MINERVA
Investment Management
Society

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Milan, 18th March 2018

Pirelli & C SpA

Equity Research

Pirelli & C SpA (PIRC.MI)
BorsaItaliana – P 7.20, Currency in EUR

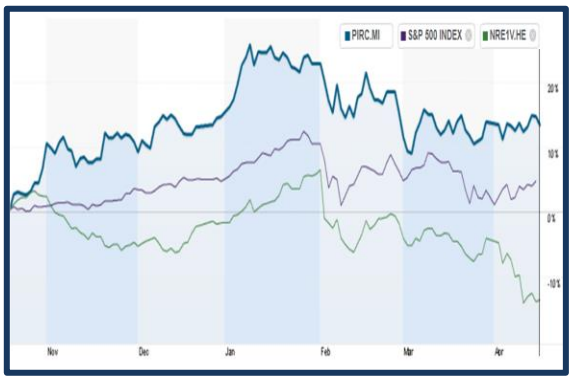
Price Target: € 7.96

Key Points:

Business. The market has been growing at a fast pace in the last years and this trend looks to be confirmed also in the future as Asian markets' forecasts highlight a strong growth. The market is characterized by a high level of competitiveness where only a few players own most of the market share, in particular Bridgestone, Michelin and Goodyear, while Pirelli and Nokian are the leaders of the premium end market. A particular attention is given to the High Value segment since it is Pirelli's main market. Its strategy is concentrated around the positioning in more technologically advanced segments which show stronger growth rate and profitability. Though the advantages from operating in this part of the market look to be very big, the competition is really strong and it leads Pirelli to keep investing in both efficiency and R&D.
Valuation. Our analysis is mainly concentrated on the FCFO valuation model. By observing the growth opportunities of Pirelli, we chose to use a three-stage model because the current growth rate is quite high especially due to the effects of the recent IPO. We supposed that the growth rate will decrease to the long-term stage growth rate in a few years, especially from the end of the Industrial Plan. Therefore, once taken some assumptions in order to determine the most appropriate costs of equity for those stages, we fixed the provisional balance sheet and income statement. Then, we computed the FCFO for each stage. Finally, we achieved the fair price for Pirelli that is higher than the current one. The market multiples methodology is an effective way to control the quality of the analysis developed using the FCFO method. This kind of valuation has a double purpose: first, market sentiment is incorporated in P/E; secondly, we give a value to the competitive advantage Pirelli has among its peers.

Recommendation: BUY. Given the results of our valuation and the analysis of the economic and financial characteristics of Pirelli, we recommend buying shares as their value is expected to increase.

Key Statistics:



Sector	Automobiles & parts
Industry	Consumer Good
Full Time Employees	30,000
Volume	2,153,989
Market Cap	7.20B
Shares out.	1B

Minerva estimates

Downside scenario	Current Price	Price Target	Upside Scenario
6.99	7.20	7.96	8.20
- 3%		+ 11%	+ 14%

Pirelli Overview

Pirelli was founded in 1872 as an Italian producer of rubber products and its derivatives reaching the prestigious position of today in the top tier of tyre market. In 2017 Pirelli revenues were more than €5.3 billion generated from the sales of tyres of cars, motorcycles and bicycles in particular; this outcome is also enforced by the high EBIT margin which is around 18%. In March 2017, Pirelli decided to spin off its industrial business in order to focus only on the production of consumer tyres; this is a clear sign of the attention Pirelli is putting on the quality of its products and the willingness to consolidate their position in the High Value segment (defined as technological and customisable tires with the highest levels in terms of performance and safety). In fact, a couple of features of the Italian firm are differentiation and innovation, which are confirmed by the constant investments in R&D, around 7% of High Value revenues in the last 3 years. Furthermore, Pirelli returned to the Milan Stock Exchange on October 4 2017 and has been included in the FTSE index, which includes the best Italian brands in terms of excellence and innovation. The IPO allowed Pirelli to gather €2,275 billion, the biggest in Europe in 2017, as a proof of the great consideration and trust of investors from all over the world, remarking the fact Pirelli is a world leader in prestige car tyres segment especially in Europe, China and Brazil (in these countries 18" tyre demand is considerably increasing).

Pirelli owes part of its success to the great organization of its operations; it is guaranteed an excellent quality along the whole value chain and the 19 operating factories, located in 13 different countries, give Pirelli a production capacity of 76 million car tyres in 2017. Moreover, Pirelli has a capillary presence in the market with more than 14,600 points of sale in over 160 countries which puts the firm ever closer to its customers. Pirelli has a strong bargaining power since it sells High Value products; therefore, consumers are less sensible to prices changes and buy Pirelli's tyres because they identify features such as high performance, safety and advanced technology which are considered more carefully than price at the moment of purchase.

Strategic directions and industrial plan

As we already said in the introduction, its main focus is on High Value products and therefore the strategy is concentrated around the positioning in more technologically advanced segments which show stronger growth rate and profitability. Though the advantages from operating in this part of the market look to be very big, considerable R&D and marketing expenses are necessary in order to develop superior products and obtain partnerships with Premium and Prestige car makers. Moreover, planning activities become crucial in order to fulfil the objectives the executive offices set; in fact, in 2017 an Industrial Plan has been implemented to make the control of Pirelli's operations and finance. The current industrial plan will last until 2020 and Pirelli is aiming to keep its focus on High Value and at the same time managing costs and reaching process efficiencies. The company wants to implement Enterprise Risk Management, Smart Manufacturing, Big Data and other operational efficiencies.

Strengths	Weaknesses
• Effective positioning in a profitable niche • Strong brand • R&D expertise • Strong relationships with car makers • Expert management • High EBIT margin	• High incidence of raw materials costs • Transition from Standard to High Value might prove less smooth than expected
Opportunities	**Threats**
• Connected, electric, shared and autonomous cars • Price increases higher than expected • Faster Brazilian market recovery	• Unexpected forex/commodities quotations changes • Lower than expected European Premium car parc growth • The other Tier 1 competitors might enter the High Value segment aggressively • Geopolitical risks (such as duties) might reduce demand for cars over the long term

Source: Pirelli IPO prospectus (p.447), Minerva estimates

Pirelli wants to achieve an average revenues growth rate of 9% and increase the impact of High Value products up to 63% of revenues by the end of 2020 (at the moment it is around 55%); last year the High Value growth rate was around 10%. As a consequence of an increased exposure to the High Value segment, Pirelli's margins should tend to increase, as the company explains in its March 2018 presentation.
Pirelli is also active on the reorganization of its financial structure. Not only it acted on the equity side with the recent IPO (which gathered more than 2.2 € bln), but it is also undertaking a solid activity in debt restructuring by trying to reduce its Net Financial Position in the following years. Recently, a €600.000.000 worth Guaranteed Notes bond was reimbursed and a new Bond of €200.000.000 was issued (with a floor of € 1 billion, if necessary) in order to reduce the overall cost of debt and allow Pirelli to focus more on investment on the operations side rather than risking financial drawbacks.
Our evaluation of WACC is aligned to these considerations and takes into account the improvements that the company has made. We estimate that cost of capital will decrease in the following terms.

