

KIP Capital Management, Ltd.

Quick-Take Investment Presentation Ferrari N.V. (RACE)

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KIP Investment Process





Ferrari N.V. (RACE)

Industry: Automobiles

Sub-Industry: Automobile Manufacturers

Ferrari engineers and manufactures the world's most recognizable luxury performance sports cars.

Market Cap: \$39.2 billion (Nov 2020) | **Enterprise Value:** \$41.1 billion |
P/E: 66 | Sales: \$3.9 billion

Incorporated: 2015, Netherlands



**Is it an Outstanding
Business?**

KIP Investment Process

Is it an Outstanding Business?

Business

Is it understandable?

Total Shareholder Return Analysis

Price-Implied Expectations

Performance History
Has it created economic value?

Moat Analysis
What has caused it to create value?
How long can it continue to create value?

Is it an Outstanding Investment?

Decision
Buy?
Sell?
Hold?

How Ferrari defines industry



Ferraris are Luxury Performance Cars

Two-door | Engines producing more than 500 hp |
Retailing more than Euro 150K (\$179K)

RACE: The Strategy



"The Ferrari is a dream; people dream of owning this special vehicle and for most people it will remain a dream apart from those lucky few."

- Enzo Ferrari

Value Proposition: Associate with the world's most recognizable luxury performance sports car brand; owning a Ferrari confers top craftsmanship, technology, innovation, exclusivity and heritage.

Value Chain: Maintain exclusivity and scarcity | Supply trails Demand | Order waitlists last 1-2 years | Low volume production | Frequent product launches | Represent lifestyle through Community and Merchandise | Sustain Formula 1 supremacy | Never discount

RACE Business

Robust, clear
strategy

Formula 1 racing team is
enormously successful | Key
component of marketing strategy



Frequent **new product launches** are
crucial | Novelty and Excitement

2/3 cars sold are repeat
buyers | Resilience of car resale
value is an 'important competitive
dimension'

LPC-making tracks broad luxury
market | RACE is resilient but still
affected by global macro | Highly
discretionary | Emotional | Social
acceptability

RACE Brand

Matches brand strategy with Hermes, Patek Phillippe, LV

Coveted exclusive Club membership on purchase

Owners attend racing events and purchase limited editions by invitation!



Emotional experience | Status conveyed | Collectability - value appreciates of limited edition models | Seen as 'investments'

Peerless? | Which is closest strategically?



Audi



BENTLEY



In the buyer's mind, a
Ferrari is peerless.

"I've already signed up for one!"

