

ACTION

Buy

Fiat Chrysler Automobiles NV (FCHA.MI)

Return Potential: 112%

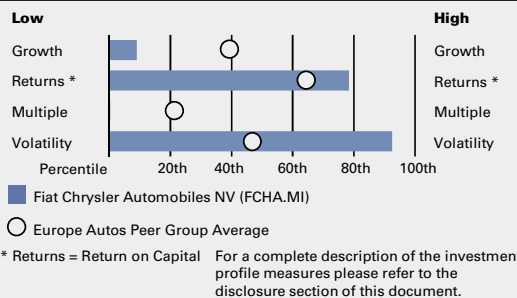
Equity Research

Jeep for free; reiterate Buy (CL) with price targets of €25.9/\$30.1

Source of opportunity

We expect FCA to generate €7.5 bn in FCF over the next 18 months, 39% of market cap. Recent comments by CEO Marchionne suggest potential for further value creation from the spin-off of Magneti Marelli, Comau, and eventually Maserati/Alfa Romeo. Today, financial investors could acquire FCA Core (i.e. Jeep/Ram), 80% of group EBIT, essentially for free. This process over the next 18m will not only allow FCA to externalise embedded shareholder value but also to create a more 'digestible' core operation for interested industrial suitors. We reiterate our Buy (on CL) for FCA with new 12m target prices of €25.9/\$30.1, including a 50% SOTP weighting.

Investment Profile



Catalyst

We see a number of catalysts driving value creation at FCA: (1) Operational value creation: €7.5 bn FCF over next 18 months (39% of market cap); (2) Structural value creation: spin-off of Magneti Marelli and Comau, and potentially Maserati and Alfa, which we think could be worth €12.0 bn in total; and (3) Potential M&A interest from industry participants for the FCA core business, a NAFTA-centred business with a SUV/Pick-up focus.

Valuation

Our 12m price targets are €25.9/\$30.1 (from €19.2/\$22.4), as we now value FCA using both ROIC and SOTP methods (previously ROIC alone), to reflect current investor attention on FCA's break-up value. Our ROIC-based value remains €19.2 (50% weight), and we introduce a SOTP-based value of €32.6 (50% weight) to arrive at our new price targets. Even after recent performance, FCA trades on 2018E EV/EBITDAP of 1.4x, a significant discount to 6.3x/3.7x at GM/Ford.

Key risks

Execution risks; US SAAR; US incentives; CO₂ compliance cost; sustainability of improved margins; deleveraging slower than we expect; key management transition post 2018; and additional cost headwinds from the potential escalation of FCA's ongoing emissions issues.

INVESTMENT LIST MEMBERSHIP

Pan-Europe Buy List
Pan-Europe Conviction Buy List

Coverage View: Neutral

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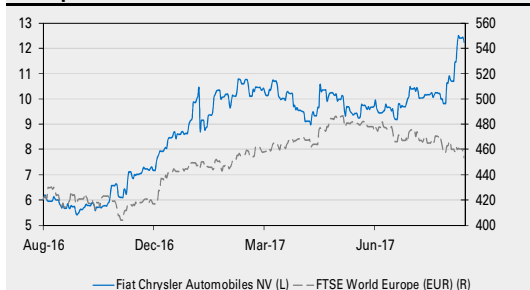
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Key data	Current
Price (€)	12.24
12 month price target (€)	25.90
Upside/(downside) (%)	112
FCAU Price (\$)	14.82
FCAU 12 month price target (\$)	30.10
Market cap (€ mn)	18,990.8
Enterprise value (€ mn)	29,528.3
	12/16 12/17E 12/18E 12/19E
EPS (€) New	1.64 2.32 3.45 3.49
EPS (€) Old	1.64 2.36 3.48 3.52
FCAU EPS (€) New	1.64 2.32 3.45 3.49
FCAU EPS (€) Old	1.64 2.36 3.48 3.52
P/E (X)	3.9 5.3 3.6 3.5
FCAU P/E (X)	3.9 5.3 3.6 3.5
EV/EBITDA (X)	2.1 2.3 1.7 1.4
Dividend yield (%)	0.0 0.0 0.0 0.0
CROCI (%)	12.4 11.3 13.0 11.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	32.2	19.0	102.8
Rel. to FTSE World Europe (EUR)	40.0	19.3	88.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/29/2017 close.

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Fiat Chrysler Automobiles NV: Summary Financials

Profit model (€ mn)	12/16	12/17E	12/18E	12/19E	Balance sheet (€ mn)	12/16	12/17E	12/18E	12/19E
Total revenue	111,018.0	115,408.1	120,154.7	118,420.2	Cash & equivalents	17,318.0	13,983.0	15,101.5	17,461.4
Operating costs	(101,929.0)	(104,297.0)	(107,439.2)	(105,609.6)	Accounts receivable	7,273.0	7,560.6	7,871.6	7,757.9
R&D	(3,274.0)	(3,659.2)	(3,891.5)	(4,102.1)	Inventory	12,121.0	12,600.3	13,118.5	12,929.2
Lease payments	0.0	0.0	0.0	0.0	Financial services assets	0.0	0.0	0.0	0.0
Other operating profit/(expense)	241.0	438.1	556.0	641.5	Other current assets	3,010.0	3,010.0	3,010.0	3,010.0
EBITDA	12,012.0	14,554.0	16,586.3	16,932.7	Total current assets	39,722.0	37,153.9	39,101.6	41,158.5
Depreciation & amortisation	(5,956.0)	(6,664.0)	(7,206.3)	(7,582.7)	Net PP&E	30,431.0	31,631.6	32,612.3	33,161.0
EBIT	6,056.0	7,890.0	9,380.0	9,350.0	Net intangibles	26,644.0	27,139.5	27,393.4	27,376.8
Net interest income/(expense)	(2,016.0)	(1,556.0)	(1,136.0)	(996.0)	Total investments	2,442.0	2,442.0	2,442.0	2,442.0
Associates	316.0	438.1	556.0	641.5	Other long-term assets	5,104.0	5,591.5	5,197.1	5,535.2
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Total assets	104,343.0	103,958.6	106,746.4	109,673.5
Others (recurring)	(1,250.0)	340.9	(556.0)	(641.5)	Accounts payable	22,655.0	23,871.9	25,901.1	25,598.1
Pretax profits	3,106.0	7,113.0	8,244.0	8,354.0	Short-term debt	7,214.4	5,564.4	4,184.4	3,524.4
Income tax	(1,292.0)	(3,058.6)	(2,885.4)	(2,923.9)	Other current liabilities	11,793.0	11,793.0	11,793.0	11,793.0
Tax rate (%)	41.6	43.0	35.0	35.0	Total current liabilities	41,662.4	41,229.3	41,875.5	40,915.5
Minorities	(11.0)	(11.0)	(11.0)	(11.0)	Long-term debt	16,833.6	12,983.6	9,763.6	8,223.6
Preferred dividends	0.0	0.0	0.0	0.0	Other long-term liabilities	26,494.0	26,494.0	26,494.0	26,494.0
Net income (pre-exceptionals)	1,803.0	4,043.4	5,347.6	5,419.1	Total long-term liabilities	43,327.6	39,477.6	36,257.6	34,717.6
Other non-recurring items post tax	702.0	(444.0)	0.0	0.0	Total liabilities	84,990.0	80,706.9	78,136.1	75,633.1
Net income	2,505.0	3,599.4	5,347.6	5,419.1	Preferred shares	0.0	0.0	0.0	0.0
EPS (underlying) (€)	1.19	2.67	3.53	3.58	Total common equity	19,168.0	23,055.7	28,403.3	33,822.4
EPS (basic, reported) (€)	1.66	2.38	3.53	3.58	Minority interest	185.0	196.0	207.0	218.0
Weighted shares outstanding (mn)	1,513.0	1,513.0	1,513.0	1,513.0	Total liabilities & equity	104,343.0	103,958.6	106,746.4	109,673.5
Common dividends declared	0.0	0.0	0.0	0.0	Capitalised leases	0.0	0.0	0.0	0.0
DPS (€)	0.00	0.00	0.00	0.00	Financial services adjustment	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	Capital employed	43,401.0	41,799.7	42,558.3	45,788.4
Dividend cover (X)	NM	NM	NM	NM	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Growth & margins (%)	12/16	12/17E	12/18E	12/19E	Adjusted capital employed	43,401.0	41,799.7	42,558.3	45,788.4
Revenue growth	0.4	4.0	4.1	(1.4)	Gross cash invested	94,209.0	102,119.2	109,360.0	117,474.8
EBITDA growth	17.7	21.2	14.0	2.1	Ratios	12/16	12/17E	12/18E	12/19E
EBIT growth	26.3	30.3	18.9	(0.3)	CROCI (%)	12.4	11.3	13.0	11.7
Net income growth	26.3	43.7	48.6	1.3	CROCI/WACC (X)	1.8	1.5	1.5	1.4
EPS growth	438.9	124.3	32.3	1.3	ROIC (%)	7.9	9.9	13.2	13.0
DPS growth	NM	NM	NM	NM	ROIC/WACC (X)	1.2	1.3	1.6	1.5
EBITDA margin	10.8	12.6	13.8	14.3	ROA (%)	2.8	4.7	5.8	5.6
EBIT margin	5.5	6.8	7.8	7.9	WACC (%)	6.8	7.4	8.5	8.5
Cash flow statement (€ mn)	12/16	12/17E	12/18E	12/19E	Inventory days	38.6	39.1	39.1	40.1
Net income	1,803.0	4,043.4	5,347.6	5,419.1	Asset turnover (X)	3.8	3.7	3.7	3.6
D&A add-back (incl. ESO)	5,956.0	6,664.0	7,206.3	7,582.7	Net debt/equity (%)	23.7	10.4	(11.5)	(23.1)
Minority interest add-back	11.0	11.0	11.0	11.0	EBITDA interest cover (X)	6.0	9.4	14.6	17.0
Net (inc)/dec working capital	777.0	450.0	1,200.0	0.0	Valuation	12/16	12/17E	12/18E	12/19E
Other operating cash flow	2,047.0	(487.5)	394.4	(338.1)	EV/sales (X)	0.2	0.3	0.2	0.2
Cash flow from operations	10,594.0	10,680.9	14,159.3	12,674.7	EV/EBITDAR (X)	2.1	2.3	1.7	1.4
Capital expenditures	(8,815.0)	(8,360.2)	(8,440.9)	(8,114.7)	EV/EBITDA (X)	2.1	2.3	1.7	1.4
Acquisitions	(116.0)	0.0	0.0	0.0	EV/EBIT (X)	4.2	4.2	3.0	2.6
Divestitures	91.0	0.0	0.0	0.0	P/E (X)	5.4	4.6	3.5	3.4
Others	(199.0)	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Cash flow from investing	(9,039.0)	(8,360.2)	(8,440.9)	(8,114.7)	FCF yield (%)	17.9	12.4	30.5	24.3
Dividends paid (common & pref)	0.0	(155.7)	0.0	0.0	EV/GCI (X)	0.2	0.3	0.2	0.2
Inc/(dec) in debt	(4,399.0)	(5,500.0)	(4,600.0)	(2,200.0)	EV/adj. capital employed (X)	0.9	1.1	0.9	0.7
Other financing cash flows	(728.0)	0.0	0.0	0.0	Price/book (X)	0.7	0.8	0.7	0.5
Cash flow from financing	(5,127.0)	(5,655.7)	(4,600.0)	(2,200.0)					
Total cash flow	(3,344.0)	(3,335.0)	1,118.5	2,359.9					
Capex/D&A (%)	148.0	125.5	117.1	107.0					
Reinvestment rate (%)	89.8	81.7	65.1	64.0					
Cash flow cover of dividends (X)	NM	NM	NM	NM					
Free cash flow cover of dividends (X)	--	--	--	--					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Jeep for free; reiterate Buy (CL) with €25.9/\$30.1 price targets

