Transcript Conference Call
Financial Results 9M 2024

Pirelli & C. S.p.A. 9M 2024 Results conference call transcript

November 7th, 2024

Marco Tronchetti Provera - *Executive Vice Chairman*

Thank you and good evening ladies and gentlemen. The results of the first nine months confirm the effectiveness of our strategy. We strengthened our High Value presence, thanks to the solid volume growth. The effectiveness of the internal levers, price mix and efficiencies led to an improvement in profitability, the highest among Tier 1 players.

Finally, we reduced our debt and recorded positive cash generation in the third quarter as a result of efficient working capital management.

The scenario remains uncertain and characterized by continuing geopolitical tensions, slowing demand from car makers and volatility of raw materials.

Despite these headwinds, we confirm all 2024 targets:

- due to our positioning on High Value, a market segment with a mid single digit growth, and
- thanks to the resilience of our business model.

Connectivity and Sustainability are the challenges on which we are building our future. Through our partnership with Bosch, we will bring the tyre into the era of connectivity and artificial intelligence, while on Sustainability, we aim at consolidating our leadership. Our ambitious decarbonisation plan was validated last September by Science Based Targets initiative, an international organisation that defines and promotes best practices in this field.

Now I give the floor to Mr. Casaluci.

Andrea Casaluci - Chief Executive Officer

Thank you, Mr. Tronchetti, and good evening everyone.

Pirelli's performance in the first nine months of 2024 confirms the effectiveness of our business model:

- +4.9% the organic growth of our Revenues, driven by solid commercial performance, with High Value at 76%, an improvement of 2 percentage points compared to the same period of 2023;
- Adjusted EBIT at €816 million (+4.3% yoy) with profitability at 15.7% improving year on year;
- Net profit of €371 million, stable compared to the same period of 2023 excluding 2020-2022 Patent Box benefits accounted in Q3 2023.
- Negative Net Financial Position of €2.82 billion, down €322 million compared to September 30, 2023.
- In the first nine months of 2024, net cash absorption before dividends amounted to €357 million, an improvement compared to the same period of 2023 and in line with the usual seasonality of the business.

The results achieved reflect the implementation of the key programs in the Industrial Plan.

On the Commercial front, we further strengthened our positioning in High Value as we will see in the next slide.

In the Innovation Program

- we expanded the OE portfolio mainly in Electric and Hybrid vehicles and higher rim sizes;
- we launched 5 new products for the car and 2 for the moto & cycling segment, and
- we are partnering with Bosch for *cyber tyre development.*

As for the Operations Program:

- we achieved around 80% of the planned efficiencies for the year, offsetting the impact of inflation;
- in a scenario of general slowdown in OE demand we kept a careful inventory management.
- Finally, we are progressing on our decarbonisation journey, and our targets were validated by *Science Based Targets initiative*.

Let us now look at the single programs in more detail.

Let's start with the Commercial program.

Our distinctive positioning in High Value allowed us to outperform the Car market in the first nine months of the year and in the third quarter.

More specifically, in the third quarter, growth in Car ≥18‘’ (Pirelli +7% vs market +3%) was sustained in both channels:

- in Original Equipment (Pirelli +10%, market flat) our outperformance was driven by China, where we benefit from a favourable comparison base and by the broadening of our exposure to Chinese Premium manufacturers of electric vehicles. Thanks to this exposure we were able to offset the weakness of the demand from European Premium car makers in China.
- in the Replacement channel (Pirelli +6% vs. market +5%), growth was sustained also by the good performance of winter sell-in in Europe.

Exposure to Standard was reduced (Pirelli Car volumes ≤17”: -5% vs. a basically flat market), where we are following a selective strategy.

Within a general weakness of OE demand, Pirelli benefits from the diversification of its customer base in China.

Over the past 3 years, we have enlarged exposure to local Premium EV carmakers, which currently account for approximately 50% of our OE sales in China.

We implemented a differentiated strategy:

- with Premium EV carmakers such as *Li Auto, Zeekr and Nio*, we aim to seize the opportunities of strong market expansion in the higher rims and develop marked tyres,
- with other Chinese EV manufacturers including *Aito*, *MG* and *BYD*, we follow a more selective approach, positioning ourselves in the high-end models.