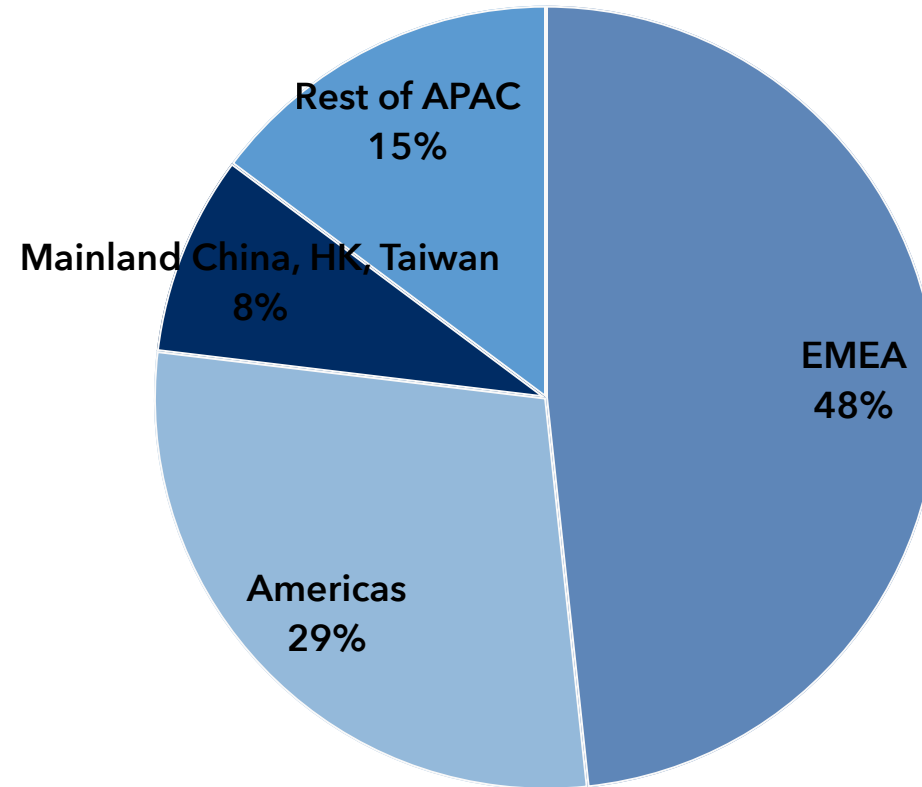


Ferrari: Not mad about market share



We monitor market share as an **indicator** of our brand appeal | (But) we **do not** regard market share as **particularly relevant**. | We are **not focused** on market share as a performance metric. | Instead, we deliberately manage our supply relative to demand, to defend and promote our **brand exclusivity** and **premium pricing**.

Segment Revenue by Geography



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Ferrari - Value Creator

FERRARI NV - RACE

View Data in US Dollars

