

INVESTOR'S EDGE

Ferrari stock is now at attractive entry point for growth investors

Quality, not quantity, drives the automaker's profits.

"No one remembers who took second place and that will never be me."
Enzo Ferrari



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Guest columnist

There is a rare economic phenomenon called "Veblen good." Unlike traditional supply/demand economics, a Veblen good is when the price of the product increases, the demand for that product also increases. This is due to its exclusive nature and appeal as a status symbol, which drives wealthy people to buy higher quantities at higher prices.

No product exemplifies the Veblen good theory like a Ferrari, which epitomizes the image of exclusivity and scarcity.

After all, you can't just walk into a Ferrari dealership and buy a car. Vehicles are sold custom-made to each buyer, with hand-selected paint color, interior design, and other details that make each car unique.

In fact, Ferrari sells only about 14,000 cars a year and many customers wait more than two years for their vehicle, which usually costs between \$200,000 — \$600,000.

Ferrari (ticker symbol: RACE) not only makes some of the best cars money can buy, but it also is a superbly run company that has delivered outstanding returns to its shareholders — and I believe is an excellent buy right now for growth investors.

Founded in 1939 by Enzo Ferrari, Ferrari designs and handcrafts high-performance vehicles that are synonymous with wealth and high society.

Ferrari became an independent publicly traded company following its spinoff from Fiat Chrysler in 2015. Since then, the stock has risen an eye-popping 622%, more than 2.5 times the S&P 500 Index during the same time frame.

Ferrari's strong pricing power, consistent demand, and status symbol among the wealthy generate profit margins that double most of their competitors. Simply put, Ferrari operates a steady, lean, and highly profitable business catering to the highest end consumers.

Ferrari only offers around 10 to 12 models at a time, from impressive sports cars to the incredible "supercars" such as the Daytona SP3, which has a \$2.2 million price tag. Based on these very limited offerings, Ferrari does not sell a fraction of the cars as, say, a Mercedes Benz or a BMW — which I view as a positive. For example, in their most recent quarter, Ferrari sold a mere 3,500 cars. But at these prices, it is quality, not quantity that drives the company's profits.

Take the fact that from 2015 to 2023, Ferrari's revenue grew at an annual growth rate of about 10% and its annual units shipped nearly doubled from 7,664 to 13,663, according to investing

publication Motley Fool. To compare, new cars sold globally from other brands grew only 1%. The fact is, Ferrari's strong earnings momentum drove smoothly through the COVID 19 pandemic, supply chain disruptions, spiking inflation, and higher interest rates.

Ferrari is, indeed, a money-making machine, pun intended.

Last year, Ferrari announced it would roll out 15 new vehicle models from 2023 through 2026. It introduced four new models in 2023 and is right on track to launch five new models this year.

Ferrari's popularity as a brand extends beyond just its reputation on the road. The booming Formula One racing circuit has many perks for Ferrari including publicity, sponsorships, and marketing, which Ferrari uses to reinforce the prestige of their vehicles. For example, when it was announced earlier this year that racing star Lewis Hamilton, who currently holds the record for most Formula One wins, would join the Ferrari racing team, the stock jumped 12% in response.

After 77 years of producing gas-powered vehicles, Ferrari is preparing to enter the electronic vehicle fray. While most EV makers have struggled to scale production, control prices, and generate profits, Ferrari appears to be resistant to those problems. Its first EV vehicle is expected to cost more than \$500,000 and is set to debut in late 2025 or early 2026.

Readers should be aware that like the fancy sports cars it produces, Ferrari's shares are not cheap. However, Ferrari currently sells at \$435 per share, 12% off its all-time high of \$498. I believe this presents an attractive entry point for long-term investors.

So as the holidays are upon us, I think putting Ferrari's stock under the tree will be the gift that keeps on performing for years to come.

It will take you far.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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