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Oggetto : PIRELLI: INDUSTRIAL PLAN UPDATE 2024-
25 E BUDGET 2024

Testo del comunicato

Vedi allegato



PRESS RELEASE

INDUSTRIAL PLAN UPDATE 2024-'25 AND 2024 BUDGET

2024 BUDGET AND INDUSTRIAL PLAN UPDATE 24-25 APPROVED

FURTHER STRENGTHENING OF LEADERSHIP IN HIGH VALUE SEGMENT

SUSTAINABILITY A KEY FACTOR: NET ZERO BY 2040, FIRST IN THE TYRE WORLD

FOCUS ON CONNECTIVITY AND CYBER™ TYRE

LAUNCH OF 20 NEW PRODUCT LINES FORESEEN BETWEEN 2024 AND 2025

DELEVERAGING TARGET CONFIRMED: NFP/ADJUSTED EBITDA RATIO AT 1X IN 2025

TARGETS

IN 2024 REVENUES BETWEEN ~6.6 AND ~6.8 BILLION EURO WITH AN ADJUSTED EBIT MARGIN BETWEEN >15% AND ~15.5%

IN 2025 REVENUES BETWEEN ~6.8 AND ~7.0 BILLION EURO WITH AN ADJUSTED EBIT MARGIN OF ~16%

OVER THE TWO YEARS CASH FLOW BEFORE DIVIDENDS OF AROUND 1.1 BILLION EURO

INVESTMENTS IN THE 2-YEAR PERIOD 2024-2025 OF AROUND 820 MILLION EURO

NET FINANCIAL POSITION IN 2025 AT ~1.6 BILLION EURO (1X ADJUSTED EBITDA)

DIVIDENDS: PAY OUT REVISED UP TO 50% OF 2024 RESULT (FROM 40% OF PREVIOUS PLAN)

Milan, 6 March 2024 – The Board of Directors of Pirelli & C. has approved the update of the “**Industrial Plan Update '24-'25**” which will be presented to the financial community today by the Executive Vice Chairman, Marco Tronchetti Provera, Chief Executive Officer, Andrea Casaluci, and Top Management.

The Industrial Plan Update 2024-2025 represents the updating of the Industrial Plan 2021-22|25 presented on 31 March 2021 to take into account the changed and volatile external context which has characterized the last three years: growing geopolitical tensions, significant slowdown of economic growth and demand, penalized by high inflation and rise of interest rates.

Pirelli has dealt with this scenario by leveraging on its resilient business model, focused on High-Value – the segment with the highest growth – its already optimized and always more local-for-local production and on an organization that is rapid in the implementation of mitigation actions. This has enabled Pirelli to end the 3-year period 2021-2023 with results above expectations and to consolidate its positioning in the industry as Leading High Value Consumer Tyre Player.

In particular, the company has:

- **Reinforced its focus on High Value**, which at the end of 2023 reached, two years ahead of schedule, a weight of 75% in group revenues (70% weight in 2020, reference basis of the previous plan)
- **Improved profitability**, with an Adjusted Ebit Margin of 15.1% in 2023 (growth of 3.5 basis points compared with 2020), and confirms place among the highest of Tier 1 thanks to the great contribution of internal levers (price/mix and efficiencies)
- **Financial leverage more than halved** in the 3-year period, with an **Nfp/Adjusted Ebitda** ratio at end 2023 of 1.56 times compared with 3.65 times at end 2020, thanks to strong cash generation
- **Accelerated decarbonization path** with a reduction of CO2 emissions for Scopes 1 and 2 of 51% in 2023 compared with the reference year 2015 (previous target -42% in 2025) and 18% for Scope 3 (previous target -9% in 2025).

MACROECONOMIC CONTEXT AND THE TYRE MARKET

The **macro-economic context** for 2024 remains volatile, with progressive improvements expected in 2025, and will be characterized by moderate economic growth, persistent even if progressively declining inflation, and US and EU interest rates which, even if in slow diminution, will remain still significantly higher than the last ten years. Overall, the economic picture remains below the expectations formulated in 2021.

Global GDP is expected to grow by +2.3% in 2024 and +2.6% in 2025 (+3.1% estimates of the previous plan for both years). **Inflation** (consumer prices) will be 4.7% at the global level in 2024 and 3.1% in 2025 (respectively +2.5 and 2.6% estimates of the 2021 plan). Average annual eurozone interest rates are expected at 3.6% in 2024 and 2.2% in 2025 (estimates formulated in 2021 respectively -0.5% and -0.5%), while in the USA interest rates are expected at 5.2% in 2024 and 3.8% in 2025 (2021 estimates +0.1% for both years).