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CEO Sergio Marchionne is shifting his strategic thinking and public rhetoric towards structural value creation options: On the second quarter earnings call Sergio Marchionne stated: *"When we look at the portfolio of activities that FCA carries out, there are things which are associated with automotive but are fundamentally non-OEM activities. And when we have looked at the development of the sector over the last two or three years, we have come to the conclusion that the differences in valuation between what we currently achieve as an OEM and some of the activities that we carry out, including Marelli, no longer justifies aggregation."* With the 2014-18 financial plan in full execution mode, Sergio Marchionne is likely to focus on further structural value creation options embedded in FCA's attractive brand portfolio over the next 18 months, in our view.

Recent news reports highlighted Chinese interest in and industrial value of FCA's Jeep brand: FCA shares are up 25% over the past 12 trading days on press reports of Chinese interest in acquiring all or parts of FCA (Bloomberg, August 14). Both FCA and Great Wall Motor issued press releases: FCA (August 21) stated that it *"had not been approached by Great Wall Motor in connection with the Jeep brand or any other matter relating to its business."* Great Wall Motor (August 22) stated: *"The Company has paid attention to and conducted studies on FCA, but there has been no concrete progress so far. There is substantial uncertainty as to whether the Company will proceed with such project, which should not affect the financial results of the Company. Besides, the Company has not built any relationship with the directors of FCA nor has the Company entered into any discussion or signed any agreements with any officer of FCA so far."* Despite these statements, we believe that there is a certain industrial logic for Great Wall Motor to consider the addition of FCA's Jeep brand to advance its vision to become a global SUV company. The attractiveness of the Jeep brand was further underlined by comments from former GM Chairman and CEO, Dan Akerson (Bloomberg, August 21): *"I would have loved to have been able to buy it when I was at General Motors, if the opportunity had presented itself."*

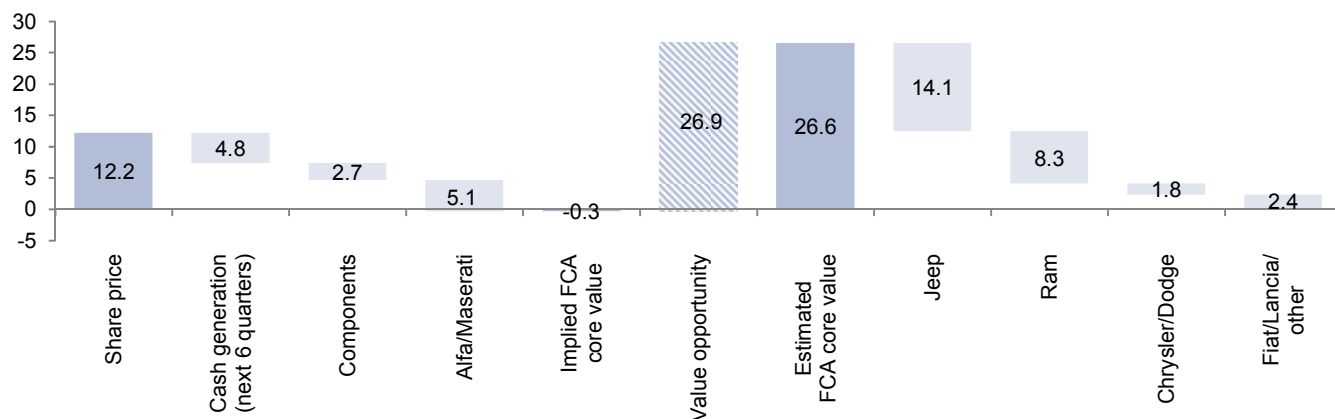
However, we do not believe that a simple disposal of the crown jewel, Jeep, is at the core of Sergio Marchionne's strategic plan: Although recent reports on potential interest from Chinese car makers in Jeep have shifted the focus of both the financial markets and automotive industry participants to the potential financial and strategic value of FCA's Jeep, Ram, Maserati, Alfa, Magneti Marelli and Comau businesses, we do not believe that a disposal of Jeep to a Chinese player would maximise value creation at FCA. On the contrary, we think Sergio Marchionne creates value for shareholders by continuing to spin off non-core automotive assets ('peeling the onion'), possibly even a new premium car group Maserati/Alfa. On the second quarter earnings call Sergio Marchionne stated: *"The differences in valuation between what we currently achieve as an OEM and some of the activities that we carry out, including Marelli, no longer justify aggregation... we will show you a much clearer portfolio of OEM activities by the end of 2018."*

Today, financial investors could acquire FCA's "crown jewels" essentially for free: Sergio Marchionne has stated on various occasions that he intends to step down as CEO of FCA in 2019, after delivering the 2014-18 financial plan targets. We see €7.5 bn free cash flow generation over the next six quarters, a €4.1 bn special dividend in the form of the

spin-off of Magneti Marelli and Comau, and a potential €7.8 bn special dividend if Maserati/Alfa were to be spun off. At the current share price of €12.2 or €19.0 bn market capitalisation (August 29 close), we calculate based on our SOTP valuation assumptions that financial investors could acquire FCA Core (i.e., Jeep/Ram) for free (with change to spare). In our SOTP valuation, we value FCA Core at €41.3 bn (€26.6 per share).