Rubber and Tyres Market

The market has been growing at a fast pace in the last years and this trend looks to be confirmed also in the future as Asian markets' forecasts highlight a strong growth.
The potential growth of rubber and tyres market is highly connected to the automotive industry and part of the performance can be explained by the increase of the number of cars sold in the last 3 years due to a fall of the oil price.
Between 2012 and 2016, production volume of tyres increased with a CAGR of 3,5% while the growth rate forecasted for the following 5 years is set to a value of 7% (CAGR of market value are respectively 5% for the period 2012-2016 and 5,2% for the period 2016-2021).

Source: MarketLine

The market is in general characterized by a high level of competitiveness (according to Pirelli, there are more than 170 players). However, the Tier 1 group, which is made of is made of leaders with a better price positioning, a wider product offering and regional product lines, and comprehends Michelin, Bridgestone, Goodyear, Continental, Pirelli and Nokian, covers about 50% of the whole industry. (Source: Pirelli IPO Prospectus, chapter 6).
Competition is thus lower in this segment, since entry barriers are stronger. Pirelli and Nokian are even more shifted towards the premium end, and their margins are higher compared to the other four *Full-Liners* (they both have an EBIT margin higher than 17%, compared to the 13% of the other four players). However, Pirelli is also different from Nokian, since the latter is concentrated on winter tires and is not 100% consumer-focused.
It is also possible to identify two different channels in the tyre industry: O.E. (Original Equipment) and Replacement. In the first one, buyers are commonly really large (for example, established automotive companies with whom tyre makers form partnerships); the latter shows smaller tire dealers and, as a consequence, their bargaining power results weaker.
Furthermore, it is important to mention the Chinese irruption in both high and low end, with the introduction of cheaper products which did not really affect the top 6 firms, but are currently eroding market share of low-cost players.

Finally, automobiles and motorbikes (and in the case of Pirelli, also bikes, since the company has come back in this segment in 2017) are totally dependent on tires and it is currently impossible to talk of substitute products; actually, the future is bringing a lot of innovation that are only changing the way a tire is designed or supposed to be, therefore this assumption is confirmed also for the unseen future.

High value market

A particular attention is given to the High Value segment since it is Pirelli's main market. In fact, part of the growth of the global sector is explained by the increase of market value and volume of O.E. TYRE, with an average CAGR similar to the market and Replacement Tyre Market which has an average CAGR higher than 10%, a clear sign that High Value Market is exponentially growing in the following years.

Market Volume	O.E. TYRE MARKET		REPL. TYRE MARKET	
TYPE OF TYRES	CAGR 14-16	CAGR 16-20	CAGR 14-16	CAGR 16-20
≥ 18" – PREMIUM	11,10%	6,40%	15,40%	11,50%
17" – NOT PREMIUM	8,60%	4,40%	6,20%	5,50%

Source: Pirelli Data, Minerva estimates

Premium segment is clearly outpacing non premium products led by the growth of premium cars and the evolution of technology which will require high quality tyres.
The main six key drivers that are pushing the high value tyre market growth are:

1

Penetration of Premium & Prestige cars

Car Parc has increased considerably in the last few years and forecasts confirm the trend also for the future, in particular for prestige and premium cars (Source: IPO Prospectus, chapter 6). High value market is oriented to *motorbike parc* as well and it is growing at a rate that is similar to cars.

2

Increase in number of homologations

3

Growing demand for specialties

Some premium and prestige car manufacturers are introducing a higher number of models which fit different types of tyres; this is a driver that increases both homologations and specialties for tyres suppliers and enable them to differentiate their products for the High Value market and therefore increase their sales (and margins).

4

Rising penetration of SUVs

5

Car evolution

Those key drivers move together because the range of cars is increasing and a category which is getting more popular every year is the SUV one. SUVs are more often equipped with High Value tyres, and their penetration is increasing. It is estimated that SUVs are going to reach 33% of the whole car parc worldwide in 2020. Moreover, cars tend to be equipped with bigger tyres for both mechanical and aesthetical reasons (Source: IPO Prospectus, p. 283-284).

6

New Car technologies

Autonomous, electric, connected and shared cars are expected to have an incease penetration in the following years. In particular, electric and autonomous cars will need a very specific tyre that would allow the interconnection and integration with trip-computer and data collection (Source: IPO Prospectus, p. 284-285).

Financial statements

Income Statement (€ 000)	2014	2015	2016	2017
Revenues from sales and services	4.648.018	5.021.026	4.976.396	5.352.283
Other revenues	550.429	544.109	718.631	768.791
TOTAL REVENUES	**5.198.447**	**5.565.135**	**5.695.027**	**6.121.074**
Raw materials used	-1.480.327	-1.583.595	-1.540.516	-1.859.837
Personnel costs	-996.006	-1.055.393	-986.308	-1.034.647
Other costs	-1.768.119	-1.875.786	-2.096.733	-2.184.660
EBITDA	**953.995**	**1.050.361**	**1.071.470**	**1.041.930**
Depreciations amortizations	-259.806	-278.308	-340.206	-368.347
EBIT	**694.189**	**772.053**	**686.452**	**673.583**
Income from associates	-87.000	-549.170	-20.019	-6.855
Interest revenues	84.632	61.861	42.806	128.540
Interest expenses	-341.563	-370.381	-469.996	-491.150
EBT	**350.258**	**-85.637**	**239.243**	**304.118**
Tax expenses	-130.148	-278.155	-75.256	-40.848
NET INCOME	**220.110**	**-363.792**	**163.987**	**263.270**

Source: Pirelli Data, Minerva estimates

The reader should be advised to be careful in the interpretation of the past financial statements, as there may arise several issues of inconsistency due to possible non comparability.
This is mostly because of the wide change in the scope of consolidation that Pirelli has undergone in the recent years after several corporate mergers and divestitures.
This analysis tried to overcome this problem by using only the carve-out financial statements published on the company's website. These particular financial statements allow comparability as they focus only on past items connected to the consumer products, which is currently the only business activity in which Pirelli is involved (except for some small "Other Revenues" items).
Indeed, the industrial business has been divested and therefore, thanks to carve-out financial statements, comparability of past figures with 2017 ones is less problematic.

