Pirelli’s evolution.
From a conglomerate to the only one ‘pure consumer tyre company’:
a long restructuring process

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Introduction

Pirelli & C. S.p.A. is a multinational company based in Milan, nowadays it’s a pure consumer tyres producer, with around 30,000 employees and a turnover of 5,000 million is one of the major player in the tyre industry. Since the 2011 it’s the exclusive tyre supplier for the Formula One World Championship, and is historically one of the most famous companies in Italy, symbol of the first Italian industrialization and also of the Italian boom in the sixties of the last century.

Pirelli has not always been a pure consumer tyre producer, it was founded in the 1872 and initially was specialised in rubber and derivative process. Since the last years of the nineteenth century Pirelli starts to produce tyres for bicycles, motorbike and cars. During all its life Pirelli operates in so many different industries: cables, clothing industry, real estate, Consumer and Industrial tyres segments. This analysis wants to highlight how the company reinvent itself and through a series of financial and political operation within the Board and long the control chain, Pirelli reaches the goal of focusing on the only consumer segment and more in particular in the high value segment of the consumer business, in order to achieve excellent financial and operational performances, returning to focus on what has always distinguished the Italian tyres giant.

The analysis starts in the 2010, because since this year Pirelli definitively changes its strategy and begins to work to reinvent itself. The process is surely not easy and in all these years Pirelli deals with several events; from the changes in the control, to changes in the industrial plans and to also difficulties arising from external contingencies. The aim of this analysis remains the evaluation of how all these aspects contribute to the evolution and to the new positioning of the company.

The first chapter figures out the attempt to revitalize the company with an Italian ownership (Provera-Malacalza) and then analyse the entry of the Russian capitals in the company after the litigation of the two Italian entrepreneurs, all this study is always accompanied by the focus on how works the control chain of the company and how the balance between the parties changes.

The second one it’s about the changes due to the entry of ChemChina in the ownership and all the restructuring operations that are done in order to delisting and prepare to the relisting of the company.
In the end, the third chapter talks about the restyling of Pirelli and how the company appears after all the operations done to return on the Stock Exchange as a pure tyre consumer producer. All these arguments go hand in hand with the constant evaluation of the financial and operational results, in order to highlight the dynamics that relate the company’s capital structure to how the company performs.
Chapter 1
From Malacalza-Provera diarchy to Italian-Russian ownership

1.1 Malacalza’s entry and Pirelli control chain

One of the most important events in recent years of the Pirelli’s history is surely the entry of the family and the group of “Malacalza” in the company.

The Malacalza Investimenti S.r.l. that already owned a stake of 3.5% in Camfin, in the June of the 2010, bought the 30.4% of GPI (the holding company that controls Camfin), and the 12.3% of Camfin that in total can be translated as the control of the 25% of the Pirelli’s stake that leads the group, headed by Vittorio Malacalza, to being the second largest investor in Pirelli right after the 25.8% owned by Tronchetti Provera.

It seemed that finally with this new composition, Pirelli & S.p.a could really look forward and this operation was enthusiastically received both by press, by the international finance and by the key players of the operation.¹

The first analysis goes hand in hand between what is the control chain of Pirelli and how it changes in these first two years after the entrance of the group Malacalza Investimenti and which structured finance operations are done in these two years inside this company and to what financial results they bring.

Pirelli has got a particularly complicated and very long control chain; but it’s also the way through with relative little stakes participation is firmly hold by some important features that will be better known in the development of the analysis, let’s try to understand who really controls or better controlled Pirelli & C. S.p.a..

The first analysis has to be obviously done directly on the Pirelli’s shareholders structure on the 2010.

The pie chart below shows clearly the share capital’s composition:

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¹ Il Sole 24 ore, (n. d.), Tronchetti Provera: Pirelli ha trovato in Malacalza un vero partner industriale.
So less than 50% as free float, less than 50% under the shareholders agreement and 5.9% owned by Camfin.

This 5.9% is not all the totality of the equity stocks owned by Camfin; indeed looking at the Shareholders Agreement:

It can be looked that Camfin owns another 20.32% of shares that added to the 5.9% outside the Shareholders agreement, results in a total percentage of 26.22% that permit Camfin to be the major Pirelli’s shareholder. The reason of a part of the Camfin’s stakes outside the Shareholders agreement can be found in the agreements’ rules that ban every member of the pact to have more than 50% of the total agreement shares.

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3 Sodali (Shareholder ID August 2010) and Libro Soci
So as shown by these two charts, Camfin results the main shareholder in Pirelli and even if partially through the Shareholders agreement, Camfin is the holding that exert more power on the company. Therefore to understand the control of Pirelli, the attention needs to be shifted on this holding.

Camfin S.p.a. briefly is a company founded in the 1915, in the early eighties Tronchetti Provera takes the control of the company and the core value is shifted from the energy and oil to the participation on Pirelli & C.³

Then to continue the analysis, the question change in who control Camfin S.p.a. As already said Malacaza Investimenti acquires 57,743,500 shares from G.P.I. for a share price of 0.52 euro per share equals to the 8.6% of the share capital that added with the initial stake of 3.5% permits to the Malacalza’s group to reach the 12.1% of the Camfin share capital, becoming the second larger shareholder.⁴

So the Camfin shareholder structure results in the following way:

- Gruppo Partecipazioni Industriali S.p.a with 41.21% of shares;
- Malacalza Investimenti S.r.l with 12.10% of shares;
- Others important participation were: Yura International BV (a dutch group with 4,31% of shares), Dear S.p.a, MR Massimo Moratti and then others smaller shareholders.⁵

Other important element after the entry of Malacalza, is the new shareholders agreement signed by Malacalza Investimenti and MTP Sapa in order to enforce and consolidate the partnership that replace the shareholder agreement signed in the 2009 and gives to Malacalza specified rights as industrial and strategical partner in G.P.I.; the agreement has as object the participations in Camfin and so indirectly in Pirelli but not limit or influence the solitary control of MTP Sapa on Camfin.

At the end to complete the picture of the control chain let’s analyse G.P.I.’s shareholders, that can be briefly summarized with the two main shareholders that were respectively:

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⁴ Camfin, Press release, 25/6/2010
⁵ https://aida.bvdinfo.com
• Marco Tronchetti Provera & C. S.p.a. with 61.89% of ownership;
• Malacalza Investimenti S.r.l with 30.4% of ownership.

This is briefly the new control’s configuration of Pirelli & C. after the entry of Malacalza’s group in the company, that with a total investment of 80 million euro to buy shares owned by Carlo Puri Negri, previous number one of the Pirelli & C. Real Estate Spa, that after the separation from Pirelli & C. on date 25 October 2010 change name at list in Prelios Spa, Malacalza as mentioned above become the principal partner of Marco Tronchetti Provera in the Pirelli & C.’s board with a participation in Camfin of about 25% really close to the Tronchetti Provera’s participation of 25.8%. Reactions were quite enthusiastic to this new industrial partnership in one of the most famous and historical industrial group of Italy.

Marco Tronchetti Provera, that was still the president of Pirelli & C., but now with Vittorio Malacalza as vice-president, asserted that He finally found the industrial partner that He didn’t have but that He needed. Media reaction was good and also the stock price reaction was satisfactory for all the shareholders, as we can say in the table below. Pirelli & C.’s stock price from July 2010 and December 2010.

