

Investment Analysis of Ferrari S.p.A

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Abstract. This research paper provides a comprehensive investment analysis of Ferrari S.p.A., a renowned Italian luxury sports car manufacturer. The study employs a detailed SWOT analysis to evaluate Ferrari's strengths, weaknesses, opportunities, and threats, alongside a Porter's Five Forces analysis to assess the competitive forces within the automotive industry. Additionally, the paper examines Ferrari's financial health by analyzing historical data, financial statements, and key financial ratios. The findings underscore Ferrari's brand equity, cutting-edge technological innovations, and efficient cost management practices, collectively enhancing its market competitiveness and financial stability. Furthermore, the paper discusses the strategic initiatives undertaken by Ferrari to maintain its leadership position in the luxury sports car market. This study aims to provide valuable insights for investors considering Ferrari as a potential investment, highlighting its strengths, opportunities, and the challenges it faces in the dynamic global market. By understanding these factors, investors can make informed decisions about the viability of investing in Ferrari.

Keywords: Investment analysis; stock price; automobile industry; Ferrari.

1. Introduction

To some extent, Ferrari represents high performance and exquisite craftsmanship and symbolizes luxury and a unique lifestyle. Its irreplaceable value on social and cultural levels further highlights its unique appeal as an investment target. Similarly, with its excellent brand reputation, continuous innovation capability, and strong market performance in the investment field, Ferrari has become an ideal research subject. This paper aims to comprehensively assess Ferrari's industry advantages and risks, financial status, and future growth potential, providing accurate and in-depth analysis for potential investors.

2. Overview of Ferrari S.p.A

Enzo Ferrari founded Ferrari, and it produced its first car in 1947. It is a well-known Italian luxury sports car manufacturer headquartered in Maranello, Italy [1]. Ferrari is recognized for its iconic prancing horse emblem and has established itself as a symbol of excellence, performance, and exclusivity in the automotive industry. The company's portfolio includes a range of high-performance sports cars, such as the SF90 and 296. Ferrari is committed to innovation, evident in its continuous advancements in automotive technology and design. The brand's rich racing heritage further enhances its prestige, with numerous victories in Formula One.

3. Strategic Analysis

3.1. SWOT Analysis

A SWOT analysis is a tool used for strategic planning that helps a company evaluate key factors in its internal and external environment [2]. It comprises four components: strengths, weaknesses, opportunities, and threats. By analyzing these factors, a company can better understand its current strategic position and develop effective action plans to capitalize on strengths, overcome weaknesses, seize opportunities, and address threats.



3.1.1. Strength.

As one of the most renowned luxury sports car brands globally, Ferrari is famous for its exceptional performance and unique design. The brand symbolizes speed, luxury, and high performance, and it enjoys strong brand loyalty. Additionally, Ferrari leads in automotive technology and engineering, particularly in engine and aerodynamics design. Its hybrid systems (as seen in models like the SF90 and 296) demonstrate its ability to balance environmental concerns with performance. Moreover, Ferrari has a storied history in motorsport, having won numerous Formula One championships [3]. This enhances brand recognition and strengthens its position in the high-performance car market. Ferrari employs a limited production strategy, ensuring its vehicles' rarity and high value. This strategy enhances the brand's uniqueness and increases consumer desire to purchase.

3.1.2. Weakness.

Ferrari's high-end positioning makes its vehicles and related products expensive, limiting its market reach. The high prices mean Ferrari primarily targets affluent customers, failing to attract a broader consumer base, especially during economic downturns like the recent pandemic. Although Ferrari holds a significant position in the luxury sports car market, its overall market share is relatively small, particularly in the mass automobile market. Additionally, Ferrari's sales are highly dependent on specific regions (such as Europe and North America), which lack market diversity and could be affected by regional economic fluctuations.

