

MAKING SOMETHING FROM NOTHING

Piero Ferrari has an amazing knack of making money where others fail. He unexpectedly inherited a €250 million fortune from shares that his famous father Enzo left him in the iconic sportscar maker, and now he has worked his magic with once-ailing turboprop company Piaggio. By Christian Syll



Turboprop company Piaggio pulled off the impossible in October 2003 when it closed a deal with the Italian government to purchase a 24 per cent stake in the enterprise for €20 million. With the aviation sector still depressed even the top jet players would be envious of this investment. But Piaggio is a humble one-make turboprop manufacturer. The investment pushes Piaggio's total value to over #80 million, 15 times more than when the current shareholders rescued the company from the brink of bankruptcy in 1998. Piaggio is still privately run by chief executive Jose di Mase and motor manufacturer scion Piero Ferrari. And having inherited a fortune from his father's legacy, Ferrari certainly doesn't depend on revenues from Piaggio, although his life started very differently.

Piero Ferrari is the lovechild of Ferrari founder Enzo Ferrari and Lina Lardi, a mistress Enzo maintained a relationship with from the 1920s until his death in 1988. But the death of Enzo's wife Laura in 1978 allowed him to give Piero his surname, along with the 10 per cent of Ferrari shares that remained in the family's name after the rest had been pledged to Fiat in a rescue bid in 1969.

Piero joined Ferrari in 1965 as purchasing manager but it wasn't until 2002 that his shares took on a value. Fiat was in desperate need of cash to stop its debts from consuming the company and it had been hoping to sell a third of Ferrari through an IPO. But this plan was shelved when Fiat found it could raise more through a private placement of a 34 per cent stake in Ferrari with its banking ally Mediobanca. The sale valued Ferrari at €2.5 billion, which put the value of Piero's shares at €250 million – a huge windfall he didn't expect.

Ferrari says he isn't involved in the day-to-day running of Ferrari anymore but sits

on board meetings and is part of a committee that chooses the style of new models that Ferrari will work on. And, despite the backdrop of a bruised economy, Piero is still adamant that the company will continue its trend of creating supercars such as the €900,000 Enzo.

"I think that a supercar is something that you can do maybe every five years so you make a very special car in a limited edition. It is something Ferrari has to do," he says. As the Enzo was released only last year, it will be a while before it is followed up. And Piero is confident that in 2003 Ferrari will have a "sales record" despite concerns that it would be hit by a weakened dollar as the US accounts for around a third of its business and its revenues from Formula One are paid in dollars.

Mediobanca and Fiat are in the driving seat when it comes to the timing and method of the Ferrari IPO, which is still on the cards, says Piero. Although the company is expected to go to market in 2004 he reveals that it could be longer. "Ferrari is maybe going to float in one year's time or more," he says and adds that the majority shareholders are "waiting for the right moment to do it". However, he firmly states that he intends to retain his shares in the company after the float. "This is a family share so I want to keep it," he says and if the success of his long-term strategy at Piaggio is anything to go by, his fortunes will be set to skyrocket.

Piaggio was founded in Genoa in 1884 and, originally involved in the naval equipment and fittings sector, began its aeronautical business in 1916. Its sole offering is the P180 turboprop, which differentiates itself from the competition by having three lifting surfaces with one wing moved to the nose cone for greater efficiency and less resistance. About 50 per cent of the company's revenue comes from making the P180, with the rest from

engine sales, aircraft sales and fuselage construction. But when Ferrari came on board, there wasn't much to see.

"Piaggio was bankrupt when we took over," says Ferrari and adds that the company was only a week away from closing its doors forever. A consortium of investors led by Ferrari acquired the company in November 1998 and in a masterstroke of timing, relaunched the P180 as the private aviation boom began. The company delivered one plane in 1999, seven in 2000, 12 in 2001 and 18 in 2002. "Next year our order book is full and we have options for 2005," says Ferrari. Piaggio's turboprop charm has even managed to lure the traditionally jet-only

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European market as the company has an admirable 50/50 sales split between Europe and the US. And in 2003 it also recorded its fourth consecutive profitable year, with 2002 revenues of €117 million and an operating margin of €18.3 million.

Ferrari modestly attributes Piaggio's stunning turnaround to the P180. "It has a flying performance similar to a jet with the economy of a turboprop. It is very quiet inside and has a cabin almost the size of a Falcon," he gushes. At a cost of €4 million, it rivals jets costing double and although it gives away 25 per cent in top speed and maximum range, it is nearly 40 per cent more economical and can take off and land in 30 per cent less space. But the bottom line is where it counts and if the plane is compared to budget jets at the bottom of the range it wins with flying colours. The

P180 sips fuel at under 90 gallons an hour compared to 130 gallons an hour of some of its competitors.

But Piero Ferrari isn't stopping there. The deal with the Italian state-owned investment company, Sviluppo Italia, is part of a package that will raise a total of €35 million as Piaggio's existing shareholders have contributed an additional €15 million in capital. "We'll increase production of the P180 with the investment because of the orders coming in," says Ferrari. And even based on the company's maximum factory output rate of 1.5 completed aircraft per month, Piaggio's current backlog will still extend to 2006. "We have several orders from the Italian government as well," he adds, hinting at a further carrot for the government to come into the company.

Ferrari says that the Italian government made the acquisition strategically since Piaggio is "the only Italian company in the aircraft business which produces complete planes", so it has an interest in seeing it thrive. And he reveals that some of the newfound capital will go towards financing fresh projects.

"We are now looking into making a new aeroplane to fit in the category between the €4.5 million P180 and the least expensive Falcon, which costs €15 million, as there is nothing in between," says Ferrari. However, he adds that "it is a medium-size European jet we are looking at building". So having mastered the first stage of turnaround tactics, Ferrari is now moving to the second level. Turning his back on Piaggio's turboprop tradition could be tougher to sell to the company's loyal clients but if Ferrari times it right again, he could catch on to the microjet craze starting to gather pace in the sector. And he admits that he has time to play with as the new plane isn't expected for quite a few years to come.

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