Exhibit 1: FCA's market cap is less than the value in our SOTP of Alfa, Maserati, Components and next six quarters of cash generation; the valuable FCA core assets come for free

€ per share, priced at close of August 29, 2017



Source: Company data, Goldman Sachs Global Investment Research.

Roadmap for structural shareholder value creation

Based on recent public comments by CEO Marchionne, we believe the following roadmap for substantial shareholder value creation is emerging:

1. **Isolation of FCA's automotive core assets through components spin-offs:**
Speaking at the second quarter earnings call Sergio Marchionne stated: *"I think that when we speak to you next year in the first half, after having discussed this with the board at some length, it is my view that we will show you a much clearer portfolio of OEM activities by the end of 2018. I think that forms an integral part of the plan going out to 2022."* In a first step, we believe FCA could spin off to shareholders the two remaining non-automotive assets at the beginning of 2018: global component supplier Magneti Marelli (€8.1 bn revenues, €515 mn EBIT, 6.4% margin) and worldwide leader in advanced industrial automation solutions Comau (€2.0 bn revenues, €119 mn EBIT, 5.9% margin). In our SOTP valuation, we value Magneti Marelli at €3.2 bn (€2.1 per share) and Comau at €0.8 bn (€0.5 per share).
2. **Outline of ambitious growth plan for Jeep:** Having increased Jeep sales by 5.1x from 0.3 mn units in 2009 to an estimated 1.8 mn units in 2018, FCA's 2022 financial plan is likely to continue to develop Jeep's global presence. On the second quarter earnings call Sergio Marchionne sketched out the long-term potential of the Jeep brand. *"If there is one brand out there that has the right to claim the ability to have one out of five, 20% of [the UV market] belong to it, it's Jeep... our prognostication is that this market... is going to be roughly between 33 million and 35 million cars globally. If we're right in the estimation of Jeep need to own 20% of that market, we're talking about over seven million vehicles."*

Exhibit 2: Jeep volumes – from 0.3 mn in 2009 to ambitions of up to 7 mn

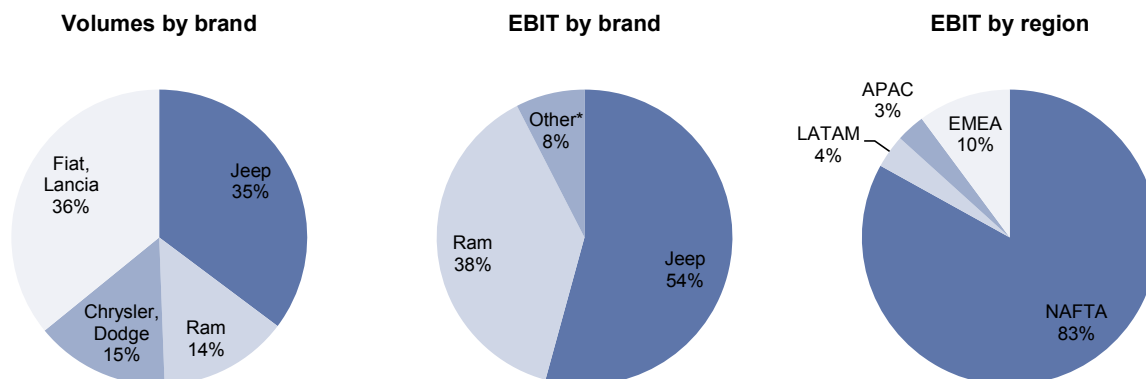
mn units	2009	2014	2016	2018	2020	2025	GEO comments
Passenger cars	64	86	92	95	99	110	-
SUVs	7.9	18.7	26.4	30.9	33.8	39.1	33 - 35
Jeep	0.3	1.0	1.4	1.8	1.9	2.0	6.6 - 7.0
% share of SUVs	4.4%	5.4%	5.4%	5.7%	5.5%	5.2%	20.0%

Source: Company data, IHS, Goldman Sachs Global Investment Research.

3. **Creation of premium Maserati/Alfa group with the new strategic plan:** In our view, a core element of FCA's 2022 financial plan is likely to be the creation of a premium group comprising the Maserati and Alfa Romeo brands. At the centre of Maserati's strategy will be an electrification strategy. On the 2Q17 earnings call, Sergio Marchionne shared some of his thinking: *"At least one of our brands, and in particular Maserati will go electric over the next model cycle."* Marchionne continued to suggest that Maserati will launch electrified models after the next two model launches (GranTurismo and GranCabrio) post 2019, including all-electric models to compete with Tesla. Following this, it would make sense in our view to review the product portfolio and powertrain strategy for Alfa Romeo as well and position the group for electrification too, in a second phase.
4. **Isolation of FCA Core through a potential spin-off of Maserati/Alfa:** *"There are no structural, industrial, or engineering restrictions to the separation of Alfa and Maserati"*. The formation of a Maserati/Alfa group with its own strategy around electrification could be the basis for a decision to spin off the new premium car group with two objectives: (1) it would allow the market to assign an economic value to Maserati/Alfa within an automotive world moving towards electrification and (2) it would make FCA core a less complex and more digestible automotive business, potentially attracting some attention from industrial players.

FCA Core would be a highly profitable and focused on the SUV/Pick-up group: The remaining FCA core would have significant exposure to light trucks, with SUVs and pick-ups making up 59% of 2018 sales (35% Jeep, 14% Ram, and 10% Fiat/Dodge). Jeep/Ram would generate the bulk of earnings in this group in 2018, with the two brands generating a combined 93% of EBIT on our estimates, with 55% of earnings being generated by Jeep and 38% by Ram. NAFTA remains the key region for this group, generating 83% of 2018 EBIT, with only 10% generated in the next largest region of EMEA.

Exhibit 3: FCA Core exposures by brand and region
2018E



* Other primarily Chrysler, Dodge. Fiat, Lancia have small negative EBIT

Source: Company data, IHS, Goldman Sachs Global Investment Research.

FCA Core likely to be more valuable as part of a larger automotive group: On our estimates, FCA Core is likely to be a profitable, self-sustaining automotive asset. However, it could be valued higher by industry participants as a result of the synergy and growth potential embedded in the group. A larger industry player could more rapidly industrialise the growth potential accessible to the Jeep brand (similar to what VW did with Audi) with some significant cost synergies from shared research and development costs as put forward by Sergio Marchionne in his "Confession of a Capital Junkie" presentation in 1Q15.

Roadmap for operational shareholder value creation

Investors remain skeptical of the value of FCA's brand portfolio: Despite the strong share price performance recently (+25% over the past 12 trading days), FCA continues to trade at low comparative multiples compared to its US peers GM and Ford. Exposed to peak US SAAR and with high backward-looking financial leverage, many investors have so far discounted the possibility of FCA delivering on its ambitious 2018 financial targets. We also believe that many investors are 'turned off' by the name FCA (Fiat Chrysler Automotive) – the combination of two (almost) failed car brands.

FCA's 2017 guidance and 2018 targets suggest significant earnings upgrade potential for consensus estimates. Our estimates are 13%/27% above Inquiry Financial consensus estimates for adjusted EBIT in 2017/18. FCA's 2018 targets are at least 18% above consensus. We forecast adjusted EBIT of €7.9 bn (consensus €7.0 bn) and industrial net debt of €2.4 bn (consensus €3.1 bn) for 2017, and adjusted EBIT of €9.4 bn (consensus €7.4 bn) and industrial cash of €3.3 bn (consensus net industrial debt €1.1 bn) in 2018. FCA reported adjusted EBIT of €6.1 bn and net industrial debt of €4.6 bn at the end of financial year 2016. The company guides for 2017 adjusted EBIT of more than €7.0 bn and net industrial debt of less than €2.5 bn as a bridge to its 2018 targets for adjusted EBIT of €8.7-9.8 bn and net industrial cash of €4-5 bn.