Pirelli's success lies not only in the strength of the brand, but also in its ability to meet the increasingly challenging demands of these carmakers in terms of:

- Project lead times, halved compared to traditional manufacturers,
- Product characteristics, such as
  - low rolling resistance even at low temperatures, to reduce the vehicle energy consumption;
  - longer mileage performance, and
  - extremely high braking performance for top-performing cars

In the Innovation Program, we continued to upgrade the regional product lines to meet different consumer needs:

- in Europe, we launched the Powergy Winter and Powergy AllSeason SF, two products designed for everyday mobility that guarantee high quality standards for safety and driving comfort.
- In Asia, on the other hand, we launched the Scorpion MS, an AllSeason tyre for Premium and Prestige SUVs that offers high durability and comfort, also suitable for off-road use and driving on snow.

In addition, Pirelli's commitment to continuous product improvement was acknowledged by several specialist magazines such as *AutoBild*, *TyreReview* and *al Volante*, which awarded Cinturato All Season SF3 as the 'Best All Season 2024'. Comparative tests highlighted the excellent driving performance in all weather conditions, as well as the safety and comfort features.

Let's move to the partnership with Bosch, which is an important step in the development of Cyber Tyre, as it enables the integration of tyre sensors directly into the control systems of the car.

The cooperation combines:

- the Cyber Tyre technology developed by Pirelli,
- and the experience and technology of Bosch, the world's largest player in car control systems

with the aim of improving vehicle performance and safety.

The tyres, the only point of contact between the vehicle and the ground, provide data at all times on the condition of the car, the road surface, the driver's driving style, the type of tyre (winter, summer, all season) and its tread wear.

All these data, based on software created by Pirelli and integrated with the control unit developed by Bosch, are processed in real time and transformed into commands that interact with vehicle dynamics (ABS, ESP, traction control). These commands make it possible to improve performance, safety and reduce environmental impact.

With this collaboration Pirelli and Bosch bring the tyre into the era of connectivity and artificial intelligence.

Currently the Cyber Tyre technology, integrated with the car's control systems, is used on the Pagani Utopia Roadster and we are working with other Prestige and Premium car makers.

Now let's look at the efficiency program, which in the first nine months of the year generated benefits of 108 mln euro, in line with expectations and equal to about 77% of the annual target, allowing us to offset inflation.

In detail, the efficiencies came from:

- the Product cost, thanks to the adoption of new design programs, such as design-to-cost and to Virtualisation which allowed us to reduce development time by ~30%;
- the SG&A project, based on the rationalisation of the supply chain, overheads and optimisation of logistics;
- the Organisation project, whose benefits come from the digitisation of internal processes and upskilling of personnel

- and, finally, from the Manufacturing project, which, in line with expectations, generated half of the benefits expected in the year with the factory automation projects, electrification of the vulcanisation phase and energy consumption efficiency.

Finally, our decarbonisation journey continues. The targets, announced last March with the Industrial Plan update, were approved by the Science Based Targets initiative (SBTi), an international organisation that defines and promotes best practices for reducing emissions.

SBTi validated the long-term target of Net Zero to 2040, the most challenging among Tyre-makers, in line with the Paris Agreement to keep global warming within 1.5 degrees Celsius.

SBTi validated also the short-term decarbonisation targets, which include, by 2030, the reduction, compared to 2018

- of absolute greenhouse gas emissions Scopes 1 and 2 by 80%
- and of emissions from the purchase of raw materials, services and transport (Scope 3) by 30%.

I now live the floor to Mr Bocchio.

<u>Fabio Bocchio - Chief Financial Officer</u>

Thank you Mr. Casaluci.

Let’s now analyse our results for the first nine months of 2024.

Sales amounted to approximately €5.2 billion with organic growth of +4.9%, driven by solid commercial performance:

- The Volume trend (+2.2% in 9M) reflects the strengthening on Car ≥18’’ and the gradual reduction of exposure on ≤17’’, as already explained by Mr. Casaluci.
- Price/mix (+2.7%) was supported by increased exposure on High Value and continued improvement in product mix.

On the other hand, the impact of Foreign Exchange was negative (-4.4%), reflecting the volatility of emerging market currencies.

