITDA margins in-line with Hermès at ~36.5% (Ferrari has referenced reaching Hermès margins, and Hermès margins were 36.5% at the time of the informal target), it would imply an EBITDA CAGR of +14% over the next 5 years (and would mean upside to Street estimates for a CAGR of +11% over next 3 years, given Street estimates are only reliable out 3 years).

RACE has a history of beating targets (RACE beat its €1B EBITDA target from the IPO two years early). We do note that the implied +14% EBITDA CAGR over the next 5 years isn't out of line with Ferrari's +14% EBITDA CAGR over the past 3 years. But over the next 5 years, the company will navigate the brand into new categories (like Hybrid/SUV) to continue to grow at that pace—making the details of the plan important to bolster investor confidence and to push for a multiple re-rating to the high end of the luxury group.

**Figure 3: The Path to €2B in EBITDA by 2022**

US\$ in millions, unless otherwise stated

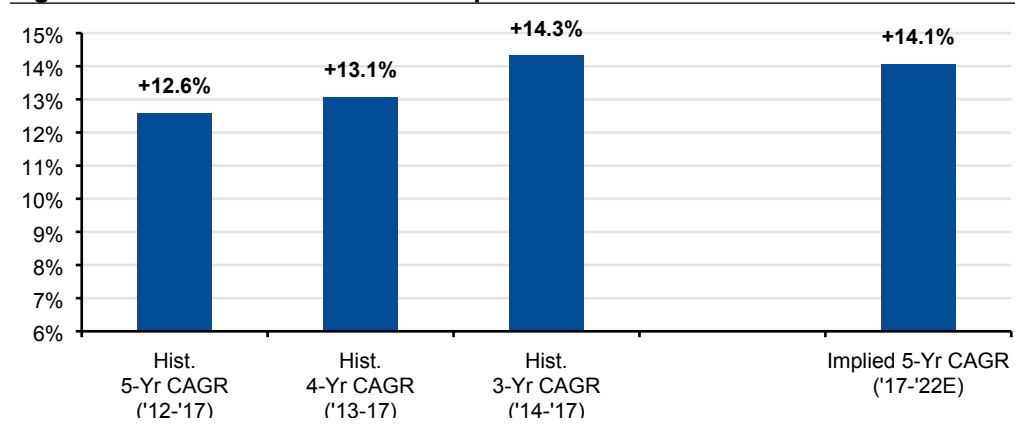
	2017A	Credit Suisse Ests.		Ferrari Targets		Consensus	Comments
		2022E	5-Year CAGR ('17-'22)	2022E	5-Year CAGR ('17-'22)	3-Year CAGR ('17-'20)	
<b>Total Revenue</b>	€ 3,417	€ 5,098	+8%	€ 5,479	+10%	+7%	* Implied based on informal EBITDA & EBITDA margin targets
<b>EBIT</b>	€ 775	€ 1,401	+13%	€ 1,604	+16%	+11%	
EBITDA Margin	22.7%	27.5%		29.3%			
Margin Chg. ('17-'22)		479 bp		657 bp			
<b>EBITDA</b>	€ 1,036	€ 1,797	+12%	€ 2,000	+14%	+11%	* Informal target: €2B EBITDA by '22 with margins approx 36.5% (in-line with Hermes '16 EBITDA margins)
EBITDA Margin	30.3%	35.3%		36.5%			
Margin Chg. ('17-'22)		494 bp		618 bp			
<b>EPS</b>	€ 2.83	€ 5.69	+15%	€ 6.50	+18%	+13%	* '22 EPS excludes any tax rate benefit from patent box

Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

RACE's implied +14% EBITDA CAGR target over the next 5 years isn't out of line with its +14% CAGR over the past 3 years...

...but the plan details are increasingly important (with the next 5 years relying on brand extensions into new/unproven categories)

**Figure 4: Ferrari EBITDA CAGR Comparison**



Source: Company data, Credit Suisse estimates

## New CEO Comes with Strong Reputation and Deep Ties to the Ferrari Brand

In the coming days, shareholders will vote on the proposed CEO, Louis C. Camilleri (who was CEO of Philip Morris International from 2008 until 2013). From our analysis and industry checks, Mr. Camilleri has a solid historical track record as well. He was CEO of Altria from 2002-2008, and then served as CEO of PMI upon its spin-off in 2008 until 2013. Under his leadership, he added +90% to PMI's stock value.

Importantly, Mr. Camilleri is currently the Chairman of the Board for Philip Morris International—where Mr. Marchionne is a board member. And likewise, Mr. Camilleri has been a member on Ferrari's Board of Directors since 2015.

Ferrari management already presented its new five year targets for the Analyst Day to the Board of Directors (which includes Mr. Camilleri) over a year ago—including a detailed financial plan and a full map of all new car launches for the next five years (which includes hybrid and SUV).