Exhibit 4: FCA plan targets vs. our estimates and consensus
€ bn

	2013	2016	Plan	2017 Consensus	GSe	Plan	2018 Consensus	GSe
Revenue	85	111	115-120	117	115	~136	120	120
Adj. EBIT	3.2	6.1	>7.0	7.0	7.9	8.7 - 9.8	7.4	9.4
margin	3.8%	5.5%	6.0%	6.0%	6.9%	6.4% - 7.2%	6.2%	7.8%
Adj. net income	0.7	2.5	>3.0	3.2	3.6	4.7 - 5.5	3.8	5.4
margin	0.8%	2.3%	2.6%	2.7%	3.1%	3.5% - 4.0%	3.2%	4.5%
Net industrial cash/(debt)	(7.0)	(4.6)	<(2.5)	(3.1)	(2.4)	4.0 - 5.0	(1.1)	3.3
FCF	(0.5)	1.4	2.1	0.4	2.3	6.5 - 7.5	2.0	5.7

Source: Company data, Inquiry Financial, Bloomberg, Goldman Sachs Global Investment Research.

We expect FCA to significantly de-lever over the coming two years on the back of an inflection in operating profitability. The cash swing we forecast equates to around half of the company's current market capitalisation. On our estimates, FCA will move from a net debt position of €4.6 bn at end 2016 to a net cash position of €3.3 bn at end 2018. The primary driver of this swing is our expectation of €31 bn in EBITDA over the period. The key cash flow drivers are:

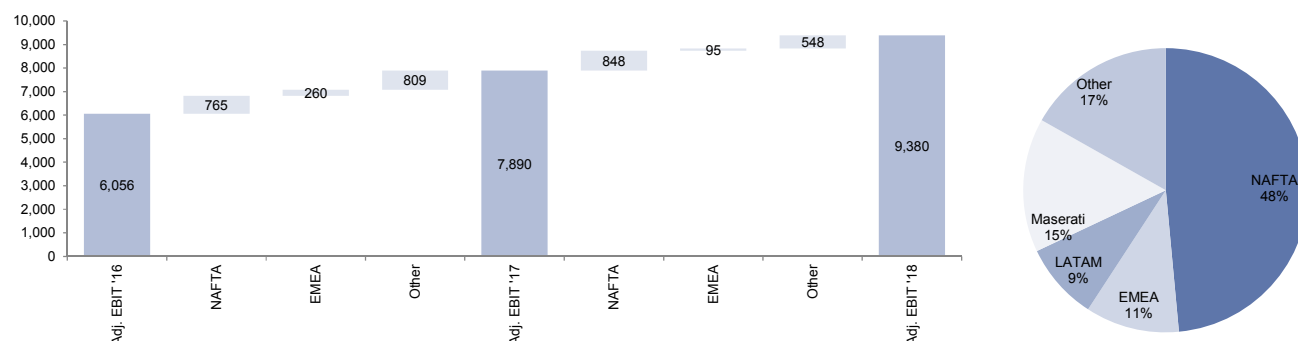
- **Adjusted industrial EBITDA:** we forecast this to grow from €11.8 bn in 2016 to €16.6 bn in 2018, on a €3.3 bn increase in EBIT and a €1.3 bn increase in D&A.
- **Working capital:** we forecast a further €1.65 bn cash inflow from working capital through to 2018, driven by a stretching of the working capital schedule (-10.7 days to -14.9 days) and revenue growth of 8% over the period. Note that our working capital assumptions are more conservative than FCA's targeted €3 bn working capital inflow over the same period.
- **Financial charges:** we forecast net financial charges to reach €1.1 bn pa by 2018, driven by a continued reduction in gross industrial debt, as the ring-fencing of cash from FCA US LLC is now over.
- **Capex:** we expect R&D and capex to come slightly down relative to revenue, with the absolute capex figures staying stable over our forecast period (€8.1-8.6 bn), similar to FCA's guided capex of €18 bn over 2017/18.

- **Taxes:** we keep the P&L tax rate at 43% in 2017, and thereafter model a 35% tax rate, in line with FCA's long-term guidance. Note, FCA's cash taxes are meaningfully (8.5 pp) lower than the P&L tax rate through to 2018, owing to the use of deferred tax assets.

NAFTA is the key regional EBIT driver: On our estimates, FCA improves group-adjusted EBIT to €9.4 bn in 2018, an improvement of €3.3 bn vs. 2016. The largest driver of this improvement is FCA's North America (NAFTA) region, accounting for 48% of EBIT improvement over the next two years. In addition, EMEA, LatAm and Maserati contribute almost a further 42% of EBIT improvement.

Exhibit 5: EBIT bridge 2017-18

€ mn



Note: Adjusted EBIT excludes unusual items

Source: Goldman Sachs Global Investment Research.

NAFTA profit evolution to be driven by improved price-mix: Our forecast of FCA's NAFTA profit evolution is primarily driven by an improvement in price-mix. We expect FCA to improve EBIT by c.€765 mn in 2017 alone, on the back of improved price-mix, followed by a further €850 mn improvement in 2018. We do not expect this positive price-mix to be dependent on a favourable end-market environment. We assume that US SAAR declines in both 2017 and 2018, as the market moves towards its mid-cycle level of 15 mn from the 2016 peak of 17.6 mn.

NAFTA production realignment is the key price-mix driver: The profit improvement we forecast for FCA's NAFTA region is fundamentally driven by the phasing out of unprofitable car production to be replaced by profitable Jeep- and RAM-branded SUV/truck production. The schematic below illustrates the process in detail. For example, at FCA's Sterling Heights plant (loss-making), Chrysler 200 production has ceased, to be replaced with the new RAM 1500 launch in 2018, which we estimate will generate a contribution margin of 30%. The total gross benefit of the process over 2016-18E could be as much as €2.8 bn, although this is a gross number against which increased fixed costs (notably depreciation) must be netted to come to a realisable EBIT impact.

Exhibit 6: NAFTA realignment could yield a total gross contribution impact of €2.8 bn

Change from 2016 to 2018E

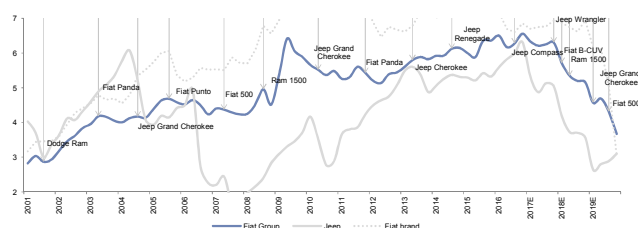
Schematic analysis of potential contribution impact from NAFTA realignment

Product category	Model name	Plant	Change in volumes 2016-18E (k units)	ASP (USD)	Contribution margin per vehicle (% ASP)	Contribution margin per vehicle (USD)	Contribution impact (USD mn unless stated)
Permanently phased out	Patriot	Belvidere	-144	22,000	10%	2,200	-316
	200	Sterling Heights	-40	25,000	0%	0	0
	Dart	Belvidere	-28	20,458	0%	0	0
	Town & Country	Windsor	-36	31,316	0%	0	0
	500	Toluca	-12	19,005	0%	0	0
	Viper	Conner Avenue	-1	104,745	10%	10,500	-6
	Total		-260	23,618	5%	1,239	-322
Undergoing replacement	1500	Warren Truck	-196	37,905	30%	11,400	-2,229
	Cherokee	Toledo N	-238	29,258	20%	5,900	-1,405
	Compass	Belvidere	-105	23,390	20%	4,700	-494
	Wrangler	Toledo SP	-52	30,918	25%	7,700	-401
	Wrangler Unlimited	Toledo SP	-156	34,793	25%	8,700	-1,359
	Total		-747	31,969	25%	7,882	-5,888
New launch	1500	Sterling Heights	311	37,905	30%	11,400	3,545
	Cherokee	Belvidere	299	29,258	20%	5,900	1,766
	Compass	Toluca	262	23,390	20%	4,700	1,232
	Wrangler	Toledo N	71	30,918	25%	7,700	546
	Wrangler Unlimited	Toledo N	233	34,793	25%	8,700	2,026
	Jeep Pickup	Toledo SP	7	30,918	20%	6,200	42
	Total		1,183	31,430	25%	7,741	9,157
Total impact (USD mn)			176	40,705	n.m.	n.m.	2,947
Total impact (EUR mn)							2,830

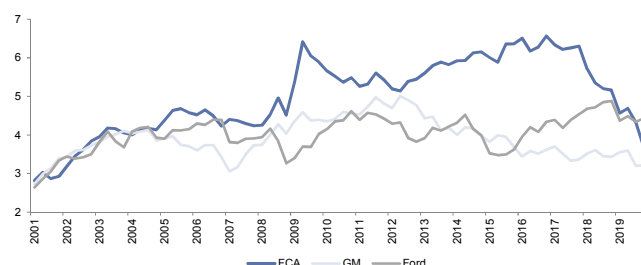
Source: IHS Global Insight, Goldman Sachs Global Investment Research.

