The following work will analyze the public offering of Ferrari. It will consider the reasons why FCA is spinning its division off, the pros and cons of this approach, and the critical factors in launching an IPO successfully. Further, this piece will consider the market multiples approach to valuation, and from there critically analyze the overall strategy of Ferrari, with a suggested IPO price point that would be ideal.

Ferrari began as a racing team of Enzo Ferrari in 1929. Prior to this, Enzo had been involved with Alfa Romeo's racing team in Italy. This team ended up being mostly bought by Alfa Romeo, and he continued on until the late 1930's, whereupon he started his own manufacturing facility for cars, funded by a large dealership business he ran. This manufacturing firm was then subsumed into the Italian war effort, where he changed his focus to aircraft engines rather than cars. After the war, Ferrari returned to designing cars, primarily targeted towards the high-end European market. At this time as well he began designing race cars again, with the introduction of the first Ferrari racecar.

Enzo's focus on the racing end of the business meant that sales declined, and by the 1960s, he was forced to seek outside funding to continue operating. This resulted in Fiat purchasing the company, whereupon they led a strong focus on reforming manufacturing operations. This meant that by 1980, car production had more than doubled to 2000 cars per year. By the end of Enzo Ferrari's life, Fiat owned 90% of the company, with the Ferrari family owning the remaining 10%. After the death of its founder, Ferrari entered a gradual decline that continued until the introduction of Luca Cordero di Montezemolo, a marketing "maven" who became President of the company in 1991, and reinvigorated the brand through increasing model count and committing to engineering excellence. This period continued through to 2014, at which point Fiat (now known as FCA) decided to move the brand in a different direction, pushing for increased production and an expansion of the already-lucrative licensing activities.

This meant that the company from 2014 underwent a 5 year business plan to strengthen, modernize and globalize the brand. This plan also went with a change in management, whereupon Montezemolo was replaced by Sergio Marchionne. This was then followed by the announcement of Ferrari's separation from FCA. This was done for several reasons. Among these were the large injection of cash it would provide FCA, the extension of Ferrari's brand value, permitting Ferrari direct access to sources of equity and debt capital, the attraction of American investors via a listing on the NYSE, the attraction of technical and management talent through allowing their direct ownership of Ferrari, and finally, the company hoped it would unlock the "hidden value" that shareholders were not currently pricing into FCA shares under the consolidated structure.

Given the history of the company, and the challenges it faces in the 21st century, what are the advantages and disadvantages of spinning off the company? From a business standpoint there are several on either end. Beginning with the pros, the spinning off of Ferrari allows the company a level of managerial flexibility and independence not possible under the prior consolidated makeup of the company. This is because at the moment, any decisions Ferrari management makes have to be done in conjunction with the consolidated parent company, FCA. An example of this tension can be seen in the relationship between Marchionne and Montezemolo, which was strained due to the former's desire to expand production and the latter's desire to maintain the core image of Ferrari developed over decades. By spinning the company off, it would be able to develop its own management culture outside of FCA, leveraging its talent in the way that best suits the brand.

Another pro of this approach is the aforementioned stake it would give those within the company. Expanding share ownership to the management and technical staff of Ferrari would give them stake in the success of the company into the future. This would help ensure that decisions made by these teams are in the long-term interests of the company, and not just for the short-term desires of the shareholders of FCA at large. This is an expansion of the stakeholder vs shareholder mentalities that emerge in global investment management.

Finally, in spinning off Ferrari from FCA, it grants a level of liquidity to Ferrari that would otherwise be impossible to obtain as part of FCA. While FCA is one of the largest car brands in the world, with 5.4% of market share in 2014, its profit was largely driven by its luxury car brands, with the division providing 21% of EBIT despite only accounting for 5% of revenue. Should Ferrari be spun off, it provides the company with the ability to capitalize on its enormous profitability to gain access to capital it could never obtain as part of the FCA consolidated grouping. This allows it to expand its luxury offering faster to different markets thanks to increased capital access. This also allows them to invest in innovations to remain at the top of the luxury car market.

However, alongside this there are several cons to the move, amongst these losing access to the broad market base that FCA have established globally. FCA is present in over 30 markets, and Ferrari from the point of IPO onwards would have to develop a separate expansion plan to any markets it seeks to enter going forward. This could present a significant difficulty through loss of expertise in this area.