We know Ferrari is entering a period of change as Mr. Marchionne departs. And we believe the next five year plan (whenever it is delivered) will have largely been formulated under Mr. Marchionne's watch.

## Valuation

While the stock may focus on the near-term uncertainty around the abrupt change in leadership, we believe the continuity plan (and Mr. Camilleri's deep knowledge of the Ferrari brand) is strong and should help mitigate any potential disruption risks as the Ferrari team prepares to execute on the next five year plan. Importantly, ***we absolutely still believe this business can deliver on its current informal targets of doubling EBITDA to €2B.***

Ferrari has historically traded at a ~12% EV/EBITDA premium to the global luxury peer group over the past three years. With our confidence in Ferrari's ability to double EBITDA (which should put upward pressure on Street estimates), we continue to believe Ferrari multiples can push towards the high end of luxury peers (Ferrari trades at ~20x EBITDA today, above the luxury peer average of ~16x but still below pinnacle luxury brands like Hermès at 23x).

We are reiterating our Outperform rating and recommend looking through any near-term stock volatility based on our confidence that Ferrari will double its EBITDA over the next five years. Our target price of \$156 is based on ~20x our 2019 EBITDA (approximately in-line with Ferrari multiples today), and assumes a 1.17 FX rate.

**Figure 5: Luxury Peer Group Valuation Table**

US\$ in millions, unless otherwise stated

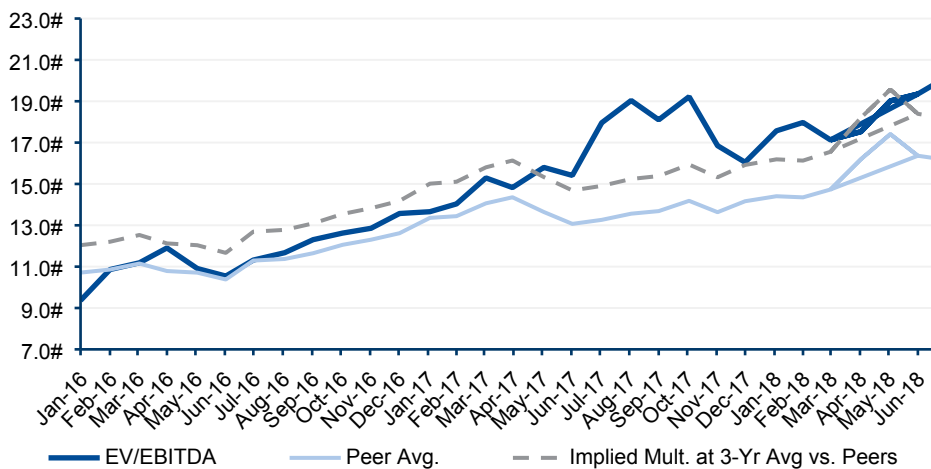
Company	Mkt. Cap. (\$B)	Ent. Val. (\$B)	EV/EBITDA					P/E				
			EV/EBITDA			3-Yr. Avg.	5-Yr. Avg.	P/E			3-Yr. Avg.	5-Yr. Avg.
			NTM	CY18	CY19			NTM	CY18	CY19		
<b>GLOBAL LUXURY</b>												
LVMH	\$174.4	\$185.8	13.2x	13.8x	12.7x	10.7x	10.3x	24.0x	25.3x	23.1x	20.5x	19.0x
Hermès	\$67.4	\$64.0	23.2x	24.3x	22.5x	19.7x	18.8x	41.3x	43.5x	39.8x	34.2x	32.5x
Richemont	\$45.9	\$40.0	10.8x	11.6x	10.3x	11.0x	10.8x	25.8x	27.5x	24.4x	21.4x	20.0x
Tiffany & Co.	\$16.9	\$16.7	14.9x	15.6x	14.5x	10.6x	10.7x	26.9x	29.0x	25.5x	20.6x	20.6x
Burberry	\$11.8	\$10.6	13.7x	13.7x	13.4x	10.2x	10.4x	26.6x	27.1x	26.0x	19.7x	19.4x
Moncler	\$11.6	\$11.3	19.0x	20.6x	18.0x	13.1x	13.4x	30.8x	33.5x	29.2x	21.9x	22.6x
Prada	\$11.4	\$11.6	13.9x	15.2x	13.1x	11.3x	11.4x	28.6x	31.7x	26.8x	24.7x	23.3x
Salvatore Ferragamo	\$3.9	\$3.8	13.3x	14.6x	12.5x	12.2x	12.6x	26.1x	29.6x	24.1x	21.7x	22.4x
Brunello Cucinelli	\$2.8	\$2.9	23.8x	25.3x	22.8x	17.4x	18.3x	45.5x	48.9x	43.4x	33.4x	35.2x
<b>Global Luxury Average</b>			<b>16.2x</b>	<b>17.2x</b>	<b>15.5x</b>	<b>12.9x</b>	<b>13.0x</b>	<b>30.6x</b>	<b>32.9x</b>	<b>29.1x</b>	<b>24.2x</b>	<b>23.9x</b>
<b>Ferrari</b>	<b>\$26.5</b>	<b>\$27.7</b>	<b>20.0x</b>	<b>21.1x</b>	<b>19.2x</b>	<b>14.8x</b>	<b>14.8x</b>	<b>35.9x</b>	<b>38.3x</b>	<b>34.3x</b>	<b>27.2x</b>	<b>27.2x</b>

Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

RACE has historically traded at a +12% premium to luxury peers...

...and with our confidence in RACE's ability to double EBITDA (& upward pressure on Street ests), we continue to believe RACE multiples can push towards the high end of luxury peers

**Figure 6: Ferrari Historical EV/EBITDA vs. Luxury Peers**



Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream. Note: Peers include LVMH, Hermès, Richemont, Tiffany, Burberry, Moncler, Prada, Salvatore Ferragamo and Brunello Cucinelli



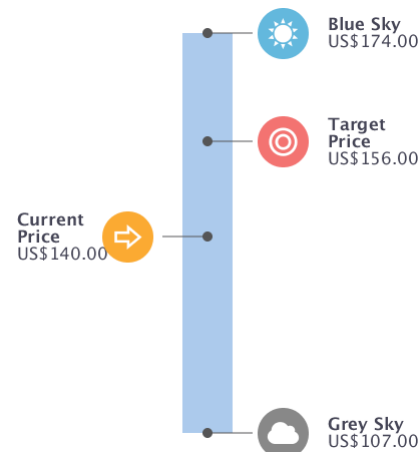
# Ferrari N.V. (RACE)

Price (20 Jul 2018): **US\$140.0**; Rating: **OUTPERFORM**; Target Price: **156.00**; Analyst: **Michael Binetti**

Income Statement	12/17A	12/18E	12/19E	12/20E
Revenue (€ m)	3,416.9	3,553.7	3,984.9	4,380.9
EBITDA (€ m)	1,036	1,136	1,288	1,457
Depr. & amort.	(261)	(269)	(306)	(341)
EBIT (€)	775	866	982	1,116
Net interest exp	(29)	(18)	(16)	(14)
PBT (€)	746	849	966	1,102
Income taxes	(209)	(233)	(261)	(287)
Profit after tax	538	616	705	816
Other NPAT adjustments	0	0	0	0
Cash Flow	12/17A	12/18E	12/19E	12/20E
Cash flow from operations	663	914	1,003	1,148
CAPEX	(594)	(770)	(769)	(810)
Free cashflow to the firm	271	367	473	600
Cash flow from investments	(379)	(547)	(530)	(548)
Net share issue/(repurchase)	0	(105)	(200)	(240)
Dividends paid	(121)	(135)	(154)	(175)
Changes in Net Cash/Debt	232	147	119	185
Balance Sheet (€)	12/17A	12/18E	12/19E	12/20E
Cash & cash equivalents	648	661	580	565
Account receivables	239	262	294	323
Other current assets	800	803	804	806
Total fixed assets	710	892	1,022	1,129
Investment securities	30	29	29	29
Total assets	4,141	4,569	4,937	5,364
Total current liabilities	3,357	3,315	3,185	3,050
Shareholder equity	779	1,250	1,748	2,310
Total liabilities and equity	4,141	4,569	4,937	5,364
Net debt	1,158	1,011	893	708
Per share	12/17A	12/18E	12/19E	12/20E
No. of shares (wtd avg)	190	189	188	186
CS adj. EPS	2.83	3.25	3.75	4.38
Prev. EPS (€)	-	-	-	-
Dividend (€)	0.64	0.71	0.82	0.94
Free cash flow per share	0.36	0.76	1.24	1.81
Earnings	12/17A	12/18E	12/19E	12/20E
Sales growth (%)	10.0	4.0	12.1	9.9
EBIT growth (%)	22.7	11.7	13.4	13.6
Net profit growth (%)	25.7	14.5	14.6	15.6
EPS growth (%)	25.2	14.8	15.4	16.7
EBITDA margin (%)	30.3	32.0	32.3	33.3
EBIT margin (%)	22.7	24.4	24.6	25.5
Pretax margin (%)	21.8	23.9	24.2	25.2
Net margin (%)	15.7	17.3	17.7	18.6
Valuation	12/17A	12/18E	12/19E	12/20E
EV/EBITDA (x)	22.8	20.8	18.4	16.2
P/E (x)	42.2	36.7	31.8	27.3
Returns	12/17A	12/18E	12/19E	12/20E
ROIC (%)	28.7	27.7	27.1	27.3
Gearing	12/17A	12/18E	12/19E	12/20E
Net debt/equity (%)	147.8	80.6	51.0	30.6
Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.65	0.72	0.74	0.72
2018E	0.78	0.81	0.83	0.83
2019E	0.87	0.94	0.95	0.98

**Company Background**  
 Ferrari is among the world's leading luxury brands focused on the design, engineering, production and sale of the world's most recognizable luxury performance sports cars.