Significant rejuvenation of FCA product pipeline 2016-19: FCA is at the start of a product rejuvenation that we estimate, over the coming three years, will reduce the average age of its products to the **lowest since 2002**. FCA's current product line-up has been older than that of GM and Ford since 2007. We estimate the product refresh will lower FCA's average product age to ~3.4 years by 2020 from 6.4 years in 2016. New launches typically impact the financial performance of automotive manufacturers in two key ways:

- **Lower incentives:** incentives to customers, in the form of cash, additional free content, subsidised loans and leasing terms, tend to increase as a model ages, reducing net realised pricing. The substantial rejuvenation of FCA's product line-up over the coming three years is likely to significantly improve net realised pricing.
- **Lower manufacturing costs:** the introduction of new models offers a once-in-a-cycle opportunity for manufacturers to introduce new, more efficient and less costly production processes. The savings typically pay for the increased product content offered in new cars, often at similar or only modestly increased base vehicle prices.

Exhibit 7: Significant upcoming product rejuvenation
volume-weighted average product age (years)

Source: IHS Global Insight, Goldman Sachs Global Investment Research.

Exhibit 8: FCA improves fastest out of the Detroit 3
volume-weighted average product age (years)

Source: IHS Global Insight, Goldman Sachs Global Investment Research.

Exhibit 9: FCA model launch schedule

2017			2018			2019			2020		
Model	Start of prod'n	Peak prod'n (annual, k)	Model	Start of prod'n	Peak prod'n (annual, k)	Model	Start of prod'n	Peak prod'n (annual, k)	Model	Start of prod'n	Peak prod'n (annual, k)
Jeep Compass (US)	Jan	250	RAM 1500	Jan	370	Fiat 500	Sep	270	Jeep Cherokee	Apr	190
Jeep Cherokee	May	240	Fiat B-CUV	May	150	Jeep Grand Cherokee	Jan	270	Fiat 500L	Apr	70
Jeep Wrangler (& Unlimited)	Nov	250	Jeep Wagoneer	Oct	130	Fiat Panda	Jul	230			
Fiat Palio (Brazil)	Apr	70	Chrysler Aspen	Sep	90	Fiat Ducato (LCV)	Oct	140			
Fiat Grand Siena (Brazil)	Jul	70	Alfa Romeo Giulietta	Oct	80	Fiat Doblo (LCV)	Jan	120			
Alfa Romeo Stelvio SUV	Jan	40	Jeep Grand Wagoneer	Jul	50	Fiat Strada	May	80			
						Chrysler 300	Jul	80			
						Jeep B-CUV	Apr	70			

Source: IHS Global Insight, Goldman Sachs Global Investment Research.

FCA NAFTA EBIT margin at 9.4% in 2018: We forecast NAFTA EBIT increasing from €5.1 bn in 2016 to €6.7 bn in 2018, implying a 2018 EBIT margin of 9.4%. This significant increase is driven overwhelmingly by price and mix, as discussed above.

Jeep to drive international growth and profits: The globalisation of the Jeep brand is a core driver in FCA's 2014-18 business plan. FCA targets total Jeep sales volumes of c.2,000k units by 2018, driven by strong performance across all regions and all vehicles. We forecast Jeep sales to increase to 1,761k units by 2018. Assuming an average selling price of €27k, we estimate Jeep revenues reach €39.9 bn in 2018, with an estimated margin of 11% (below light truck margins of GM/F) which generates €4.4 bn of EBIT, c.47% of group EBIT in 2018 based on: (1) An increase in NAFTA production capacity as a result of the production realignment to 1,100k units; (2) an increase in international capacity through localisation of production in EMEA (200k), LatAm (200k) and APAC (500k); (3) an expansion of the product portfolio, with the introduction of B-SUV Renegade and C-UV Compass; (4) the renewal of core Jeep products, such as Wrangler (C-SUV), Grand Cherokee (E-SUV) and Cherokee (C-SUV); and (5) the introduction of add-to-portfolio vehicles, such as Wagoneer (D-SUV), Grand Wagoneer (E-SUV) and Compact Pick-up (C-PUP).

Alfa Romeo a building tailwind to EMEA profitability: Deliveries of **Alfa Romeo's Giulia** began positively, impacting EMEA volumes and mix in late 2016. However, 2017 will mark a step change for the brand: we forecast a >70% increase in brand sales volumes (from ~70k to 123k) in 2017. This is driven by 1) full Giulia availability and 2) the launch of the **Stelvio SUV**. Management acknowledges that Alfa's brand volume potential is somewhat of an 'unknown quantity', owing to the lack of predecessor models. We do note that the Giulia and Stelvio, both based on FCA's new rear-wheel drive '**Giorgio**' platform, have been well received by the motoring press.

Maserati volume growth to drive margins: Deliveries of the luxury large **SUV Levante** began positively impacting Maserati's volumes and mix in the second half of 2016. FCA targets total Maserati sales to increase to 75k units per annum in the "medium term", with Levante accounting for half that volume. FCA targets 30k Levantes in 2017; we estimate 25k Levantes in 2017, driving a 40% increase in Maserati's sales to 59k units. Maserati also refreshed the flagship sedan **Quattroporte** with minor styling tweaks. The powertrain was carried over and active safety features such as adaptive cruise control, lane-departure warning and automated emergency braking were added. The midsize **Ghibli** will be refreshed and will receive the same technical updates as the Quattroporte in mid-2017, further strengthening Maserati's product portfolio in 2017/18. With Maserati volumes increasing to more than 70k units by 2018, on our estimates, we expect Maserati adjusted EBIT to increase to €850 mn by 2018 from €339 mn in 2016.

Moving to a blended ROIC/SOTP price target

We expect FCA to generate €7.5 bn in FCF over the next 18 months, 39% of market cap. Recent comments by CEO Marchionne suggest potential for further value creation from the spin-off of Magneti Marelli and Comau, and potentially Maserati/Alfa Romeo eventually. Financial investors could then acquire FCA Core (i.e., Jeep/Ram), 80% of group EBIT, essentially for free. The process over the next 18 months will not only allow FCA to externalise embedded shareholder value but also to create a more 'digestible' core operation for interested industrial suitors. We reiterate our Buy (also on CL) recommendation for FCA with new 12m target prices of €25.9/\$30.1, including a 50% SOTP weighting.

New 12m price targets of €25.9/\$30.1

Given the recent market focus on a break-up value and more activity around corporate structure, we now incorporate a SOTP component into our price target, with a 50% weighting.

Exhibit 10: New price target of €25.9 incorporates 50% weighting for our SOTP-value

Valuation	Weight	Price
ROIC-based	50%	19.2
SOTP-based	50%	32.6
Overall valuation	100%	25.9

Source: Goldman Sachs Global Investment Research.

Fundamental value of €19.2

We continue to use our ROIC framework in our valuation method (50% weighting). From this, we derive a fundamental value of €19.2 (unchanged), based on 2018 ROIC of 8.1% and EV/IC:ROIC/WACC of 0.6x.