Further, by splitting off from FCA, Ferrari may also be required to broaden its scope to satisfy the demands of stakeholders it otherwise did not have. This has happened to companies previously, with a notable example being Meta. Meta upon its initial IPO in 2012 was forced to aggressively turn to a profit driven model, rather than a user experience model, largely due to shareholder demands after experiencing a dramatic 50% share loss in the first year of trading. To balance this, Ferrari will need to pay close attention to the stock market demands and augment their mission statement to ensure the two competing priorities can work together.

The process of Ferrari launching its IPO began with a quiet period, during which the company could not release promotional material designed to artificially boost interest in the stock. At this stage, Ferrari prepared audited financial statements, a credible business plan, and assembled a management team and board of directors. It also began selecting investment banks, underwriters, and accountants to guide the IPO. Once chosen, the lead underwriter worked with Ferrari to draft an underwriting agreement, which outlined compensation, often in the form of discounted shares, for syndicate banks assisting with the offering.

The next step was the registration statement filed with the SEC. This included the prospectus (covering Ferrari's business model, financials, and risks), the underwriting contract, and the company's charter and bylaws. During this stage, both Ferrari and the underwriters conducted due diligence to ensure there were no false or misleading statements. The SEC then reviewed the filing through its Division of Corporate Finance. If deficiencies were found, Ferrari received a letter of comment requiring revisions. Once approved, the registration became effective after 20 days unless accelerated by the SEC at the underwriter's request.

While the SEC review was underway, the underwriter engaged in book building, gauging demand by forming a syndicate of investment banks and marketing the shares to potential investors. A preliminary price range was set, and Ferrari's management went on a road show to present the company to institutional investors. After the road show, the final offering price was negotiated, the underwriting agreement was signed, and the effective date was set. On that date, Ferrari's shares began trading publicly on the NYSE. About a week later came the settlement, where the underwriters delivered proceeds to FCA and received the securities as compensation. From start to finish, Ferrari's IPO process took roughly three months.

While the process of launching an IPO can be a complex, nuanced, and resource-intensive process, there were several strategic reasons for Ferrari to have its own IPO on the NYSE, even while the cash from the offering went to FCA.

For starters, the IPO enabled Ferrari to become an independent entity, separating from FCA's influence (as FCA lacked the brand exclusivity that Ferrari had) and bolstering its luxury brand image. Listing on a world-renowned stock exchange like the New York Stock Exchange (NYSE) provided Ferrari with greater global visibility and financial prestige, which would help it attract top talent and business opportunities. In addition, the IPO established a powerful means for Ferrari to raise capital from the public through future offerings, eliminating its dependence on the FCA for funding and solidifying its growth potential.

Ferrari, being a foreign company, had a different path to launching an IPO on the NYSE. It issued stock in the U.S. using American Depositary Receipts (ADRs), which is a certificate provided by a U.S. bank that represents a specific number of a foreign company's shares. By using ADRs, Ferrari made it simple for U.S. investors to trade its shares. The shares were then listed on the American stock exchange under the ticker symbol "RACE."

There are several methods of determining an initial offering price for a stock. One well-known method is the market multiples approach, which values a firm relative to its peers using ratios like Enterprise Value / EBITDA (EV/EBITDA) or Price/Earnings (P/E). This method is limited in its use by the availability of comparable companies, however.

Strengths of the market multiples approach are that it is simple and widely used in IPOs. It anchors valuation to observable market benchmarks and adjusts for current investor sentiment. However, some of its weaknesses in this case are that there is no perfect peer for Ferrari. It's a luxury brand and simultaneously an automaker as well. Therefore, using the approach would leave it sensitive to the choice of comparable companies and assumptions that are then made about the brand. It also ignores long-term unique factors like brand exclusivity and corporate strategy.

One alternative to the market multiples approach is the constant growth rate model to determine stock price.

Constant Growth Model (1-Stage Model)

$$\text{Price} = P_0 = \frac{Div_1}{r - g}$$

In the Constant Growth (1-stage) Model, the dividend is the total annual dividend payment projected for the next year, divided by the number of shares outstanding. The dividend represents the direct cash flow an investor will receive from Ferrari in the immediate future and is absolutely key to predicting stock price using the constant growth model. Since the company is going public for the first time, it has no history of paying dividends. Additionally, there wasn't a forecasted dividend per share in the case or in the prospectus found online from 2015 either.