## Blue/Grey Sky Scenario



### Our Blue Sky Scenario (US\$) 174.00

Our \$174 one-year valuation in a blue sky scenario is based on an EV/EBITDA of ~21x our blue sky CY19 EBITDA of €1.4B. Our blue sky CY19 EBITDA is based on 1) revenue growth +15% (improved selling prices and unit volumes) and 2) ~33.5% EBITDA margin (improved incremental car margins and manufacturing base utilization).

### Our Grey Sky Scenario (US\$) 107.00

Our \$107 one-year valuation in a grey sky scenario is based on an EV/EBITDA of ~15x our grey sky CY19 EBITDA of €1.2B. Our grey sky CY19 EBITDA is based on 1) revenue growth +9% (slowed unit volume and less price taking) and 2) ~31.5% EBITDA margin (less incremental car margins and less efficient manufacturing base utilization).

## Share price performance



On 20-Jul-2018 the S&P 500 INDEX closed at 2801.83  
 Daily Jul21, 2017 - Jul20, 2018, 07/21/17 = US\$100.02

Source: Company data, Thomson Reuters, Credit Suisse estimates



**Companies Mentioned** (Price as of 20-Jul-2018)

- Altria Group, Inc. (MO.N, \$57.64)
- BMW (BMWG.DE, €79.28)
- Brunello Cucinelli SpA (BCU.MI, €35.95)
- Burberry Group (BRBY.L, 2152.0p)
- Canada Goose Holdings, Inc. (GOOS.TO, C\$83.08)
- Daimler (DAIGn.DE, €57.26)
- Ferrari N.V. (RACE.N, \$140.0, OUTPERFORM, TP \$156.0)
- Fiat Chrysler Automobile (FCHA.MI, €16.416)
- Ford Motor Company (F.N, \$10.56)
- General Motors Company. (GM.N, \$39.4)
- Hermes International (HRMS.PA, €544.6)
- L'Oreal (OREP.PA, €211.9)
- LVMH (LVMH.PA, €296.25)
- Moncler (MONC.MI, €38.89)
- Philip Morris International (PM.N, \$84.31)
- Prada SpA (1913.HK, HK\$35.0)
- Richemont (CFRUY.PK, \$8.71)
- Salvatore Ferragamo Spa (SFER.MI, €19.925)
- The Estee Lauder Companies Inc. (EL.N, \$141.08)
- Tiffany & Co (TIF.N, \$136.37)
- Volkswagen (VOWG\_p.DE, €144.66)

Disclosure Appendix

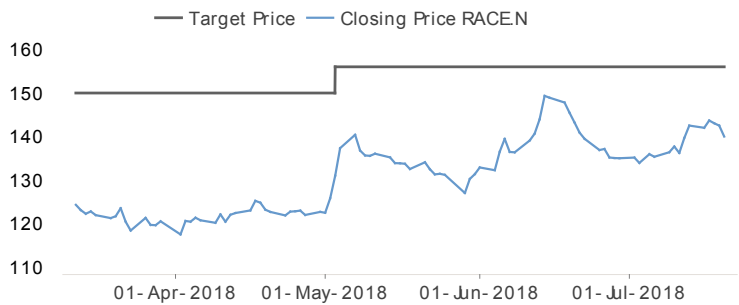
**Analyst Certification**

I, Michael Binetti, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Ferrari N.V. (RACE.N)**

RACE.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
12-Mar-18	124.32	150.00	O *
03-May-18	130.99	156.00	

\* Asterisk signifies initiation or assumption of coverage.



OUTPERFORM

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

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#### Target Price and Rating

##### Valuation Methodology and Risks: (12 months) for Ferrari N.V. (RACE.N)

**Method:** Our \$156 price target is based on ~20x our CY19 EBITDA (approximately in-line with RACE multiples today) and a 1.17 FX rate. We rate the stock Outperform given the significant upside embedded in our price target.

**Risk:** Risks to our \$156 price target and Outperform rating include decelerating global wealth trends, increasing competition, changes in regulatory requirements, and inability to innovate new models.

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