

Pirelli & C. S.p.A. 9M 2023 Results conference call transcript

November 9th, 2023

Marco Tronchetti Provera – Executive Vice Chairman

Good evening Ladies and Gentlemen,

The first 9 months of 2023 were marked by a high volatility of the macro-economic scenario with a demand slow-down, high inflation and a gradual increase of interest rates.

In spite of these headwinds, Pirelli's results in the first 9 months confirm the strength of our business model:

- ▶ a Price/mix among the best in the Industry;
- ▶ Improving profitability thanks to internal levers; and
- ▶ improving cash generation in the third quarter, thanks to an efficient management of the working capital.

These results lead us to confirm our guidance on the top level of the range of both Profitability and Cash flow.

High Value remains our core segment in which we also aim to strengthen our presence in new areas, such as Saudi Arabia through our partnership with Public Investment Fund.

Finally, we consider it appropriate to postpone the Industrial Plan presentation to March 2024 with the Full Year 2023 Results, given the uncertainties linked to the international environment.

On October 26th, we signed the Joint Venture Agreement with Public Investment Fund in Riyadh to establish a new plant in Saudi Arabia. Thanks to this partnership, Pirelli shall reinforce its position in a strongly growing market, creating both a domestic and regional champion.

Saudi Arabia will become an important global production hub in the Automotive Industry, with a focus on Electric Vehicles. Public Investment Fund is leading the change through:

- ▶ the development of production capacity, infrastructures and supply chains, and
- ▶ remarkable investments in future mobility (e.g. EV).

The EV Car market is expected to grow at a compound annual growth rate of 30% over the next 10 years. In 2032, 40% of new cars will be electric, compared to the current 6%.

At the same time, the High Value tyre market will double by 2032, from 3.3 mln in 2023 to ~6.6 mln in 2032.

The plant is expected to have a production capacity of 3.5 mln car tyres, of which:

- 1/3 High Value tyres under Pirelli brand, through an off-take agreement;
- 2/3 high quality products under the local JV brand.

Pirelli will offer technical support and expertise to design, develop and manage the plant.

The total expected investment for the plant will be of around 550 mln US Dollars and the JV will benefit from government tax and investment incentives.

For Pirelli the maximum cash-out will be approximately 56 mln US Dollars, with a neutral impact on our 2025 de-leverage target.

I now leave the floor to Mr Casaluci.

Andrea Casaluci – Chief Executive Officer

Thank you, Mr Tronchetti.

The results of the first 9 months of 2023 confirm the resilience of our business model:

- ▶ a 7.4% Top Line organic growth, supported by the strong increase of the price/mix;
- ▶ a 15.2% profitability, at the upper end of the target range;
- ▶ a net income of 411 mln euro, with a +14% growth, due to the improved operating performance as well as benefits from the Patent Box, which will be further explained by Mr. Bocchio;
- ▶ the continuation of the de-leverage process, with a reduction of debts by approximately €250 mln compared with the same period in 2022.

In terms of sustainability, the results of the first 9 months are remarkable.

In July, we launched the new Pirelli P Zero E, the Perfect Fit for Premium and Prestige electric vehicles. The new P Zero is a mix between technology and sustainability, with unprecedented results in the UHP tyre market:

- ▶ It is the first tyre on the market with Triple A class in the European labelling (rolling resistance, wet braking and noise);
- ▶ tyre wear was reduced by 42% compared with the previous generation, thanks to virtualization and new materials; and
- ▶ it has more than 55% bio-based and recycled components, as certified by third parties.

To enhance transparency towards consumers, we have introduced a new logo which identifies tyres with at least 50% of bio-based and recycled materials, as certified by Bureau Veritas.

The renewal of the Formula 1 agreement focuses on sustainability, which is core to our partnership: from 2024, all Formula 1 tyres will have the FSC certification (Forest Stewardship Council) as it is already happening for some of our consumer products.

Finally, our progress towards decarbonization is above our expectations, therefore, Pirelli will define a new short and long-term Science-Based Target, in line with our Net Zero Commitment.

Our extensive effort to this transition is addressed to the whole value chain (including Scope 3 emissions).

