EthiFinance Ratings

PIRELLI & C. SPA

860340157 CORPORATE

BBB ISSUER RATING LongTerm

OUTLOOK Positive

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Pirelli & C S.p.A.'s long-term rating at BBB, but changes the outlook from Stable to Positive.
- 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 in Pirelli's credit metrics in 2025 and our expectation of a stable performance over our forecast period (2026-28). Although revenue remained flat amid low volumes across the global tyre market, Pirelli's adjusted EBITDA margin, including OpEx-related non-recurring expenses, remained contained at 21.6% (vs 21.8% in FY24 and 21.5% expected in our previous rating action). The company's cost discipline and effective price/mix strategy have helped offset external pressure from FX, raw materials inflation and US tariffs. This margin remains among the highest in the tyre industry, ahead of diversified Asian peers (Yokohama – 18.6%, Bridgestone – 18.8% and Kumho – 18.7%), reflecting Pirelli's pure-play focus on the high-value (HV) consumer segment. Our adjusted net leverage ratio improved beyond our expectations, declining to 1.1x at end-2025 from 1.7x at end-2024. This was mainly driven by strong internal cash generation of €405m for the year, and the conversion of the equity-linked bond into equity in December 2025, which removed c.€500m of debt without any cash outflow. The interest coverage ratio stood at 8.6x in FY25 (vs 7.1x in FY24). Although solid, this remains below the level we would typically associate with the current rating. We expect the ratio to remain stable on average by FY28 at around 8.0x.
- We expect Pirelli's adjusted EBITDA margin to recover to 22% – 23% over the forecast period, supported by cost efficiencies, growth prospects in China following the full consolidation of the Shenzhou plant, and cost savings from ongoing structural efficiency programs including digitalisation and the implementation of AI in design and manufacturing. We expect adjusted net leverage ratio to further improve within a range of 1.2x - 0.9x over the forecast period, in line with management's guidance, sustained by a cumulative internally generated cash flow of €300m throughout the forecast period. This factors in an average CapEx-to-revenue ratio of 7.0%, a payout ratio of 74% in 2026 (including an exceptional dividend), and €150m M&A-related cash outflow. We therefore revise our outlook from Stable to positive, driven by Pirelli's strong financial risk profile, reflected in solid credit metrics and excellent liquidity.
- Pirelli continues to execute its long-standing strategy of shifting its mix away from the standard segment towards high value, which accounted for 79% of total revenue in FY25 (vs 76% in FY24). The company holds a leading position in the Prestige segment (premium tyres for luxury and performance vehicles), with a market share of more than 50% in the Original Equipment channel, and a premium customer share of around 20% globally. Pirelli is increasingly capitalising on the EV segment, where its technological edge supports premium pricing and strong demand from OEMs. EV tyres are expected to be a key growth driver across both OEM and replacement channels, with Pirelli targeting around 9 million EV tyres in 2026, of which c.2.5 million in the higher-margin replacement channel. Beyond 2026, we anticipate that Pirelli will continue to leverage its technological expertise and innovation capabilities to increase its market share in the United States through its new plant in the state of Georgia. The US is the world's single largest high-value tyre market and one where Pirelli remains under-represented relative to its shares in Europe and Asia. We believe Pirelli's robust liquidity and strong operating cash flow generation will be sufficient to fund these investments without compromising its free cash flow profile.
- However, our rating remains constrained by the tyre industry, which we assess at BB. This reflects persistently weak demand in the standard tyre segment and the sector's close dependence on global automotive production, which is exposed to economic cycles. We also acknowledge a high degree of macroeconomic uncertainty. US trade and tariff policy remains a risk to Pirelli's cost structure, while the recent Middle East crisis has driven a sharp rise in oil, energy and freight costs, with an estimated gross impact of c.€100m on 2026's group EBIT, of which c.€80m is being offset through price increases and cost-containment measures, as communicated by management. A further constraint is Pirelli's limited diversification, given its reliance on a single brand across both its car and motorcycle vehicle segments, unlike more diversified peers such as Michelin, whose multi-brand strategies allow greater pricing flexibility and market segmentation. Our positive outlook remains contingent on the group's next industrial plan, following the most recent plan published in February 2024, and in particular on its financial policy.
- Governance remains a constraint to any rating upside, as Pirelli's largest shareholder is Sinochem, a Chinese state-owned group. In light of US restrictions on Chinese-controlled technology in connected vehicles, Pirelli has taken steps to limit Sinochem's influence in order to preserve unrestricted access to the US market, which represents a key growth driver for the group. Under the governance framework implemented in early 2026, Sinochem may appoint only a minority of board members, none of whom can hold executive positions, as long as its shareholding exceeds 9.99% of the company's capital. While we currently view this risk as contained, we