Exhibit 11: ROIC-based valuation

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
ROIC									
Revenue	86,624	96,090	110,595	111,018	115,408	120,155	118,420	119,475	125,932
NOPLAT	1,725	1,793	2,665	3,387	4,782	5,849	5,971	6,192	6,934
Avg. Invested Capital	58,300	66,192	72,105	72,635	72,530	72,062	74,084	78,074	82,611
ROIC	3.0%	2.7%	3.7%	4.7%	6.6%	8.1%	8.1%	7.9%	8.4%
NOPLAT Margin (%)	2.0%	1.9%	2.4%	3.1%	4.1%	4.9%	5.0%	5.2%	5.5%
Asset Turn	1.5x	1.5x	1.5x	1.5x	1.6x	1.7x	1.6x	1.5x	1.5x
FMCC	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EV/IC:ROIC/FMCC	140%	145%	105%	105%	74%	60%	60%	61%	58%
EV/IC	41%	39%	39%	49%	49%	49%	49%	49%	49%
Implied EV	24,068	25,964	28,034	35,410	35,359	35,131	36,117	38,062	40,274
Implied equity value	6,441	9,845	13,265	22,247	24,350	29,829	35,364	42,456	50,436
No. shares	1,216	1,234	1,514	1,526	1,552	1,552	1,552	1,552	1,552
Implied share price	5.3	8.0	8.8	14.6	15.7	19.2	22.8	27.4	32.5

Source: Company data, Goldman Sachs Global Investment Research.

SOTP valuation of €32.6

We use a SOTP method to estimate the break-up value of Fiat Chrysler, valuing the different brands and divisions primarily using EV/sales multiples based on comparable auto brands/companies. We value Alfa Romeo using a DCF, as it is a brand in the process of being industrialised by FCA. Our SOTP value in 2018 is €32.6.

Exhibit 12: SOTP-based valuation

€ mn	Volumes (k)*	ASP (€ k)	Revenue	2018E		EV/sales	EV/EBIT	EV
				EBIT	EBIT margin			
Jeep	1,761	22.7	39,939	4,393	11.0%	55%	5.0x	21,926
Ram	709	36.3	25,775	3,093	12.0%	50%	4.2x	12,887
Chrysler & Dodge	734	18.7	13,719	288	2.1%	20%	9.5x	2,744
Fiat & Lancia	1,794	13.0	23,259	-150	-0.6%	20%	-	4,652
FCA core	4,998	20.5	102,692	8,098	7.9%	41%	5.2x	42,209
Maserati	71	82.6	5,845	846	14.5%	100%	6.9x	5,845
Alfa Romeo	146	28.2	4,130	100	2.4%	48%	20.0x	2,000
Premium Brands	217	46.0	9,975	946	9.5%	79%	8.3x	7,845
Magneti Marelli			8,067	515	6.4%	40%	6.3x	3,227
Teksid			662	10	1.5%	20%	13.4x	132
Comau			2,008	119	5.9%	40%	6.8x	803
Other			-74	0	-	30%	-	-22
Components			10,662	644	6.0%	39%	6.4x	4,140
Other/eliminations			-3,174	-308	9.7%	30%	3.1x	-952
Group EV	5,924	19.0	120,155	9,380	7.8%	44%	5.7x	53,242
Stakes								2,563
o/w China JV								540
o/w Tofas								722
o/w FCA Bank								1,302
Net cash (debt)								3,298
Pension								-8,393
Minorities								-207
Equity value								50,503
Number of shares								1,552
SOTP value per share								32.6

* includes China JV volumes

Source: Company data, Goldman Sachs Global Investment Research.

Significant value relative to US peers

We see significant value vs. US peers of GM and Ford. On a US GAAP basis, FCA trades on 2018E EV/EBITDAP of 1.4x, compared to 6.7x and 4.0x at GM and Ford respectively. On 2018E EV/EBIT, FCA trades on 3.4x, versus 12.2x and 8.3x at GM and Ford.

Exhibit 13: We see value vs. US peers

€ mn	FCA			GM			Ford		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
IFRS financials									
Sales	115,408	120,155	118,420	114,817	105,344	106,018	120,001	120,733	120,491
EBIT	7,890	9,380	9,350						
D&A	6,664	7,206	7,583						
EBITDA	14,554	16,586	16,933						
Net income	4,043	5,348	5,419						
EPS	2.61	3.45	3.49						
Adjustments (IFRS to GAAP)									
R&D capitalisation	-496	-254	17						
R&D amortisation	-1,748	-1,819	-1,855						
Tax rate	35%	35%	35%						
Tax benefit of R&D capitalisation	-322	-165	11						
Pension/OPEB adjustment	280	280	280						
GAAP									
EBIT	7,394	9,126	9,367	7,115	5,096	4,108	3,515	3,957	3,224
EBITDA	12,310	14,514	15,094	12,111	10,363	10,276	7,498	8,405	8,001
EBITDAP	12,590	14,794	15,374	11,606	9,858	9,771	7,926	8,833	8,429
Net income	3,721	5,183	5,430	7,381	5,626	4,888	5,888	5,200	4,765
EPS	2.40	3.34	3.50	4.97	3.79	3.29	1.47	1.30	1.19
EBIT margin (%)	6.4%	7.6%	7.9%	6.2%	4.8%	3.9%	2.9%	3.3%	2.7%
EBITDAP margin (%)	10.9%	12.3%	13.0%	10.1%	9.4%	9.2%	6.6%	7.3%	7.0%
	FCA			GM			Ford		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
GAAP multiples									
EV/Sales	23%	17%	13%	57%	63%	63%	30%	29%	30%
EV/EBIT	3.6x	2.2x	1.6x	9.1x	13.0x	16.3x	10.4x	8.9x	11.2x
EV/EBITDAP	2.1x	1.4x	1.0x	5.6x	6.7x	6.9x	4.6x	4.0x	4.3x
P/E	5.2x	3.7x	3.6x	6.0x	7.8x	9.0x	6.1x	6.9x	7.6x

Source: Company data, Goldman Sachs Global Investment Research.

Risks to our view

- **Execution risks:** More challenges in executing than expected, for example in the remainder of NAFTA realignment, Alfa Romeo industrialisation, or Maserati electrification.
- **US SAAR:** Sharper decline than we model, or poorer mix (more cars, fewer trucks).
- **US incentives:** Continued deterioration of the pricing situation in the US car market, at a faster pace and/or greater degree than expected.
- **CO₂ compliance cost:** Risk of higher cost than expected owing to tightening standards, more expensive carbon credits.
- **Sustainability of improved margins:** Whether margins can be sustained even as the NAFTA fleet ages, after its current rapid renewal cycle.
- **Deleveraging slower than we expect:** One-off costs delaying deleveraging and keeping finance costs higher for longer than we anticipate.
- **Key management transition post 2018:** Lack of suitable replacement to CEO Sergio Marchionne after he retires post 2018.
- **Additional cost headwinds from the potential escalation of FCA's ongoing emissions issues:** More negative headwinds relating to emissions issues than investors currently expect.

Changes to estimates

We adjust our EBIT slightly downwards (0.8% on average) to reflect continued SAAR softness. However we expect better cash generation as more working capital is released after the NAFTA realignment (we still model less working capital inflow vs. company guidance).