It seemed that finally with this new composition, Pirelli & S.p.a could

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6 Prelios S.p.A., Press release, 21/10/2010
7 Il Sole 24 ore, (n. d.), Tronchetti Provera: Pirelli ha trovato in Malacalza un vero partner industriale.
really look forward especially because this new presence in the ownership and in the board that could breathe new life in particular for the industrial plans and for a new stable growth of the Italian tyre’s giant. Now let’s look at some numbers of the group and how the company looks to all the stakeholders after the entry of Malacalza. Pirelli & C. Group close the 2010 with these results:

- Revenues: 4,848.4 million euros (+19.2% from 2009);
- Operating result (EBIT) after restructuring charges: 407.8 million euros, (+63.3% from 2009);
- Net profit for operating activities: 228 million euros, (almost three times the 77.6 million euros posted in 2009);
- Total consolidated net profit: 4.2 million euros (-22.6 million in 2009), despite negative 223.8 million euros impact from “discontinued operation” (Pirelli RE and Pirelli Broadband solutions).9

After looking to this data is probably more interesting to show that these results that arise from Pirelli Tyre because:

- Revenues: 4,772 million euros (+19.5% FROM 2009); about the 98.5% of the total revenues;
- Operating result (EBIT) after restructuring charges: 453.1 million euros (an increase of 46.9% from 308.5 million euros in 2009);
- Cash flow from operation positive 167.7 million euros, after investment of 405 million euros, almost double 2009 level.10

These results seem to be driven especially by the new strategy and the new structure of Pirelli & C., in fact: “Pirelli has concluded its transformation into a pure tyre company and reached its targets ahead of schedule. In a world that is changing fast and in which new areas of growth are emerging, we have developed a plan which puts the company in the best possible position to compete”, said Marco Tronchetti Provera Pirelli’s chairman.11

New structure that became effective after the separation of Pirelli RE

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10 Ibidem
approved in the board of directors on date 4 May 2010\textsuperscript{12} and after the sale of Pirelli Broadband Spa solution to Advanced Digital Broadcast Holdings (ADB) for about 30 million euros approved on 21 October 2010; permitting so to Pirelli to become a pure tyre company.\textsuperscript{13} The strategy of focusing on the tyre segments was disclosed already in the 2009-2011 industrial plan; in addition to the already mentioned sales of Pirelli Broadband and Pirelli RE, in these two years, the company has carried out a disposal of the others non-strategic activities: Telecom Italia, Alcatel-Lucent, Submarine, Oclaro; becoming a pure tyre company, that collect 98% of its revenues from its core business.

Considering also that Pirelli has reached the goals of its 2009-2011 industrial plans, one year ahead of schedule, in the light of these factors Pirelli has made a new 2011-2013 industrial plan with vision to 2015. The new plan is based on the re-definition of Pirelli in “Premium segment”; this industry segment is expected to grow faster than the market and Pirelli is always more focused on catch this market opportunity.

To do that, It’s provided by the plan an investment of 1,900 million euro in 5-years and this will be particularly concentrated in the high technologies products and in the enforcing of the high value segment both in the areas of rapid economic growth (in particular Asian-Pacific and LATAM ) and in the mature economies.

Some plan’s numbers can be summarized by the table below:

\begin{center}
\begin{tabular}{|l|c|c|c|c|}
\hline
 & 2010\textsuperscript{E} & 2011 & 2013 & Cagr 2010-13 \\
\hline
Total Revenue & ~4,8 bn & >5,15 bn & >6,05 bn & >8% \\
(of which "green performance") & 36\% & 39\% & 47\% \\
\hline
Ebitda \% & >12 \% & 13\%+14\% & 15\%+16\% & \\
(after restructuring charges) & & & & \\
\hline
Ebit \% & >7,5\% & 8,5\%+9,5\% & 10,5\%+11,5\% & \\
(after restructuring charges) & & & & \\
\hline
\end{tabular}
\end{center}

* 2010 data exclude Pirelli Re and Pirelli Broadband Solutions

It appears clear that in addition to an ambitious Compound annual

\begin{itemize}
\item \textsuperscript{12} Pirelli & C. S.p.A., Press release,
\item \textsuperscript{13} Pirelli & C. S.p.A., Press release, PIRELLI SELLS BROADBAND SOLUTIONS TO ADB FOR APPROXIMATELY 30 MILLION EUROS, 30/10/2010
\item \textsuperscript{14} Pirelli & C. S.p.A., Press release, PIRELLI PRESENTS 2011-2013 INDUSTRIAL PLAN AND VISION TO 2015
\end{itemize}
growth rate (CAGR) of 8%, the efforts of the company will be concentrated on the focus on the margins and this can be only a consequence of an higher segment; that is exactly what Pirelli wants to reach.

1.2 Malacalza-Tronchetti Provera litigation

In the 2011 despite the global economy has been depressed, in fact the global growth was of the 3% and the mature economies growth was only of the 1.5% and also the light vehicles market in western Europe registered for the third consecutive year a decline. Despite all these things, Pirelli & C. managed to get good results in line with the targets of the plan, and also better than the plan meeting the targets a year early; these results can be viewed in the table below.

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<tr>
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<tbody>
<tr>
<td>GROUP INCOME STATEMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>5,655</td>
<td>4,848</td>
<td>4,667</td>
<td>4,440</td>
<td>6,076</td>
</tr>
<tr>
<td>Net sales (excluding DGAG - PRE) *</td>
<td>807</td>
<td>629</td>
<td>453</td>
<td>252</td>
<td>373</td>
</tr>
<tr>
<td>Gross operating profit</td>
<td>582</td>
<td>408</td>
<td>260</td>
<td>43</td>
<td>364</td>
</tr>
<tr>
<td>% of net sales</td>
<td>14.3%</td>
<td>13.0%</td>
<td>11.1%</td>
<td>5.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Operating income</td>
<td>10.3%</td>
<td>8.4%</td>
<td>6.1%</td>
<td>0.9%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Net income (loss) from continuing operations</td>
<td>313</td>
<td>228</td>
<td>77</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Net income (loss) from discontinued operations</td>
<td>22</td>
<td>(224)</td>
<td>(100)</td>
<td>9.2%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Prior period deferred tax asset - Italy</td>
<td>128</td>
<td>128</td>
<td>128</td>
<td>128</td>
<td>128</td>
</tr>
<tr>
<td>Total net income (loss)</td>
<td>441</td>
<td>4</td>
<td>(23)</td>
<td>(413)</td>
<td>324</td>
</tr>
<tr>
<td>Net income attributable to owners of Pirelli &amp; C. S.p.A.</td>
<td>452</td>
<td>22</td>
<td>23</td>
<td>(348)</td>
<td>165</td>
</tr>
<tr>
<td>Total net earnings (losses) per share attributable to owners of Pirelli &amp; C. S.p.A. (in euro)</td>
<td>0.926</td>
<td>0.045</td>
<td>0.047 **</td>
<td>(0.065)</td>
<td>0.031</td>
</tr>
</tbody>
</table>

These numbers are the results of the efforts in the tyre business and in its process of continuous growth and focus in the premium segment.

Research and development become fundamental in the Pirelli’s strategy, indeed in the 2011, the Italian company invested 7.2% of its earning in the premium segment and the total research cost arise from 149.7 to 169.7 million.

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Important to be mentioned the change of equity in the Pirelli in the 2011; in fact equity attributable to owners of the company at the end of the 2011 was 2,146.1 million (euro 4.398 per share), about +7.79% compared with euro 1,990.8 million at December 31, 2010 (euro 4,080 per share). The reason of this changes in equity are mostly due to the buy-back in Pirelli Ambiente S.p.A. and Pirelli EcoTechnology S.p.A, to the buy-back in minority shares in China but especially to 440.7 million of positive net income, partially offset by the pay-out for dividends equals to 83.5 million and 62 million in the reduction from the translation of assets in foreign currency.\textsuperscript{16}

After the emphasis on results, it’s interesting to note that in this 2011 there weren’t big changes in the control chain but just a reinforcement of the Tronchetti Provera’s ownership in the company. In fact in Pirelli & C. the equity share of Camfin remains unchanged, while as second direct shareholders appears G.P.I. with an equity stake of 10.64% and as third owner there is the Marco Tronchetti Provera Spa with a stake of 6.60%.

In Camfin remains unchanged the stake of G.P.I. with 41.71% of shares and the Malacalza Investimenti Srl’s stake with 12.10%, while the Marco Tronchetti Provera Spa goes up to the 10.64%.

Lastly in G.P.I Malacalza Investimenti S.r.l retains its 30.4% of ownership, while the Marco Tronchetti Provera Spa goes down to 57.52%.

Recapping there is a little change in the participation’s weight but definitively the control chain doesn’t change.\textsuperscript{17}

So despite the world economic crisis, the 2011 was in every respect a good year. The 2012 in the previsions will not be an easy year, especially for the automotive and truck industry’s slowdown, but the company was sure that could achieve good goals driven by the premium tyre segments. The 2012 will be a year of definitive changes, especially in what will be the control chain of the Italian industrial giant. Let’s examine what is happened in this critical year.