Balance Sheet (€/000)	2014	2015	2016	2017
Property, plant and equipment	2.114.534	2.704.771	2.925.493	2.980.294
Intangible assets	674.118	6.102.958	5.996.444	5.893.704
Deferred tax assets	240.505	105.848	116.046	111.553
Tax receivables	9.994	5.308	11.864	27.318
Derivative financial instruments (hedging)	-6.540	12.133	6.542	-54.085
Other receivables	73.125	66.890	108.266	109.466
Operating lease assets	0	0	0	0
Fixed core assets	**3.105.736**	**8.997.908**	**9.164.655**	**9.068.250**
Inventories	850.456	848.577	873.962	940.668
Trade receivables	566.304	583.529	680.069	652.487
Other receivables	192.382	129.533	303.831	364.027
Tax receivables	72.433	37.768	63.089	35.461

Current core assets	**1.681.575**	**1.599.407**	**1.920.951**	**1.992.643**
Investments in associates and J.V.	186.783	167.348	47.010	17.480
Other financial assets	180.732	225.113	198.674	229.519
Other financial receivables	89.472	50.751	145.698	131.096
Securities held for trading	61.404	78.167	48.597	33.027
Derivative financial instruments	-6.423	-723	-37.014	9.860
Assets held for sale	31.393	0	0	60.729
Surplus assets	**543.361**	**520.656**	**402.965**	**481.711**
Cash and cash equivalents	**892.573**	**868.195**	**1.397.380**	**1.118.437**
Total Assets	**6.223.245**	**11.986.166**	**12.885.951**	**12.661.041**
Equity attributable to owners of the Group:	1.796.940	2.099.740	2.569.641	4.116.758
- Share capital	1.343.285	10.196	1.342.281	1.904.375
- Reserves	226.691	2.087.806	1.072.551	2.035.991
- Net income (loss) for the period	226.964	1.738	154.809	176.392
Equity attributable to non-controlling interests:	53.557	61.565	63.722	60.251
- Reserves	42.788	61.565	54.544	60.936
- Net income (loss) for the period	10.769		9.178	-685
Total Equity	**1.850.497**	**2.161.305**	**2.633.363**	**4.177.009**
Borrowings from banks	2.088.665	6.361.272	6.520.634	4.456.257
Other payables	57.791	85.395	72.717	74.435
Provisions for liabilities and charges	70.119	122.510	139.987	127.124
Provisions for deferred tax liabilities	33.539	1.371.523	1.337.706	1.216.635
Employee benefit obligations	441.173	343.639	350.124	274.037
Tax payables	3.397	2.646	2.660	2.399
Present value of operating lease commitments				
Non current and financial liabilities	**2.694.684**	**8.286.985**	**8.423.828**	**6.150.887**
Trade payables	1.242.607	1.179.504	1.280.483	1.673.642
Other payables	296.178	276.737	491.701	565.254
Provisions for liabilities and charges	59.197	53.398	38.358	45.833
Tax payables	80.082	28.237	18.218	48.416
Current liabilities	**1.678.064**	**1.537.876**	**1.828.760**	**2.333.145**
Total liabilities	**4.372.748**	**9.824.861**	**10.252.588**	**8.484.032**
Total Liabilities and Equity	**6.223.245**	**11.986.166**	**12.885.951**	**12.661.041**

Source: Pirelli Data, Minerva estimates

Income Statement (€ 000)	2014	2015	2016	2017	2018E	2019E	2020E
Revenues from sales and services	**4.648.018**	**5.021.026**	**4.976.396**	**5.352.283**	**5.698.235**	**6.115.939**	**6.615.706**
Other revenues	550.429	544.109	718.631	768.791	651.213	614.327	577.442
Raw materials used	- 1.480.327	- 1.583.595	- 1.540.516	- 1.859.837	- 1.983.411	- 2.246.020	- 2.406.820
Personnel costs	- 996.006	- 1.055.393	- 986.308	- 1.034.647	- 1.009.772	- 1.101.094	- 1.170.247
Other costs	- 1.768.119	- 1.875.786	- 2.096.733	- 2.184.660	- 2.055.676	- 2.158.358	- 2.274.167
EBITDA	**953.995**	**1.050.361**	**1.071.470**	**1.041.930**	**1.300.589**	**1.224.794**	**1.341.913**
Depreciations amortizations	- 259.806,0	- 278.308,0	- 340.206,0	- 368.347,0	- 343.385,8	- 387.633,6	- 439.944,4
EBIT	**694.189,0**	**772.053,0**	**686.452,0**	**673.583,0**	**957.203,6**	**837.160,3**	**901.969,0**

Source: Minerva estimates

Valuation

1. Free Cash Flow to Equity approach

Our analysis implements a FCFO model with three stages: the high growth period, a declining growth rate period and the steady growth period. The work will consequently consists of an explicit forecast of the key financial variables for the years 2018-2020. Then the growth for the FCFO is made converge to the steady state phase, allowing for a period of decreasing growth rate of three years, until 2023.
Our choice for such model is determined by the large potential of initial growth which, after the initial peak, will gradually fade to a long run rate. We preferred this approach as to avoid an unmotivated sudden decline in the growth rate.
The key inputs for the explicit forecast period are: the growth rate in revenues and major cost items, the future Capex, D&A and Net Working Capital, tax rate and discount rate (WACC).

Weighted Average Cost of Capital: Minerva estimates

Beta has been assessed using two different techniques: the first one using the linear regression model and identifying Pirelli returns and Market returns (S&P500) from the day of the IPO (4-10-17). Then, using the known formula to calculate Beta, $\frac{COV_{(S\&P500,PIRELLI)}}{\sigma_{S\&P500}\ x\ \sigma_{PIRELLI}}$, we found a value of 0,8748.

04/10/2017 – 26/03/2018	
Standard Deviation S&P 500	87,7046
Standard Deviation Pirelli	0,40548
Covariance	31,1103
BETA	0,8748

Source: Borsa Italiana, Minerva estimates

	BETA L*	Tc	D/E	BETA U
Nokian	1,0333	20%	9,21%	0,9624
Bridgestone	0,9733	23,20%	19,57%	0,8461
Michelin	0,98	33%	23,86%	0,8449
Goodyear	1,5133	25,50%	124,46%	0,7852
Continental	1,2	33%	123,82%	0,6558
			Mean	***0,8189***

Source: Thomson Reuters, Minerva estimates

*Adjusted for Blume's formula

The second methodology we used is the calculation of beta from Pirelli's comparables and in this case, which looks also the most reliable due to the lack of market data for Pirelli, we reached a result of 0,8189.

