EthiFinance Ratings

PIRELLI & C. SPA

860340157 CORPORATE

BBB ISSUER RATING
Long term

OUTLOOK
Stable

Initiation date 29/11/2022
Rating Date 20/06/2025

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Pirelli & C S.p.A.'s long-term corporate rating at BBB, maintaining its Stable outlook.
- Pirelli & C S.p.A. ("Pirelli") is a global manufacturer of tyres (mostly high-value) for light and two-wheeled vehicles.
- Our rating affirmation is supported by the continued improvement of Pirelli's credit metrics in 2024 and the expectation of further strengthening over our forecast period (2025-27). Pirelli has delivered strong earnings growth despite a subdued global tyre market and transactional FX headwinds. Organic revenue growth reached a solid 4.4%, driven by a favourable product mix effect (+2.5%) and positive volume growth (+1.9%), although partially offset by a 2.5% negative FX impact, primarily attributable to the appreciation of the US dollar. Pirelli's cost discipline and high utilisation rate of 86% support its high profitability margins industry-wide with an adj EBITDA margin of 21.8% in FY24 (vs 20.5% in FY23). We expect this margin to remain around 21.6% on average over our forecast period, supported by cost efficiencies.
- Pirelli is strategically repositioning its business by gradually reducing its exposure to the standard tyre segment in favour of the high-value segment, which accounted for 76% of total revenues in FY24 (vs 71% in FY22). The company maintains a leading position in this segment, with a global market share of approximately 50%, and is increasingly capitalising on opportunities within the electric vehicle (EV) segment. The EV tyre segment has been instrumental in mitigating the decline in the underperforming standard segment (tyres <17"), supported by strong demand from original equipment manufacturers (OEMs). This segment is expected to be a key growth driver across both OEM and replacement channels as industry projections suggest that 80% of premium and prestige car production will be EVs by 2030.
- Beyond 2025, we anticipate that Pirelli will continue to leverage its technological expertise and innovation capabilities to increase the proportion of high-value products in its sales mix. with an increased emphasis on the U.S. market, which represents the world's largest high-value tyre market, accounting for 50% of global demand in this category. To support this strategy, additional capacity investments may be required in North America, where Pirelli's footprint is currently more limited compared to Europe and Asia. However, we believe that the company's strong operating cash flow generation will be sufficient to fund these investments without compromising its free cash flow profile. EthiFinance Ratings-adjusted net leverage ratio improved above our expectations, from 2.1x at end-2023 to 1.7x at end-2024 (vs 1.8x expected) thanks to robust internal cash generation of €333m during the year. We project further deleveraging, with the ratio expected to reach 0.9x by end-2026, factoring in a dividend payout ratio of 50% in FY25 (management guidance) and 55% in FY26 and FY27 (our own assumptions).
- However, our rating remains constrained by structural factors inherent to the tyre industry's risk profile, which we assess at BB. This assessment reflects persistently low demand growth in the standard tyre segment, which continues to weigh on the sector's overall prospects. In addition, we acknowledge a high degree of macroeconomic uncertainty, particularly in relation to U.S. policy implementation. Potential shifts in trade policies, regulatory changes, and retaliatory measures from other economic blocs could have significant implications for global supply chains, cost structures, and overall credit conditions, which we continue to monitor. Pirelli's limited brand and product diversification is another constraint on the rating. The company's reliance on a single brand across light vehicles and two-wheeled segments contrasts with more diversified peers such as Michelin, which benefit from multi-brand strategies that allow greater pricing flexibility and market segmentation. The interest coverage ratio, which stood at 7.1x in FY24, remains below our investment-grade rating thresholds. Nevertheless, we anticipate a gradual improvement from 2025 onwards, supported by a more accommodative interest rate environment, with the ratio expected to reach 10.3x by 2027.
- Under our methodology, the auto components 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. Pirelli has a strong governance framework, whereas some of the social KPIs have some room for improvement. In FY24, Pirelli has reduced its energy intensity and GHG emissions intensity yoy by 1% and 4%, respectively.

ISSUER DESCRIPTION

Pirelli, based in Milan, is one of the world's largest tyre manufacturers. The company is the only one in the industry that specializes exclusively in the consumer segment, comprising tyres for cars, motorcycles, and bicycles. The company is listed on Euronext Milan and had a market capitalization of c.€6.2bn as of 11 June 2025.

Pirelli's customers include both premium (BMW, Audi and Mercedes) and prestige (Bentley, Ferrari, Lamborghini, Maserati, and Porsche) car makers. The group has c.31,300 employees spread across 18 industrial sites located in 12 different countries; its products are distributed globally through 19,500 distributors and specialized resellers and 300 Pirelli points of sale. For FY24, Pirelli reported revenues of €6.77bn and adj EBITDA of €1.47bn. The EthiFinance Ratings-adjusted net leverage ratio stood at 1.7x at end-2024.

LIQUIDITY

We assess Pirelli's liquidity profile to be 'Good' 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
Turnover	6 650	6 773	6 949	7 142	7 353	1.9%
Adj EBITDA (1)	1 366	1 475	1 492	1 548	1 594	8.0%
EBITDA Margin	20.5%	21.8%	21.5%	21.7%	21.7%	*1.2pp*
EBIT	729	858	859	899	927	17.8%
EBIT Margin	11.0%	12.7%	12.4%	12.6%	12.6%	*1.7pp*
EBT	520	651	672	737	772	0.5%
Total Assets	13 531	13 681	13 509	13 826	14 149	1.1%
Equity	5 620	5 912	6 147	6 404	6 662	1.1%
Adj Total Financial Debt (2)	4 193	4 035	3 564	3 564	3 564	5.2%
Adj Net Financial Debt (2)	2 848	2 503	2 160	1 833	1 503	-3.8%
Equity/Adj TFD (2)	134%	147%	172%	180%	187%	*12.5pp*
Adj NFD/ Adj EBITDA (1)(2)	2.1x	1.7x	1.4x	1.2x	0.9x	*-0.4x*
Adj Funds From Operations	940	1 135	1 172	1 200	1 242	-38.7%
Adj FFO/ Adj NFD (2)	33.0%	45.3%	54.3%	65.5%	82.7%	*12.3pp*
Adj EBITDA/ Interest (1)	6.6x	7.1x	8.0x	9.6x	10.3x	*12.3x*

(1) Adj EBITDA includes non-recurring expenses and other adjustments related to the usual Opex

(2) Net debt adjustments : The adjusted net debt includes pension benefits, equity components of convertible bonds and other financial assets

CREDIT RATING

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

RATING SENSITIVITY

- **Long-term rating positive factors (↑)**

We could upgrade our rating should Pirelli's credit metrics improve further on a sustainable basis. Specifically, a potential catalyst for such upgrade would be an EthiFinance Ratings adjusted net leverage ratio below 1.5x and/or an interest coverage ratio above 9.0x, on a sustainable basis. Also, an upgrade is subject to stable prospects for the whole tyre industry, which is closely tied to the trend in global automotive production, which could be impacted by the outcome of US tariffs implementation.

- **Long-term rating negative factors (↓)**

We may consider downgrading our long-term rating in the event of a significant deterioration in Pirelli's credit metrics, such as an EthiFinance adjusted net leverage ratio exceeding 2.5x and/or an interest coverage ratio falling below 5.0x. Additionally, a less cautious financial strategy pursued by the company, such as significant debt-financed M&A, could constitute another potential catalyst for a rating downgrade.

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.