Organic growth of Revenues was +5.5% in the third quarter, driven by

- good Volume performance (+3%) in both the car and motorbike segments, and
- Price/mix (+2.5%), in line with the target for the year. As a reminder, in the second quarter, price/mix (+3.3%) benefited from a temporary improvement in the Region Mix, now rebalanced, and linked to the downturn in South America.
  In the third quarter, price/mix performance was driven mainly by product mix, while channel mix reflected the good performance in Original Equipment.
- The Foreign Exchange impact (-4.7%) reflected the volatility of emerging currencies, particularly South America and the weakness of the US dollar.

In the first nine months of 2024, adjusted EBIT amounted to €816 million, up 4.3%, with a margin of 15.7%, improving year-on-year by 50 basis points thanks to the contribution of internal levers. More specifically:

- the commercial performance contributed €136 million (+€45 million the volumes, +€91 million the price/mix);
- efficiencies (+€108 million) covered inflation (-€109 million);

- lower raw material costs (+€20 million) partially offset the negative exchange rate effect (- €71 million).
- Finally, it was negative the impact of depreciation and amortisation (-€18 million) and other costs (-€33 million), mainly related to Marketing, Research and Development activities and inventory reduction.

In the third quarter, the Adjusted Ebit margin stood at 15.9%, the highest profitability of the year, thanks to the solid commercial performance and to the lower Forex impact.

Let us now review the dynamics of the Net Profit for the first nine months:

- The operating performance, whose dynamics has just been described, improved by € 33 million;
- Non-recurring costs and the result of our joint ventures in Asia Pacific (China and Indonesia) also improved;
- Net financial expenses discounted a non-cash impact of €65 million related to hyperinflation.
- Finally, the tax trend (-€18 million) reflects the benefits of the Patent Box, amounting to approximately €40 million, included in Q3 2023.

Net cash flow before dividends for the first nine months of 2024 was negative for €357 million, in line with the seasonality of the business and improved by about €11 million compared to the first nine months of 2023, €34 million excluding the impact of Hevea-Tec acquisition.

Net operating cash flow was positive at €33 million (-€31 million 9M 2023) and mainly reflects:

- the operating performance, which improved compared to last year (adj. EBITDA €1.16 billion, +€41 million YoY)
- investments of €236 million (€201 million 9M 2023), mainly for High Value activities, constant mix and quality improvement, and to support the sustainability plan;
- while the working capital trend (-€799 million, +€77 million YoY) is in line with the seasonality of the business and reflects:
    - the careful management of inventories with an incidence on sales at about 20%, in reduction more than 1 percentage point compared to the first half of 2024, and
    - the usual seasonality of trade receivables (16% weight on sales) and trade payables (23% weight on sales).

Net cash flow before dividends in Q3 2024 was positive at 162 million euro, essentially in line with Q3 2023 (167 million euro) despite:

- higher Capex (92 million euro in Q3 2024, compared to 78 million euro in Q3 2023) and
- higher increases in rights of use (47.8 million euro in Q3 2024, compared to 27.5 million euro in Q3 2023).

The gross debt at Group level on September 30, 2024 amounted to approximately 4 billion euro. Considering the financial assets of approximately 1.2 billion euro, the Net Financial Position amounts to about 2.8 billion euro.

In the third quarter we completed the emission of a 600 million euro Sustainability Linked bond with a maturity of 5 years. The bond has a coupon of 3.875% and a yield of 3.95%. Based on this bond and the available cash, Pirelli has repaid all the bank debt maturing in 2024 and in the first half of 2025. It is also worth noting that, after September 30th, Pirelli has repaid the remaining 100 million euro bank debt maturing in 2025.

As of September 30, 2024, sustainable finance continues to account for approximately 69% of the Group's gross debt, or 85% if we consider the debt at holding level.

Our liquidity margin was approximately 2.45 billion euro, of which 1.5 billion euro in undrawn committed credit lines. It covers debt maturities until Q4 2028.

Finally, the cost of debt calculated over the last 12 months stood at 5.15%, slightly down compared to June 2024, thanks to

- the reduction of debt in countries with high interest rates and
- the positive effects of the central banks' expansionary policies.