In this regard, we have:

- ▶ organized events for our European dealers to discuss in detail low-carbon products and technologies;
- ▶ while our high-emission suppliers were involved in defining challenging decarbonization targets, in line with Pirelli's strategy.

The results of the first nine months reflect the implementation of the «Key Strategic Programmes».

On the Commercial side:

- ▶ We keep on consolidating our leadership in the High Value; while
- ▶ the exposure to Standard was further reduced, now at 37% of the Car volumes.

On the Innovation Programme:

- ▶ Our partnership with OEMs has resulted in around 260 new technical homologations, mainly in ≥19'' and EVs

- ▶ Consolidated our positioning on Electric Vehicles with a portfolio of around 470 homologations.

On the Competitiveness Programme: we reached 65% of our yearly efficiency target, in line with our project development timeline.

On the Operational side: the level of saturation of our plants is of approximately 90% (around 95% in High Value)

In both the first nine months and the third quarter, we have kept a value-oriented commercial strategy, with a higher selectivity in the Standard segment and in the OE Channel of the High Value segment.

- ▶ In Replacement $\geq 18''$, (+2% in first 9 months and in 3Q) growth was mainly driven by the new product lines, while keeping a sound price discipline. We have consolidated our positioning in this segment: our market share in the third Quarter is in line with 3Q 2022, the highest since 2019.
- ▶ In OE $\geq 18''$, our performance is marked by a growing selectivity with a focus on $\geq 19''$, where EVs account for over 26% of OE volumes (+7 percentage points versus the first nine months of 2022). The trend of 3Q (-1% vs. a flat market) further discounts an unfavourable comparison base in China, where last year we overperformed during post-Covid market rebound.

Let us now address product innovation in the two high growth segments: EV and SUV.

Our leadership in the EV Premium and Prestige segments was further confirmed at the Munich Motorshow where Pirelli was on 25% of the BEV vehicles and on 30% of the Plug-in Hybrids. Furthermore, Pirelli fitted the only hydrogen car on the show.

In the SUV segment, we launched the new Scorpion MS, an All-Season OE product, mainly for electric vehicles, starting from Maserati Grecale Folgore. The new Scorpion meets consumers' needs and is characterised by high comfort, mileage and safety on wet surfaces.

Our strong commitment to innovation and technology was acknowledged by FIA and Formula 1, which confirmed Pirelli as the exclusive tyre supplier in Formula 1 until 2027, with the option of extending the term by one more year. At the end of this agreement, Pirelli will be involved in the most important car racing competition for 18 consecutive years.

- ▶ Formula 1 is a source of continued innovation: it is an open-air laboratory, where we test new product solutions and innovate processes and technologies.
- ▶ Among the novelties in the Formula 1 renewal, our strong commitment to sustainability: from 2024, all of our tyres will be FSC – certified. This ensures:
 - full traceability of raw materials coming from forests,
 - preservation of biological diversity in plantations, and
 - benefits to local communities and workers.
- ▶ Finally, Formula 1 offers a growing global media exposure, especially in the U.S., the country with the highest number of races, representing a strategic market for Pirelli.

Let us now move to the Competitiveness Program. In the first nine months, we achieved gross efficiencies of approximately €61 million, equal to 65% of the objective for the full year and in line with the expected development of projects.

In detail:

- ▶ The greater benefits come from the Product cost project. We keep on adopting an approach to modular design and *design-to-cost*, to decrease the complexity of the structure and the weight of tyres.
- ▶ The Manufacturing project is going to generate, as expected, the strongest efficiencies in the last part of the year, with the implementation of
 - both projects to improve the manufacturing process, which, thanks to Industrial IoT, will have particular benefits on predictive maintenance,
 - and of energy consumption reduction projects.
- ▶ On SG&A, we are progressing with the optimization process of logistics and supply chain.
- ▶ Finally, the Organization project goes on with process digitization and staff upskilling.

I now leave the floor to Mr Bocchio for the analysis of the results.

Fabio Bocchio – Chief Financial Officer

Thank you Mr. Casaluci and good evening.

