EthiFinance Ratings

COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN SCA

855200887 CORPORATE

A — ISSUER RATING Long term

OUTLOOK Stable

EF1+ — ISSUER RATING Short-term

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Compagnie Générale des Etablissements Michelin SCA's ('Michelin') long-term rating at A, maintaining a Stable outlook. Concurrently, we affirm the company's short-term rating at EF1+.
- Michelin is a French multinational company specializing in the manufacturing of tyres for a wide range of vehicles, including cars, trucks, motorcycles, bicycles, and aircraft. It is also known for high-tech polymer-based materials and advancements in data-driven services for vehicle fleets.
- Our ratings affirmation primarily reflects the stable evolution of Michelin's credit metrics throughout our rating period (NFD/EBITDA < 1.0x, EBITDA/Interest > 20.0x, Equity/Debt > 200%). In FY24, Michelin's revenues declined by 4.1% (o/w -1.0% FX effects), driven mainly by lower volumes (-5.1%), partially offset by a favourable product mix across the company's various brands (+2.0%). The volume decline was largely due to a significant downturn in the beyond-road activities (construction and mining), mostly attributed to OEMs whereas the aftermarket segment sales performance remained resilient. Notably, strong growth in the sales of >18" tyres, representing 65% of total FY24 tyre sales, supported the positive product mix , helping to protect margins.
- Additionally, the application of indexation clauses in OEM contracts enabled Michelin to maintain its adjusted EBITDA margin at 18.8% (compared to 18.7% in FY23). With a stable net adjusted debt of €5.8bn, the net adjusted leverage ratio remained steady at 1.1x, aligning with our forecasts from the previous rating review. The interest coverage ratio improved from 17.2x in FY23 to 22.8x in FY24, supported by a 27% reduction in interest expenses due to lower interest rates YoY. We anticipate this ratio to gradually improve to reach 28.3x by 2027, driven by growing adjusted EBITDA and stable interest rates, with 85% of the current debt being at a fixed rate. Michelin repurchased €500m of its shares in FY24 as part of a €1bn buyback program scheduled to run until 2026. This led to a decline in adjusted FCF to €0.5bn (from c. €1.2bn in FY23). However, the net adjusted leverage ratio is expected to improve gradually, decreasing to 0.7x by 2027 on the back of a cumulated FCF generation of c. €1.7bn over our forecast period (2025-2027). Our ratings are further supported by Michelin's leading position in the tyre market, which grants the company pricing power. This competitive advantage has proven valuable, particularly in mitigating the impact of volume headwinds experienced by tyre manufacturers over the past year, especially in the specialties and OEM segments.
- However, our ratings are constrained by the tyre industry risk profile, which remains at BB due to its significant exposure to the highly cyclical original equipment market, and ongoing tariff uncertainties. At the group level, our ratings remain constrained by the weak volume environment in the specialties and OEM segments, which has weighed on Michelin's topline growth in both FY23 and FY24. Stagnant sales volumes pose a risk to profitability growth, particularly given the limited contribution of non-tyre activities (such as connected solutions, distribution & retail and Polymer), which accounted for approximately 5% of total sales in FY24, unchanged from FY23. Michelin continues to be strategically focused on external growth in the technological areas, with the goal of increasing their contribution above 20% of total sales by 2030.
- Under our methodology, the auto component industry has medium-to-high ESG risks (sector heatmap score between 3.5 and 4), slightly constraining our industry assessment. Its impact on the climate is primarily tied to OEMs, but with a lighter production process generating low GHG emissions. The industry uses a lot of resources, mainly raw materials, thereby generating a significant amount of waste and pollution. Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), positively impacting our financial assessment, partially offsetting the effect from our industry assessment. In FY24, Michelin committed to a significant reduction of CO2 emissions and energy consumption, achieving a 37% reduction in its scope 1 and 2 emissions compared to 2019 as base year (out of a target of 47% by 2030).