3.1.3. Opportunity.

The increase in high-net-worth individuals presents new growth opportunities for Ferrari. With the economic recovery following the pandemic and the economic growth in emerging markets like China and India, Ferrari can expand its market share in these regions. The global focus on environmental sustainability allows Ferrari to develop high-performance hybrid or electric sports cars to meet market demands, further enhancing its technological leadership.

3.1.4. Threats.

Ferrari faces intense competition from other luxury sports car brands such as Lamborghini, McLaren and Aston Martin, which also have strong capabilities in technology and marketing. Global economic fluctuations and uncertainties could impact the demand for high-end cars, especially during economic recessions when consumers might reduce luxury spending. Increasingly stringent environmental regulations and emission standards may challenge Ferrari's traditional internal combustion engine models, forcing it to accelerate its transition to electrification.

3.1.5. SWOT Analysis Summary.

Ferrari's strengths lie in its renowned brand, exceptional performance, cutting-edge technology, and limited production strategy, ensuring high value and strong loyalty. However, its high-end positioning limits market reach and diversification. Opportunities exist in emerging markets and environmental sustainability. However, Ferrari faces threats from intense competition, economic fluctuations, and stringent environmental regulations, challenging its traditional models and pushing towards electrification.

3.2. Porter's Five Forces Analysis

Porter's Five Forces analysis model is generally used to assess competition in an industry. It covers five areas: competitive rivals, potential for new entrants in an industry, supplier power, customer power, and threat of substitutes. Together, these factors affect an industry's potential and competitive intensity [4]. By understanding and analyzing these forces, a company can develop strategies, identify market opportunities and threats, and thus gain a competitive advantage.

3.2.1. Competitive Rivals.

Despite being a unique brand in the luxury sports car market, Ferrari faces intense competition. Major competitors include Lamborghini, McLaren, and Aston Martin. These brands possess competitive technological innovation, influence, and market share advantages. Ferrari maintains its competitive edge through its distinctive brand positioning, high-performance vehicles, and excellent customer service. However, the intensity of market competition still poses a moderate threat to Ferrari.

3.2.2. Potential for New Entrants in An Industry.

The luxury sports car market has high entry barriers, primarily in brand recognition, technological research and development capabilities, and capital investment. New entrants need substantial capital to establish their brand and develop high-performance vehicles. Additionally, established companies like Ferrari have built strong brand loyalty and market positions, making it difficult for new entrants to gain market share quickly. Therefore, the threat of new entrants to Ferrari is relatively low.

3.2.3. Supplier Power.

Ferrari's demand for high-quality components makes it reliant on a few high-end suppliers. These suppliers provide essential parts such as engines, chassis, and high-performance materials [5]. Due to the limited number of suppliers and the scarcity of substitutes, suppliers have a certain degree of bargaining power regarding price and delivery time. However, Ferrari mitigates the impact of supplier bargaining power on its business through long-term cooperation and strict quality control. The bargaining power of suppliers is also relatively moderate.

3.2.4. Customer Power.

Ferrari's customer base mainly consists of high-net-worth individuals who are less price-sensitive and more focused on brand value and vehicle performance. Nonetheless, the increasing demand for personalized customization and high-quality service requires Ferrari to continuously improve its products and services to meet customer expectations. Overall, the bargaining power of customers is relatively low, but Ferrari still needs to maintain keen insights into customer needs and respond quickly.

3.2.5. Threat of Substitutes.

The threat of substitutes mainly comes from other luxury brands and high-performance electric vehicles. With advancements in electric vehicle technology, brands like Lotus and Tesla are emerging in the high-performance electric vehicle market, posing a specific threat to traditional fuel-powered sports cars. Additionally, some customers might choose other luxury goods or investment options over purchasing a luxury sports car. Ferrari addresses the threat of substitutes by continuously innovating and launching hybrid models to maintain market competitiveness. The threat posed by substitutes to Ferrari is also relatively moderate.