I now leave the floor to Mr. Casaluci.

Andrea Casaluci - Chief Executive Officer

Thank you Mr. Bocchio.

Let us now turn to the outlook for 2024. We confirm our expectations of a flat year-over-year car tyre market, but with opposite dynamics between High Value and Standard.

High Value is confirmed as the most resilient segment with demand growing mid-single digit:

- led by the Replacement channel, especially in Europe,
- while in Original Equipment growth will continue to be driven by APAC.

For Standard, we expect demand to fall by 1%

- due to OE weakness because of a global car production cut*;*
- stable, on the other hand, the demand in the Replacement channel.

In this scenario, we confirm our strategy of gaining share in High Value and decreasing exposure to Standard.

Based on the results achieved and the scenario described, we confirm all targets for 2024.

- Revenues are expected at around 6.7 billion euro, in line with August guidance mid-range.
    - Volumes at around +2% with mid-single digit growth in High Value, while the reduction of exposure to Standard continues;
    - Price/Mix expected at around +2.5% benefiting from continued improvement in product mix;
    - Forex between -4% and -3.5% in view of emerging currency volatility.
- Adj Ebit margin is confirmed at about 15.5%;
- Capex of approximately 400 million euro (about 6% of Revenues), dedicated to technology upgrades and plant automation, mix improvement and sustainability;
- Net cash flow before dividends expected between ~500 and ~520 million euro, due to operating performance and efficient working capital management;
- Net financial position of approximately 1.95 billion euro, with leverage expected at around 1.3 compared to 1.56 in 2023.

I now leave the floor to Mr Tronchetti for the final remarks.

Marco Tronchetti Provera - *Executive Vice Chairman*

The scenario that is emerging for the industry is highly challenging:

- trade tensions between North America, China and Europe are likely to impact economic growth and, more specifically, the car industry;
- the main European and North American car makers are facing a reorganisation phase with capacity cuts and a review of electric and hybrid development plans, while competition from new Chinese players is increasing;
- In tyre, Tier 1 players are revising their production presence focusing on profit pools, improving mix and competitiveness.

In this scenario, we will continue to leverage our business model and competitive advantages:

- Brand, Innovation and Sustainability will continue to support our High Value leadership;
- we are expanding our Premium customer base, consolidating partnerships with traditional OEMs and seizing growth opportunities with Chinese Premium EV manufacturers;
- we have an already optimised production base that is less exposed to the risks of supply chain disruption, thanks to our local-for-local strategy;
- finally, the digitisation of processes, automation and electrification of factories will continue to support our efficiency plans.

These assets make us confident in delivering our Industrial Plan and outperforming peers.

Questions & Answers

Michael Jacks - Bank of America

Hi, good evening. Thank you for taking my questions.

- Firstly, Pirelli currently has very little production in the US. What is your strategy, if the new US administration raises tariffs on tires from Mexico or LATAM? Do you think you would be able to cover that through pricing or could you expand local production?
- Secondly, is there any more detail that you can provide about the basis for the Golden Power investigation announced late yesterday? And what are the possible outcomes if Sinochem is found to have contravened these rules, would they be forced to sell their steak or are there possibly other remedies available?
- And then one final question if I may, what are the early indications for Q4 for follow through or sell out for winter tires? Thank you.

Marco Tronchetti Provera - *Executive Vice Chairman*

Thank you.

So starting with the question on Golden Power, this administrative procedure is launched for the possible breach by CNRC of the measure contained in the Golden Power legislation, specifically it is on the measure to guarantee the absence of organizational and functional links between Pirelli and, on the other hand, CNRC.

The outcome is obviously in the hands of the Golden Power office. So, CNRC declared that they have all the elements to defend their position, then the Golden Power Office will take a decision. Mr. Casaluci for the other questions.

Andrea Casaluci - Chief Executive Officer

- So, on the production side, as we said in the past, for us to grow in North America is a key priority. As a consequence, we plan to increase our production capacity in the region, also following our local for local strategy. The production that will support the growth in North America will be implemented in North America. Today already 60% of our sales are supported by local production both in our plant in Mexico and our plant in Georgia, United States. The remaining 40% is coming more or less half from Europe and half from South America. In the future, we plan to increase the percentage of local for local.

