

A Review of My Investment in Fiat Chrysler Automobiles

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Fiat Chrysler Automobiles (FCAU: NYSE)

| | |
|--------------------|--|
| First bought on: | 19/February/2015 |
| Last sold on: | 03/August/2018 |
| Avg. buy price: | \$9.90 (adjusted for Ferrari spin-off) |
| Avg. sell price: | \$16.95 |
| Annualized return: | 16.9% |

71.2% realized gain over a holding period of 3.5 years

Market Summary > Fiat Chrysler Automobiles NV

NYSE: FCAU

15.76 USD **-0.090 (0.57%)** ↓

Dec 13, 1:07 PM EST · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year 5 years **Max**

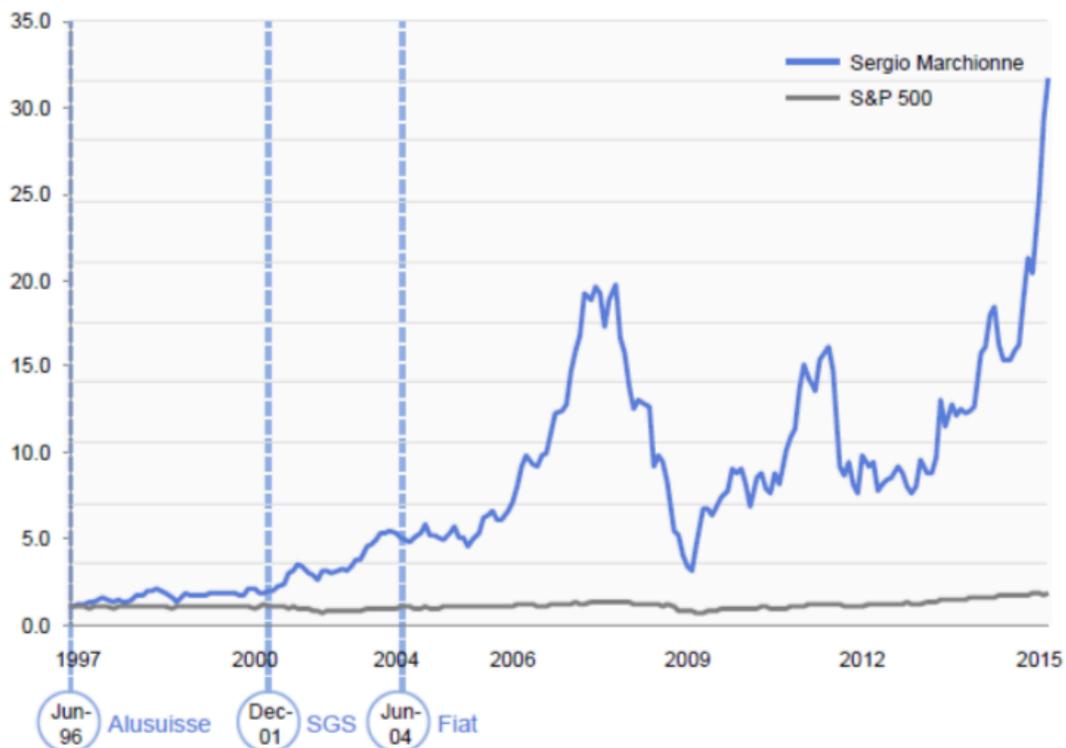


First buy:
19/Feb/2015

Last sell:
3/Aug/2018

In February 2015, I made an investment in FCA. The thesis was simple:

1. FCA was trading at a bargain 3.4x 2018 earnings
 - Management had laid out an ambitious 5-year 2014-2018 Business Plan that called for around €8 billion in EBIT by 2018
 - Management expected net industrial debt to swing from negative €9.7 billion in 2013 to positive by 2018
 - Profitable, debt-free companies don't trade for 3.4x earnings
 - "Let's buy and forget about it until 2018"
2. Value of FCA's Ferrari subsidiary > FCA's market cap
 - FCA's market cap was around \$17 billion and its Ferrari's subsidiary was easily worth this amount
 - Therefore, I was getting the rest of the portfolio which included Fiat, Chrysler, Jeep, Ram, Alfa Romeo, Lancia, Maserati, Magneti Marelli and Comau Robotics for free
3. Excellent management
 - FCA was run by Sergio Marchionne. Mr. Marchionne has been the CEO of 3 companies – Alusuisse, SGS and Fiat Chrysler. \$1 invested with him in 1996 when he became CEO of Alusuisse would have been worth over \$30 by 2015



- Mr. Marchionne took over the struggling Fiat in July 2004 following the death of Chairman Umberto Agnelli. He also orchestrated the brilliant takeover of Chrysler during the financial crisis

<https://www.youtube.com/watch?v=M469PJ5pdV0>

- Mr. Marchionne reports to FCA's Chairman John Elkann. Mr. Elkann is the CEO of Exor – an Italian holding company controlled by the influential Agnelli family. Exor owns 30% of FCA
- Great partnership between Mr. Marchionne and Mr. Elkann

With the following dynamics in place, I decided to buckle up and enjoy the ride.

Ferrari

In early 2016, FCA spun-off Ferrari as a stand-alone company. For every 10 shares of FCA I had, I received 1 share of Ferrari.

However, I made a HUGE mistake by selling Ferrari when the spinoff happened at about \$40/share. Today, Ferrari is valued at about \$20 billion and trades at \$104/share.

When the spin-off happened, Ferrari looked fully priced at 20x earnings. I didn't appreciate Ferrari's incredible brand and underestimated Mr. Marchionne. I expected him to be great and he turned out to be brilliant.

Market Summary > Ferrari NV

NYSE: RACE

104.10 USD **-1.40 (1.33%)** ↓

Closed: Dec 13, 4:11 PM EST · Disclaimer

After hours 104.50 +0.40 (0.38%)

1 day

5 days

1 month

6 months

YTD

1 year

5 years

Max



FCA today

When Mr. Marchionne took over Fiat in 2004, it had a market cap of \$7.5 billion. Today, the combined value of FCA and its spun-off entities (CNH Industrial and Ferrari) is about \$60 billion – about 8x higher.

In July, Mr. Marchionne passed away after suffering from serious complications following a shoulder surgery. He was 66. There is no other way to say it: he was the best. He played the long game. He exceeded expectations. The auto industry lost a giant.



Sergio Marchionne at the NYSE prior to Ferrari's IPO

FCA immediately named Mike Manley, head of FCA's North American operations and its Jeep and Ram truck brands as Mr. Marchionne's successor.

Today, FCA is in a net-cash position and is on track to achieve higher North American profit margins than GM and Ford. In October, the company announced that it is selling its parts unit, Magneti Marelli, to KKR for \$7 billion. The deal is expected to close in H1 2019.

FCA is trading at about 2x 2022 earnings. However, the auto industry is fiercely competitive and with Mr. Marchionne no longer at the helm, I chose to exit the investment.