Exhibit 14: Estimate changes

Estimate changes € mn, Dec Y/E	2017E			2018E			2019E			2020E			2021E		
	New	Old	% change	New	Old	% change	New	Old	% change	New	Old	% change	New	Old	% change
P&L															
NAFTA	69,735	71,159	-2.0%	71,383	73,421	-2.8%	69,756	71,748	-2.8%	69,017	70,988	-2.8%	72,078	74,136	-2.8%
LATAM	7,867	7,867	0.0%	8,432	8,374	0.7%	8,821	8,760	0.7%	9,094	9,032	0.7%	9,594	9,528	0.7%
APAC	2,818	2,818	0.0%	3,034	2,782	9.0%	2,323	2,121	9.5%	2,341	2,134	9.7%	2,231	2,030	9.9%
EMEA	23,020	23,020	0.0%	23,974	23,897	0.3%	24,182	24,105	0.3%	25,138	25,057	0.3%	26,918	26,832	0.3%
Mass Market	103,439	104,864	-1.4%	106,822	108,474	-1.5%	105,082	106,735	-1.5%	105,590	107,211	-1.5%	110,821	112,526	-1.5%
Other	11,969	11,932	0.3%	13,333	13,290	0.3%	13,338	13,296	0.3%	13,885	13,843	0.3%	15,111	15,067	0.3%
Revenues	115,408	116,796	-1.2%	120,155	121,764	-1.3%	118,420	120,030	-1.3%	119,475	121,054	-1.3%	125,932	127,593	-1.3%
Operating Expenses															
NAFTA	5,898	6,000	-1.7%	6,745	6,905	-2.3%	6,636	6,792	-2.3%	6,717	6,874	-2.3%	7,320	7,492	-2.3%
LATAM	191	191	0.0%	296	285	4.1%	424	412	2.9%	468	455	2.7%	483	471	2.7%
APAC	127	127	0.0%	261	205	27.6%	223	169	31.7%	273	215	26.8%	293	233	25.5%
EMEA	800	800	0.0%	895	881	1.6%	957	932	2.6%	1,097	1,072	2.3%	1,498	1,472	1.8%
Mass Market	7,016	7,118	-1.4%	8,198	8,276	-0.9%	8,239	8,305	-0.8%	8,555	8,617	-0.7%	9,594	9,668	-0.8%
Other	874	872	0.2%	1,182	1,184	-0.2%	1,111	1,115	-0.3%	1,155	1,153	0.2%	1,356	1,352	0.3%
Adjusted EBIT	7,890	7,990	-1.3%	9,380	9,460	-0.8%	9,350	9,420	-0.7%	9,710	9,770	-0.6%	10,950	11,020	-0.6%
Adjusted EBITDA															
Reported EPS (diluted)	2.61	2.64	-1.4%	3.45	3.48	-1.0%	3.49	3.52	-0.8%	3.73	3.76	-0.7%	4.34	4.37	-0.7%
Adjusted EPS (diluted)	2.32	2.36	-1.6%	3.45	3.48	-1.0%	3.49	3.52	-0.8%	3.73	3.76	-0.7%	4.34	4.37	-0.7%
Net industrial debt walk															
Adjusted industrial EBITDA	14,554	14,654	-0.7%	16,586	16,681	-0.6%	16,933	17,031	-0.6%	17,469	17,569	-0.6%	18,870	18,990	-0.6%
Financial charges and taxes	-4,010	-4,044	0.9%	-3,321	-3,342	0.6%	-3,920	-3,944	0.6%	-3,909	-3,930	0.5%	-4,200	-4,225	0.6%
Change in funds and other	-313	-313	0.0%	-306	-287	-6.7%	-338	-314	-7.8%	-214	-186	-15.2%	-261	-230	-13.4%
Working capital	450	300	50.0%	1,200	1,200	0.0%	0	0	n.a.	0	0	n.a.	0	0	n.a.
Capex	-8,360	-8,461	1.2%	-8,441	-8,554	1.3%	-8,115	-8,225	1.3%	-8,187	-8,295	1.3%	-8,630	-8,743	1.3%
Scope, FX, dividend	-156	-156	0.0%	0	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.
Change in net ind. (debt) / cash	2,165	1,980	9.3%	5,718	5,698	0.4%	4,560	4,548	0.3%	5,158	5,158	0.0%	5,779	5,791	-0.2%
Net industrial debt	2,420	2,605	-7.1%	-3,298	-3,093	-6.7%	-7,858	-7,641	-2.9%	-13,017	-12,798	-1.7%	-18,795	-18,589	-1.1%

Source: Goldman Sachs Global Investment Research.

Estimates vs. consensus

Our estimates remain significantly ahead of Inquiry Financial consensus on an EBIT basis (13%/27%/23% over 2017-19) and also EPS (14%/44%/36%); we believe this is because we model significant mix benefits from NAFTA realignment.

Exhibit 15: Estimate changes

(€ mn)	2017			2018			2019		
	Consensus	GSe	Difference	Consensus	GSe	Difference	Consensus	GSe	Difference
Revenue	116,937	115,408	-1.3%	120,019	120,155	0.1%	120,804	118,420	-2.0%
Adjusted EBIT	7,004	7,890	12.6%	7,397	9,380	26.8%	7,584	9,350	23.3%
Adjusted EPS (dil)	2.03	2.32	14.3%	2.39	3.45	44.2%	2.56	3.49	36.4%

Source: Inquiry, Goldman Sachs Global Investment Research.

Financials

Exhibit 16: Summary financials

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Revenues									
NAFTA	45,777	52,452	69,992	69,094	69,735	71,383	69,756	69,017	72,078
LATAM	9,973	8,629	6,431	6,197	7,867	8,432	8,821	9,094	9,594
APAC	4,668	6,259	4,885	3,662	2,818	3,034	2,323	2,341	2,231
EMEA	17,335	18,020	20,350	21,860	23,020	23,974	24,182	25,138	26,918
Mass Market	77,753	85,360	101,658	100,813	103,439	106,822	105,082	105,590	110,821
Luxury and Performance Brands	3,994	5,529	2,411	3,479	4,871	5,845	5,260	5,260	6,051
Components and Production Systems	8,080	8,619	9,770	9,659	10,147	10,662	11,206	11,781	12,388
Other/eliminations	-3,203	-3,418	-3,244	-2,933	-3,049	-3,174	-3,129	-3,156	-3,327
Total	86,624	96,090	110,595	111,018	115,408	120,155	118,420	119,475	125,932
% growth	3%	11%	15%	0%	4%	4%	-1%	1%	5%
(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
EBIT									
NAFTA	2,219	2,151	4,450	5,133	5,898	6,745	6,636	6,717	7,320
LATAM	619	289	-87	5	191	296	424	468	483
APAC	336	537	52	105	127	261	223	273	293
EMEA	-311	-113	213	540	800	895	957	1,097	1,498
Mass Market	2,863	2,864	4,628	5,783	7,016	8,198	8,239	8,555	9,594
Luxury and Performance Brands	535	679	105	339	632	846	738	738	898
Components and Production Systems	206	280	395	445	543	644	681	720	761
Other/eliminations	-83	-172	-334	-511	-302	-308	-308	-303	-303
Total	3,521	3,651	4,794	6,056	7,890	9,380	9,350	9,710	10,950
% growth	-8%	4%	31%	26%	30%	19%	0%	4%	13%
EBIT margin									
NAFTA	4.8%	4.1%	6.4%	7.4%	8.5%	9.4%	9.5%	9.7%	10.2%
LATAM	6.2%	3.3%	-1.4%	0.1%	2.4%	3.5%	4.8%	5.1%	5.0%
APAC	7.2%	8.6%	1.1%	2.9%	4.5%	8.6%	9.6%	11.7%	13.1%
EMEA	-1.8%	-0.6%	1.0%	2.5%	3.5%	3.7%	4.0%	4.4%	5.6%
Mass Market	3.7%	3.4%	4.6%	5.7%	6.8%	7.7%	7.8%	8.1%	8.7%
Luxury and Performance Brands	13.4%	12.3%	4.4%	9.7%	13.0%	14.5%	14.0%	14.0%	14.8%
Components and Production Systems	2.5%	3.2%	4.0%	4.6%	5.4%	6.0%	6.1%	6.1%	6.1%
Total	4.1%	3.8%	4.3%	5.5%	6.8%	7.8%	7.9%	8.1%	8.7%
(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Income statement									
Revenues	86,624	96,090	110,595	111,018	115,408	120,155	118,420	119,475	125,932
% growth	3.2%	10.9%	15.1%	0.4%	4.0%	4.1%	-1.4%	0.9%	5.4%
Operating costs	-78,468	-87,542	-100,387	-99,006	-100,854	-103,568	-101,488	-102,006	-107,063
EBITDA (adjusted)	8,156	8,548	10,208	12,012	14,554	16,586	16,933	17,469	18,870
Depm., amortn.	-4,635	-4,897	-5,414	-5,956	-6,664	-7,206	-7,583	-7,759	-7,920
EBIT (adjusted)	3,521	3,651	4,794	6,056	7,890	9,380	9,350	9,710	10,950
% margin	4%	4%	4%	5%	7%	8%	8%	8%	9%
Financial charges, net	-1,987	-2,047	-2,366	-2,016	-1,556	-1,136	-996	-786	-566
Pre-tax result	1,015	1,176	259	3,106	7,113	8,244	8,354	8,924	10,384
Tax	936	-544	-166	-1,292	-3,059	-2,885	-2,924	-3,123	-3,634
Tax rate (%)	92%	-46%	-64%	-42%	-43%	-35%	-35%	-35%	-35%
Minorities	-1,047	-64	-43	-11	-11	-11	-11	-11	-11
Profit from discontinued operations	0	0	284	0	0	0	0	0	0
Net income (reported)	904	568	334	1,803	4,043	5,348	5,419	5,790	6,739
Net income (underlying)	-104	891	1,983	2,505	3,599	5,348	5,419	5,790	6,739
EPS (diluted, underlying)	-0.09	0.72	1.31	1.64	2.32	3.45	3.49	3.73	4.34
(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
EBIT (€mn)									
1Q	631	622	800	1,379	1,535				
2Q	1,061	957	1,525	1,628	1,867				
3Q	863	962	1,303	1,500	1,961				
4Q	966	1,110	1,166	1,549	2,527				
Total	3,521	3,651	4,794	6,056	7,890				
EBIT margin (%)									
1Q	3.2%	2.8%	3.0%	5.2%	5.5%				
2Q	4.8%	4.1%	5.2%	5.8%	6.7%				
3Q	4.2%	4.1%	4.7%	5.6%	7.2%				
4Q	4.1%	4.1%	4.2%	5.2%	7.7%				
Total	4.1%	3.8%	4.3%	5.5%	6.8%				