- As far as the Q4 market is concerned, the expectation we have is for a slightly negative market, I would say around -1% the total market but with the ≥18'', so the highest part of the High Value, growing around +3%, showing its resilience. This +3% will be in our expectation similar between the Replacement channel and the Original Equipment channel. The Original Equipment channel will be mainly driven by the growth in Asia Pacific and specifically in China, thanks to the growth of EVs and also a favourable comparison versus last year. While, similar to the third quarter, the growth of the High Value in the Replacement channel, expected at around +3%, will be mainly driven by Europe. The market performance of Europe will be strongly linked to the sell-out performance of winter season, which will be related to the weather conditions. So far, October has been a good month in terms of sell out. So we are quite optimistic on the outlook of Europe in the fourth quarter of the year. Thank you.

Monica Bosio - Intesa Sanpaolo

Good evening and thanks for taking my questions.

- The first one is on the implied fourth quarter according to your guidance. In the fourth quarter, based on the guidance, the adjusted EBIT margin should stand at 14.5% which is also below last year. I'm just wondering if maybe it could be too conservative or maybe it's because of the seasonality or because of the -1% of the market. I just want to know if you take some caution after these strong results in the third quarter.

- My second question is on the Replacement market in China. I saw that it showed some weakness over the last two months, if I'm not wrong, I would like to know what are your expectations for the Replacement market in China? And if you can share with us some colour also on the inventory level.

- And the very last is on the current saturation rate. What's your current saturation rate? Thank you very much.

Andrea Casaluci - Chief Executive Officer

Thank you for your questions.

- I will start with the profitability. The EBIT margin of Q4 is expected more or less in line with last year and the difference versus the average profitability of the year is basically linked to the normal seasonality of the business. The sales in the Q4 account for roughly 22.5% of the total year, so it means that the absorption of the fixed cost of the last quarter normally stays below the average of the year. Let's also consider that we do expect a negative impact coming from raw material in the fourth quarter, while in the first nine months of the year the overall impact of raw material has been slightly positive, slightly negative in third quarter and worsening in the last quarter of the year. Then of course, we will target to do as much as possible and the opportunity to improve is there, but this will depend also on the performance of the seasonal market like I mentioned before, the winter performance in Europe.

- On the Chinese market, you are right. The performance of the Replacement in the last two months has been negative and we don't expect in the last quarter of the year to recover. The Replacement market will remain in our view slightly negative in the last quarter of the year in China. It will be more than compensated by the positive Original Equipment market of China. So, we do expect in a way negative channel mix coming from China but keeping the performance on volume, thanks to the Original Equipment.

- The last question was related to the saturation rate. We confirm the saturation rate around 93% on the High Value capacity and a bit below 90% on the global capacity. So more or less is stable.

Monica Bosio - Intesa Sanpaolo

Okay, thank you. On the Chinese Original Equipment market, according to your indication, in the High Value it is expected to grow low single digit, but China is growing much more. Can you give us just a rough indication of the magnitude of the increase in the Original Equipment High Value segment in China in Q3 and Q4?

Andrea Casaluci - Chief Executive Officer

In both quarters, the total market in the Original Equipment has been slightly negative or flat. But the High Value, as you correctly mentioned, is expected to grow in both quarters low single digit. So, I do expect the +4%/+5% in the last quarter of the year coming from China.

Harry Martin - Bernstein

- The, the first question I have is on the outperformance in High Value Replacement. Would you be able to break down the Replacement market outperformance by mix, so potentially more exposure to Europe that's been growing faster, versus the China market, which is smaller, versus share gains within each market.

- The second question on the China OE business, I'm interested to know if the unit economics on those sales to the local Chinese players have any differences to legacy European and Western OEMs. Any comments that you have on pricing payment terms, contract lengths would be interesting.

- And then the final question I had just on the manufacturing footprint. We've seen plenty of competitors shutting capacity in Europe and the US in recent months. Are there any sites in the footprint where you aren't happy with performance levels today? Or alternatively, if you keep gaining volume share, will you need to add production capacity somewhere?

Thanks very much.