The holding Camfin Spa, that has already been mentioned more and more times had a debt of 382.4 million euros, of which 132.4 million with a

\textsuperscript{16} Ibidem, p.44
\textsuperscript{17} https://aida.bvdinfo.com
maturity at the end of the 2012. This debt is due to Unicredit that financed Camfin in the 2009 for 400 million euros. The dispute between the two main shareholders of Camfin and so indirectly of Pirelli & C. born around this debt:
Tronchetti Provera wanted to refinance this debt with an issue of convertible bond of about 200 or 150 million euros.
Malacalza instead would to recapitalize Camfin and to reduce the debt in order to have a debt/equity more sustainable.
Officially the debate starts with a letter sent from Davide Malacalza, Vittorio Malacalza’s son, to MTP Sapa (Marco Tronchetti Provera’s holding) and to G.P.I.. The substance of this letter is that, the Malacalza family, strong of 1,000 million euros of liquidity, would like to reduce the indebtedness of Camfin instead of refinance the debt with a convertible bond as Tronchetti Provera wanted. The confrontation took place in the board meeting of the 10 August 2012 and lasts to the shareholders’ meeting that took place on the 12 October 2012.
Camfin’s debt with banks of 382.4 million that exceeded the target debt stipulated on the 2009 of 250 million has to be refinanced in this year because on the December 2012 Camfin has to repay the first tranche of this debt equals to 132.4 million debts in order to come back to the target indebtedness with the banks. As reported in a note on the agreement with the banks, Camfin has three options:
1. A capital increase (that is the option supported by Malacalza that doesn’t need liquidity and will permit to Pirelli to reduce the debt/equity ratio);
2. Sale of all or a part of the Pirelli’s share out of block shareholders agreement (which represents the 31.54% of the ordinary shares and its composed by the totality of the shares of Camfin, MedioBanca, Edizione, Assicurazioni Generali, Fondiaria SAI, Intesa Sanpaolo, SINPAR, Massimo Moratti);
3. Alternative operations to be agreed with the financing banks.

In the shareholders’ meeting on 12 October 2012 is chosen this third option with the votes against of the Malacalza’ members and is chosen as
refinancing option the issue of an exchangeable bond by Camfin.\textsuperscript{18} It’s the triumph of the Tronchetti Provera’s political line, but let’s examine the features of this issue and the reason of the choice.

An exchangeable bond is a debt security that the holder can exchange at a certain time for a certain price with the stocks of a subsidiary of the issuer; obviously the subsidiary in this operation is Pirelli. This bond that is a senior unsecured bond, is issued by the total owned subsidiary of Camfin CAM 2012 and it’s exchangeable with the Pirelli’s ordinary shares and is guaranteed by Camfin.

The closing of the issued is done on 26 October 2012; here below all the main features of this bond:

- Total bond amount of 150 million;
- The contribution to Cam 2012 of an amount of 5.85% of Pirelli ordinary share capital not conferred to the Pirelli Shareholder Agreement, in order to provide CAM 2012 with adequate assets;
- Maturity of 5 years;
- Coupon of 5.625%;
- An exchange premium of 30% that set the price for the exchange on 8.7419 euro per shares.\textsuperscript{19}

These are briefly the characteristics of the bond placed by Camfin that permit the repayment of the tranche of 132.4 million euro regarding the financial facility executed on 2009; while the others 17.6 million are invested in a rescue deal by Prelios in which Camfin owns a stake of 14.8%.

The reasons for which it was chosen the issue of a senior unsecured bond are various:

- The market condition linked to the Camfin title’s characteristics could make the operation too expensive;
- To let lower costs, G.P.I. could be part of the consortium of guarantee and if G.P.I. should take more than the 5% should start the mandatory tender offer with a discounted price, with a loss for the small shareholders;

\textsuperscript{18} Camfin, Press release, \textit{CAMFIN RESOLVES ON THE ISSUANCE OF BONDS EXCHANGEABLE WITH PIRELLI SHARES UP TO EURO 150 MILLION}, 11 October 2012

\textsuperscript{19} Camfin, Press release, 12 October 2012
• cash raised from the recapitalization will be used to serve the debt and not to the company’s development;
• The need of a discount TERP too high, that could have an excessive dilutive effect.

For all these reasons the equity linked instrument issued by Camfin is considered the less expensive way to refinance the banks facility of Camfin and the best solution for quite all the board excluding Malacalza’s members. Indeed the achievement of a better debt/equity ratio is surely overlooked in this moment of the company and this difference of opinion between the two main shareholders is the beginning of the end of the Pirelli’s dyarchy.

This dispute seems to favour the Tronchetti Provera’s line, but it’s not all, in fact Tronchetti Provera has upped the ante inviting two big private equity group (Clessidra and Ivestindustrial) in order to buy-out Malacalza to shorten the chain of control of the group.

MTP Sapa, Mr Tronchetti Provera’s holding sign an agreement in which these two private equity company had the aim of strike a deal with the Malacalza’s group in order to throw out them from Camfin.

But the Malacalza’s group didn’t need liquidity and did not have intention to exit from Pirelli. The 2012, despite the litigation between Tronchetti Provera and Malacalza, ends with practically the same control and ownership that will not be analysed for the second time, but for what will be the future of the Italian biggest tyres maker there are winds of change.

To finish our analysis about this troubled year in Pirelli, let’s analyse some financials of this year.

“Thanks to our geographic diversification, local-for-local strategy, focus on the premium segment, stable pricing policy and incisive efficiency plan we were able to improve our profitability, bringing it to an annual record of 12.9%, at the same managing to contain debt to around 1.2 billion, after investments – both industrial and financial – of over 700 million euro to reinforce our presence in strategic countries, such as Russia, and to

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20 A theoretical ex-rights price (TERP) is the market price that a stock will theoretically have following a new rights issue. Although the stock price is not likely to change immediately following the new rights issue, it will change as the rights’ expiration date approaches. The theoretical ex-rights price is based on the company’s market capitalization and the number of shares outstanding. www.investopedia.com
21 Filippetti S., Scontro Malacalza-Tronchetti su Camfin, Il Sole 24 Ore, 15 August 2012
22 Sanderson R., Pirelli looks to shorten chain of command, Financial Times, 21 November 2012
23 Ibidem
concentrate production in the Premium segment."²⁴

These are the words of Marco Tronchetti Provera in the 2012’s annual report, and we can look deeply in the financial with the following table.

<table>
<thead>
<tr>
<th>SELECTED ECONOMIC AND FINANCIAL DATA (in millions of euro)</th>
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<tbody>
<tr>
<td>GROUP INCOME STATEMENT</td>
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<td>Net sales</td>
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<td>Net income attributable to owners of Pirelli &amp; C. S.p.A.</td>
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<tr>
<td>Total net earnings per share attributable to owners of Pirelli &amp; C. S.p.A. (in euro)</td>
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</tbody>
</table>

Newly despite the economic not rosy situation, Pirelli reaches its targets again.

These results are surely not driven by the mature economies, in fact in Europe tyre sales fell for 12% for the consumer segment and for 17% for the industrial segment, but these negative results are offset one more times by the Pirelli’s strategy of focus in the premium segment and the focus in the emerging markets. Equity also rise from 2,191.6 million at the close balance of 2011 to euro 2,389.4 in the 2012. This change is driven by especially the net income of 398,2 million offset by a total dividends payments of 132.4 million by the parent company and furthermore by the negative translation effect of foreign subsidiaries financial statements.²⁶

While debt structure rise again, in fact the net borrowings of the group are on 31 December equals to 1,205 million euro growing of about 468 million from the 737,1 million of the 2011.