Starting form this Beta unlevered and using Fernandez Formula, we assessed a Beta Levered value of 1,4046.
Using CAPM, the result of the cost of equity is 11,12% (Risk free rate and ERP are on a worldwide base and equal respectively to 2,41% and 6,20%).
Finally, we identified the value of the cost of debt which is equal to 5,36%; this is based on the different debts Pirelli has at the moment and on the bonds issued in the Luxembourg Stock Exchange. Its value is going to drop in the following years, due to the debt restructuring process (200 million bonds issued to repay an old debt with a higher cost) and the consolidation of the operating activities.
We proceeded with the calculation of WACC which is equal to 7,49%.

E/EV	D/EV	Tc	Cost of Debt	Cost of Equity	WACC*
47,80%	52,20%	34,50%	5,36%	11,12%	*7,49%*

Source: Pirelli Data, Deloitte, Minerva estimates

*It includes an increase in the cost of debt of 1% to adjust the WACC for global default spread

We reckon the WACC is to be considered reliable for the first 2 year of analysis, when Pirelli's Industrial Plan ends. After that its value will decrease until it will reach a value of 7,15%-7,0% in the TV due to the financial and economic effort Pirelli is putting in its ongoing activities (e.g. NFP/EBITDA adjusted from 2,7 to 2).

WACC		
18-20	21-23	TV
7,49%	7,25%	7,10%

Source: Minerva estimates

Tax rate

In order to figure out the worldwide tax rate that can be applied in a multinational corporation as Pirelli, we used Deloitte estimations, because every weighted average tax rate can be distorted by the weights estimations itself. In addition, the Italian company has just managed to reduce the overall amount of taxes in the income statement. Consequently, we could not provide a coherent trend through several years. Furthermore, the last fiscal year was characterized by a positive value of taxes that represents a repayment from the Italian government. Finally, the tax rate we have decided to use is higher than Italian IRES (tax on income) due to the fact Pirelli operates in different countries where taxation can affect the overall value in the balance sheet, therefore we have assumed a tax rate of 33,50% as it is indicated in Deloitte's report.

Capex

Forecast figures for Capex come directly from Pirelli's declared strategy for the future coming, as the company aims to spend approximately 7% of revenues from sales in Capex. This is in line with the company strategy to expand by investing a lot, especially in the High Value products, in order to gauge larger shares of the market.

Depreciations & amortizations

Depreciations and amortizations have been anchored to future capex; therefore their growth is driven by the increments expected in fixed and intangible assets.
Also, by the end of 2020, D&A/Capex ratio is supposed to converge closer to 1, as investments become less focused on expansion than in early years, and replacement of old assets becomes more relevant.

Net Working Capital

The path of future Net Working Capital is in line with the growth in revenues for most items following a rule connected to days inventory, days receivables, days payables etc…
Therfore, first of all these ratios have been computed for past years and the average has been taken as a significant indicator:

	2014	2015	2016	2017	AVERAGE
(Trade receivables/Revenues)*360	43,9	41,8	49,2	43,9	44,7
(Trade payables/Revenues)*360	96,2	84,6	92,6	112,6	96,5
(Tax payables/Revenues)*360	6,2	2,0	1,3	3,3	3,2
(Other payables/Revenues)*360	22,9	19,8	35,6	38,0	29,1
(Tax receivables/Revenues)*360	5,6	2,7	4,6	2,4	3,8
(Other receivables/Revenues)*360	14,9	9,3	22,0	24,5	17,7
(Invent./(Raw mat.+other cost))*360	94,2	88,3	86,5	83,7	88,2

Source: Minerva estimates

Then, to forecast of every single item of the NWC has been anchored to the average value, by multiplying it for the forecasted revenues (apart from the case of inventories, in which this figure is multiplied by the forecasted sum of raw material costs and other costs) and then dividing it for 360 days. The following figures for the NWC are obtained:

	2018	2019	2020
NWC	- 69.230	- 51.046	- 104.295

Source: Minerva estimates

Revenues

As for revenue forecasting, we based our analysis on the market growth rates provided by Pirelli in its IPO prospectus, which refer both to the O.E. and Replacement segments. Pirelli provides specific market values and forecasts up to 2020 for each of the six regions considered (Europe, NAFTA, APAC, LATAM, MEAI, Russia & C.I.S.). Such values are also split among the different rim diametres (<= 16'', 17'', >= 18''). Total market volumes and percentages are given, and we multiplied them to find the market volumes for Standard tires (defined as <= 17'') and High Value tires (>= 18'', the premium niche on which Pirelli is currently focusing). Market values might therefore be subject to rounding errors.

(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
Europe	346,0	368,0	384,0	391,0	398,0	404,0	411,0	5,35%	1,68%
>= 18''	34,6	40,5	46,1	50,8	55,7	60,6	61,7	15,40%	6,64%
<= 17''	311,4	327,5	337,9	340,2	342,3	343,4	349,4	4,17%	0,89%
(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
NAFTA	360,0	367,0	374,0	376,0	387,0	395,0	405,0	1,93%	2,51%
>= 18''	79,2	88,1	93,5	101,5	108,4	118,5	129,6	8,65%	8,48%
<= 17''	280,8	278,9	280,5	274,5	278,6	276,5	275,4	-0,05%	0,11%
(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
APAC	468,0	479,0	507,0	526,0	544,0	571,0	602,0	4,08%	4,60%
>= 18''	32,8	38,3	45,6	52,6	59,8	62,8	72,2	18,02%	11,16%
<= 17''	435,2	440,7	461,4	473,4	484,2	508,2	529,8	2,96%	3,82%
(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
MEAI	115,0	122,0	128,0	132,0	139,0	147,0	152,0	5,50%	4,81%
>= 18''	4,6	4,9	5,1	5,3	5,6	5,9	7,6	5,50%	12,91%
<= 17''	110,4	117,1	122,9	126,7	133,4	141,1	144,4	5,50%	4,45%
(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
LATAM	86,0	87,0	85,0	87,0	89,0	91,0	94,0	-0,58%	2,61%
>= 18''	1,7	1,7	1,7	1,7	2,7	2,7	2,8	-0,58%	17,46%
<= 17''	84,3	85,3	83,3	85,3	86,3	88,3	91,2	-0,58%	2,26%
(Mln pieces)	2014A	2015A	2016A	2017E	2018E	2019E	2020E	CAGR 14-16	CAGR 17-20E
RUSSIA & CIS	60,0	46,0	41,0	41,0	45,0	50,0	54,0	-17,34%	9,61%
>= 18''	2,4	2,8	2,9	2,9	3,2	3,5	3,8	9,35%	9,61%
<= 17''	57,6	43,2	38,1	38,1	41,9	46,5	50,2	-18,64%	9,61%