For the **tyre market** in 2024-2025 the outlook is for improved global demand (~+1% both years), even if still below 2021 estimates because of the weakness of Standard (expected -1% to flat). **High Value**, on the other hand, confirms its growth in rim sizes equal to or above 18 inches ($\geq 18''$), expected to increase by around +5% both in 2024 and 2025.

Significant acceleration in demand for tyres for electric cars (BEV), with a total market (Original Equipment and Replacement) estimated at 90 million tyres in 2025 (previous plan's expectation 50 million in 2025) compared with 50 million in 2023.

TYRE AND AUTOMOTIVE SECTOR OUTLOOK

The main trends of the tyre/automotive in the medium and long term remain favourable:

- The **High Value** segment remains more resilient compared with Standard, with an average annual growth rate (CAGR) between 2023 and 2030 estimated at +5% compared with a flat trend for Standard
- **Sustainability** will be an ever more central element, with 80% of consumers already considering sustainability in automotive purchases and 96% of Premium and Prestige carmakers aiming to achieve Net Zero by 2050
- The **electric vehicle market** is expected to grow. In 2030 electric vehicles will account for around 80% of the total production of the Premium and Prestige carmakers (estimated at 45% of total car production), double the 40% expected in 2025 (21% of total car production) and compared with 25% in 2023 (12% of total car production).
- **Connectivity**: by 2030, 60% of new cars sold globally will be connected. Supported by the greater technological fluency of drivers and more sophisticated electronic architecture of electric vehicles, the parc of connected cars will in fact continue to grow, with its share seen rising from 17% in 2021 to 32% in 2025, to 60% in 2030 and 77% in 2035.

INDUSTRIAL PLAN UPDATE 2024-25

Pirelli aims to strengthen its leadership in High Value and maintain its first place for profitability among Tier 1 players leveraging on its competitive advantages. Through its Commercial, Operations and Innovation programs, Pirelli intends to:

- **Strengthen** its **Leadership in the Electric and Specialties**, thanks to the strength of its technology and brand;
- **Capture** opportunities for **High Value growth at the 'regional' level**, in particular in North America, Europe and Apac which together represent around 95% of volumes in the ≥ 18 " market
- **Reinforce** its efficiencies program, leveraging on digitization programs launched in recent years
- **Accelerate its sustainable transition** enhancing its competitive edge
- Exploit new opportunities offered by **Cyber™ Tyre**

In the pursuit of these goals, Pirelli can count on the strength, passion and commitment of all its people, guided by an expert managerial team (with an average of 17 years in the Management Team) and an organization with rapid decision-making processes.

COMMERCIAL PROGRAM

Develop High Value, Reduce Standard, Enhance Brand

The Commercial program entails:

- A further development phase for CAR ≥ 18 inches
 - In the **Replacement** channel, where Pirelli expects to do better than the market (average estimated annual $\sim +5\%$ between 2023 and 2025) growth will be driven by **pull-through** (choice in replacement phase of the same product developed as Original Equipment) thanks to an ample portfolio of ≥ 18 " homologations, the biggest in the sector, always more oriented towards EVs and specialties. The other growth driver will be '**push-through**' demand (choice of Pirelli in the replacement phase regardless of the brand of original equipment) also thanks to the broadening of the product range: 10 new lines foreseen per year in 2024 and 2025 (7 per year in 2021-2023). Of the total 20 new lines, 5 will be at the global level with high technological content, 10 for the specific needs of single Regions and another 5 to cover new high growth segments with tailored technologies.
 - In **Original Equipment**, channel expected to grow by $+5\%$ in 2024 and 2025, Pirelli will continue to grow in a selective manner, improving the mix through a focus on rim sizes ≥ 19 " and **electric**, consolidating its leadership thanks to partnerships with Premium and Prestige car makers (100% of Premium and Prestige EV carmakers are Pirelli partners) and its own **ELECT™ technology**, applied to all the segment's product families. In 2023 the company already counted on a portfolio of over 500 homologations with Premium and Prestige EV carmakers and in 2025 it expects to exceed 900. In 2025 Pirelli aims to double its **volumes destined for electric** compared with 2023 (Original Equipment and Replacement).
- Further reduction of exposure to Car (≤ 17 inches) destined mainly to satisfy the requirements of Standard Regions
- Enhancement of the iconic **brand** to support positioning in the higher strata of the market