Important to note that 173,5 million of financial receivables are due to the valuation of Prelios Spa that are based on the assumption of the

extraordinary transaction that at the end of the year are still in negotiation as just explained above.27

1.3 New control chain and Camfin delisting

As seen the incurable wound between the two main shareholders ends with the victory of the Tronchetti Provera’s line and on the 4 June 2013 shareholders’ meeting are outlined three main aspects that will change all the Pirelli’s control structure and that will be key in the next future for the company:

- The end of the shareholders agreements between Marco Tronchetti Provera and Malacalza Investimenti;
- A new shareholders’ agreements between Marco Tronchetti Provera (MTP), Marco Tronchetti Provera Partecipazioni (MTTP), Gruppo Partecipazioni Industriali (GPI), Nuove Partecipazioni (NP), Lauro cinquantaquattro (L54), Intesa and Unicredit;
- The launch of a tender offer on the Camfin outstanding shares to proceed with the delisting of Camfin and to shorten the control chain, through the Newco (Lauro Sessantuno) composed by the companies that are part of the shareholders’ agreements.

All these three items are strictly related; first of all, it’s important to highlight that after the end of the shareholders’ agreement between the two companies owned by Tronchetti Provera (MTP and MTTP) and the Malacalza Investimenti, It was signed a new blocking syndicates that is composed in the way shown in the table below:

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without considering an additional Camfin’s participation of 12.87% outside of the syndicate. This syndicate gives to its members disposition regarding the governance of Camfin to better achieve a stable governance of the principal interest of this holding that is the participation in Pirelli; the nature of this syndicate it was only consultative and not binding in its terms, but it was anyway an important instrument in the hands especially of the Italian investors to influence and control the whole company. In any case because the not idyllic relations between the parties of the syndicate, the agreement doesn’t last to its natural end, in fact the syndicate is dissolved before its deadline, being dissolved on 31 October 2013.29

After the dissolving of the shareholders agreement the Malacalza’s family sell its Camfin direct participation equals to the 12.37% of the stakes and its indirect participation equals to 13.2% of the stakes (30.94% of G.P.I.) for a total price of 255 million (0.80 euro per share); by contrast Malacalza Investimenti get a direct stake in Pirelli for a total 6.98% of the shares, 4.41% from Allianz and 2.57% from Fondiaria SAI, for a price of 7.8 euro per share with a discount of 12.5% on the last Pirelli’s market price (8.915 euro per share on 4 June 2013).

Regarding the tender offer of the Newco Lauro Sessantuno, it’s important to list that in addition to the purchase from the Malacalza Investimenti, have been transferred to the Newco the 35.41% of Camfin’s shares through the Nuova Partecipazioni that has received these shares in turn

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28 Estratto del Sindacato di Blocco Azioni Pirelli & C. Società per Azioni, 8 June 2013
29 Pirelli, press release, 31 October 2013
by G.P.I. (29.45%) and by Assicurazioni S.p.A., Yura International B.V. and Fidim S.r.l.(5.96%).

With these operations the Newco takes the control on Camfin with a total stake of 60.99% this percentage is important because as reported by the Legislative Decree number 58 of 24 February 1998, contained in Testo unico delle disposizioni in materia di intermediazione finanziaria, that states the obligation of a Mandatory Public Offer for who increase its voting power to more than 30% of the target’s securities, so the Newco launches its Mandatory Public Offer for the shares that doesn’t own, for the price of 0.8 euro per share that is the highest price paid in the whole operation following in this way the best price rule.

In the whole operation can be found two problems towards Consob (Commissione nazionale per le società e la Borsa):
1. The price paid for Camfin’s shares;
2. The possibility of a Waterfall Tender Offer.

Consob in fact with the resolution 18662 on 25 September 2013, issued pursuant the art. 106 of the TUF ascertain the collusion in the price negotiation between Malacalza and Pirelli in order to pay less the shares. This collusion can be view as an exchange of favours, in particular the scheme results in this way: Nuova Partecipazioni (NP) paid the Malacalza shares in Camfin 0.80 per shares (so a valuation of Pirelli’s shares of 7.8 euro per share) with a discount of 20%; Tronchetti Provera and Massimo Moratti transfer their Camfin’s shares in NP for a price of 0.72 euro (so a valuation of Pirelli’s shares of 7.3 euro and a total discount of 28%) and at the end of the operation Malacalza Investimenti having sold its Camfin’s participation at a lower price, can buy at a favourable price the 6.98% of the Pirelli’s stake.

In this complicated scheme, the highest price in Camfin paid is 0.80 euro per share and this bring to the Mandatory Tender Offer to be launched with this price; but for Consob it’s too low and it follow an irregular process.

This is the reason of the additional amount of 0.03 euro per shares that

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30 Legislative D. 24 February 1998, n. 58, Testo unico delle disposizioni in materia di intermediazione finanziaria
31 Mangano M., Opa Camfin, per i giudici ci fu collusione tra Tronchetti e Malacalza, Il Sole 24 ore, 21 March 2014.
Lauro Sessantuno need to pay for the Mandatory Tender Offer. The other Consob concern is about the possibility for the Newco to make a Waterfall Tender Offer.

A Waterfall Tender Offer is a Mandatory public tender offer promoted by the person who indirectly holds a stake of more than 30% in a listed company. But concerns about this for Consob are less relevant because: first of all Camfin owns the 26% of Pirelli and so less than the 30%; then even if Camfin is member of the shareholders agreement, for a particular clause, Camfin can’t be at the head of this in fact, on 5 June Camfin had to release 7% of Pirelli’s stake because its participation as regulated by the shareholders’ agreement can’t exceed the 51% of the syndicate.\(^{32}\)

Nevertheless on date 16 October 2013 as can be seen from the Camfin’s press release, the Mandatory Public offer ends successfully. In fact, Lauro Sessantuno acquires a total number of shares of 254,578,238 that is the 88.914% of the shares object of the offer and are equals to the 32.475% of the total equity of Camfin. This 32.475% summed with the acquisition of the shares owned by Massimo Moratti and by its controlled company, through an agreement of Put and Call, and summed with the initial stake of 60.99%, permits to Lauro Sessantuno to gets the 95.95% of total Camfin’s shares.\(^{33}\)

Lauro Sessantuno, reaching over 95% of Camfin’s shares, under the Italian legislation has the “Right of Squeeze-out”.

Squeeze-out that can be also called freeze-out it’s referred to the action taken by the majority shareholder to the minority shareholders in order to press them to sell him their shares.

In the Italian legislation the squeeze-out is regulated in the TUF (Testo unico delle disposizioni in materia di intermediazione finanziaria), according to this article, this right is available to the bidder following a bid made for all of the shares of the target company and the bidder has acquired not less than 95% of them, The bidder has the right to require all the holders of remaining securities of the target company to sell him those securities at a fair price.\(^{34}\) As plans the Newco declares that wants to exploit this

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\(^{32}\) Camfin, Press release, 5 June 2013


\(^{34}\) Legislative D. 24 February 1998, n. 58, Testo unico delle disposizioni in materia di intermediazione finanziaria, art. 108
right. Despite the dispute with Consob that ends with the dismissal of the action of Camfin and so with the immediate payment on date 19 March 2014 of the additional 0.03 euro more on action, so for a total share price of 0.83; despite this legal issue with the Consob, the operation ends exactly as was thought and on date 30 October 2013 Camfin is delisted from the Milan’s stock exchange.\(^{35}\)

So at the end of the 2013, with Lauro Sessantuno’s total control of Camfin, the control chain results effectively less long and probably more easy to manage.

The Pirelli’s shareholder structure in shown in table below, It immediately appears the missing of G.P.I. and the direct presence of the Malacalza investimenti’s stake.

It important to note also the increasing presence of foreign investors that have a total stake almost three times of the 2009 level, permitted also by the resolution of the blocking syndicate that leaves the members of the syndicate free to sold their participation, and permitting to foreign but more in general external investor to entry in the Pirelli’s stake; this increasing foreign presence will be a theme in the future capital composition of the Italian company.

\begin{table}
\centering
\begin{tabular}{c c c c c c c}
\textbf{SHAREHOLDER STRUCTURE AT DECEMBER 31, 2013} \\
\hline
\textbf{Investor} & \textbf{Shareholding} \\
\hline
Camfin & 26.19% \\
Malacalza Investimenti & 6.96% \\
Edizioni Srl & 4.61% \\
Mediobanca & 4.61% \\
Investitori Retail & 10.12% \\
Italian Institutional Investors & 4.26% \\
\textbf{Other foreign Institutional Investors} & 37.29% \\
Foreign Institutional Investors & 43.23% \\
Ruane Cunniff & 1.99% \\
Goldfarb & \\
Harbor International Fund & 3.94% \\
\hline
\end{tabular}
\end{table}

Camfin’s composition definitely changes, as already written, and the most important things probably to note, at the end of 2013 is the quite definitely removal of Malacalza’s family from control’s positions and the

\(^{35}\) N.d., Camfin: il 30 ottobre il delisting del titolo, MF Milano Finanza, 17 October 2013
shortening of the control chain.