The payout ratio is the percentage of net income the company *plans* to distribute to shareholders as dividends. To find Ferrari's payout ratio for its first dividend paid in 2016, we can look at the financial results from the prior year: Ferrari's Net Income for 2015 was €290 million. The total cash dividend paid to shareholders in 2016 was €87 million. Meaning its payout ratio was approximately 30% and its 2016 dividend per share was €0.46.

The required rate of return (r) represents the minimum return that an investor would expect to earn given its level of risk. In this case, we learned that most investors saw Ferrari as having low-volatility, more like that of a luxury goods manufacturer rather than a car dealer, so investors were not expecting significant risk. A higher perceived risk would lead to a higher required rate of return and, consequently, a lower stock price.

The rate is often estimated using the Capital Asset Pricing Model (CAPM), which considers the risk-free rate, the market risk premium, and the company's beta (its volatility relative to the market). This rate is used to discount future dividends back to their present value.

The long-term growth rate (g) at which you expect the company's dividend to grow must be less than the rate of return. It accounts for future growth in the cash flows and small changes in this rate can significantly impact the calculated stock price.

Since Ferrari doesn’t have a history of public dividend payments, we’ll estimate the growth rate using the Sustainable Growth Rate (SGR) model. It calculates the rate at which a company can grow its dividends without changing its financial policies.

$$g = ROE \times (1 - \text{Payout Ratio})$$

To find the Return on Equity (ROE), we can look at the company's pre-IPO financial statements for 2014. The ROE is calculated by taking the Net Income (€245M) and dividing it by the Equity (*2,478M*) from the 2014 balance sheet: ROE = 10.69% in 2014

Now we can combine Ferrari's payout policy (30%) with the 10.69% ROE to calculate your sustainable growth rate (g): g = 10.69% * (1 - 30%)

This gives Ferrari an estimated sustainable growth rate (g) of 7.48%. However, the perpetual growth rate should not greatly exceed the growth rate of the overall economy, so we'll adjust that to 4%. We now have all three variables required:

- D1 (Expected Dividend): €0.46
- r (Required Rate of Return): 10.04%
- g (Sustainable Growth Rate): 4%

$$P_0 = \frac{€0.46}{0.1004-0.04}$$

$$P_0 = \mathbf{€7.62}$$

To contrast this result, let's take a look at the Market Multiples approach:

Peer / Benchmark	**EV/EBITDA Multiple**	**Applied to Ferrari EBITDA (€693M)**	**Enterprise Value (EV)**	**Equity Value (EV – Net Debt €2.3B)**	**Implied Share Price (Equity ÷ 189M shares)**
Auto OEMs (BMW, Daimler)	8x	€5.54B	€5.54B	€3.24B	**€17.1** (~$19)
Aston Martin Transaction	10x	€6.93B	€6.93B	€4.63B	**€24.5** (~$27)

Luxury Goods (Hermès/Prada)	16x	€11.1B	€11.1B	€8.8B	**€46.6** (~$52)
Premium IPO Range	20x	€13.9B	€13.9B	€11.6B	**€61.4** (~$68)

Based on the analysis, two distinct valuation methods yielded significantly different IPO price points for Ferrari. The Constant Growth Model, which focuses on future dividend payments, suggested a price of €7.62. This figure starkly contrasts with the actual IPO price of approximately €47, primarily because the model fails to account for critical intangible factors such as Ferrari's immense brand value, strong market sentiment, and expectations for high, non-constant growth in the years following its public offering.

In contrast, the Market Multiples approach provided a range of valuations depending on the peer group used for comparison. Valuing Ferrari against standard auto manufacturers implied a share price of around €17.1, while using a premium IPO benchmark suggested a price as high as €61.4. Crucially, when compared to other luxury goods companies like Hermès and Prada, this method produced an implied share price of €46.6. This valuation is remarkably close to the actual offering price, indicating that investors and the market correctly perceived Ferrari not merely as an automaker, but as a premier luxury brand, justifying a valuation in line with other high-end exclusive goods.