Italy, Europe

Automob

Show Goodwill & Special Items

Enterprise Value Components ?



FVA Future Value Added MVA-CVA
 Current Value Added CVA (EVA/COC)
 Capital
 Market Value



ROIC
Avg 15-20%

WACC
7-9%

Invested Capital
\$4,900m

Market Cap (as of 11/20)
\$39.2 bn

Enterprise Value
\$41.1 bn

Ferrari - Value Creator

FERRARI NV - RACE

View Data in US Dollars

Italy, Europe

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Enterprise Value Components ?



Growth History

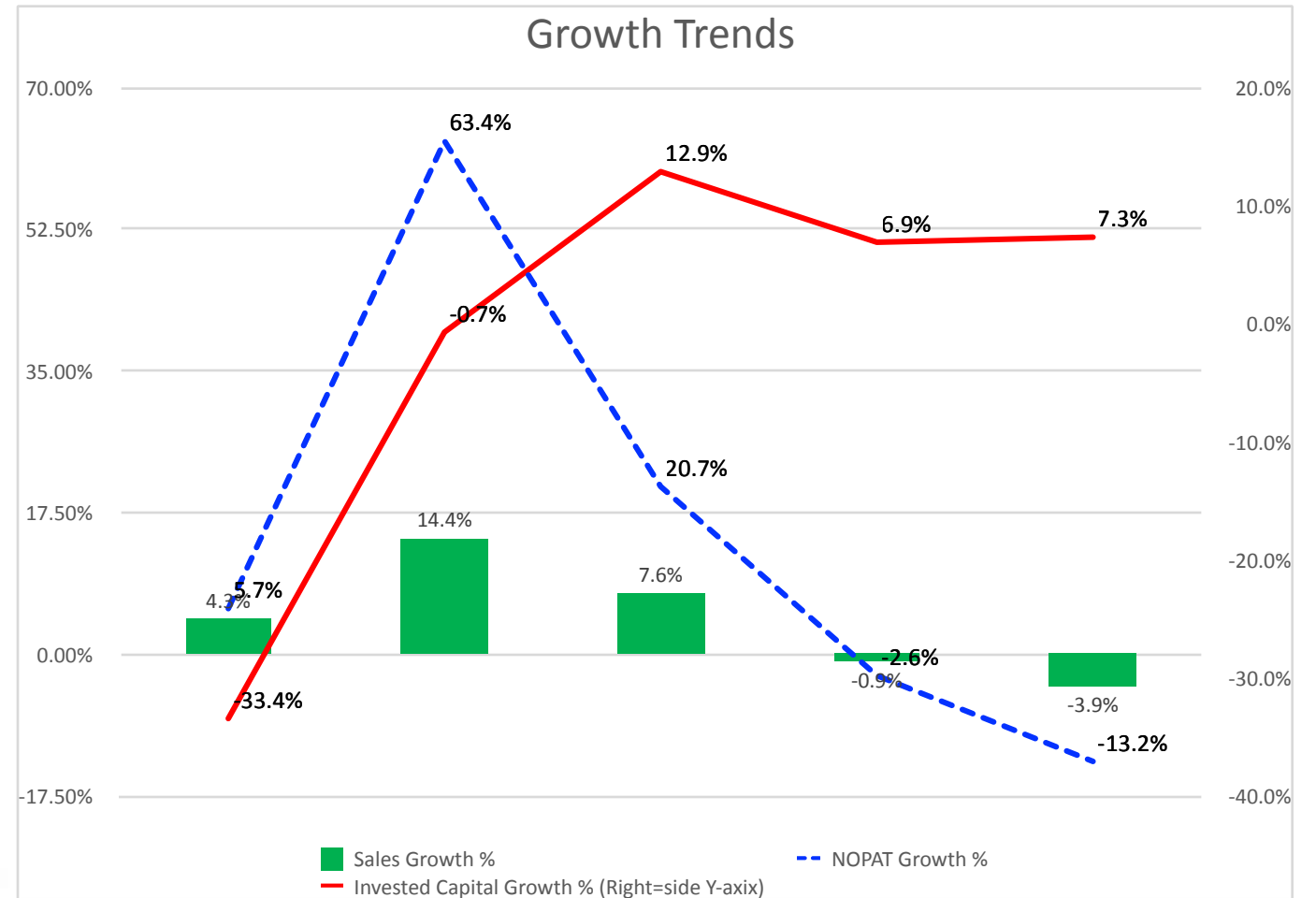
Value creating growth typically results when:

$$\Delta \text{NOPAT} > \Delta \text{Sales} > \Delta \text{Capital}$$

$$\Delta \text{NOPAT} \gg \Delta \text{Capital}$$

NOPAT swings wildly as R&D spend cycles, pricing power and macroeconomics affect the business. Notice a hint of operating leverage.

Capital growth stable as Ferrari keeps investing in R&D and PP&E for its many new models.



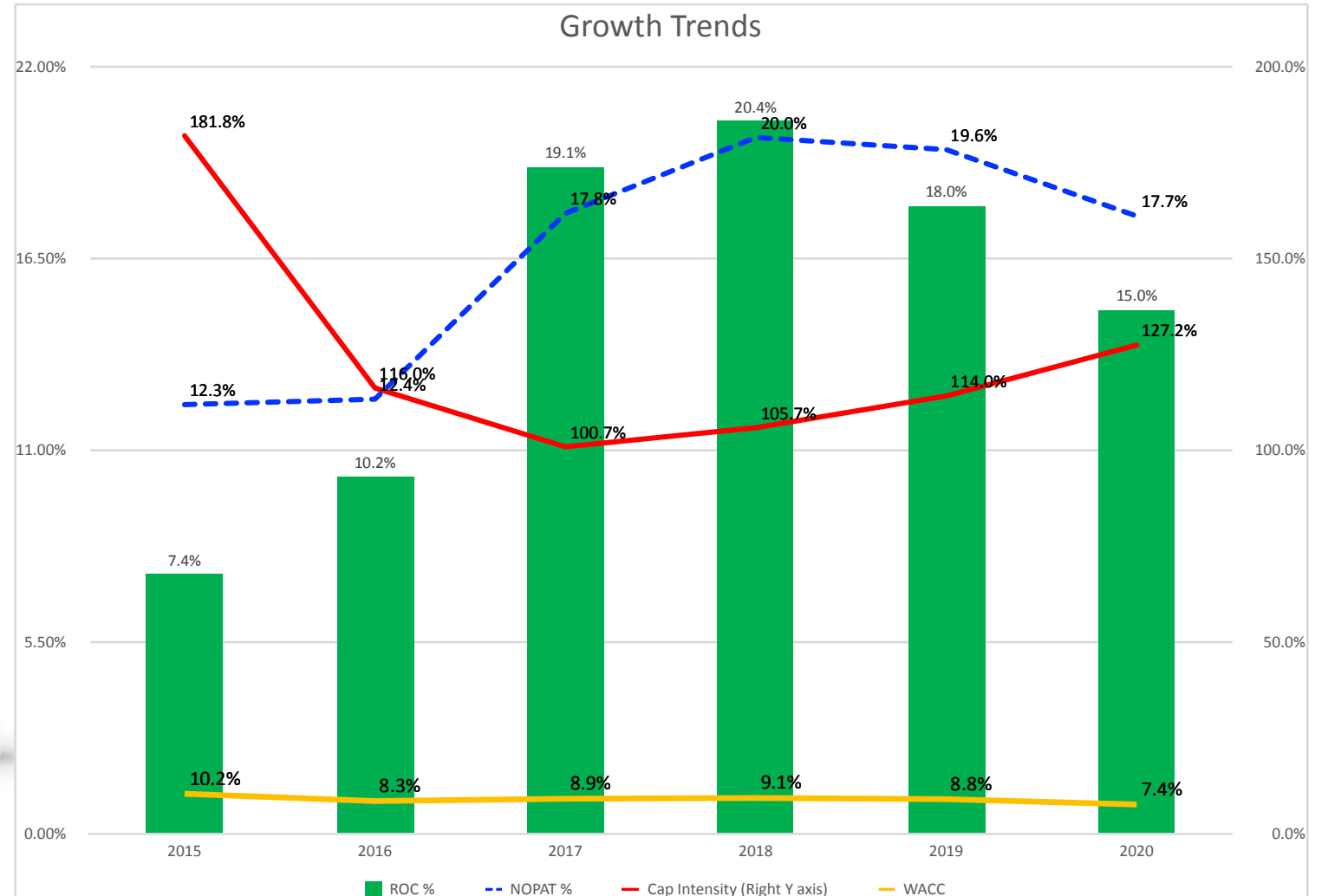
Profitability History

$$\text{ROIC} = \text{NOPAT}\% \uparrow / \text{Capital Intensity}\% \downarrow$$

Higher ROIC is driven by either higher NOPAT margins **or** lower Capital Intensity **or both**.

Cap Intensity has been on the rise.
Wouldn't worry. Sales have fallen, but RACE doesn't stop pouring money into new models.

NOPAT margin slipped recently due to COVID.