Once again in the history of this company Marco Tronchetti Provera get what he want, he succeed at the elimination of Malacalza from the control of Pirelli, he reaches the shortening of the control chain; probably He doesn’t reach the opportunity of a Waterfall Tender Offer, but in this case as seen, the situation inside the different companies was too complicated and the restrictions due to the shareholders agreement and due to the regulatory body don’t leave much wiggle room.

Anyway let’s look at the financial and operational results that also due to the unfavourable economic context are not completely satisfactory:

<table>
<thead>
<tr>
<th>GROUP INCOME STATEMENT</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6,146</td>
<td>6,072</td>
<td>5,655</td>
<td>4,848</td>
<td>4,067</td>
</tr>
<tr>
<td>Gross operating profit</td>
<td>1,080</td>
<td>1,064</td>
<td>807</td>
<td>629</td>
<td>453</td>
</tr>
<tr>
<td>% of net sales</td>
<td>17.5%</td>
<td>17.8%</td>
<td>14.3%</td>
<td>13.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Operating income</td>
<td>791</td>
<td>792</td>
<td>862</td>
<td>408</td>
<td>250</td>
</tr>
<tr>
<td>% of net sales - ROS</td>
<td>12.9%</td>
<td>13.1%</td>
<td>10.3%</td>
<td>9.4%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Net income (loss) from continuing operations</td>
<td>306</td>
<td>398</td>
<td>313</td>
<td>228</td>
<td>77</td>
</tr>
<tr>
<td>Net income (loss) from discontinued operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(224)</td>
<td>(100)</td>
</tr>
<tr>
<td>Prior period deferred tax assets - Italy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>139</td>
<td>-</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>306</td>
<td>398</td>
<td>441</td>
<td>4</td>
<td>(23)</td>
</tr>
<tr>
<td>Net income attributable to owners of Pirelli &amp; C. S.p.A.</td>
<td>304</td>
<td>387</td>
<td>452</td>
<td>22</td>
<td>23</td>
</tr>
</tbody>
</table>
| Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro) | 0.622 | 0.793 | 0.908 | 0.444 | 0.047 (**)

Despite these data, It’s important to highlight the results of the Premium segment that reached a profitability of 13% and total net sales of 2,210.0 million euro up 6.5% from 2012 and the increasing presence and revenues from emerging markets ( +4.3% of revenues), in particular from Asia-Pacific area (+14.5%) and from South-America (+5.2%).

In conclusion can be said that Pirelli is always more focused on the premium segment and in the internationalization process; this is what It’s to be expected for the future of the tyre giant company.

**1.4 Rosneft in Camfin**

Rosneft was Russia’s largest oil and natural gas producer or according to other sources Rosneft was second to Gazprom. As reported in *Oil: A*...
Rosneft has control of reserves totalling 784 billion cubic meters of natural gas and 22.3 billion barrels of oil. The Russian government does not directly own Rosneft. Instead Russian Oil and Gas (Rosneftregz), the former Ministry of Oil and Gas, holds three-quarters of Rosneft’s stocks. This is a brief overview of the Russian company that is getting in touch with Pirelli.

The first agreement between the two companies was signed on the 20 December 2012, the agreement regards the tyre’s sale at Rosneft station and the development of joint marketing and commercial plans. More specifically this plan consists in the organization of a joint working group in order to permit the sold of Pirelli’s tyre in 1700 Rosneft’s stations in particular in the region of Krasnodar, in the south of the Russia that was preparing to host the 2014 Sochi Winter Olympic Games.

Rosneft before the commercial and strategic partnership with Pirelli in the 2012, has already invested in Italy in the share capital of Saras S.p.a..

Saras S.p.a. is an Italian energy provider founded in 1962, that operates in the production of electricity and in the oil refining; the why of this excursus is because Saras is the company owned by Moratti family that as already explained, are historical minority Pirelli’s shareholder.

The operation is perfectly explained in the Saras website: “At the end of April, Rosneft acquires 13.70% of the share capital of Saras from majority shareholders, Gian Marco and Massimo Moratti, and, in mid-June, an additional 7.29% via a public offer to purchase in the open market.”

This is the first big investment in Italy of Rosneft the Russian oil giant, but the company and its executive chairman, Igor Ivanovich Sechin wanted to join also to the Italian tyre giant, that is already a commercial partner.

Strategic relationships between Rosneft and Pirelli are strengthened during all the 2013, in particular with three memorandum of understanding:

- On date 15 April 2013 for the opening of the first flagship store in Russia, in the service station of Rosneft in Sochi;
• On date 26 November 2013 between Rosneft, Pirelli and Rostec (Russian technologies) for the develop of a joint research on tyre materials;
• On date 27 December 2013 between Rosneft, Pirelli and Oil Techno always regarding a joint research, but this time for the develop of the synthetic rubber.41

Despite the increasing commercial and strategic partnership between the two companies, Rosneft (that has a turnover of more than 100 billion dollars), wanted also to join the control and the ownership of the Italian company.

So after months of bargaining, and after an operation of 552 million euro, through the Long-term Investment Luxembourg, on date 24 may 2014 Rosneft enter in the ownership of Pirelli.

Let’s examine the whole operation; as already written, Pirelli was controlled through Camfin with a total stake of 26% that was entirely controlled by Lauro Sessantuno that was in turn owned by Fondo Clessidra Capital Partners II, Unicredit, Intesa Sanpaolo, Nuove Partecipazioni (in majority owned by Marco Tronchetti Provera) as principal shareholders. Rosneft with its investment acquires the 50% of Camfin and will take the place in the control chain of Lauro Sessantuno that cease its existence, shortening the chain, taking the stakes of Fondo Clessidra Capital Partners II for a total of 24%, acquiring the totality of the sub-holding Lauro Cinquantaquattro and acquiring the 12.9% from Unicredit and Intesa Sanpaolo directly in Camfin.

Rosneft pays for this operation an implicit price of 12 euro per share and in this way reach to control the 50% of Camfin.

While the rest 50% of Camfin will be owned by a Newco that is participated in this way:

• 76% is owned by Nuova Partecipazione (with Marco Tronchetti Provera as major shareholder);
• 12% owned by Intesa Sanpaolo;
• 12% owned by Unicredit.42

42 Filippetti S., Pirelli chiude l’intesa con Rosneft: ai russi passa il 50% di Camfin, Il Sole 24 Ore, 25 May 2014
This is the beginning of a new diarchy in the control of Pirelli, after the diarchy of Tronchetti Provera – Malacalza, after this agreement is the start of a new era in Pirelli with the shared command equally divided between Rosneft and the Tronchetti Provera. Also the Camfin’s Board of Director is equally divided after this agreement and will be composed by three Italian members nominated by the Italian Newco and three members nominated by Russian; while the role of President and CEO remains in the hands of Marco Tronchetti Provera.

This is in the end, the way how is structured the enter of the Russian oil giant in the Pirelli Capital but it’s also important to notice that every other kind of participation that was in Camfin (most important the real estate company Prelios) will be conferred to a newco, entirely owned by Italian investors.

The main direct Pirelli’s shareholder remains roughly the same, but is just been shown the big changes further up in the control chain, anyway the main shareholders are shown in the table below.

The 2014 is for Pirelli probably the year of the definitive internationalization, also in the share capital composition, in the years ahead, as will be shown in the next chapters, Pirelli will become increasingly an international company, for its equity owners and for its market presence.

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This is a trend, that even if Pirelli is a multinational company since a lot of years, is becoming always more relevant in these years just covered and this other table, that is about the tyre revenues by geographical area, illustrates some numbers regarding the international presence of the group:

![Tyre Revenues Breakdown](image)

Now let’s focus on the operating results of Pirelli, It can be seen from the Pirelli’s financial statements that for example the whole revenues decrease since 2013, but from these data is the always higher focus on the Premium segment that gives back good results.

