

GIB AM European Focus

Ferrari: Identifying a thoroughbred

By Matthew Kates



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The current macroeconomic narrative is complex, with sentiment appearing to change almost daily. The prognosis for inflation, interest rates and ultimately business and consumer confidence is unclear. Additional uncertainty around tariffs further muddies the waters and the 'Trump bump' to equities appears to be fading, and fast.

Against this backdrop, however, we feel that our philosophy of owning high quality companies with strong business models and excellent cultures affords the fund some insulation against these headwinds. In the current results season, portfolio holding Ferrari (MIL: RACE) stands out as worthy of mention.

Customer value proposition

Since Enzo Ferrari built his first automobile in 1939, the customer value proposition has been to realise dreams through the embodiment of performance, style, quality and racing pedigree. Ferrari not only designs, builds and sells world-class sports cars but provides customers with the ability to personalise them and to be part of an exclusive club of owners who share a love of craftsmanship and heritage.

As CEO Benedetto Vigna articulated: "Owning a Ferrari is much more than owning a car. It's about being part of an exclusive community, united by shared passion".

Ferrari is not an automotive company, but a luxury goods brand. The company intentionally manufactures scarcity, remaining true to Enzo Ferrari's dictum: "Ferrari will always deliver one car less than the market demands." Aside from building desire, the aim is to establish a tightly-knit community of loyal customers centred around the culture of the Ferrari family.

Enzo Ferrari's unmitigated quest for excellence in everything he did ('passion to the point of obsession') remains, arguably more than ever, expressed in the quality of the product and the culture of the company. To be part of this owners club helps to create a both a sense of privilege and strength of brand equity afforded to few.

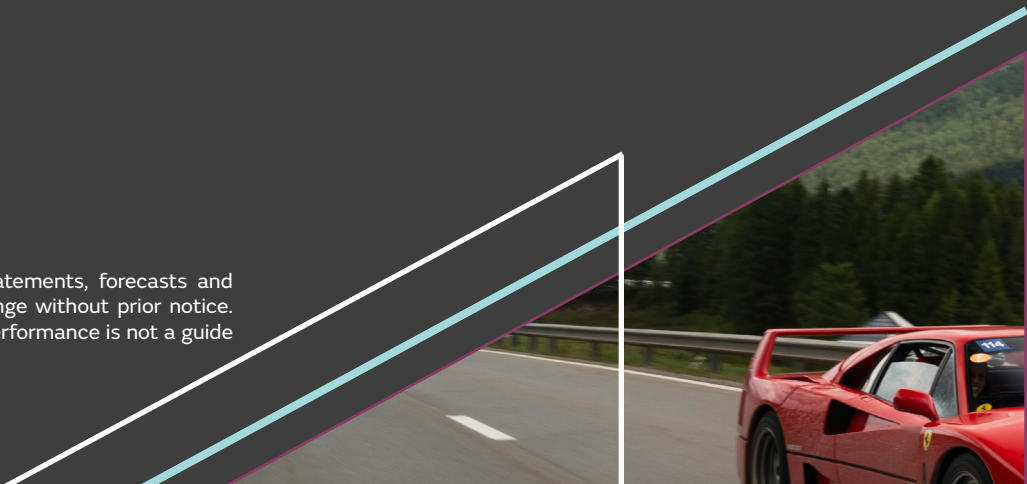
The value delivered to customers is evidenced through long waiting lists, with an order book filled through to the end of 2026. In stark contrast, other high-end automotive manufacturers such as Porsche, Aston Martin and McLaren face problems ranging from production shutdowns and launch delays to strategic mis-steps and supply chain issues

In 2024, 81% of cars were sold to existing clients, up from 74% in 2023. This loyal and engaged customer base provides Ferrari with a resilience unmatched by other automakers and enjoyed by just a handful of luxury goods houses (such as another of our holdings LVMH).

Pricing power

Our belief is that true pricing power is not about using price as a mechanism, in and of itself, to improve profitability. Instead we look for companies that can pass on price increases to customers but actively choose not to do so. Prices rise only where there is a need to recover cost inflation or where justified by an over-proportionate increase in value delivered to the customer.

Source: GIB AM analysis. Views, opinions, statements, forecasts and projections are as of date and subject to change without prior notice. There is no guarantee they will be met. Past performance is not a guide to future results.



Despite an average selling price of €443,000, we believe that Ferrari is one of these companies, as suggested by:

- Gross margins consistently around 50%, far in excess of peers such as Aston Martin (30-35%), Porsche (~25-30%), and Bentley (~25%)
- In 2024, despite only a +1% increase in vehicle shipments, revenues grew by +12% year-on-year, fuelled by a richer product mix including the Daytona SP3 and 499P Modificata and increased personalisation. Indeed, price/mix contributed €386 million to earnings, whilst volume added only €7 million.

While pricing can be considered as a business strategy, we view it as an “attitude”.

Culture

Ultimately, we believe that the foundation of Ferrari's success boils down to its outstanding culture. Whilst the customer value proposition and pricing power can appear as distinct elements, both are interwoven into the company's unwavering commitment to its core values:

- Individual and Team
- Tradition and Innovation
- Passion and Achievement

Ferrari's culture goes hand in hand with its business model.

Enzo Ferrari's philosophy was based on integrity, respect and humility. He achieved his goals by what are considered to be relatively modern concepts - emotional intelligence, business ethics, client orientation and sustainability - however these were already the guiding principles of the business mid-way through the last century.

Our people are our most valued and winning asset. A good 65-70% of the value of any commercial enterprise lies in its human assets'. - Enzo Ferrari

This enduring, organic approach has allowed Ferrari to attract and retain the very best talent, drawn to the challenge of reinventing excellence with each new model and extending the company's enviable position at the pinnacle of automotive excellence. Ferrari's employee turnover rate is an exceptional ~5%. Its accident rate is commendably low with just 1.7 incidents per 1,000 employees.

The financial result

Whilst it looks like an automotive company, Ferrari displays the financial characteristics of a luxury goods business, with a 30% return on capital employed and annual free cash flow per share CAGR of 20% since 2014. This combination has translated into an annualised total shareholder return of ~30% since listing in 2015 vs the European index at ~8%.

Conclusion:

Warren Buffett often says that the best businesses are those that deliver excellent value to their customers and excellent economics to their owners. Ferrari's strong culture defines its durable business model and ultimately its fine economics. Whilst others grapple with strategic, commercial and operational issues, the Prancing Horse continues to extend its competitive advantage. This is precisely the type of business that the European Focus Fund seeks to identify and own for our investors.



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