OPERATIONS PROGRAM

Resilience of the value chain, Efficiencies from digital transformation, Sustainable Transition

The Operations program entails:

- a **resilient value chain**, with an always more local-for-local industrial presence (at 90% in 2025 from 85% in 2023) able to guarantee the continuity of business.
In 2025 **production** will be 74 million pieces (in line with 2023), with an increase of High Value to 78% (74% in 2023) and a **saturation of capacity** growing to 90% (86% in 2023).
- an **efficiencies plan** leveraging on digital transformation programs launched in recent years and in particular digitalization and automation. Between 2023 and 2025 around 370 million in gross efficiencies are foreseen (92 million in 2023, around 140 million in 2024 and around 135 million in 2025), equal to 7% of the total 2022 cost baseline and 70 million higher than the 2021 estimate.
- acceleration of **sustainable transition**, increasing energy efficiency and electrification in the factories and making products and processes more sustainable with virtualization and greater use of bio-based and recycled materials. Pirelli confirms its goal of **Carbon Neutrality in 2030** and, the world's first in the tyre sector, has set the objective of **NET ZERO in 2040**, illustrated in a dedicated paragraph in the main sustainability targets.

INNOVATION PROGRAM

Product innovation, technology and 'future factory', connected mobility with Cyber™ Tyre

The innovation program entails:

- **Product innovation and leadership.**
 - In the area of **electric mobility**, Pirelli will consolidate its leadership thanks to Elect technology which, applied to the various product families, guarantees superior results in key parameters for Electric Vehicles (rolling resistance, wear, noise, battery range) without compromising performance.
 - In the context of **Eco Safety Design** – products designed to maximize environmental performance and safety – Pirelli will strengthen its position with a range of tyres that are longer wearing, have lower rolling resistance, use more innovative materials, have better wet performance and optimal braking distance for the entire life of the product and longer drivability in the event of punctures (new Runforward technology).
 - In **materials**, Pirelli will increase the bio-based and recycled component of its tyres. The weight of bio-based and recycled materials, today already over 55% in the P Zero E tyre, will exceed 70% in the future “best product” in 2025 and 80% in 2030, aiming in the long term for 100% non-fossil origin. For the entirety of products, bio-based and recycled materials are foreseen growing from 23% in 2023 to 30% in 2025 up to 40% in 2030. These products will feature a specific logo and be validated by third parties.
- **Technology and “Future Factory”.**
In 2024-2025 Pirelli will continue the process of transforming its factories to improve the quality, efficiency and flexibility of each phase of production, with ever greater use of digitalization, Industrial IoT (IIoT) and automation, accompanied by a process of employee upskilling and reskilling.
- **Connectivity Solutions (Cyber™ Tyre)**
Pirelli will capture opportunities linked to greater connectivity in the automotive world thanks to its Cyber™ Tyre technology and the processing of data gathered by the sensors integrated into the tyre into information relative to the state of the tyre and road surface, useful for scheduling maintenance, to optimize stability and control over the car, to improve aspects of safety and contribute to control of consumption, but also to improve the phases of development of the tyre itself.

For **Cyber™ Tyre** technology two go-to-market strategies are foreseen:

- **OE and car connectivity:** strengthening partnerships with **carmakers in Original Equipment** and integration with **vehicle electronic control systems**, optimizing

- performance, safety and driving comfort and becoming an instrument of use in Research & Development and for 'time to market' not only for Pirelli but for carmakers too
- **Servitization of end user:** partnerships for the monitoring of **road infrastructure** and development of services linked to the connected tire for a diversity of users (from end users to dealers to fleets)

TARGETS

Targets 2024-2025 (€ bn)	2023	2024E	2025E
Revenues	6.65	~6.6÷~6.8	~6.8÷~7.0
Adjusted Ebit Margin	15.1%	>15%÷~15.5%	~16%
Investments <i>% of revenues</i>	0.41 <i>6.1%</i>	~0.40 <i>~6%</i>	~0.42 <i>~6%</i>
Net cash flow before dividends	0.51	~0.50÷~0.52	~0.55÷0.57
Net financial position* <i>NFP/Adj. Ebitda</i>	-2.26 <i>1.56x</i>	~-1.95 <i>~1.32x÷~1.26x</i>	~-1.6 <i>~1.0x</i>
ROIC <i>post taxes</i>	20.3%	~21%	~21%