![Key Performance Indicators](image)

Since 2011, when Pirelli starts to focus its efforts on the premium
segment, increases its Prestige market share from 36% to about 50%, in the premium product segment Pirelli share reaches in Europe, that remains the principle market, the 20% starting from the 14% of the 2011. Furthermore, Pirelli maintained an investment in Research and Development of 7% of the total Premium revenues; and this high percentage permits Pirelli to be always more focused to be an high technology pure premium tyre company, ready to get its targets and be always more present in the international competitive environment and to be ready for all the future challenges.
Chapter 2
ChemChina in Pirelli and delisting

2.1 The acquisition of Pirelli’s control by ChemChina through Marco Polo Industrial Holding

The 2015 could be a normal year for Pirelli & C. in which the company follow its strategy, try to get its target, try to outperform its past financial performance and to utilize some routine financial operation to finance its operation; but as learned in the first paragraph these last years were very troubled for the Italian company and the 2015 is probably one of the most troubled even if it seemed to be not.

At the beginning of the year Pirelli refinances a debt that was contracted in the November of 2014 for a total amount of 1,200 million euro signing a new contract for a new revolving credit facility for a total amount of 800 million euro, a multicurrency term loan for a total amount of 200 million and in addition to them, on 9 February 2015 another contract is signed for a credit facilities to get available others 200 million; all three contracts have a five-year term.\(^\text{46}\)

Another important event that need to be highlighted in the 2015 is that under the memorandum of understanding signed between Pirelli and Rosneft in the 2014, finally the two companies identify in the polish company Synthos that is leading manufacturer of chemical raw material, as the technology partner to jointly develop the research of synthetic rubber in the context of the FEPCO (Far East Petrochemical Company) petrochemical hub. This agreement is enforced on October of this year with a furthermore memorandum between the three companies, related to the positive feasibility studies began in April in order to create a joint-venture to develop the construction of a new synthetic rubber plant in

Nakhodka (a far east Russian region). This related also with the always increasing engagement with Rosneft that is enforced by the sign of a cooperation agreement that extends the existing partnership looking for a joint strategy in marketing and commercial areas.

All these actions taken by Pirelli, highlight the increasing interest in the cooperation and in the develop as well as in the technology research, in the east markets and more in particular in the Russian markets.

But the 2015 is not only the year in which Pirelli increase its presence in east Europe or Asian Russia; in fact this is the year in which Pirelli will shift definitely its horizons and also its share capital ownership still further to the east.

The main character of this shift in the Pirelli’s horizons and in the Pirelli’s control is the Chinese company: China National Chemical Corporation (commonly called ChemChina).

Let’s investigate what kind of company it is; ChemChina is a Chinese state-owned company that operates in different market segments: rubber products, chemical materials, petrochemical processes, agrochemicals and industrial equipment. In the 2014 It has got a turnover of 244 billion yuan (about 36 billion euro), It’s the nineteenth biggest group in China and since It’s foundation, in the 2004, the company reach its strategy of going global indeed in the 2014 It is present in 140 countries and 140,000 people work for this company.

Until that moment, the most important operations for this company were:

- Acquisition of the French company Adisseo;
- Acquisition of the Australian company Qenos;
- Acquisition of the Norwegian company Elkem;
- Acquisition of a control’s stake of the sixth world producer of pesticides, the Israeli Makhteshim Agan.

This is a brief overview of the company situation in the moment in which the Chinese company get in touch with Pirelli.

Now the analysis will follow a chronological line in order to explain the

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47 N.d., Pirelli, Rosneft e Synthos siglano nuovo ‘Mou’ su gomma sintetica a Nakhodka, Reuters, 22 October 2015, available at: https://it.reuters.com/article/foreignNews/idITL8N12M37A20151022
complicated operations that will bring ChemChina to control Pirelli and to the delisting of Pirelli that will follow the entry.

The first date really important in the development of this fundamental change in Pirelli, is the 22 of March 2015, in this date China National Tire & Rubber Co.(CNRC), a subsidiary of ChemChina, Camfin and the shareholders of Camfin (Coinv S.p.A. and Long-Term Investments Luxembourg) signed a binding agreement for a long-term industrial partnership related to Pirelli. This agreement has the goal to strengthen the Pirelli’s development plans, and to enlarge the cover of strategic geographically areas and in the end to reach an industrial integration between the tyre activities of the industrial segment of Pirelli and CNRC.49 Related to this industrial operation, ChemChina also do a financial operation, in order to get the control of Pirelli.

The agreement signed, that was in the specific a Sale and Purchase and Co-Investment Agreement, and that will be integrated on 5 august 2015, stipulates also that:

- Through a holding company: “Marco Polo Holding International”, the purchase of the an initial 20.34% of the ordinary share for a price of 15 euro per share of Pirelli, directly held by Camfin and subsequently the purchase of another 5.85% held by Cam 2012, a company totally owned by Camfin, for a total stake of 26.19% of the total stake.
- The reinvestment by Camfin of part of the proceeds deriving from the sale and the purchase of Pirelli ordinary shares directly held by Camfin
- The shareholders agreement between CNRC, ChemChina, Camfin, Coinv, LTI and LTI Ita that regulates the transfer of the shares in the new company and what will be the new Pirelli corporate governance.
- After the mentioned operation, the Sale and Purchase and Co-Investment Agreement provides that Marco Polo Holding will launch a mandatory tender offer on the ordinary Pirelli’s shares and a

49 Explanatory report of the Board of Directors of Marco Polo Industrial Holding S.p.A. on the merger by absorption of Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A, p. 8
voluntary tender offer on the savings shares capital of Pirelli in order to proceed with the delisting of Pirelli.50

Before to analyse the strategic reason of the delisting, it’s important to highlight the loan agreements done in order to finance this operation and in particular the funds needed for this operation are raised in this way:

- “Bidco Senior Facilities Agreement”: a loan agreement signed on 30 April 2015 and modified on 11 December 2015, for a total amount of 4,400 million euro destined to display the financial resources to make the operation. This agreement is signed by Holdco e Marco Polo by one side and a group of important banks on the other side headed by J.P. Morgan Limited as global co-ordinator.
- “Multicurrency Term and Revolving Facilities Agreement”: a loan agreement for a total amount of 2,200 million euro destined to refinance in part the debt of Pirelli and in part its working capital. This agreement is signed by the same parties of above.

After having analysed the fund raising needed to finance the whole operation, our attention can be shifted on the stages of mandatory tender offer and the voluntary tender offer launched by Marco Polo Holding International.

2.2 Marco Polo Tender Offer and Pirelli reorganization

The Marco Polo Tender Offer is aimed to delisting and so to the reorganization furthermore to get only the control of the company, but these two events are closely related and could be seen as two faces of the same coin, that will bring to a merger between the two companies and to a definitive change in the control of Pirelli and in the company structure. Let’s start analysing the reasons of the Pirelli’s delisting that will permit to reorganize completely the structure and to come back on the stock exchange with a company totally different from what It has been until this moment.

50 Ibidem
The reorganization thought and signed by the protagonists of the agreement signed the 22 of March, it’s based in two main points:

- The separation of the Pirelli’s premium segment from the industrial and consumer segment, to bring in the Italian Stock exchange a Pure Tyre Company.
- The merger between the Pirelli’s Truck segment and Aeolus, a ChemChina’s subsidiary, that is one of the largest steel radial tyre producer and the largest off-the-road tyre production enterprise.\(^{51}\)

About the first point, appears always clearer the increasing focus of Pirelli on the premium segment as company strategy since the beginning of this analysis.

Focus that is highlighted by the investments in this segment, in fact Pirelli only in the 2015 has invested in research and development a total amount of 214.4 million euro of which 176.5 million euro destined to the premium activities. Also financials results agree with the Pirelli’s strategy in fact, from the Pirelli annual financial report of the 2015, the premium segment increase its volume of 12.7% overcoming the target of +10% and arrives to be the 60% of the total consumer revenues.

In the NAFTA market the Premium segment increase its revenues in the 2015 of about +24%, +11% in Europe, +12% in South America and +33.7 for the APAC market.