3.2.6. Porter's Five Forces Analysis Summary.

Ferrari faces intense competition from brands like Lamborghini and McLaren, which pose a moderate threat despite its strong brand positioning and high-performance vehicles. High entry barriers and established brand loyalty make the threat of new entrants relatively low. Supplier power is moderate due to Ferrari's reliance on high-quality components, although it mitigates this through long-term cooperation and strict quality control. Customer power is low, driven by a focus on brand value and performance. The threat of substitutes is moderate, particularly with the rise of high-performance electric vehicles, prompting Ferrari to innovate and launch hybrid models to maintain competitiveness.

4. Financial Analysis

4.1. Historical Information

At the time of Ferrari’s initial public offering of common stock, the price per share was \$52. From February 2024 to the present (July 2024,) Ferrari’s share price has remained above \$400. Figure 1 shows Ferrari’s stock trends over the past years [6].



Figure 1. Ferrari Stock Historical Price Chart

Despite having a history of over half a century, Ferrari went public on the New York Stock Exchange in October 2015 [7]. This move marked a significant milestone for Ferrari in the capital markets and provided new momentum and opportunities for its future development and global expansion. This paper will analyze Ferrari’s financial statements over the past five years in the following sections.

4.2. Financial Statements

4.2.1. Income Statement Analysis.

Table 1. Ferrari Consolidated Income Statement 2019-2023

Millions of USD	2023	2022	2021	2020	2019
Revenue	6,461.489	5,368.359	5,052.895	3,952.118	4,218.609
Cost of Goods Sold	3,242.438	2,790.937	2,461.573	1,926.288	2,021.947
Gross Profit	3,219.052	2,577.423	2,591.321	2,025.83	2,196.662
R&D	954.111	817.143	908.744	808.046	783.116
SG&A	500.65	450.913	411.747	383.957	384.361
Operating Expenses	1,468.572	1,284.253	1,318.912	1,207.798	1,169.122
Operating Income	1,750.479	1,293.17	1,272.409	818.032	1,027.54
Net Income	1,355.092	982.602	982.88	694.309	779.316
EPS(in \$)	7.47	5.36	5.32	3.75	4.16

According to Table 1 [8], the income statement from 2019 to 2023, Ferrari’s revenue exhibited significant growth, increasing from \$4,219 million in 2019 to \$6,461 million in 2023. Introducing new models and rising market demand drove revenue growth, increasing gross profit from \$2,197 million in 2019 to \$3,219 million in 2023. This demonstrates Ferrari’s effective strategies in cost control and product pricing.

At the same time, research and development (R&D) expenses also increased over these five years, from \$783 million in 2019 to \$954 million in 2023. This indicates Ferrari’s continued investment in developing new technologies and models to maintain its competitiveness in the high-end automotive market. Selling, general, and administrative (SG&A) expenses grew from \$384 million in 2019 to \$501 million in 2023. This increase reflects the company’s higher investments in marketing, sales network expansion, and administrative management to support its global business expansion.

Despite rising operating expenses, Ferrari’s income increased from \$1,028 million in 2019 to \$1,750 million in 2023, showing significant progress in enhancing operational efficiency and profitability. Net income rose from \$779 million in 2019 to \$1,355 million in 2023, reflecting improvements in the company’s overall financial health. This growth was mainly attributable to increased revenue and effective cost management. The encouraging news for shareholders is that earnings per share (EPS) increased from \$4.16 in 2019 to \$7.47 in 2023, indicating enhanced profitability and increased shareholder returns.

In summary, from 2019 to 2023, Ferrari achieved significant growth in revenue and profit through sustained R&D investment, effective cost control, and market expansion. These developments indicate that the company has maintained strong competitiveness and financial health in the high-end automotive market.