will continue to monitor developments closely, as any deterioration in the governance framework could adversely affect Pirelli's expansion strategy in the US market.

- 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 FY25, Pirelli has reduced its energy intensity and GHG emissions intensity yoy by 2.5% 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 capitalisation of c.€6.5bn as of 8 June 2026.

Pirelli's customers include both premium (BMW, Audi and Mercedes) and prestige (Bentley, Ferrari, Lamborghini, Maserati, and Porsche) car makers. The group has c. 29,680 employees spread across 18 industrial sites located in 12 different countries; its products are distributed globally through a network of approximately 22,000 loyal retail points of sale across about 50 countries, including 213 points of sale owned directly by Pirelli. For FY25, Pirelli reported revenues of €6.8bn and adj EBITDA of €1.5bn. The EthiFinance Ratings-adjusted net leverage ratio stood at 1.1x at end-2025.

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

Main financial figures. millions of EUR	FY24	FY25	FY26e	FY27e	FY28e	25vs24
Turnover	6 773	6 776	6 812	6 935	7 069	0.0%
Adj EBITDA [1]	1 475	1 465	1 486	1 556	1 614	-0.7%
Adj EBITDA Margin	21.8%	21.6%	21.8%	22.4%	22.8%	-0.2pp
EBIT	858	808	857	917	963	-5.9%
EBIT Margin	12.7%	11.9%	12.6%	13.2%	13.6%	-0.7pp
EBT	651	638	667	713	771	-2.0%
Total Assets	13 681	13 682	13 995	14 430	14 034	0.0%
Equity	5 912	6 457	6 561	6 708	6 871	9.2%
Adj Total Financial Debt [2]	4 035	3 132	3 330	3 580	2 980	-22.4%
Adj Net Financial Debt	2 532	1 606	1 751	1 640	1 514	-36.6%
Equity/TFD	146.5%	206.1%	197.0%	187.4%	230.5%	59.6pp
Adj NFD/Adj EBITDA	1.7x	1.1x	1.2x	1.1x	0.9x	-0.6x
Adj Funds From Operations	1 135	1 199	1 098	1 139	1 188	5.6%
Adj FFO/Adj NFD	44.8%	74.6%	62.7%	69.5%	78.5%	29.8pp
Adj EBITDA/Adj Interest	7.1x	8.6x	7.8x	7.6x	8.4x	1.5x

(1) The adjusted EBITDA includes non-recurring expenses and other adjustments related to the usual OpEx

(2) The adjusted net debt includes employee benefits and excludes illiquid financial receivables

CREDIT RATING

Credit Rating	
Business Risk Profile	**BB+**
Industry risk assessment	*BB*
Industry's ESG	*Negative*
Competitive Positioning	*BBB*
Governance	*BB+*
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 (↑)**

Given the positive outlook, a rating upgrade could be triggered should Pirelli's deleveraging strategy, supported by earnings generation, be in line with our expectations. A potential catalyst for an upgrade would be an EthiFinance Ratings adjusted net leverage ratio of 1.2x or below and/or an interest coverage ratio above 8.0x, both on a sustained basis. However, as outlined in the rationale, an upgrade remains subject to the group's financial policy and governance.

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

We may consider downgrading the long-term rating in the event of a significant deterioration in Pirelli's credit metrics, such as an EthiFinance adjusted net leverage ratio above 2.0x and/or an interest coverage ratio falling below 5.0x, on a sustained basis. Such deterioration in credit metrics could materialise in a scenario of less cautious financial strategy, including significant debt-financed M&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.