Economic Profit (EVA) Positive

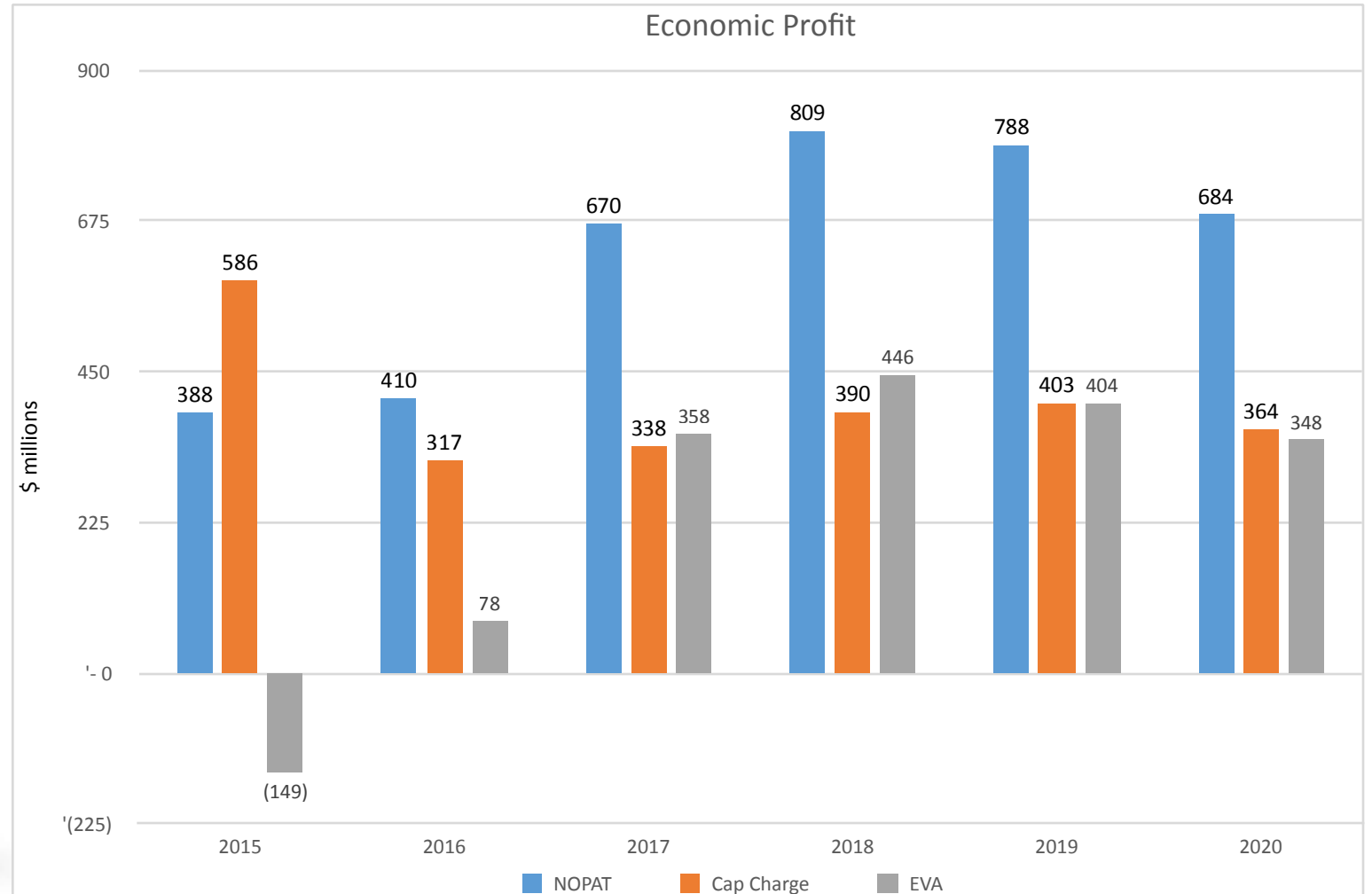
$EVA (\$mm) = NOPAT - \text{Capital Charge}$.

Higher EVA always translates to higher value creation which is driven by:

1. Growing NOPATS
2. Lower Capital Charge

EVA growth is generally positive.

Last two years have been a down-cycle, showing RACE's mild exposure to macroeconomics. Likely to bounce back.



KIP Investment Process

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Moat Analysis

What has caused it to create value? How long can it continue to do so?

Requires a Deep-Dive

Total Shareholder Return Analysis







Performance History
Has it created economic value?







Business
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Competitors

<u>Saved Comparison</u>	 × Ferrari	 × Audi	 × Aston Martin Lagonda	 × Mercedes-Benz	 × Ford Motor	 × McLaren Technology Group
Financial						
Revenue (est.)	€3.8b (FY, 2019)	€55.7b (FY, 2019)	£949.5m (FY, 2018)	N/A	\$155.9b (FY, 2019)	N/A
Cost of goods	€1.8b (FY, 2019)	€47.6b (FY, 2019)	£596.3m (FY, 2018)	N/A	\$134.7b (FY, 2019)	N/A
Gross profit	€2b (FY, 2019)	€8.1b (FY, 2019)	£353.2m (FY, 2018)	N/A	\$21.2b (FY, 2019)	N/A
Net income	€698.7m (FY, 2019)	€3.9b (FY, 2019)	£44.7m (FY, 2018)	N/A	\$84m (FY, 2019)	N/A

<u>Saved Comparison</u>	 × Porsche Automobil Holding	 × Honda	 × Lamborghini	 × BMW	 × Rolls-Royce	 × Bentley Motors
Financial						
Revenue (est.)	€21.5b (FY, 2015)	¥14.9t (FY, 2020)	N/A	N/A	£16.6b (FY, 2019)	N/A
Cost of goods	€15.4b (FY, 2015)	¥11.9t (FY, 2020)	N/A	N/A	£15.6b (FY, 2019)	N/A
Gross profit	€6.1b (FY, 2015)	¥3.1t (FY, 2020)	N/A	N/A	£942m (FY, 2019)	N/A
Net income	€2.3b (FY, 2015)	¥509.9b (FY, 2020)	N/A	N/A	(£1.3b) (FY, 2019)	N/A

KIP Investment Process

Is it an Outstanding Business?