4.2.2. Balance Sheet Analysis.

Table 2. Ferrari Consolidated Balance Sheet 2019-2023

Millions of USD	2023	2022	2021	2020	2019
Cash on Hand	1,280.481	1,555.326	1,606.231	1,602.064	1,018.478
Receivables	1,866.052	1,736.823	1,589.228	1,298.001	1,365.241
Inventory	1,026.577	710.824	639.554	526.163	479.457
Total Assets	8,713.935	8,182.071	8,120.213	7,153.136	6,099.937
Long-Term Debt	2,681.058	2,962.49	3,111.566	3,112.476	2,340.505
Total Long-Term Liabilities	4,286.838	4,427.021	4,426.388	4,275.79	3,629.292
Total Liabilities	5,390.601	5,440.091	5,503.887	5,109.329	4,434.174
Shareholder Equity	3,323.334	2,741.98	2,616.326	2,043.808	1,665.763
Total Liabilities and Shareholder Equity	8,713.935	8,182.071	8,120.213	7,153.136	6,099.937

In Table 2, Ferrari’s balance sheet from 2019 to 2023 [8]. The investors can observe several significant changes that reveal the company’s strategic decisions and market performance over these five years.

First, this research will examine the company’s cash on hand. Ferrari’s cash balance decreased from \$1,555 million in 2022 to \$1,280 million in 2023, possibly due to substantial capital expenditures, debt repayments, or strategic optimization of the company’s capital structure. The changes in receivables are also noteworthy. Receivables increased from \$1,365 million in 2019 to \$1,866 million in 2023, indicating a growth in sales and changes in customer credit policies. This reflects Ferrari’s market share expansion, though potential bad debts require close monitoring. The increase in inventory is also notable. Inventory rose from \$479 million in 2019 to \$1,027 million in 2023, suggesting that the company may be scaling up production to meet market demand. This could be in response to growing order volumes, but careful management is needed to avoid overstocking. Last, the reduction in long-term liabilities is a positive sign. In 2023, long-term liabilities stood at \$2,681 million, down from \$2,962 million in 2022. As mentioned above, this decrease may be due to the company repaying a portion of its long-term debt in 2023, thus improving its financial structure. This indicates prudent financial management by the company.

These changes reflect Ferrari’s robust development and strategic decision-making over the past five years. The reduction in cash and long-term liabilities indicates active financial management, while the increases in accounts receivable and inventory highlight the company’s business expansion and growing market demand. The overall increase in total assets further attests to Ferrari’s sustained growth and expansion during this period.

4.3. Profitability Ratios

4.3.1. Net Profit Margin.

Net profit margin is a crucial financial metric that represents a company’s ability to generate profit from its revenue. It is calculated by dividing net income by total revenue and is expressed as a percentage, as shown in Equation (1).

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}} * 100 \quad (1)$$

This metric indicates the efficiency with which a company converts sales into actual profit, reflecting its overall financial health and operational efficiency [9].