These increase in the volumes bring to the total amount of revenues of 3,017.1 million euro (+19% respect to the 2,536 million euro of the 2014), arising only from the premium segment.

In the end also the market seems to agree with the Pirelli focus strategy on the Premium segment, in fact the premium market segment increase with a +9% of total volume compared to the just +1% of the entire tyre market. This strategy of focus on the premium segment and these results bring to a new plan that will be implemented, starting from these agreements, through the phase of the delisting to what will be the new listing of Pirelli on the stock exchange as a Pure Tyre Company without its industrial segment.

The second point, instead can be viewed as a wider industrial plan that

will be exploited through the pre-existent distribution, commercial and marketing channels of Aeolus in China; but the development of this operation it’s not immediate as the first one, so the focus in this analysis will be on the stages and about the elements of the change in the control and in the delisting of Pirelli.

At this point of the analysis, the focus will be on the nature and on the characteristics of the offer.

The bidder as just written is Marco Polo International Holding Italy S.p.A. an Italian holding that is totally owned by Marco Polo International Italy S.p.A that is in turn controlled indirectly for 65% by CRNC via two companies: Fourteen Sundew (“SPV Lux”) and CNRC International Holding (HK) Limited (“SPV HK 2”); and for the other 35% is controlled by Camfin with stakes respectively of:

- 50% for COINV spa that is in turn owned by Nuove Partecipazioni with a stake of 76% and by Unicredit and Intesa Sanpaolo both with a stake of 12%
- 25.94% for Long-Term Investments Luxembourg controlled directly and indirectly by Rosneft
- 24.06% for LTI Holding.

So, to recap a Mandatory Tender Offer and a Voluntary Tender Offer have been launched on 20 August 2015 at the price of 15 euro per share. On date 4 September 2015 the offers have been approved by CONSOB and have been published on 8 September. Hence the offer period last from the 9 September to the 13 October.\(^{52}\)

The price is set on 15 euro per share and as shown by the graph below, this is exactly the number on which the Pirelli’s share price fluctuates on the stock exchange in the last months.

It can be looked that there is a decline in the shares prices in the previous months to the offer, but the hedge funds decides to accept the 15 euro per share offer, due to negative events that occurred in that period, such as the crisis of the emerging countries and the Volkswagen scandal. Thus, the speculative appeal of the tender offer protected Pirelli from those

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\(^{52}\) Il Sole 24 ore, (n.d.), Pirelli, ok della Consob all’Opa cinese,4/9/2015
negative events, allowing the company to stop at €15 and not to drop down, like other listed competitors did.

On the closing date, the tender offer launched by Marco Polo Industrial Holding is subscribed for a total number of shares of 159.1 million that permits to the Bidco to reaches the 87%, that doesn’t permit automatically the delisting of Pirelli; but it’s sure an important result for the Bidco and doesn’t not change its plan.\(^5^4\)

It’s important to highlight the subscription of the Tender Offer by the Malacalza Investimenti that definitively comes out from the tyres Italian giant. The marriage between the Malacalza’s family and Pirelli ends after 5 years but has already lost its importance after the litigation of the 2013 with Tronchetti Provera.

Nevertheless Malacalza Investimenti has a huge capital gain from its investment in fact, after the acquisition of the 6.98% equals to 33,206,664 of the Pirelli for a price of 7.8 euro per share and so a total amount of 259 million euro as resolution after the litigation with Tronchetti Provera, that already gave it a capital gain of about 60 million euro. Now selling its participation for a price of 15 euro per share, so a total amount of about


\(^{54}\) Follis M., Opa all’87%, Pirelli va al delisting, MF Milano Finanza 14 October 2015
500 million euro, the Malacalza Investimenti gets a total capital gain of about 300 million after its entry in the 2009.55

After this first offer period, as a consequence of the occurrence of the conditions set forth in art.40-bis of the Consob Issuers Regulation, the offer period of the Mandatory Tender Offer has been reopened from 21 to 27 October 2015. In this week thanks to the new subscriptions and also to the purchase by Marco Polo International Holding of others Pirelli’s outstanding shares, the Bidco reaches the 95.969% of the share capital, meeting the conditions required from the Art.111 of TUF (Testo unico delle disposizioni in materia di intermediazione finanziaria), getting able to exercise its squeeze-out right.56

The art.111 of TUF states that if after a tender offer, an entity reaches at least the 95% of the total capital share, It can exercise the squeeze-out right if It has previously declared in the offer document the intention to do this.57

On 6 November the Bidco exercises this right and so It becomes owner directly or indirectly of the 100% of the Pirelli share capital. Immediately subsequent to the exercise of this right, Borsa Italiana ordered the delisting of the Pirelli ordinary shares from the Electronic Stock Market.58

At the same time, regarding the Voluntary Offer, Marco Polo International Holding reaches more than the 93.2% of the saving shares while the remaining 6.732% is still owned by third parties and the saving shares remains listed on the Electronic Stock Market.

With all these operations the control chain of the company changes again but not in a definitive way. The new composition with the three Marco Polo Holdings can be seen in the graph below.

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55 n.d., Pirelli, Malacalza aderisce all’Opa e vende il suo 6,98%, Il Sole 24 Ore, 14 October 2015
57 Art.111 of TUF (Testo unico delle disposizioni in materia di intermediazione finanziaria)
This is a temporary composition of the control chain and as stipulated in the previous agreements will change again with the project of reverse merger that will be submitted to the extraordinary shareholders’ meeting on 15 February 2015.

Finally can be important to point out how and with which methods of financing were raised the 7,462 million used for the transaction costs and to buy the ordinary and the saving shares by the Bidco:

- 4,217 million have been raised through the already mentioned Bidco Senior Facilities Agreement; but to be more specific banks made available to Marco Polo Industrial holding two different credit facilities:
  - A Term Facility up to 4,200 million exploited for a total amount of 4,193 million and used in particular to purchase Pirelli’s shares
  - A Revolving Facility up to 200 million but exploited only for 24 million that have been used to pay interests and fees due to the Bidco Senior Facilities agreement

59 Ibidem, p.12
• 3,273 million raised up with a capital increase approved by Shareholders’ meeting of Marco Polo International Holding on 5 August.

Concluding, at the end of the year for the first time Pirelli will be not anymore in Italian hands, in fact ChemChina owns the absolute majority of the Camfin’s share capital, after many years Marco Tronchetti Provera is not anymore the chairman of the group, even if He holds a role of Executive Vice Chairman and CEO and Pirelli after 93 years is for the first time out of the Italian Stock Exchange. Next steps will be to understand how the control chain will change again, how Pirelli will be reorganized and how the company will deal with its debt.

2.3 Pirelli reverse merger with Marco Polo

The 2015 has been a particular year for Pirelli, for the first time after so many years, there is a new chairman at the head of the company: Ren Jianxin. Ren Jianxin is a Chinese business man, in the 1984 has founded the China National Bluestar and since 1996 has built the empire of ChemChina of which He is the chairman, He is also the chairman of National Chemical Corporation, Sygenta Ltd. Switzerland and TPIH. He was also elected as China’s "Top 10 M & A Figures", "The Most Famous Entrepreneurs" and “CCTV Annual Economic Figures".60

The why of the focus on this character can be explained as the need to understand the figure that since the 2015 agreement controls Pirelli. Fundamental to understand what is changed in the company can be surely the letter to shareholders of the Chairman contained in the Annual Report. In fact from this letter can be extracted what will be the near future strategy and policy of the tyres company. It’s clear a wider and more international propensity in part as consequence of fact that the Chinese, but also more in general all the APAC market, should be better exploited now with a Chinese partner. So the focus on the Chinese market, that for example in the tyre industry is expected to double its volume in 10/15 years, and the attention to the

60Source: Bloomberg, available at: https://www.bloomberg.com/research/stocks/private/person.asp?personId=13480443&privcapId=221358
green tyres, that for the segment Green Performance tyres the last year accounted for 48% of the total tyre sales, seem to be two crucial point of what will be the near future strategy of Pirelli.61

Analysing the results for this year, despite the not optimal market condition, in fact the global economic activity growth at 2.5% of the GDP, less than the previous two years; the tyre market that has a growth of about 1.5% driven in particular by the automotive markets in United States, Western Europe and China. But inside these data, it can be shown newly the winning strategy of focusing on the premium segment by Pirelli that growth at a rate near to 10%. These market conditions are reflected also in the Pirelli’s financial statements that are shown in the table below and results in line with operational target; most important items can be summarized in:

- Net Sales has a growth of 4.8% reach and exceed the target of 6,250 million and result in a total amount of 6,309.6 million
- The premium segment increases its volume of 12.7% more than the target growth of 10%
- Net Financial Position increase from 921.4 million to 1,199.1 million, while the target was to lower NFP to 850 million, but this is the result also of the postponement of the sale of some assets that were computed in the target calculation.