ISSUER DESCRIPTION

Based in France, Michelin is a first-rank French automotive supplier specializing in tyres. It designs, manufactures, and sells tyres for both light and heavy vehicles such as cars, trucks, aircraft, off-road machines, and motorbikes. Beyond its flagship "Michelin" brand (tier 1), the company also offers a set of more affordable brands (tier 2) such as Kleber and BFGoodrich. Michelin's business operations extend into data-driven services for vehicle fleets, the creation of polymer-based high-tech materials, and pioneering efforts in hydrogen mobility through its partnership with Faurecia and Stellantis in the joint venture SYMBIO. The group has 125,000 employees spread across 123 factories and 9 R&D centres in 26 countries; its products are sold in 170 countries. Michelin's revenues are mainly generated in the EU and North America, accounting for c. 36% and 39% of FY24 revenues, respectively.

For FY24, Michelin reported revenues of €27.2bn for adjusted EBITDA of €5.1bn, equivalent to an 18.8% margin. Its net adjusted leverage ratio stood at 1.1x. With a free float of 93.4%, Michelin's market capitalisation was €23.7bn as of 13February 2025.

LIQUIDITY

We assess Michelin's liquidity profile to be 'Superior', as the company can repay all its upcoming debt without refinancing for more than two years.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. Millions of €.

	FY23	FY24	FY25e	FY26e	FY27e	24vs23
Revenues	28 343	27 193	27 862	28 548	29 538	-4,1%
Adj EBITDA (1)	5 301	5 115	5 306	5 499	5 814	-3,5%
Adj EBITDA Margin (1)	18,7%	18,8%	19,0%	19,3%	19,7%	0,1pp
EBIT	3 384	3 132	3 274	3 417	3 660	-7,4%
EBIT Margin	11,9%	11,5%	11,8%	12,0%	12,4%	-0,4pp
EBT	3 076	2 908	3 072	3 211	3 455	-5,5%
Total Assets	35 195	37 352	37 372	38 741	40 063	6,1%
Equity	17 958	18 634	19 821	20 933	22 351	3,8%
Adj Total Financial Debt (2)	8 676	10 080	8 828	9 008	8 808	16,2%
Adj Net Financial Debt (2)	5 758	5 794	5 120	4 691	4 056	0,6%
Equity/Adj TFD (2)	207,0%	184,9%	224,5%	232,4%	253,8%	-22,1pp
Adj NFD/ Adj EBITDA (2)	1,1x	1,1x	1,0x	0,9x	0,7x	0,0x
Funds From Operations	4 302	4 267	4 495	4 701	4 908	-0,8%
FFO/ Adj NFD (1) (2)	74,7%	73,7%	87,8%	100,2%	121,0%	-1,1pp
Adj EBITDA/Interest (1)	17,2x	22,8x	26,3x	26,7x	28,3x	5,6x

(1) Adj EBITDA is adjusted for recurring restructuring costs

(2) Net debt adjustments : Employee benefits are reincluded in net debt.

CREDIT RATING

Credit Rating	
Business Risk Profile	**BBB**
Industry risk assessment	*BB*
Industry's ESG	*Negative*
Competitive Positioning	*A-*
Governance	*A-*
Financial Risk Profile	**AA-**
Cash flow and leverage	*A+*
Capitalisation	*A+*
Company's ESG	*Positive*
Anchor Rating	**A**
Modifiers	-
Rating	**A**

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

- **Stable CMEE**

We expect Michelin's credit metrics to remain steady and broadly unchanged over the next twelve months – as the tyre market volume growth is still under pressure across all specialties.

RATING SENSITIVITY

- **List of ratings:**
  - **LT Rating: A**
  - **ST Rating: EF1+**

- **Rating positive factors (↑)**

We could upgrade the current LT rating should credit metrics improve above our forecasts level. A trigger for such an upgrade could be an EthiFinance Ratings-adjusted net leverage ratio below 0.5x, and an interest coverage ratio above 35x on a sustainable basis. Moreover, a rating upgrade remains subject to a recovery in volumes in the OEM market.

The current short-term rating is already positioned in the highest category.

- **Rating negative factors (↓)**

We could downgrade our long-term rating should Michelin's credit metrics deteriorate, with an adjusted net leverage ratio exceeding 1.2x, or if the interest coverage ratio falls below 20.0x on a sustainable basis. Additionally, a decrease of the company's ESG score to a level above 1.5, or a less cautious financial policy, such as undergoing significant debt-financed M&A, could be another catalyst for a potential downgrade.

A downgrade of our short-term rating could occur in the event of a CMEE change from Stable to Negative, or/and a potential downgrade of the long-term rating to A-.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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