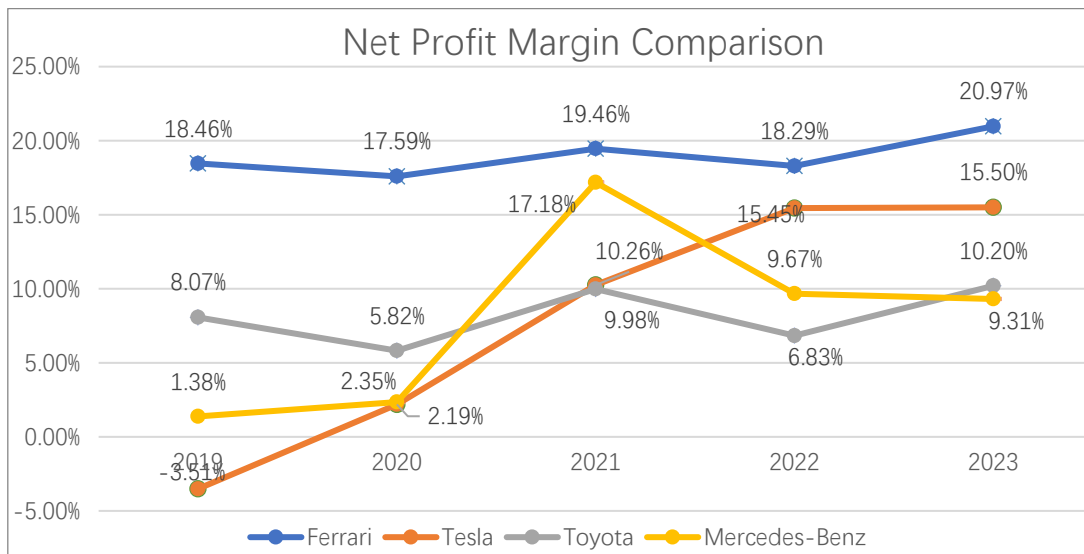


Figure 2. Ferrari and other vehicle manufacturers’ net profit margin

Figure 2 demonstrates that from 2019 to 2023, Ferrari consistently exhibited a solid net profit margin, ranging from 17.59% to 20.97% [8, 10, 11, 12]. This performance significantly surpasses that of its competitors. For instance, Ferrari’s net profit margin was 20.97% in 2023, compared to Tesla’s 15.50%, Toyota’s 10.20% and Mercedes-Benz’s 9.31%. This indicates that Ferrari is highly efficient at converting revenue into profit and outperforms its peers in the automotive industry. This exceptional performance can be attributed to Ferrari’s substantial brand value, premium pricing strategy, and effective cost management.

4.3.2. Return on Equity (ROE).

Return on Equity (ROE) measures a company’s ability to profit from shareholders’ equity. It is calculated by dividing net income by shareholders’ equity and expressed as a percentage. ROE indicates how effectively management uses the company’s assets to create profit, as shown in Equation (2) [11].