Andrea Casaluci - Chief Executive Officer

- Concerning the market on the Replacement High Value, I will try to deep dive by main regions. We expect a total market in the High Value Replacement full year around 6% growth, as we said in the presentation. This +6% will come from Europe with a growth of around 12% mainly supported by good restocking phase in winter, but generally speaking, the market in Replacement is performing well, while the Original Equipment as you perfectly know is not performing well, it is negative. Then we have North America with a roughly 4% growth year-over-year in our estimation with a slowdown in the last part of the year. But anyhow, on the full year basis it is a +4% and Asia Pacific +3%. This is a breakdown by market of the total 6% growth expected for the Replacement High Value.

- Regarding the Original Equipment performance in China, of course, we don't disclose details on profitability, but I can tell you that in terms of payment terms, we are more or less aligned with the channel at the global level, while we see the average selling price is a bit better in China than the average. This is linked to our strategy.

- We started to partner with these carmakers a few years ago because they are basically the vast majority and are brand new companies. So, we started with a High Value strategy fully implemented. We are producing tires for the upper end of the product portfolio, targeting 20/21 inches tires, EV of course, with Specialties inside. Why we target this? Of course, because we have the technology that allows us to gain share in this part of the segment and support the introduction of high-performance cars.

- Last question, luckily, we don't have a slowdown in production in Europe and even not a restructuring plan for Europe. We are well satisfied of our footprint. We did some restructuring activities in 2018/2019 in Italy and United Kingdom. Now the footprint of Europe is in line with our target of growth. We have a spare capacity to support the High Value growth of the coming two years. We will invest the vast majority of our CapEx in Europe to improve the automation, the digitization and the electrification of our factories to make our footprint more and more efficient in the coming years.

Thank you.

George Galliers – Goldman Sachs

Good evening and thank you for taking my questions.

- The first question I had was with respect to your market share progress. Obviously, you just mentioned the technology you have and how that is helping you. But could you give us any sort of insight into what is helping you to achieve market share gains in the larger format tires? And how much market share do you believe you have gained over the course of the last 18 months? And how much more share do you think is possible to achieve as we look forward?

- Second question I had was with respect to inflation. Obviously, inflation is proving burdensome, and you're doing a very good job of offsetting it. To the extent it continues into next year, is the scope for further efficiency gains above and beyond the EUR140 million that you have targeted for this year?

Andrea Casaluci - Chief Executive Officer

- Well, the leadership of Pirelli in the Original Equipment is basically driven 100% by our capability to innovate and the technology that we can provide to the carmakers. Of course, we have a long-term partnership based on trust and innovation with the carmakers. We have been able to introduce new features, ultra-low rolling resistance and noise cancelling system approach, extended mobility and now connected tires that are supporting the carmakers all around the world to accelerate in the transition towards electric and hybrid vehicles.
  So, it has to do with technology. Never forget that the company is fully dedicated to consumer business leading the High Value market. So, 100% of our efforts in terms of R&D, in terms of manufacturing, in terms of sales, operations, supply chain and so on, are dedicated to the growth in the High Value. This has been ongoing since a couple of decades, following the guidance of Mr. Tronchetti. The strategy of the company has moved dramatically into the direction of the High Value, and today, we leverage on the consolidation of this leadership.
  Digitization is helping to accelerate the introduction of new technology. We are today in the position to develop our products 100% through virtualization. This is making the lead time shorter and the development of product more efficient. This is also a great support.
  What we did in the Original Equipment and that is allowing us to grow market share, I would say, 0.2%, 0.3% in the last 1.5 years has been also to enlarge our customer base. So, we decided to partner more and more with North American and Chinese carmakers, also South Korean carmakers where five years ago we had a very small presence. Today, the market share we have with the EV players in North America and in China is the same we have with historical partners in Europe in Premium and Prestige segment.

- Moving into inflation, in 2024 we have been able to fully offset inflation with efficiency, we are in the phase to preparing the plan for 2025, but I'm confident that our efficiency plan in 2025 will be higher than inflation. So, in 2024, inflation equal to efficiency, in 2025 efficiencies will be higher than inflation because we will keep our plan of efficiencies similar to 2024 or possibly better, but we do expect a reduction in the total amount of inflation. Thank you.

Akshat Kacker – J.P. Morgan

Thank you for taking my questions. Three from my side, please.