Source: Pirelli IPO prospectus (pp. 274-278), Minerva analysis

The table shows clearly that the High Value segment is projected to grow at much higher rates compared to the lower-end of the market. Pirelli cites various reasons behind this trend (Source: page 282-284 IPO prospectus), such as the expected growth of the Prestige and Premium car parc, increasing SUV cars sales, the increasing demand of high quality tires such as those with Noise Cancelling Systems, the evolution of car design towards bigger rims (for both mechanical and aesthetical reasons) and the technological evolution of vehicles (i.e. electric or Internet-connected cars). Expected market CAGRs are generally in line with the 2014-2016 period, except for Russia, where a sharp direction change is forecasted, LATAM, where the Brazilian market is giving signs of recovery, and Europe, where the overall growth will slow down (but not in the HV segment).

After estimating the market's expected growth, we analyzed how Pirelli performed against the market. Pirelli does not provide much data about its absolute volumes, but we know that its High Value volumes have grown on average at 15,03% in the 2015-2017 period, which is much more than the overall 1,73% average rate.

	2015 vs 2014	2016 vs 2015	2017 vs 2016	Average
Δ Volumes	0,70%	3,50%	1,00%	1,73%
(o/w HV volumes)	*17,10%*	*15,50%*	*12,50%*	*15,03%*
Δ Price / Mix	4,10%	3,40%	6,90%	4,80%
Δ Exchange Rate	2,00%	-4,40%	-0,70%	-1,03%
Δ Perimeter	0	1,50%	0,40%	0,63%
Δ Revenues	**6,80%**	**4,00%**	**7,60%**	**6,13%**

Source: March 2018 Company presentation, p. 173

The average High Value market volume CAGR (based on the data in the previous tables) has been 11,58%, while the HV Volumes CAGR implied in the latter table is 15,017%. This means that Pirelli's growth has been approximately 30% higher than the market's. For this reason, in order to pass from market expected volumes to Pirelli's ones, we multiply the market CAGR by 1.3.
The company itself expects to continue to outperform the market in the High Value segment (Source: March 2018 Company Presentation, page 46).
As for the Standard volumes, we do not have Pirelli's overall values. However, in the 2017 Results Press Release, the company said their Standard volumes decreased by 5,3% over the year. Moreover, we analyzed the company's expected change in production capacity, and we found that Standard capacity will decrease by approximately 8% from 2017 to 2020. We therefore set Pirelli's Standard volumes CAGR to -8%. Our estimated Volumes growth rates also seem in line with production capacity (which is not fully exploited though – about 90% in 2016 according to the company). (Source: March 2018 Company Presentation, page 76).

(mln pieces)	2014	2016	2017	2018E	2019E	2020E
Standard	37,21	32,71	34,00	30,00	28,00	26,00
High Value	31,70	38,40	42,00	45,67	49,33	53,00
High Value LATAM, MEAI, Russia	4,44	4,61	5,04	-	-	-
High Value EU, APAC, NAFTA	27,26	33,79	36,96	-	-	-
Total	**68,91**	**71,11**	**76,00**	**75,67**	**77,33**	**79,00**

Source: March 2018 Company Presentation (p. 13), IPO prospectus, Minerva estimates.

We then analyzed how their Price/Mix changed over time, and we found that, on average, Pirelli has been able to improve it by 4.80% each year. We think this effect is stronger in the High Value segment, which is much less price sensitive, than in the Standard segment (in which competition is much higher and prices cannot be increased too much). We also think that increasing prices too much over time is not sustainable, and therefore we set our expected Price/Mix CAGR to 3,40% (the lowest value in the range) for High Value and to 75% of it (2,55%) for the more price sensitive standard segment.
We do not expect any other variation coming from changes in the perimeter, and we did not consider any exchange rate variation due to the fact that Pirelli has historically limited the exchange rates effects.
By summing up Volumes and Price/Mix growth rates, we found the expected Revenues CAGRs.
We also needed numbers corresponding to our growth rates in order to forecast revenues. To do so, we analyzed the March 2018 company presentation and we found (pages 9-10) histograms providing the breakdown of revenues for each region between Standard and High Value products.
Percentages are not given in the graph, but we inferred them from the pictures and found values whose total sum is almost identical to the actual total sales.

High Value regions	Historical Mkt CAGR 14-16	Exp. CAGR MKT 17-20	Exp. Pirelli Volumes CAGR	Exp. Price/Mix CAGR	Exp. Revenues CAGR
Europe					
High Value (E)	16,00%	7,70%	10,01%	3,40%	13,41%
Standard (E)	4,17%	0,89%	-9,00%	2,55%	-6,45%
NAFTA					
High Value (E)	10,60%	9,10%	11,83%	3,40%	15,23%
Standard (E)	-0,05%	0,11%	-9,00%	2,55%	-6,45%
APAC					
High Value (E)	18,20%	10,40%	13,52%	3,40%	16,92%
Standard (E)	2,96%	3,82%	-9,00%	2,55%	-6,45%
***Standard* regions**	**Historical Mkt CAGR 14-16**	**Exp. CAGR MKT 17-20**	**Exp. Pirelli Volumes CAGR**	**Exp. Price/Mix CAGR**	**Exp. Revenues CAGR**
LATAM					
High Value (E)	13,00%	8,50%	11,05%	3,40%	14,45%
Standard (E)	-0,58%	2,26%	-5,30%	2,55%	-2,75%
MEAI					
High Value (E)	8,10%	8,50%	11,05%	3,40%	14,45%
Standard (E)	5,50%	4,45%	-5,30%	2,55%	-2,75%
Russia & C.I.S.					
High Value (E)	3,60%	9,20%	11,96%	3,40%	15,36%
Standard (E)	-18,64%	9,61%	-5,30%	2,55%	-2,75%

We finally used such values and the corresponding growth rates we previously found in order to forecast revenues.