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders' Equity}} \quad (2)$$

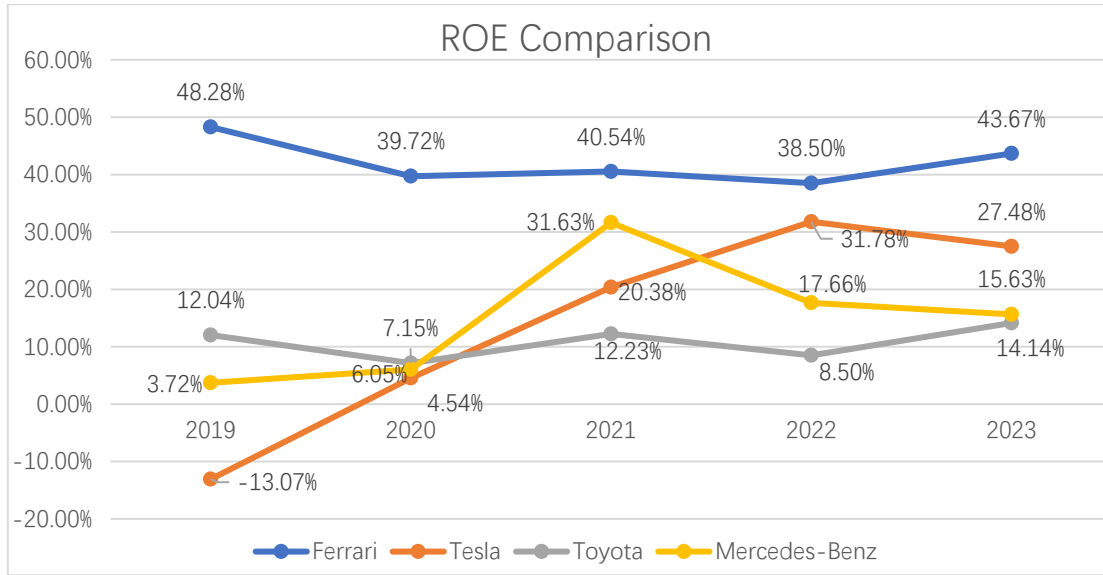


Figure 3. Ferrari and other vehicle manufacturers' ROE

According to Figure 3, Ferrari demonstrated strong ROE performance from 2019 to 2023, consistently outperforming its competitors [8, 10, 12, 13]. In 2023, Ferrari's ROE reached 43.67%, significantly higher than Tesla's 27.48%, Toyota's 14.14%, and Mercedes-Benz's 15.63%. This indicates Ferrari's exceptional efficiency in generating profit from its equity base. Despite minor fluctuations, Ferrari maintained an ROE above 38% throughout the period, showcasing robust financial management and profitability. In contrast, Tesla and Mercedes-Benz saw substantial increases in their ROE over the years but remained lower than Ferrari. Toyota's ROE, although stable, was relatively low. Overall, Ferrari's high ROE compared to its peers highlights its strong profitability and effective use of equity.

4.4. Liquidity Ratio

4.4.1. Current Ratio.

The current ratio is a liquidity ratio used to measure a company's ability to pay off its short-term liabilities with its short-term assets. It is calculated by dividing current assets by liabilities, as shown in Equation (3) [14].

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad (3)$$

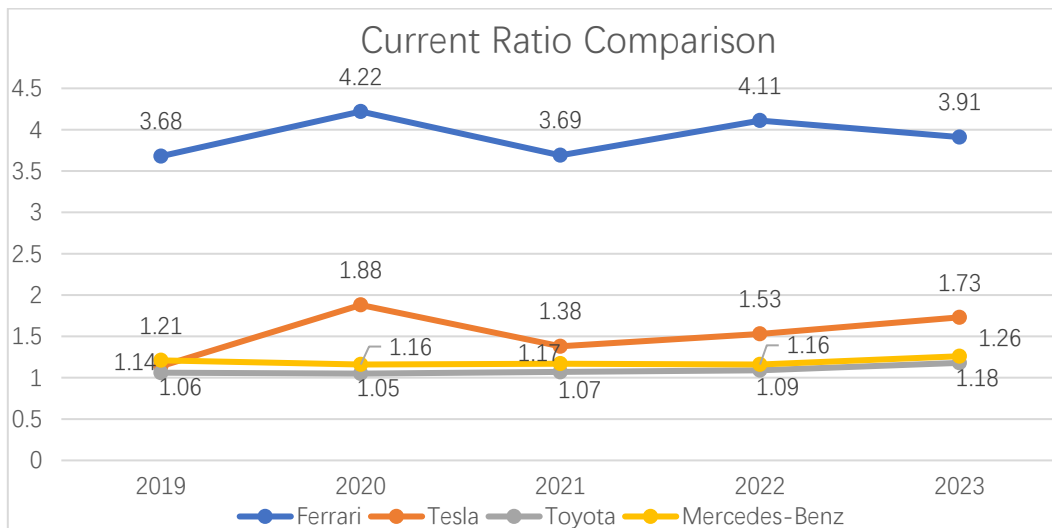


Figure 4. Ferrari and other vehicle manufacturers' current ratio

As the investors can see in Chart 3, Ferrari’s current ratio consistently remained above three during 2019-2023, indicating a solid liquidity position [8, 10, 11, 12]. In 2023, Ferrari’s current ratio was 3.91, significantly higher than that of its competitors: Tesla (1.73), Toyota (1.18), and Mercedes-Benz (1.26). This suggests that Ferrari has ample capacity to meet its short-term obligations, reflecting its prudent financial management and solid balance sheet. Ferrari’s superior current ratio highlights its exceptional ability to manage short-term financial liabilities compared to its competitors. Although Tesla has shown improvement, it is still behind Ferrari. Toyota and Mercedes-Benz have current ratios close to the industry average, indicating adequate but not outstanding liquidity. Ferrari’s current solid ratio underscores its financial stability and operational efficiency in managing working capital.