Let us now analyze our performance in detail.

The Revenues of the first 9 months recorded a 2.5% growth, +7.4% net of the strong FOREX volatility.

- ▶ The volume trend (-3% at Group level in the first 9 months, -4.6% in the third quarter) reflects:
 - the general weakness of Car market demand (-1% in the first 9 months and in the third quarter) and in the two-wheel business; and
 - a greater selectivity of Pirelli in Car Standard tyres and High Value Original Equipment, especially in the third quarter.
- ▶ Significant improvement in price/mix (+10.4% in the first 9 months, +6.8% in the third quarter), which we expect to be among the best in our industry. The price/mix was supported by:
 - a solid price discipline; and
 - the continued improvement of the product mix.
- ▶ FOREX impact was negative (-4.9% in 9M), with a worsening trend in the third quarter (-8.4% in 3Q), following the devaluation of the dollar, renmimbi and other currencies of emerging countries against the euro.

In the first nine months of 2023, the Adjusted EBIT reached €783 million, +4% year on year, and a 15.2% margin, a slight improvement (+0.2pp) versus the same period of 2022.

- ▶ The price/mix (+€449 million) and structural efficiencies (+€61 million) covered 1.4 times the impact of the negative external scenarios:
 - ▶ the increase in raw material cost (€77 million, including the related FOREX impact)
 - ▶ the inflation of input costs (-€180 million): energy, labour and transportation, and
 - ▶ the negative impact of exchange rates (-€115 million), due to
 - the revaluation of the Mexican Peso (+12% against the euro), with a direct impact on costs, because Mexico is our production hub for North America; and
 - the devaluation of the dollar, renmimbi and other South American currencies in the third quarter.
- ▶ Our internal levers also covered the impact of volumes (-€65 million), as well as the increase in D&A (-€26 million) and other costs (-€19 million).

In the third quarter, profitability improved, with a margin of 15.4% (14.8% in the third quarter of 2022)

- ▶ Due to the strong contribution of the price/mix (+104 million) and efficiencies (+€31 million), that more than compensated for inflation (-€49 million) and FOREX (-€63 million).
- ▶ The negative impact of volumes (-€36 million) was partially offset by raw materials (+€22 million).

Let us now review the dynamics of the Net Income, which increased 14% year on year. The trend reflects:

- ▶ the above-mentioned improvement of the operating performance, which more than offset the increase in net financial charges, linked to a rise in interest rates in the Eurozone,
- ▶ lower non-recurring and restructuring costs, as well as improved results from equity investment, and
- ▶ finally, the reduction in taxes, triggered by the signature of the Italian Patent Box agreement in August '23, with a *tax rate* at 22%, substantially in line with our expectations for 2023.

The Adjusted Net Income amounts to 453 million euro.

In the first nine months of 2023, the Net Cash Flow was -€368 million, in line with the business seasonality.

When we exclude the €67M Long-Term Incentives paid in 2Q, the Cash Flow before dividends shows a 20 million euro improvement compared with the first nine months of 2022.

The change in the Net Operating Cash Flow mainly reflects:

- ▶ an improvement in operating performance,
- ▶ Capex, mainly allocated to High Value activities, and
- ▶ Working capital trend, including Long-Term Incentives.

Let's us discuss the dynamics of the working capital:

- ▶ It should be highlighted that inventories were carefully managed and its incidence on sales decrease to 20.4%, thanks to the normalisation of raw material stock from the second half of 2022;
- ▶ On the contrary, the other components of the Working Capital reflect the usual business seasonality, namely:
 - An increase in trade receivables, with a weight of around 16% on revenues, and
 - A reduction of trade payables, with an incidence of 22% on revenues.

In the third quarter, the Net Cash Flow before dividends was positive, 167 million euro, improving compared with 141 million euro in the same period of 2022, due to an optimised inventory management, as already pointed out.

The Net Financial Position at the end of September amounts to approximately 3.1 billion euro, essentially in line with that of June 30th, 2023, as a result of the already mentioned cash generation in the third quarter and the payment of dividends. Gross Debt is approximately 4.3 billion euro, decreasing compared with the 4.6 billion on June, 30th. Financial Assets are approximately 1.2 billion euro.