(€ millions)	2016	2017	2018E	2019E	2020E	CAGR 2017-2020E
***High Value* regions**	3.741 €	4.028 €	4.367 €	4.773 €	5.254 €	9,26%
Europe	*2.093 €*	*2.238 €*	*2.383 €*	*2.557 €*	*2.763 €*	*7,28%*
High Value	1.298 €	1.455 €	1.650 €	1.871 €	2.122 €	13,41%
Standard	795 €	783 €	733 €	686 €	641 €	-6,45%
NAFTA	***935 €***	***984 €***	***1.091 €***	***1.217 €***	***1.366 €***	***11,54%***
High Value	739 €	787 €	907 €	1.045 €	1.204 €	15,23%
Standard	196 €	197 €	184 €	172 €	161 €	-6,45%
APAC	***713 €***	***806 €***	***893 €***	***999 €***	***1.125 €***	***11,75%***
High Value	499 €	596 €	697 €	815 €	953 €	16,92%
Standard	214 €	210 €	196 €	183 €	172 €	-6,45%
***Standard* regions**	**1.236 €**	**1.325 €**	**1.331 €**	**1.343 €**	**1.362 €**	**0,92%**
LATAM	***824 €***	***916 €***	***905 €***	***896 €***	***890 €***	***-0,95%***
High Value	66 €	82 €	94 €	108 €	124 €	14,45%
Standard	758 €	834 €	811 €	788 €	767 €	-2,75%
MEAI	***249 €***	***249 €***	***265 €***	***284 €***	***307 €***	***7,22%***

High Value	117 €	134 €	154 €	176 €	202 €	14,45%
Standard	132 €	115 €	111 €	108 €	105 €	-2,75%
Russia & C.I.S.	***163 €***	***160 €***	***161 €***	***162 €***	***165 €***	***1,01%***
High Value	29 €	29 €	33 €	38 €	44 €	15,36%
Standard	134 €	131 €	128 €	124 €	121 €	-2,75%
TOT. HIGH VALUE	**2.748 €**	**3.084 €**	**3.536 €**	**4.054 €**	**4.649 €**	**14,66%**
TOT. STANDARD	**2.229 €**	**2.269 €**	**2.163 €**	**2.062 €**	**1.967 €**	**-4,65%**
TOT. REVENUES	***4.977 €***	***5.353 €***	***5.698 €***	***6.116 €***	***6.616 €***	***7,31%***

Source: Company Historical Financial Data, Minerva estimates.

Our overall 2017-2020 revenues CAGR is slightly above consensus (according to Thomson Reuters Eikon data, 2020 revenues consensus is 6.547 billions of euros) but still lower than the company's expectations (>= 9% 16-20 CAGR. Source: March 2018 company presentation, page 116).
The company expects a 63% HV incidence in 2020, against our 70%, but we think our estimate is reasonable due to the much higher growth rates that the HV segment is showing, and the Standard production capacity reduction. Reducing Standard volumes and, at the same time, increasing the price/mix sharply in order to keep Standard revenues growing at high rates, is, in our view, not feasible.

Costs

For the majority of costs is driven by the growth in revenues, keeping the ratio over revenues constant at 2017 levels.
Some exceptions have been made, though, where it was possible to distinguish more relevant and direct drivers or when they were of minor importance and possibly fixed, not variable with revenues.
For Personnel costs, the cost structure has been kept constant, so that it could always represent the 20% of total costs before EBITDA. Indeed, assuming a too sharp increase in personnel costs driven by revenues would have been inappropriate in our opinion, considering the non-totally-variable nature of such costs.
Selling costs have been related to the increase in number of point of sales, which is projected to rise from almost 13000 in 2016 to approximately 17000 by the end of 2020 according to Pirelli's strategy. The following table summarize the trend in point of sales growth:

	2014		2016	
Europe	3.100	*30,8%*	3.532	*27,5%*
Russia	680	*6,8%*	810	*6,3%*
APAC	3.024	*30,1%*	3.950	*30,8%*
NAFTA	850	*8,5%*	1.738	*13,6%*
MEAI	400	*4,0%*	455	*3,5%*
LATAM	2.000	*19,9%*	2.340	*18,2%*
Total	10.054	*100,0%*	12.825	*100,0%*

Source: Pirelli IPO prospectus (p. 239), Minerva estimates

The same reasoning has been followed for advertisement costs and rent costs related to point of sales.
Maintenance costs have been anchored to the increase in fixed assets (therefore the driver is capex).
Finally, warehouse costs have been made dependant on future Net Working Capital.

The following table summarizes the forecasts for the most important items in the income statement according to the previously described assumptions, where minor items have been aggregated for the sake of readability.

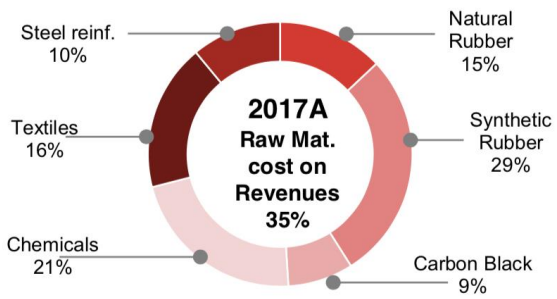
Raw materials

Raw materials have a big weight on Pirelli's income statement, as well as on those of all tires manufacturers. In 2017, such costs were about 1.859 mln euros (34,75% of sales).

The company has a good track record of being able to cope with variations in raw materials' quotations and exchange rates, and adds that increases in the costs of raw materials are then turnt into higher prices with about 6 months of delay. (Source: IPO prospectus, pages 143, 226-228).

RAW MATERIAL COSTS BREAKDOWN & TREND

% on total raw mat. costs



Synthetic rubber (mainly made with butadene), natural rubber and chemicals have the highest incidence. The company also provides forecasts of the quotation of natural rubber, butadene and brent oil.

Starting from the 2017 cost breakdown, using the implied growth rates, and linking such values to the expected volume CAGR of the company, we forecasted the raw materials costs in the 2018-2020 period.

Average quotation of commodities	2014	2015	2016	2017	2018E	2019E	2020E
Natural rubber ($/ton)	1,711	1,369	1,378	1,912	2,200	2,500	2,800
Butadene (EUR/ton)	944	656	644	1,547	1,800	2,000	2,100
Brent Oil ($/barrel)	99.5	53.6	45	58	61.46	64.51	67.16

Source: March 2018 Company Presentation (pp. 120-177)

We linked synthetic rubber costs to the butadene quotation, while natural rubber is a commodity by itself; the remaining four categories have been linked to oil's quotation.

In this case, since we did not know the overall volumes growth, we considered a 1,14% overall volume CAGR, based on the overall production capacity expected annual increase.