Management
Are they shareholder-friendly?

Requires a Deep-Dive

Total Shareholder Return Analysis

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**Is it an Outstanding
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Price-Implied Expectations

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Price-Implied Expectations of Value Drivers

(RACE)

Last Traded Price @	\$214.17		
Market-Implied CAP (MICAP)	10.0	years	
Price-Implied Growth Projections		MICAP	
		Factor X	CAGR
Sales Growth		4.22X	15.50%
NOPAT Growth		5.49X	18.57%
ROIC			26.0%
			Last 5-ys
			5.36%
			16.83%
			24.6%

Today, RACE sells 10,131 cars and makes \$3.9bn, or \$382K per car.

If units sold grows to 15K in 2030 (4% YOY), and sales grow to \$16.3bn as PIE implies, then avg. car would retail at \$1.09m.

We know RACE has pricing power, but can it sell its cars for 3x today's prices? Because that is what the price implies.

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Shareholder-Return Implied Expectations

Sensitivity Analysis : EPS Growth CAGR%

Buy-Price	\$214.17 per share		EPS CAGR%		Past Trends	
	Hold Duration:	5 years			Median P/E	5-yr
				13.22%		
				27.5X	31.5X	

Price Gain	P/E Ratio Forecast				
	CAGR%	32.4X	36.0X	40.0X	44.0X
12.2%	29.2%	26.5%	23.8%	21.5%	19.2%
13.5%	30.7%	28.0%	25.3%	23.0%	20.7%
15.0%	32.5%	29.7%	27.0%	24.6%	22.2%
16.5%	34.2%	31.4%	28.7%	26.2%	23.8%
18.2%	36.1%	33.3%	30.5%	28.0%	25.6%

Choose an Investor Return% and P/E Multiple → to impute EPS Growth Rate%.

E.g. a 15.0% Return at a P/E of 40.0X implies an EPS Growth CAGR% of 27.0%.

Insight: An investor return% expectation of 12 to 18% for 5 years, @PE 40x in year-5, implies an EPS CAGR Growth of 23% to 30% which is highly unlikely for this business.

EPS Growth Implied Expectations

Sensitivity Analysis : Investor Return% CAGR

Buy-Price	\$214.17	per share	Past Trends		
			5-yr	10-yr	
Hold Duration:	5	years	EPS CAGR%	13.22%	0.00%
			Median P/E	27.5X	31.5X