In the third quarter of the year, we repaid in advance a 600 million euro bilateral loan maturing in February 2024, using part of the available cash, and the 300 million euro bilateral ESG loan, underwritten on June the 30th and maturing in February 2026.

On September 30th, ESG financing covered approximately 67% of the overall debt (up from 58% at June, the 30th, 2023).

The liquidity margin stands at 1.9 billion euro and allows the repayment of debts with maturity until the end of 2025.

Finally, exposure to interest rates is perfectly balanced between fixed and variable. The cost of debt is 4.75%, 30 basis points more than in the first half of 2023, penalized by the restrictive monetary policy adopted in the Eurozone.

I now return the floor to Mr Casaluci

Andrea Casaluci – Chief Executive Officer

Thank you, Mr Bocchio

Let us now discuss the market outlook for 2023.

The macroeconomic picture remains volatile, with a contained economic growth, uneven across the major Regions:

- ▶ Slight improvement in the U.S.,
- ▶ Stabilization signs in China, after months of uncertainty,
- ▶ Basically unchanged estimates for Europe, penalised by the monetary crunch.

We expect a -1% drop of demand for Car tyres, with a slight improvement compared with our July guidance.

High Value confirms as the most resilient segment, with a growth rate now expected at +4%

- ▶ Supported by a trend improvement in the Replacement channel (+3% vs. +2% July guidance) in North America and China,
- ▶ Whereas a mid-single digit growth is confirmed in OE 18 inches and above (+5%)

Expectations remain unchanged for the Standard segment, at -3%.

We confirm our strategy aiming at consolidating our leadership in High Value, and namely

- ▶ In $\geq 19''$, the segment with the fastest growth,
- ▶ In the Specialties, and
- ▶ EVs.

In the 18 inches and above, we expect our growth to be in line with the market, however, with an outperformance in the Replacement channel (+3.5% vs. +3% of the market).

Due to a stronger reduction of our exposure to the Standard segment (-8% compared with -6% in the previous guidance), we estimate volumes to decrease by -2% in the bottom range of our July guidance.

Based on the results achieved in the first nine months of 2023 and the scenario described, we confirm our guidance:

- ▶ Revenues are estimated to be at approximately 6.6 billion euro, with:
 - ▶ volumes expected to decrease slightly, at around -2%, in the low range, as discussed in the previous slide
 - ▶ price mix improving to approximately +8% at the top of the range, as a result of a solid price discipline and continuous improvement of the product mix,
 - ▶ finally, a negative impact of exchange rates of approximately - 6%, due to a high volatility of the major currencies against the euro
- ▶ The Adj Ebit margin is expected to be around 15%, due to a greater contribution from the price/mix. The absolute value of the Adjusted Ebit, implicit in the guidance, improved: about €985 million euro compared with a mid-range of about €970 million in the previous guidance .
- ▶ Total capex of approximately 400 million euro are confirmed, which account for around 6% of revenues and are to be devoted to technological upgrades of plants, mix improvement, and High Value capacity increase in Romania and North America, where plant expansion is to be completed in 2025.

- ▶ Net cash generation before dividends is estimated to improve, between approximately 450 and 470 million euro, due to a better operating performance and an efficient management of the working capital. This target includes the cash-out for Hevea-Tec acquisition.
- ▶ The Net Financial Position is expected to improve to approximately -2.33 billion euro, with a leverage between around 1.60 and 1.65 times the Adjusted Ebitda in line with the de-leverage process outlined in the 2021-2025 Industrial Plan.

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

Marco Tronchetti Provera – Executive Vice Chairman

Thanks Mr. Casaluci,

- ▶ In conclusion, Tyre Industry has shown its resilience in 2023 despite the challenging external environment characterized by:
 - high inflation in the first half of the year,
 - a general slowdown in demand and
 - exchange rate volatility in the second half.
- ▶ Pirelli has responded by maintaining pricing discipline, improving the mix and deploying efficiency programs, with a profitability and cash generation expected to be among the best in the industry in 2023.
- ▶ Looking ahead to 2024, High Value - our target segment - remains more resilient with an expected mid-single digit growth.
- ▶ However, the deterioration of the geopolitical scenario and the volatility of the macroeconomic context may impact the automotive sector. Hence, in order to have a clearer view of the external scenario, Pirelli has decided to postpone the presentation of the Industrial Plan to March '24.