For **2024** Pirelli expects revenues of between **around 6.6 and 6.8 billion euro** with:

- **Total volumes of between ~+1.5% and ~+2.5%** with growth of High Value at "Mid-single-digit" levels and with further reduction of exposure to Standard
- **price/mix expected at ~+2%**
- **forex impact of ~-4% and ~-3%**

For **2025** Pirelli expects revenues of between **around 6.8 and around 7 billion euro** with volumes, price/mix and forex impact slightly improved compared with 2024 estimates.

Profitability is expected to progressively improve, with an **adjusted Ebit margin in 2024** of between >15% and ~15.5% and further growth **in 2025** to ~16%. The profitability improvement will be driven by the commercial performance and price/mix, factors which will offset the negative impacts of raw materials and exchange rates. Gross efficiencies, of 140 million euro in 2024 and 135 million in 2025, will completely compensate for the impact of inflation.

Cumulative **investments** in 2024 and 2025 will amount to about 820 million euro, with a ratio to revenues stable at around 6%, as occurred in the first phase of the plan (2021-2023) and will be destined mainly to improving the mix, technology upgrades and productivity improvement, as well as measures linked to the sustainability plan.

The **net cash flow before dividends** in 2024 will be between about 500 and about 520 million euro and includes the impact of the acquisition of Hevea-Tec (around 21 million euro). The net cash flow before dividends is expected to grow to between around 550 and around 570 million euro in 2025, thanks to the constant improvement of the operating performance and effective management of working capital.

At the end of 2024 the **Net Financial Position** will be ~ **-1.95 billion euro** (between ~**1.32 and ~1.26** times Adjusted Ebitda). At **end 2025** the Net Financial Position will be around **-1.6 billion euro**, equal to ~**1 times Adjusted Ebitda**.

Based on the solid cash generation prospective, **the dividend policy has been revised up** and foresees in 2025 the distribution of around 50% of the consolidated net result of 2024 (previous plan foresaw payout of 40%).

The Return on Capital (ROIC), net of fiscal impacts, will be around 21% in 2024 and 2025.

The prospects illustrated above confirm Pirelli's goal of delivering a performance in 2025 in terms of Adjusted Ebit and cash flow in line with the targets of the **2021-2022|25 Plan**, notwithstanding the deterioration and greater volatility of the context.

In particular:

- **Revenues in 2025 of 6.9 billion** (average of the estimated ~6.8÷~7.0 bln), about one billion more compared with the 5.9 billion expected in March 2021, because of the inflation effect;
- **Adjusted Ebit** of around 1.1 billion euro, in line with the outlook in March 2021, but with lower marginality because of the strong inflation effect,
- **Cumulative net cash flow before dividends for 2021-25** at 2.5 billion in total, in line with the outlook in March 2021
- **NFP/Adj Ebitda ratio** of about 1 time, in line with the target

KEY SUSTAINABILITY TARGETS OF THE PLAN

Summarized below are the main targets of the sustainable development strategy to 2025, 2030 and 2040, developed in continuity with the process of sustainable transition and decarbonization and in support of the United Nations 2030 sustainable development targets.

Net Zero Target to 2040 and decarbonization path

Pirelli, which had already set and today confirms **the goal of Carbon Neutrality by 2030**, will become the first company of the tyre sector to reach the **target of Net Zero in 2040**, therefore setting a target for the **reduction of absolute emissions of greenhouse gases (GHG) of Scope 1, 2 and 3¹ of at least 90%** compared with the base year 2018.

Pirelli foresees, in addition, reducing absolute greenhouse gas emissions as follows:

- **Scope 1 and 2:** with a reduction of **60% by 2025 and 80% by 2030** compared with 2018;
- **Scope 3:** reducing emissions by **27% by 2025 and 30% by 2030** compared with 2018.

The company has **submitted these goals to the Science Based Target initiative (SBTi)** after having reached, two years ahead of schedule at the end of 2023, those previously validated by the same SBTi. These targets are also in with the Paris Accord to keep global warming under 1.5°C.