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 17: Summary financials continued

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Group EBIT walk*									
Mass market adj. EBIT (start)	3,312	2,863	2,864	4,628	5,783	7,016	8,198	8,239	8,555
Volume/mix	977	1,569	886	592	814	818	-122	186	921
Net price	681	565	990	68	-373	620	41	0	0
Industrial costs	-1,680	-1,906	-798	257	850	100	50	0	0
SG&A	0	-236	-149	-31	0	0	0	0	0
CO2 costs	0	0	0	0	0	0	0	0	0
Investments/FX/Others	-432	-351	731	269	-58	-356	71	131	117
Unusual items	5	360	104	0	0	0	0	0	0
Mass market adj. EBIT (end)	2,863	2,864	4,628	5,783	7,016	8,198	8,239	8,555	9,594
Margin, %	3.7%	3.4%	4.6%	5.7%	6.8%	7.7%	7.8%	8.1%	8.7%
Luxury and Performance Brands	535	679	105	339	632	846	738	738	898
Components and Production Systems	206	280	395	445	543	644	681	720	761
Other	-83	-172	-334	-511	-302	-308	-308	-303	-303
Group EBIT (adjusted)	3,521	3,651	4,794	6,056	7,890	9,380	9,350	9,710	10,950
Margin, %	4.1%	3.8%	4.3%	5.5%	6.8%	7.8%	7.9%	8.1%	8.7%
Group EBIT (reported)	3,002	3,223	2,625	5,122	8,669	9,380	9,350	9,710	10,950

* 2015 EBIT presented ex-Ferrari, for comparability with 2016

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Cash flow									
EBIT (adjusted)	3,521	3,651	4,794	6,056	7,890	9,380	9,350	9,710	10,950
D&A	4,635	4,897	5,414	5,956	6,664	7,206	7,583	7,759	7,920
EBITDA (adjusted)	8,156	8,548	10,208	12,012	14,554	16,586	16,933	17,469	18,870
Working capital	1,410	965	-158	777	450	1,200	0	0	0
Other operating	-2,054	-1,496	-328	-2,225	-4,323	-3,627	-4,258	-4,123	-4,462
Cash from operating activities	7,512	8,017	9,722	10,564	10,681	14,159	12,675	13,345	14,408
Capex	-7,433	-8,119	-9,180	-8,812	-8,360	-8,441	-8,115	-8,187	-8,630
Other	0	0	0	0	0	0	0	0	0
Net industrial cash flow	79	-102	542	1,752	2,321	5,718	4,560	5,158	5,779
Scope, FX, dividend	-548	-538	1,100	-325	-156	0	0	0	0
Change in net industrial cash (debt)	-469	-640	1,642	1,427	2,165	5,718	4,560	5,158	5,779
Net industrial cash (debt)	-7,014	-7,654	-6,012	-4,585	-2,420	3,298	7,858	13,017	18,795

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
ROIC									
Revenue	86,624	96,090	110,595	111,018	115,408	120,155	118,420	119,475	125,932
NOPLAT	1,725	1,793	2,665	3,387	4,782	5,849	5,971	6,192	6,934
Avg. Invested Capital	58,300	66,192	72,105	72,635	72,530	72,062	74,084	78,074	82,611
ROIC	3.0%	2.7%	3.7%	4.7%	6.6%	8.1%	8.1%	7.9%	8.4%
NOPLAT Margin (%)	2.0%	1.9%	2.4%	3.1%	4.1%	4.9%	5.0%	5.2%	5.5%
Asset Turn	1.5x	1.5x	1.5x	1.5x	1.6x	1.7x	1.6x	1.5x	1.5x
FMCC	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EV/IC:ROIC/FMCC	140%	145%	105%	105%	74%	60%	60%	61%	58%
EV/IC	41%	39%	39%	49%	49%	49%	49%	49%	49%
Implied EV	24,068	25,964	28,034	35,410	35,359	35,131	36,117	38,062	40,274
Implied equity value	6,441	9,845	13,265	22,247	24,350	29,829	35,364	42,456	50,436
No. shares	1,216	1,234	1,514	1,526	1,552	1,552	1,552	1,552	1,552
Implied share price	5.3	8.0	8.8	14.6	15.7	19.2	22.8	27.4	32.5
SOTP value						32.6			
SOTP weighting						50%			
Price target						25.9			

(€ mn)	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Ratios									
Share price: €12.2									
Share price (period avg.)	5.3	8.0	8.8	6.5	10.0	12.2	12.2	12.2	12.2
Market cap	6,441	9,845	13,265	9,892	15,547	18,991	18,991	18,991	18,991
Core EV	23,396	24,916	26,890	20,527	23,051	19,844	14,612	8,885	2,648
EV/Sales	27%	26%	24%	18%	20%	17%	12%	7%	2%
EV/EBITDA	2.9x	2.9x	2.6x	1.7x	1.6x	1.2x	0.9x	0.5x	0.1x
EV/EBIT	6.6x	6.8x	5.6x	3.4x	2.9x	2.1x	1.6x	0.9x	0.2x
P/E	-61.9x	11.0x	6.7x	3.9x	4.3x	3.6x	3.5x	3.3x	2.8x
P/BV	0.8x	0.7x	0.8x	0.5x	0.7x	0.7x	0.6x	0.5x	0.4x
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
FCF yield	-7%	0%	3%	16%	15%	30%	24%	27%	30%

Source: Company data, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Stefan Burgstaller, Demian Flowers, Lucile Leroux, Matthew Chan and Gungun Verma, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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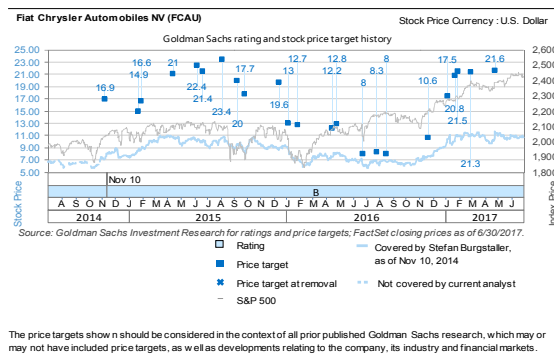
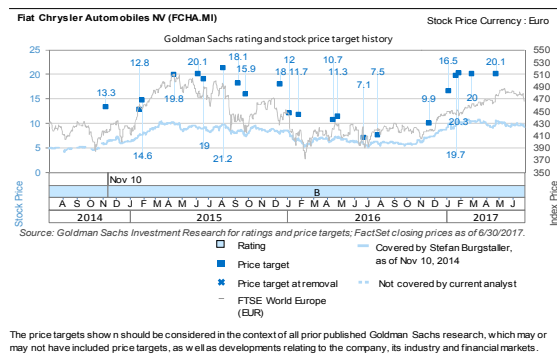
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