Questions & Answers

Giulio Pescatore – BNP Exane

Hi, everybody. Thanks for taking my question. The first one on Mix. If we look at the cars produced in the last two years, the mix of cars has been extremely rich, and that should obviously lead to some tailwind for the Replacement cycle in the coming years. But you said you have 95% capacity utilization in High Value. I know there are some plans ramping up, but is there a chance that you don't have enough capacity to take advantage of this potential tailwind coming up?

And then the second question on your underperformance on OE, or your decision to deprioritize the OE in the 18 inches segment, can you maybe explain a bit more why? What's behind this decision are you seeing maybe, is the segment maybe not High Value anymore, you don't see it as core to your strategy, just your thinking behind this strategic move.

Then the third question on the guidance. I guess you were expecting this. The current guidance at 15% margin implies 100 bps decline sequentially in Q4 compared to Q3. I just struggle to see how we can reconcile that. So maybe you can help us a bit on trying to bridge this 100 bps declining margin sequentially. Thank you.

Andrea Casaluci – Chief Executive Officer

Okay, thank you for your questions. In terms of capacity, it is not correct your assumption. We have a 55 million capacity in the High Value today, and we are working to improve the capacity mainly Europe and North America in the coming two years. Staying for a while on the actual capacity, out of the 55 million, we have a saturation of around 95%. It means that we have a non-used capacity of around 4 million. Moreover, we use 11 million of the High Value capacity to produce Standard tires, and this is the way we assure a spare capacity on the High Value, in order to catch any opportunity we may find in the market that we do consider profitable and in line with our target of the plan. This allows me to answer to the second question.

The selectivity of the Original Equipment is mainly based by the expectation on the integrated profitability for the coming years of each new business. Integrated profitability means profitability coming from the Original Equipment itself and the aftermarket demand related to the Original Equipment. That's the reason why years ago we decided to enlarge our Original Equipment customer base, growing in North America and growing in Asia and targeting mainly the Electric Vehicles, the ≥19" segment and all the Specialties. Every time there is a high level of technology, we can maximize the pull through effect in the aftermarket sales. We learned a lot in the last decade on how to understand the future profitability and the future demand of our regional equipment business and this is allowing us to be more selective and targeting what we do consider fitting with our strategy. So, for this reason, we are reducing exposure in Europe in some synergy car makers, and we are growing in Electric Vehicles ≥19" tires and Asian and North American players mainly. Of course, Prestige and the high end of the Premium will remain our core target.

On the last question, to be honest, I don't see a reduction on the profitability, but I leave the word to Mr. Bocchio. Thank you.

Fabio Bocchio – Chief Financial Officer

Yeah, I will take this question. On the full year actually we are improving our profitability on the upper side of the range. So previous profitability was between 14.5% and 15% and now we are targeting around 15% on the full-year. This as an implicit on the Q4 profitability is including a profitability that will be in Q4 similar to what we experience last year, that means around 14%. In Q4, the positive impact of the raw material year-on-year will offset the inflation of other input cost. We fully confirm the efficiencies for the full-year and so even the efficiency program, the efficiency impact in Q4. ForEx on the other side is expected to have a negative impact due to the valuation of the dollar, the renminbi and the expected volatility still on the emerging market currencies. You have to consider even that the lower profitability of the Q4 compared to previous quarter of the year is related to the seasonality of the business. In fact, the net sales in Q4 represents less than 25% percent of the full year. It will be around 22%. Thus, with a higher incidence of the fixed cost partially offset by the improving trend of raw material commodities and by our efficiencies program.

Giulio Pescatore – BNP Exane

Okay, very clear. Can I maybe just ask one last one? Can you give us an indication of the split between pricing and Mix in Q3. That would be very helpful. Thank you.