4.5. Price Ratios

4.5.1. Price-to-Earnings Ratio (PE Ratio).

The price-to-earnings ratio measures a company’s current stock price relative to its earnings per share, indicating market expectations for future profitability. A higher PE ratio suggests greater investor confidence in future growth, while a lower ratio may signal lower expectations in Equation (4) [15].

$$\frac{P}{E} \text{ Ratio} = \frac{\text{Market Value per Share}}{\text{Earnings per Share}} \quad (4)$$

Table 3. Ferrari and other vehicle manufacturers’ PE Ratio

PE Ratio	2019	2020	2021	2022	2023
Ferrari	38.44	59.09	47.7	39.3	45.16
Tesla	0	1127.63	215.67	34	9.79
Toyota	45.16	57.65	7.81	9.79	7.81

Table 3 shows the PE ratios for Ferrari, Tesla, and Toyota from 2019 to 2023 [8, 10, 11]. Ferrari’s PE ratio peaked at 59.09 in 2020, then decreased to 45.16 in 2023, reflecting a slight drop in market confidence. Tesla’s ratio was 0 in 2019, surged to 1127.63 in 2020, and fell to 57.65 in 2023, indicating significant shifts in growth expectations. Toyota’s PE ratio rose from 7.91 in 2019 to a peak in 2020 but declined to 7.81 by 2023, suggesting market concerns about its growth potential. These trends illustrate high but moderating expectations for Tesla, growing apprehension regarding Toyota’s future growth, and steady confidence in Ferrari.

5. Investment Recommendation

Currently, the most likely factor that will impact Ferrari’s car sales is environmental regulations concerning automobiles in the future. In most cases, achieving superior vehicle performance necessitates large-displacement engines. However, most cars may be electric vehicles in the future. The situation would be significantly different if Ferrari were mandated to produce electric cars. The overpricing of cars and the lack of diversity in the market may be factors affecting Ferrari’s stock price, but they also make it unique.

Based on the comprehensive financial analysis of Ferrari from 2019 to 2023 conducted above, Ferrari’s stock price is considered fair valued. In the short term, it is difficult for Ferrari’s stock price to fluctuate significantly as it is primarily determined by market sentiment or news. Although electric and hybrid cars have had great sales in recent years, they do not have the same target clients as Ferrari. Ferrari has demonstrated significant growth and stability, making it an attractive investment opportunity. Given Ferrari’s robust financial performance, strategic investments in R&D, and solid market position, it is recommended as a favorable investment opportunity. Investors should consider Ferrari’s continuous growth, operational efficiency, and practical financial management as crucial indicators of its ongoing success potential. Therefore, long-term investors are advised to buy and hold

Ferrari stocks, with the company's strategic initiatives and focus on innovation likely driving sustained growth and profitability. Simultaneously, investors should closely monitor competitive dynamics and the regulatory environment to mitigate potential risks and consider diversifying their portfolios to reduce these risks.

6. Conclusion

Ferrari presents a compelling investment opportunity due to its substantial brand value, technological innovation, and robust financial management. Strategic analyses reveal that Ferrari excels in brand positioning and market leadership; its advancements in hybrid and electric vehicles underscore its commitment to maintaining technological leadership. Financial analysis shows that Ferrari demonstrates superior performance, outperforming peers in profitability and liquidity metrics.

This paper's key contribution lies in its detailed examination of Ferrari's market position and strategic planning to face future challenges. It offers valuable insights into the investment potential of premium brands, aiding investors and analysts in understanding Ferrari's business model and market prospects. Furthermore, it addresses the competition among luxury sports car brands in the emerging electric vehicle market, filling a significant research gap.

Despite its thorough analysis, this study has limitations. Future research should explore Ferrari's performance in various global markets and its adaptability to economic shifts. Additionally, with the rapid growth of the electric vehicle sector, future studies should focus on Ferrari's technological advancements and market strategies to provide more comprehensive investment advice and market forecasts. Enhanced future research will offer deeper insights into Ferrari and its competitors in the luxury goods market, benefiting investors and academics alike.

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