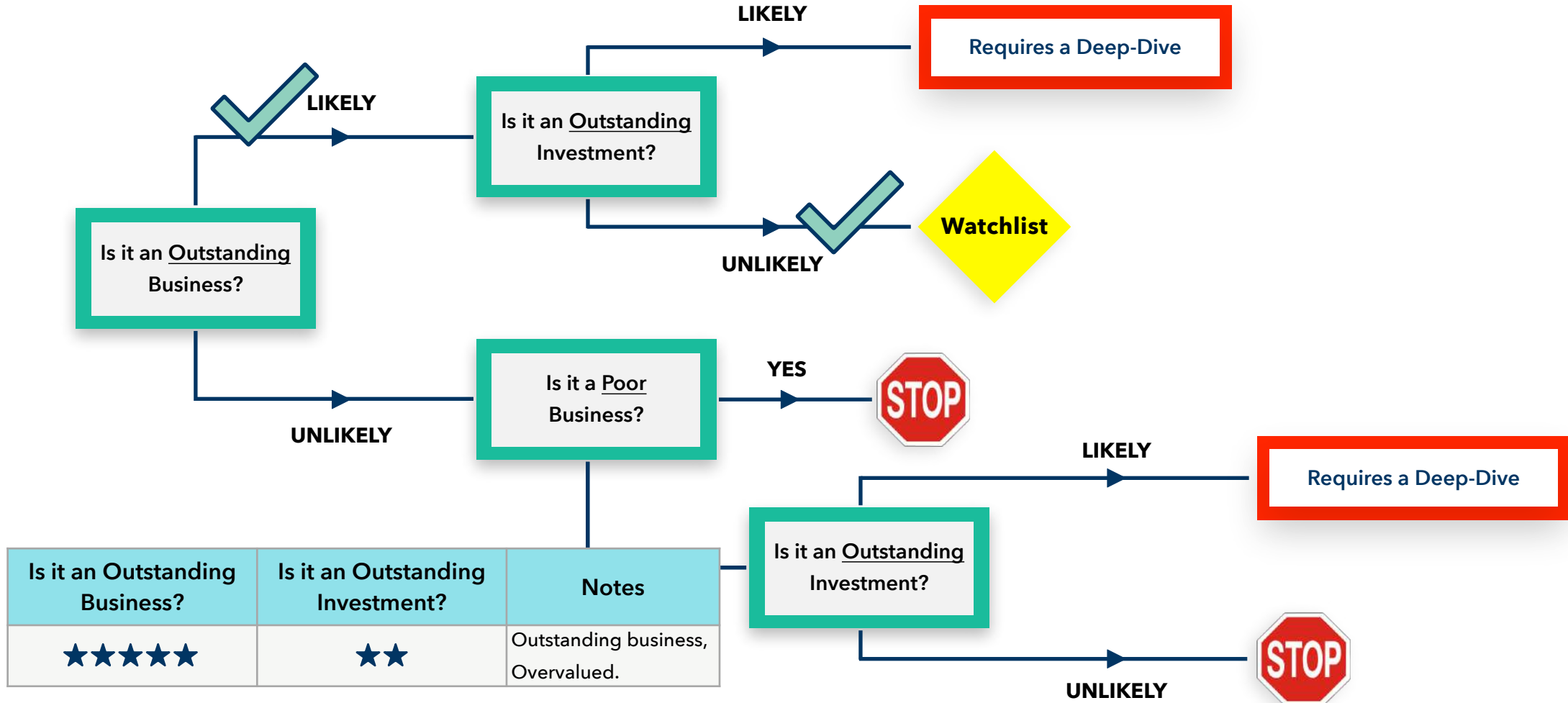
EPS CAGR Forecast	P/E Ratio Forecast				
	32.4X	36.0X	40.0X	44.0X	48.4X
12.2%	-1.9%	0.1%	2.2%	4.1%	6.0%
13.5%	-0.8%	1.3%	3.4%	5.3%	7.3%
15.0%	0.5%	2.6%	4.7%	6.7%	8.7%
16.5%	1.8%	3.9%	6.0%	8.0%	10.1%
18.2%	3.2%	5.3%	7.5%	9.5%	11.6%

Forecast a EPS Growth CAGR% and a P/E Multiple → to impute Investor Return%.

E.g. a 15% EPS Growth rate at a P/E of 40X implies an Investor Return CAGR% of 4.7%.

Insight: An EPS Growth CAGR expectation of 12% to 18% @PE 40x, implies a 2.2% to 7.5% return.

Conclusion



Is it an Outstanding Business?	Is it an Outstanding Investment?	Notes
★★★★★	★★	Outstanding business, Overvalued.

Deep-Dive - Further Areas of Investigation

- **Dig Deeper:**

- Deeper industry analysis. Deeper understanding of Porter's Five Forces. (source: **"Semi-Conductor Deep Dive" by Dr. Robert Castellano**)
- Work through the **"Measuring the Moat"** checklist.
- Deeper Competitive Analysis. How are their business models are different, how do they compete,....

- **Field research:**

- Speak with customers, understand their perspective on the product/service, and its pricing.
- Texus interviews of Former Execs, Employees, Competitors, Customers.

- **Management incentives:**

- Read CEO letters to shareholders, Earnings Call Transcripts.
- Deeper analysis of recent acquisitions (if any). Judge the quality of the acquisitions and explore reasons behind why those decisions were made.
- Contact management. Ask them questions that remain unanswered. eg: What are their thoughts on competitive strategy for the company, and how do they look at competition?
- How is management incentivized and paid? What is their background/experience? Are they shareholder friendly?

Q&A