Andrea Casaluci – Chief Executive Officer

Yes, in the last quarter we expect around 1.5%/2% of price/mix. It will be basically all mix because the price performance, due to the comparison versus last year, is landing at a more or less flat price point, with a slightly positive Replacement and a slightly negative Original Equipment due to the cost matrix and the impact of raw material of the first half of 2023. Thank you.

Monica Bosio – Intesa San Paolo

Good evening. I have some questions. The first one is on Replacement. It seems that things are a bit better now, but I'm wondering if you are seeing on the market any signs of down trading in the Replacement and if yes, where do you see this down trading is concentrated.

My second question is on the price mix drop through over the year. Can you confirm a 40% drop through on EBIT?

And another question is on the shares of the revenues that the company is going to generate with the EV Tyres for this year. And if I may ask, what is an expected progression over the medium long term.

And the very last is on China. Pirelli has a very high exposure in China where the Replacement cycle in the EV will start earlier. I was wondering if you can give us a rough indication of what is the share of your revenues generated in China with the Chinese local client. Thank you very much.

Marco Tronchetti Provera – Executive Vice Chairman

China represents, in terms of turnover, around 15%. In China we supply both European and Chinese carmakers and we are growing with the new Chinese Electric Vehicles producers in High Value, where we are leaders. This is the general picture. Now I give the floor to Mr. Casaluci.

Andrea Casaluci – Chief Executive Officer

Thank you, I will answer to the first three question, the last one has already been answered by Mr. Tronchetti.

The trade down is an effect that we see, of course, but only in the Standard range. For example, in Europe, one of the most exposed regions to this effect, the weight of the Tier 1 brands in the 16 inches and below today is around 40%; it was 50% in 2019. On the 17", the weight of the tier one is 60%; in 2019 it was 70%. So, this is something affecting the Standard. If we move to the High Value, which is our target segment, and for a while we look at $\geq 19''$, the weight of the Tier 1 players is 80%, more or less stable compared to 2019. If we move now to on the marked tires, which is the core of our segment, the weight of the tier one player is more than 95%, stable compared to 2019.

Regarding the other question, price/mix drop through is around 80%/85% in 2023, being the vast majority of the price mix impact coming from price. The drop through of the mix is around 60%. The drop through of the price, of course, is 100%.

If we move on to the question on the Electric Vehicle, the on total revenues in 2023 is a bit less than 10%. And this percentage on EV is mainly related to the Original Equipment because the demand on Replacement is still quite low. While we do expect an increase starting from 2024 and 2025. Thank you.

Marco Tronchetti Provera – Executive Vice Chairman

I may, this is more evident if you look forward with the Electric Vehicles, where the competitive arena is made mainly by Tier 1 players. So the High Value electric, it's really something in which the tier-1 are playing the game and within which Pirelli is the leader.

Michael Jacks – Bank of America

Hi. Good evening. Thanks for taking my questions. The first one is on pricing. It would still appear that your peers are remaining disciplined on price for the time being. But with raw material tailwinds now being realized, do you think that any of them might use the opportunity to take share. Since we've seen some of them are now running farms at a suboptimal capacity. That's my first question.

Second one, on the joint venture with PIF. Could you give us a sense for the expected earnings impact for Pirelli during the ramp up phase and the level of ultimate profitability you expect to achieve later on from the investment.

And finally, just quickly, on tax rate, it was quite low at around 10%. Can you just give us a sense for where that might end up for the full year. Thank you.

Andrea Casaluci – Chief Executive Officer

The JV will be an opportunity for Pirelli to grow in the High Value segment in the Gulf countries, which are basically a fast growing market for High Value. The JV has a target to reach 3.5 million tyres by 2030, of which 1.1 million will be Pirelli branded and 100% High Value. This will allow us to capture as much as possible all the opportunities to grow market share in these countries, mainly targeting the electric vehicle markets. Thank you very much.

Fabio Bocchio – Chief Financial Officer

I will take the question about the tax rate. Actually, the tax rate that you were mentioning of 10% is related to the third quarter, specifically where we booked the positive impact related to the Italian agreement called Patent box. On September YTD, the tax rate has been of about 22%. And as I was mentioning previously, 22% of tax rate is what we are expecting even for the full-year of 2023.