- The first one on pricing and tire mix in Europe. Some of your peers have been cautioning around consumer sentiment in Europe and the risk of trade down in tires. I just want to confirm if you're seeing any of that in your key segments in Europe, please. That's the first one.

- The second question is on China. Q3 specifically has been a quarter where Western players have seen further pressure in China. Could you just remind us how has your business been doing in China, either on Q3 or on a 9 month basis, how has the business performed year-on-year 2024 versus '23, please?

- And the last one on inflation again, just a follow-up. Can you just remind us of what are your current expectations on the key inflators or the cost elements from the P&L

going into 2025? Just a broad bucket across energy, labor and freight, please. Thank you.

Andrea Casaluci - Chief Executive Officer

- Price in Europe Replacement channel in the last three quarters, I would say, has been pretty stable in our segment (High Value), where we haven't seen a major movement.

- Q3 China, I confirm that has not been positive in terms of market, we saw a slowdown in demand and, generally speaking, we entered into a destocking phase. As I said before, I confirm the outlook for Q4 in replacement China is not expected to be positive. We are gaining market share, but the replacement of China is not the engine of the growth of net sales in the second half of the year.

- The inflation in 2024 is expected to be roughly EUR140 million, out of which a bit less than EUR100 million, coming from labour cost, which remains the biggest impact of the total inflation of 2024. Thank you.

Thomas Besson – Kepler Chevreaux

Thank you very much. Good evening. I ask three questions, please.

- Firstly, could you give us some indications about potential increases in taxes in 2025? I think both Italy and France are looking at any potential sources of incremental cash and companies are effectively looking like attractive targets for that.

- Second question, you mentioned the gains you've achieved in China in OEM replacement in the High Value segment. Could you remind us where you stand in terms of market share in OE and Replacement in China? And who are the top five players in both segments?

- And finally, I know it's a detail, but I think right now, we never know what's going to happen. Could you break down the Mexico versus Georgia sourcing of your US operations? I think you've mentioned to an earlier question that the largest portion of US, 60% of local sales was supported by Mexico and Georgia. Is it fair to believe that most of it is Mexico?

Andrea Casaluci - Chief Executive Officer

I will start with the second and the third question, and then I will leave the floor to Mr. Bocchio for the fiscal impact expected for 2025.

- the Mexican plant is by far bigger than the Georgian one. The Georgia one is a small, high technological plant.

- Second question on the regional equipment and replacement market share in China. I would say, we have roughly a 16% market share; close to 20% in the Replacement and a bit less than 15%, 14% more or less in Original Equipment.

Mr. Bocchio, thank you.

Fabio Bocchio - Chief Financial Officer

I will take the question for the tax.

- First of all the tax rate for the Q3 was about 29%, which was in line with industrial plan, '24-'25 average that we forecasted. For the nine months year-to-date, September, tax rate was about 26.5%. That is roughly in line with the expectation for the full year. And this counts the positive impact of a tax litigation settlement booked and already commented in quarter one at the beginning of the year.

- For next year, what we expect is in line with the guidance that we gave to the market related to industrial plan in 2024 - 2025. We expect again for next year tax rate on the average on the range between 28% to 30%, possibly in the upper part of the range considering that in 2024 instead we came on the lower part of this range. So, a little bit of seasonality of tax rate between the two years, but fully in line with the expectation we had in our industrial plan.

Gianluca Bertuzzo – Intermonte

Hi, good evening and thank you for taking my question. I would like to focus a little bit on North America.

- How are you progressing there? What is the price positioning also compared to your price position in other markets?

- Is the profitability different compared to other regions?

- You were implementing a lot of commercial actions if I remember correctly. Are the results you are achieving from that in line with your expectation? Or do you expect more?

- And last, what is the inventory level there?

Thank you.

Andrea Casaluci - Chief Executive Officer

North America stays at the core of our growth strategy for the coming years and is where we are implementing the vast majority of our commercial efforts. It remains the biggest High Value market of the world and our market share in North America stays below the average of the market share we have in the other high-value markets.

- The strategy is based on our increasing market share in the typical Americas carmakers partnering with Ford, with Tesla, with Stellantis, but also with the newcomers of EV, like Rivian or Lucid.

