1. What is going on at Ferrari? Based on a market-multiples approach and a discounted cash flow approach, at what price do you think the shares should be sold?

* In 2015, Sergio Marchionne, chairman of Ferrari and CEO of its parent company, Fiat Chrysler Automobiles NV (FCA) decided to spin-off Ferrari from its parent company by a public offering of its shares. As a private corporation with a long and powerful history, this IPO came with a lot of attention from the public. His plan was to sell 10% stake in Ferrari in an IPO and to grant the money received to FCA.
* EPS= 1.69
* Auto Manufacturers P/E: 15.0
* Valuation: (1.69\*15) = 25.35
* Price in which shares to be sold (US Dollars): as we can see Ferrari has huge brand fame and a high demand for its shares, I would set the price of Ferrari to $52. It will result in $893 million by selling the expected 10% shares (17.173 million) shares from the sale of the IPO.

1. What are the financial implications of Ferrari’s current strategy?

* One of the implications for Ferrari would include the fact that even though money is being raised from the IPO, but they will have to pay it out to FIAT due to the payment considerations after the IPO. Before the IPO, 90% of the stake in Ferrari rests with Fiat and the remaining 10% with Ferrari family. However, after the IPO, Fiat Chrysler will hold 80%, 10% still with Ferrari family and the remaining 10% with the public. Even though the money is to be distributed to the shareholders, it will not be a benefit.

1. Do you agree with the financial forecast in Exhibit 8? If so, why? If not, what specific concern do you have?

* I certainly agree with the financial forecast in Exhibit 8. Exhibit shows several positive analyses referring to the IPO. It is valued high as a luxury good and thus there is a huge demand for the number of shares. Ferrari has a specified target, even with the innuendos of being an independent entity. We can say that, Ferrari is seen to be present in emerging markets and growing globally (reaching the Asian market). Lastly, the Exhibit shows steady EBITDA margins which are due to the increasing revenues over the years.

1. Tell me more about your market-multiples approach. How does it work? What are the strengths and weaknesses of a market-multiples approach to valuation?

* Multiples approach is one of the valuation models which is based on a notion that similar assets sell at similar prices. It assumes that a ratio which compares value on the basis like operating margins, EV/EBITDA etc, is the same across similar firms.
* Multiples approach is quite easy to use and apply to a firm which helps financial analysts to make quick computations to assess a company’s value. However, as easy it is, it does not consider other factors/variables that are essential to the pricing of the share or company’s intrinsic value such as growth or decline. Moreover, though companies under a particular industry may seem similar, but they are not alike in the way they use their accounting policies which can misinterpret our multiples and hence comparisons are not conclusive.

1. Tell me more about your discounted cash flow approach. How does it work?

* Discounted cash flow approach is another valuation model which is highly used in today’s scenarios. It is considered an “absolute value” model because it uses objective financial data to evaluate a company, instead of comparison to other firms. DCF becomes more relevant because any decision related to investment is made considering the future return on it and DCF figures out valuation based on future cash flows of the company.
* It works in the below manner:
* DCF finds the present value of the expected future cash flows using a discount rate. Investors can then determine whether the present value of future cash flows of an investment or project is equal to or greater than the value of initial investment.
* In order to conduct a DCF analysis, an investor needs estimates about future cash flows, ending value of the investment and an appropriate discount rate. If the investor does not have access to any or all of these pre-requisites, then DCF cannot be performed and he/she will have to resort to alternate method of valuation.

1. What does Ferrari gain from the IPO process? What are potential downsides to an IPO?

* the IPO for Ferrari was completed on 21stOctober 2015 when the price closed at $55 a share. At $55, Ferrari closed trading with a $10.4 billion market value, well above analysts’ official valuation of $5-7 billion. With the IPO pricing of $52, and a closing price of $55, the company left nearly $52million on the table. The IPO raised nearly $1 billion for Ferrari which was used to pay off Fiat.
* Downsides to an IPO may include:
* Need for added disclosure for investors
* Public companies are regulated by Securities Exchange Act of 1934 in regard to periodic financial reporting
* Comply with regulations imposed by SEC
* Cost of complying with regulatory requirements is high, especially with the introduction of Sarbanes-Oxley Act