Akshat Kacker – JPMorgan Chase

Three questions from my side, please. The first one is back to Standard tyres. So if I look at your revenues in Q3, revenues on Standard were down about 21% and volumes were down 10%. I know there's a negative FX impact, but the price mix should also be negative there. Could we get a little bit more detail on it? Since you have suddenly decided to reduce your exposure to Standard much more than you had previously forecast, could you also talk about a new landing point for Standard tyres, if you already have that in mind.

The second question is on the High Value OE volumes. Could we just get some more guidance on how you're thinking about High Value OE, especially as we go into Q4. And if you have anything in mind for 2024, please.

And the last one is on FX. I think the revenue guidance implies a worse FX impact in Q4 versus Q3, which is not what the current spot rates look like. So what is driving that, please? And also the continued high drop-throughs. How should we think about that going forward? Thank you very much.

Andrea Casaluci – Chief Executive Officer

In the third quarter, we reduced our Standard exposure quite significantly. You're right, this is mainly driven by two regions. The first is South America which represents more than 35% of our total Standard sales. So it's the most important region for us in the Standard segment. Here we are facing a slowdown in demand and in the market, both in Argentina and Brazil. We have decided to reduce our sales even more than the market. The market was down 4% or 5% and we, as Pirelli, were down 15%. This is again due to the trade down effect that I mentioned earlier. This is very clear in South America in 2023, because the percentage of imported brands has increased and today it represents about 50% of the total market.

The second region is Europe, where again the market was down 4%, 5%, and we decided to accelerate the exit from the Standard, basically because of the trade down effect. And we were down again in Europe, 12%, 13% in the third quarter.

So that was a decision that we took. With the next Industrial plan we will communicate what will be the landing point of the Standard. However, whenever there is an unprofitable segment within the Standard, our goal is to get out of that segment.

While in the Original Equipment High Value, our goal is to increase in the $\geq 19''$ exposure and in the electric vehicles. Of the 300 homologations that we are targeting for 2023, more or less 50% will be related to Electric Vehicles and more than 90% will be related to $\geq 19''$ projects. I give the floor to Fabio Bocchio for the last question. Thank you very much.

Fabio Bocchio – Chief Financial Officer

I'll take the question about forex. You are right. In the third quarter, FX had a negative impact of 8.4% on the top line, driven by the depreciation of the dollar (-8% in the quarter), the depreciation of the

Chinese renminbi (-12% in the quarter), and the depreciation of the Russian ruble, which was about -42% in the third quarter. Then there is the volatility of Latin American currencies and the impact of high inflation countries.

On the EBIT side, the impact is obviously related to the consolidation effect of translating local statutory EBIT into euros. And in addition to the currency movements that I just mentioned, we have a negative impact on EBIT from the appreciation of the Mexican peso, which was about 10% in the third quarter. And the drop through obviously changes from year to year depending on the currency mix. So for the full year 2022, you may remember that the drop through was about 11%, while in the last few quarters we have already had a drop through of about 40% and we expect that drop through also for the full year 2023.

Akshat Kacker – JPMorgan Chase

Understood. Thank you. One quick follow up. A different question on debt refinancing. I see there is a good amount of bonds and loans that are due to be refinanced over 2024 and 2025. Can you just explain your strategy here, please. Thank you.

Francesco Tanzi – Corporate General Manager

Yes. Good evening. As we did for 2023, we will have in 2024 an amount of refinancing which is more or less in line with what we have done this year. We have already refinanced most of the maturities for 2024 and hence we will start to refinance the maturity of 2025. So no major activities during the next few months, but we will start during 2024 to do something for the 2025 maturities.

Akshat Kacker – JPMorgan Chase

Slight increase in interest costs, or how do you think about interest cost as a result of that refinancing?

Marco Tronchetti Provera – Executive Vice Chairman

It seems that the answer was clear. So 2024 is already covered and 2025 we will define what will be the more convenient way to do the refinancing. It's something that is under analysis and the decision will be taken in 2024. So we have time to take a decision and as you know, the market is volatile and it's better to wait to take a decision. So we have different options, obviously.