Natural rubber and butadene prices are expected to increase sharply, which becomes clear in our estimates.

We also considered the fact that Pirelli is planning to obtain raw materials cost efficiencies of about 0,41% of cumulated 2017-2020 sales, which we therefore estimated at about €32 millions per year (Source: March 2018 company presentation, page 117).

	2017	2018E	2019E	2020E
Natural rubber	- 278.976 €	- 325.166 €	- 374.306 €	- 424.668 €
Synthetic Rubber	- 539.353 €	- 635.711 €	- 715.520 €	- 761.054 €
Carbon black	- 167.385 €	- 169.559 €	- 191.040 €	- 201.471 €
Chemicals	- 390.566 €	- 395.639 €	- 445.761 €	- 470.100 €
Textiles	- 297.574 €	- 301.439 €	- 339.628 €	- 358.172 €
Steel Reinf.	- 185.984 €	- 188.399 €	- 212.267 €	- 223.857 €
Total	**-1.859.837 €**	**-2.015.913 €**	**-2.278.522 €**	**-2.439.322 €**
Cost Efficiencies	-	32.502 €	32.502 €	32.502 €
Total w/ cost efficiencies	**-1.859.837 €**	**-1.983.411 €**	**-2.246.020 €**	**-2.406.820 €**

Source: March 2018 Company Presentation, Minerva estimates.

FCFO Forecast

The FCFO forecast is now possible, recalling that a three stages model with 3 years of explicit forecast have been implemented. After year 2020, EBIT growth is linearly declining towards the steady state (and margin with respect to revenues is assumed to be constant).

Steady State Growth Rate

The steady state growth rate has been chosen consistently with the long term growth rate of the economy. Our final choice is 2.47 %, which is the average long term World GDP growth rate which we calculated using forecasts provided by OECD.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
EBIT	772.053	686.452	673.583	957.204	837.160	901.969	963.870	1.021.551	1.073.709	1.119.096	1.156.570	1.185.138
- TAX	-266.358	-236.826	-232.386	- 330.235	- 288.820	- 311.179	- 332.535	- 352.435	- 370.430	- 386.088	- 399.017	- 408.872
- CAPEX	-51.436	43.316	-431.484	- 398.876	- 428.116	- 463.099	- 405.212	- 393.373	- 344.548	- 287.290	- 222.682	- 152.122
- DELTA NWC	-63.819	-45.700	440.168	-317.105	-18.185	53.249	0	13.827	6.031	5.248	4.333	3.303
+ D&A	281.065	342.584	371.457	343.386	387.634	439.944	405.212	393.373	344.548	287.290	222.682	152.122
FCFO	671.505	789.826	821.338	254.373	489.673	620.884	631.335	682.943	709.310	738.256	761.887	779.568
g				42,11%	-12,54%	7,74%	6,86%	5,98%	5,11%	4,23%	3,35%	2,47%
PV				236.648	423.809	499.926	477.167	481.280	466.072	452.299	435.223	
WACC				7,49%	7,49%	7,49%	7,25%	7,25%	7,25%	7,25%	7,25%	7,10%

Source: Pirelli Data, Minerva estimates

Enterprise Value (EV)

The Enterprise Value is therefore given by the discounted value of cash FCFOs and terminal value: the final value of such discounting is ***12.554.143 €.***

Given the value of the EV, we computed the price per share as follows:

TV	16.837.330		
discounted TV	9.081.717		
Tax rate	0,345		
EV	***12.554.143***		
EV/EBITDA2018	9,653		
Financial Debt	6.196.720		
NFP	5.078.283	Shares Outstanding	1.000.000.000
EQUITY	***7.957.571***	*Price*	***7.96***

Source: Minerva estimates

Sensitivity Analysis

We finally conducted a sensitivity analysis to gauge the impact of different values for the steady state growth rate and WACC on the EV.

	Wacc Steady state						
G steady	6,80%	6,90%	7,00%	7,10%	7,20%	7,30%	7,40%
2,17%	12.679.931	12.409.437	12.150.833	11.903.390	11.666.434	11.439.346	11.221.554
2,27%	12.919.460	12.637.733	12.368.626	12.111.348	11.865.171	11.629.428	11.403.500
2,37%	13.169.780	12.876.086	12.595.805	12.328.076	12.072.115	11.827.197	11.592.658
2,47%	13.431.639	13.125.177	12.832.989	12.554.143	12.287.784	12.033.131	11.789.465
2,57%	13.705.856	13.385.750	13.080.858	12.790.166	12.512.746	12.247.749	11.994.397
2,67%	13.993.327	13.658.618	13.340.151	13.036.820	12.747.615	12.471.613	12.207.969
2,77%	14.295.041	13.944.675	13.611.679	13.294.842	12.993.062	12.705.334	12.430.741

Source: Minerva estimates

Final considerations

Given the information concerning the Enterprise Value we assess a price of Pirelli's shares of €7.96 (EV / Outstanding shares).

Through the sensitivity analysis is possible to observe how the Value changes and it gives us more information in order to identify a range where the price is expected to be. Especially, the range we assess is € 6.99 – € 8.20. Such variability of 17% is justified by the fact Pirelli is still facing the consequences of the IPO in November 2017 and it is working hard to restructure its financial structure. Moreover, Pirelli is repositioning in the High Value market, which is expected to grow at a faster pace than the traditional one, but we cannot exclude that this trend is going to be not confirmed in the future or Pirelli is moving to another segment at the end of its Industrial Plan.

2. Market multiples approach

We used this kind of valuation in order to have an immediate comparison between FCF method and the market sentiment in this actual moment and a projection of the value of Pirelli in the future. Even though this method is based on relative valuation, we did not consider any regression, because of the competitive advantage that makes Pirelli multiples higher than the sector mean.

In order to set up this kind of valuation, we considered five listed peers: Nokian, Michelin, Goodyear, Bridgestone and Continental. Our choice is based on a sector analysis that can be summed up through a quick EBIT margin of all these entities.

	Stock exchange	EBIT Margin (2017)
Nokian	Nasdaq Helsinki	*23,200%*
Michelin	Euronext (Amsterdam)	11,980%
Goodyear	Nasdaq	9,900%
Bridgestone	TYO (Tokyo)	11,500%
Continental	Frankfurt Stock Exchange	10,400%
Mean		10,945%
Median		11,500%

Source: Thomson Reuters

Deepening our research, we can consider Nokian as a direct competitor because of a number of factors:

A) It is a European company, with a good market share in the Eurozone.