- Second, we have been able to introduce in North America products fully dedicated to the American consumers that normally looks for a high mileage performance. Today, our mileage warranty and our mileage performance has been recognized by magazines, by consumers and by distributors as one of the best performers in the product offers in the market.

- Third, we invested in production capacity, as I said before, and we plan to invest to grow even more in production capacity to improve the local-for-local strategy.

- Then, we are recording a fast-growing awareness and consideration of our brand. This has been also supported by the presence in the Formula 1 that is improving its popularity in North America in the last years.

- And all these together, supported by a new team with a new leader that in the last two years did a very good job.

We have been able to gain market share, overperforming the market and also to improve our price position in the market. Today, we are a price reference in the United States.

<u>Edoardo Spina – HSBC</u>

Good evening. I have four quick questions.

- The first on the U.S. taxes. President Trump had spoken about reducing the corporate tax rate by 5-percentage-points. If it does go ahead, would this cut have a noticeable impact on the tax rate that you pay?

And the other three questions are on the Cyber Tyre.

- The second is if you have an exclusivity agreement with Bosch or if you're working with other suppliers or maybe exactly with some OEMs?

- The third question is: what are the factors that could drive a broader commercialization of the Cyber Tyre? Is it a matter of high development cost? Can you also discuss if the premium OEMs are just sceptical about the products? I have very little information on this myself.

- And finally, if you could give a rough indication about the timing for next steps of the Cyber Tyre, just a high-level idea about the time frame of the growth.

Thank you.

<u>Marco Tronchetti Provera - Executive Vice Chairman</u>

Thank you for the question.

- Taxation in US: as you know, there are real incentives in America, and we believe that Trump will implement this new one, believed to be of 5pp. We don't see a major impact on our accounts, but it's really too early to say and so we have to wait.

- With Bosch, we don't have an exclusivity.

- On the Cyber Tyre, we see the opposite. People believe into the future of cyber technology and we are in touch with a number of carmakers together with Bosch. It's obvious that we are analyzing to enter now in the new car models, which means that it will take two, three years to have the beginning of the commercial impact of the cyber technology. What is important is the recognition of the uniqueness of our technology and the efficiency of the technology by the car maker.

I think I answered to all your questions and thank you again.

Ross McDonald – Morgan Stanley

Three questions from my side.

- A quick follow-up on the US capacity additions. How should we think about those in the context of the CapEx trend relative to sales next year, do you feel you can keep CapEx at the 6% level on sales?

- The second question is looking at the 2025 guidance on slide 25. At the midpoint, that revenue guidance is EUR6.9 billion, so about 3% higher versus the EUR6.7 billion you see in 2024. Can you just remind us how we should think about the split there between price mix and volume within that top line bridge?

- And then final question, just thinking about raw mats into next year. Obviously, we've had the EUDR regulation delayed and it seems like some budget players have been maybe overproducing ahead of tariffs in 2024. Would it be fair to assume the path for raw mats into 2025 could be getting easier from here? Just be curious about how you see the raw mat trend moving into the first half of next year. Thanks.

Andrea Casaluci - Chief Executive Officer

Thank you for your question.

- I will start with the CapEx. Yes, we confirm roughly the 6% on sales. It will remain a stable level of CapEx also for next year.

- On the top line, it's a bit early to have a split on the revenue drivers, but what we can confirm is the stable performance of our product mix, which is part of the price mix. This is embedded in our business model, so it's confirmed and that is something that we can easily predict from now. The channel mix will depend on the development of the environment. We will take the coming two months to have a better and clear understanding of the market development and we will be back with the updated guidance as soon as possible, of course.

- We fully support the EUDR regulations. In our view, this is something that will help the industry and will also help the quality of the product circulating on our roads in Europe. We are ready to implement it even if it was confirmed in 2025. We don't expect impact on the raw material price from this regulation, at least for the next four months because it's already embedded in our COGS, and also because it is still very high because you see the natural rubber price remains in the ballpark of the $2,000 per ton.

Moderator

Mr. Tronchetti Provera there are no more questions registered at this time.

Marco Tronchetti Provera - Executive Vice Chairman

Thank you to everybody. Have a good evening.