Gianluca Bertuzzo – Intermonte

Hi everybody and thank you for taking my question. I note that you improved the outlook for the global tire market thanks to better Replacement demand for High Value tires. But can you help us understand why your volume guidance is seen at the low end of the range.

Second, is still on the outlook for the global term market. Can you share your views about 2024. Do you expect a growing market, stable or declining? Thank you.

Andrea Casaluci – Chief Executive Officer

OK. Thanks for the question. You are right, we have improved our outlook by 1 percentage point on the overall market. This is mainly driven by the High Value, where Pirelli is targeting to outperform the market. While the target on our volumes (-2%) - in the lower part of our July guidance - is mainly driven by the exit from Standard, which we accelerated mainly in the third quarter, and by our price discipline.

The market outlook for next year is something we are evaluating. We are trying to gather all the information we can because, as you can see, there is a lot of volatility in the market. What I can tell you is that our outlook today is for a global market that moves between 1% and 2% growth for 2024, with a High Value market confirming its resilience. And today we are looking at mid-single digit growth of around +5%/+6% in High Value. That's the initial estimate, but we still have a few weeks to finalise all of our 2024 forecasts. Thank you very much.

Ross MacDonald – Morgan Stanley

I have just two questions from my side. Firstly, on the Saudi deal with PIF. I'm just curious. Do you see this type of deal as specific to the Saudi market or do you see other countries or regions that could be good candidates for this type of JV expansion for Pirelli? And then my second question on the global market outlook. I've received an email today from the US Tire Manufacturers Association suggesting that US replacement demand is up 20% in October. Would you be able to comment on whether you're seeing that level of volume improvement in the US on the replacement side for Pirelli. Thank you very much.

Marco Tronchetti Provera – Executive Vice Chairman

Our agreement with PIF is only for the factory in the Kingdom of Saudi Arabia and there are no other ongoing projects. We have agreements to develop operations in the Kingdom, to have sources of materials, to have relationships with universities. So there is a lot we can do because they are also investing a lot in the chemicals. I think it's an interesting partnership on that side as well, but in terms of industrial partnership it's there and there are no other agreements related to any other country. Mr Casaluci, please for the other question.

Andrea Casaluci – Chief Executive Officer

Yes, thank you. Our first figures that we are getting from North America show that October was a positive month for tyres with high single digit growth: between +7% and +8% in replacement, not the +20% that you mentioned. OE, on the other hand, was a little bit affected by the last part of the strikes; however, the trend in the car tyre market in October was positive and we are outperforming in High Value. Thank you.

Edoardo Spina – HSBC

Good evening. I have two questions on pricing. Firstly, if you could give us a little bit more indication on how pricing has been and is developing in different regions. And if currency is having an impact on your pricing strategy in different regions. And secondly, if you could give us a little bit more detail on how pricing is working in the Standard segment and in the High value segment. I am trying to understand how you have such strong pricing and also your competitors are maintaining such strong pricing against raw materials. Thank you very much.

Andrea Casaluci – Chief Executive Officer

Okay. The pricing environment as far as the High Value is concerned is quite disciplined, in the last part of 2023. We don't see any big changes: no opportunity to raise prices, no pressure on prices, so it's a flat environment in the High Value.

In the Standard, we see some initial pressure here and there. And of course the price increase in Standard is also linked to the high inflation economies and the volatility of the exchange rate. So it varies from region to region.

All in all, in the first nine months of 2023 we recorded a 10.4% price/mix improvement, out of which 60% related to price increase. Price has been positive both in the High Value regions that are affected by inflation, such as Europe and North America, and in the Standard regions, such as South America, where high inflation and exchange rate volatility have supported an even higher price increase. In China, pricing has been positive, but less than in Europe and North America because inflation has been less pronounced in China than in other High Value regions. Thank you very much.

Marco Tronchetti Provera – Executive Vice Chairman

Ladies and Gentlemen, this will conclude today's program.

Thank you for your attendance and have a good evening.