B)Nokian products have premium quality, higher price and performance.

C) Given the point B, Nokian has the possibility to apply premium price.

D) As a result, it has the highest EBIT margin (+10%) among peers.

As we reported in the introduction, we can find the same characteristics in Pirelli too (EBIT margins higher than the Tier 1 competitors average and premium quality products). Thus, in this relative valuation, even if we consider statistics measures as mean and median, we always tend to adjust our result in order to maintain the strong comparison with Nokian.

We used both equity side and asset side multiples, in order to have a double check on our results.

The equity side multiples we considered is the forward P/E ratio: it is the most diffused worldwide. In addition, the price and the earnings are both correlated factors. In particular, high earnings usually imply higher prices; secondly, this multiple manages to catch the market momentum for these companies.

On the other hand, the EV/EBITDA is the multiple we took for the asset-side valuation. Even if EV/NOPAT is usually preferred, we have chosen this multiple because it has some useful characteristics: it is independent from any different taxation, amortization (and capex) policies and the EBITDA value is positive in every peer company.

Equity side	Price	EPS (2019)*	(P/E) 2018	(P/E) 2019	Variation
Nokian	36,9	2,28	20,76x	16,18x	-22,04%
Michelin	119,9	10,53	12,91x	11,39x	-11,80%
Goodyear	26,58	3,7	10,81x	7,18x	-33,55%
Bridgestone	4624	414,51	12,31x	11,16x	-9,38%
Continental	224,3	17,32	15,1x	12,95x	-14,24%
Mean			14,378x	11,772x	-18,20%
Median			12,910x	11,387x	-14,24%
Standard dev			3,886	3,257	-
Coefficient of variation			*0,270*	*0,277*	-

Source: Thomson Reuters, Minerva estimates

As we have shown in these two tables, the main multiple we chose in our valuation is P/E, because it has a lower coefficient of variation. We also considered Goodyear as an outlier, because it shows the lowest values for both multiples and for EBIT margin, even if we present the mean and the median as they are.

In general, we reported a negative trend for both forward P/E and EV/EBITDA and we expect Pirelli's value to behave in the same way.

In conclusion, we cannot take any mean or median value as they are, because we underestimate the strong competitive advantage Pirelli has because of its premium quality products. Moreover, we eliminate the peer Goodyear and give a different weight on Nokian multiple, in order to have a higher value that is surely more representative of Pirelli value. In particular, we believe that Nokian multiples are more suitable in order to explain Pirelli multiples. As a result, we calculated a weighted average (adjusted mean) with these weights: 90% Nokian and the other 10% absorbs Michelin, Bridgestone and Continental. In this way, both private competitive advantage and sector features are considered in the adjusted mean we used to calculate Pirelli value. The 8,58x EV/EBITDA 2018 value we found is slightly lower than the 9,65x value implied in our DCF valuation and might be interpreted as a confirmation of the fact that Pirelli trades with higher multiples over the other peers.

Asset side	EV/EBITDA 2018	EV/EBITDA 2019	Variation
Nokian	8,92x	8,32x	-6,73%
Michelin	5,15x	4,54x	-11,84%
Goodyear	4,49x	3,95x	-12,03%
Bridgestone	4,93x	4,67x	-5,27%
Continental	6,42x	5,57x	-13,24%
Mean	5,982x	5,410x	-9,82%
Median	5,150x	4,670x	-11,84%
Standard dev	1,792	1,727	-
Coefficient of variation	*0,300*	*0,319*	-

Source:Thomson Reuters, Minerva estimates

Equity/Asset	(P/E) 2018	(P/E) 2019	EV/EBITDA 2018	EV/EBITDA 2019
Nokian	20,76x	16,18x	8,92x	8,32x
Michelin	12,91x	11,39x	5,15x	4,54x
Bridgestone	12,31x	11,16x	4,93x	4,67x
Continental	15,10x	12,95x	6,42x	5,57x
Adjusted Mean	20,03x	15,75x	8,58x	7,98x

Source: Minerva estimates

Investment Risk

Our main concerns regarding Pirelli's valuation are related to the sharp expected increase in commodities quotations and to the sustainability of high revenue growth rates.

As for the first point, we already highlighted in the raw materials forecast section that the butadene and natural rubber prices are expected to rise. Since the incidence of such costs on revenues is high (about 35% in 2017), this might imply lower margins.
The company has a strong track record in anticipating and managing commodities trends (Source: March 2018 Company Presentation, p. 177) and, in its IPO Prospectus (p. 143), it specifies that increases in raw materials costs are then turned over prices within 6 months (on average). However, we believe that, in the long term, increasing prices too much without causing a reduction in demand and therefore of volumes might not be feasible. Pirelli might be forced, then, to let its margins decrease.
This issue becomes less relevant if we consider that Pirelli has been able to increase its Price/Mix consistently over the last years (as we already highlighted in the revenues section), and has offset the market in these terms. Moreover, the High Value segment is less price sensitive than the Standard one and price increases are more sustainable over the long term. Finally, if volumes do not increase too much and and revenues growth is mostly driven by prices, the impact of raw materials is more easily kept under control.

Secondly, we expect a high growth in revenues for the 2017-2020 period (7.3% CAGR), which is based on the forecasted growth rates for each of the regional markets and on the assumption that, in High Value, the company will grow more than the market.
Pirelli has a strong brand (also due to the fact that it is the official tyres supplier of the Formula 1 championship) and many partnerships with prestigious car makers (960 marked tyres homologations, more than any other competitor (Source: March 2018 Company Presentation, p. 50)). It also puts a lot of effort in the development of new products and technologies (R&D/revenues ratio is 4,1%, higher than the main competitors (Source: IPO Prospectus, p. 291)) and is already preparing to ride the wave of new trends such as connected, electric, shared and autonomous cars (Source: March 2018 Company Presentation, p. 61-63).
As a consequence, we are confident in the fact that Pirelli will be able to grow more than the market.
Despite this, an overall slowdown in the growth of some regional markets might come from geopolitical events. For example, if duties for car imports were introduced in the U.S.A. by President Trump, demand for cars in that area might decrease and, as a consequence, O.E. revenues as well. The Replacement channel, instead, has proven to be resilient in the past, also during the financial crisis (Source: IPO Prospectus, p. 277), since demand is strongly dependant on the car parc, which would not be impacted by such events, at least in the short term.
As for other geopolitical risks coming from risky countries such as Egypt, Brazil and Turkey, the company specifies that they account for only 14% of its total revenues (Source: IPO Prospectus, p. 156) and therefore we consider such risk moderate.

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