On its path to decarbonization to achieve Net Zero, Pirelli foresees an intermediate target set for 2027, year by which it is committed to reducing absolute greenhouse gas emissions by 62% for Scopes 1 and 2 and by 28% for Scope 3, compared with 2018.

To achieve its decarbonization targets, Pirelli has launched a series of programs and investments in the manufacturing area. In particular:

- **by 2025** all factories at the global level will use **100% renewable electric energy** (objective already achieved for the factories in Europe, North America and Latam);

¹ **Scope 1:** direct greenhouse effect gas emissions coming from the direct combustion of fossil fuels within the perimeter of the organization

Scope 2: indirect emissions of greenhouse effect gases deriving from use of electricity, heat and steam imported and consumed by the organization within its confines

Scope 3: indirect emissions linked to activities upstream or downstream from company operations, calculated according to the GHG Protocol and in line with SBTi requirements.

- by 2030, 75% of the curing presses will be electrified.

At the level of **raw materials**², Pirelli foresees constantly increasing the quantity of materials of non-fossil origin in its products. In particular:

- for its **best product**, Pirelli will use **more than 70% bio-based and recycled materials** in 2025. A value which will **exceed 80% in 2030** with the goal of reaching 100% non-fossil origin in the long term. Pirelli has produced a tyre – the P Zero E – which contains more than 55% of materials of natural or recycled origin, a result above the target of the previous plan which called for the use of 43% of renewable materials by 2025 in selected product lines.
- For **all product lines**, in addition, Pirelli will use **bio-based and recycled materials at 30% in 2025 and 40% in 2030**.

In line with its commitment to safeguarding the forests where natural rubber is derived, Pirelli was in 2021 the first company in the world to equip a mass production vehicle with FSC certified tyres and beginning with the 2024 season it will introduce the same certification for all tyres produced and used in F1. The goal is to bring **100% FSC certified natural rubber to European production by 2026**.

The culture of Safety in the workplace, in conclusion, will continue to support the **Zero Accidents Goal**, with an **index of accident frequency** expected at ~1³ by 2025 compared with 1.7⁴ in 2023.

All the sustainability targets called for in the Plan relative to the areas “**People**”, “**Climate**”, “**Product**”, “and “**Nature**”, “**Global Value Chains**” and “**Finance**” can be consulted in the page dedicated to the Industrial Plan in the “Investors” section of www.pirelli.com.

Video Conference

The results to 31 December 2023 and update of the Industrial Plan 2025 will be illustrated today, 6 March 2024, at 2 p.m. via a video conference call with the participation of Executive Vice Chairman of Pirelli, Marco Tronchetti Provera, CEO Andrea Casaluci and the top management. Journalists will be able to follow the presentation, without the possibility of asking questions, in live stream in the Investors section or by telephone at **+39 02 802 09 27**.

“Forward-looking statements” (which expression shall include opinions, predictions or expectations about any future event) that may be contained in the Presentation are based on a variety of estimates and assumptions by the Group, including, among others, estimates of future operating results, the value of assets and market conditions. These estimates and assumptions are inherently uncertain and are subject to numerous business, industry, market, regulatory, geo-political, competitive and financial risks that are outside of the Group’s control. There can be no assurance that the assumptions made in connection with the forward-looking statements will prove accurate, and actual results may differ materially. The inclusion of the forward-looking statements herein should not be regarded as an indication that the Group considers the forward-looking statements to be a reliable prediction of future events and the forward-looking statements should not be relied upon as such. Neither the Group nor any of its representatives has made or makes any representation to any person regarding the forward-looking statements and none of them intends to update or otherwise revise the forward-looking statements to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the forward-looking statements are later shown to be in error. The forward-looking statements does not take into account any additional negative effects that may arise from impacts on the global market in which Pirelli operates and more generally on the macroeconomic scenario, also following the worsening of the crisis in Ukraine and in the Gaza Region.

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² The targets relative to Pirelli products refer to consumer tyres and therefore should be compared, where relevant, exclusively to consumer tyre targets and not to other tyre categories or consolidations of production segments.

³ Index of frequency: Number of accidents in the workplace per one million hours worked. Where calculated on 200,000 hours worked, the target for 2025 is ~ 0.2 and the 2023 index stands at 0.34.

⁴ Index of frequency: Number of accidents in the workplace per one million hours worked. Where calculated on 200,000 hours worked, the target for 2025 is ~ 0.2 and the 2023 index stands at 0.34.

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