An element that surely characterizes the financial results of Pirelli and the net financial losses of Pirelli equals to 383 million, is the Venezuelan situation. Pirelli since many years owns a subsidiary in Venezuela; but due to the Country situation related to the government Maduro, in the last years Pirelli has dealt with increasing restrictions on foreign currency conversion and availability of US dollar in Venezuela. These conditions added also to restrictions on control sales margin and other labour regulations, don’t permit anymore to Pirelli to implement its business in this country. So for these reason on date 31 December 2015, Pirelli’s board approved the accounting deconsolidation of Venezuelan subsidiary recognizing only the fair value of the investment equals to 18.9 million euro.

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This deconsolidation brings to not capture anymore on financial statements the results related to the inflation and more in general with this specific Country situation. But for the 2015 the Venezuelan subsidiary impact heavenly on the income statement resulting a net loss equals to 559.5 million euro that derecognize the positive financial income of 277.7 million euro; so a total net loss of 383.5 million euro that also impact directly on the net financial position, that without this item was improved from 979.6 million relative to the 2014 to 921.4 million for the 2015; but because the Venezuelan subsidiary that will impact for the last year, as already said the net financial position results equals to 1,199.1 million.62

<table>
<thead>
<tr>
<th>(in millions of euro)</th>
<th>12/31/2015</th>
<th>12/31/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>6,309.6</td>
<td>6,081.1</td>
</tr>
<tr>
<td>Gross operating margin before non-recurring and restructuring expenses</td>
<td>1,942.7</td>
<td>1,690.0</td>
</tr>
<tr>
<td>% of net sales</td>
<td>19.1%</td>
<td>28.4%</td>
</tr>
<tr>
<td>Operating income before non-recurring and restructuring expenses</td>
<td>1,942.5</td>
<td>806.2</td>
</tr>
<tr>
<td>% of net sales</td>
<td>14.8%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Non-recurring and restructuring expenses</td>
<td>(68.2)</td>
<td>(33.3)</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>850.3</td>
<td>837.9</td>
</tr>
<tr>
<td>% of net sales</td>
<td>13.3%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Net income (loss) from equity investments</td>
<td>(41.4)</td>
<td>(87.0)</td>
</tr>
<tr>
<td>Financial income/(expense)</td>
<td>(262.2)</td>
<td>(262.6)</td>
</tr>
<tr>
<td>Net income (loss) before tax adjusted (*)</td>
<td>480.7</td>
<td>485.8</td>
</tr>
<tr>
<td>Loss from deconsolidation of Venezuelan subsidiary</td>
<td>(559.3)</td>
<td></td>
</tr>
<tr>
<td>Total net income (loss) before tax</td>
<td>(78.6)</td>
<td>488.5</td>
</tr>
<tr>
<td>Tax expenses</td>
<td>(82.1)</td>
<td>(175.3)</td>
</tr>
<tr>
<td>Tax rate % on net income (loss) before tax adjusted</td>
<td>(38.0%)</td>
<td>(35.5%)</td>
</tr>
<tr>
<td>Impairment of deferred tax assets</td>
<td>(12.6)</td>
<td>-</td>
</tr>
<tr>
<td>Net income (loss) from continuing operations</td>
<td>(368.9)</td>
<td>385.2</td>
</tr>
<tr>
<td>Net income (loss) from discontinued operations</td>
<td>(1.6)</td>
<td>17.6</td>
</tr>
<tr>
<td>Total net income (loss)</td>
<td>(383.5)</td>
<td>332.8</td>
</tr>
<tr>
<td>Net income (loss) adjusted (**)</td>
<td>298.2</td>
<td>352.2</td>
</tr>
<tr>
<td>Net income attributable to Pirelli &amp; C. S.p.A.</td>
<td>(591.4)</td>
<td>392.5</td>
</tr>
<tr>
<td>Total net earnings per share attributable to Pirelli &amp; C. S.p.A. (in euro)</td>
<td>(0.802)</td>
<td>-6.55</td>
</tr>
<tr>
<td>Operating fixed assets</td>
<td>3,780.5</td>
<td>3,874.0</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,053.9</td>
<td>1,055.0</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>675.2</td>
<td>675.8</td>
</tr>
<tr>
<td>Trade payables</td>
<td>1,319.1</td>
<td>1,326.6</td>
</tr>
<tr>
<td>Operating Net working capital related to continuing operations</td>
<td>670.0</td>
<td>334.5</td>
</tr>
<tr>
<td>% of net sales</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Other receivables/other payables</td>
<td>(127.0)</td>
<td>33.9</td>
</tr>
<tr>
<td>Total Net working capital related to continuing operations</td>
<td>507.1</td>
<td>358.3</td>
</tr>
<tr>
<td>% of net sales</td>
<td>6.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Net invested capital held for sale</td>
<td>-</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Net invested capital</td>
<td>4,085.9</td>
<td>4,278.1</td>
</tr>
<tr>
<td>Equity</td>
<td>2,045.5</td>
<td>2,562.5</td>
</tr>
<tr>
<td>Total provisions</td>
<td>547.5</td>
<td>552.0</td>
</tr>
<tr>
<td>of which provisions held for sale</td>
<td>5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Total financial (equity)/debt position</td>
<td>1,491</td>
<td>970.6</td>
</tr>
</tbody>
</table>

Last important news from the 2015 for Pirelli is the early suspension of the 2014–2016 plan due to the planned merger. At this point of the analysis the attention will be shifted directly on the “reverse” merger between Marco Polo Industrial Holding and Pirelli and to

62 Piana L., Pirelli non sgomma e manca gli obbiettivi, L’Espresso, 26 April 2016
the operation of leverage-buyout. Previous to the merger, the Board of Directors needs to complete the delisting of shares, in fact after the tender offer remain out of the Bidco’s control a small number of saving shares. To do this on date 23 November 2015 the Board of Directors has resolved to submit to the Extraordinary Shareholders’ Meeting of 15 February 2016 also the mandatory conversion of the outstanding savings shares into a special class of newly issued delisted non-voting shares, Special shares with the same economic privileges of the saving shares and that will be not listed. The conversion is structured in a one-to-one conversion and after the mandatory conversion the saving shares will be delisted from Electronic Stock Market.

First of all let’s remember what is a “reverse” merger and in what consist a leverage-buyout and why this operation has these characteristics. The why of the quotation marks in writing “reverse” merger is because usually this kind of operation is done by a private company with a public company to go public without an Initial Public Offering, but as already seen Pirelli is not anymore listed and so this not the case, even if the company plans to be newly listed. This merger provides for the incorporation of the parent company Marco Polo Industrial Holding into the subsidiary Pirelli, the why of this and not the opposite it seems obvious given that Marco Polo Industrial Holding is just an holding company born with the purpose of the acquisition of Pirelli.

This operation of merger and acquisition of Pirelli can be probably described as a Merger Leverage Buy-out, in fact the merger that will bring to the extinction of the absorbing company and the continuation of the absorbed company, being the merger strictly related to the acquisition of Pirelli by Marco Polo Industrial Holding and having needed the two credit lines facilities to proceed to this acquisition (Term Facility and Revolving Facility); as consequences of the merger the indebtedness of Marco Polo will be transferred to Pirelli whose cashflows will be used to

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64 Explanatory report of the Board of Directors of Marco Polo Industrial Holding S.p.A. on the merger by absorption of Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A, p. 10
repay financial debts and its equity constitutes a guarantee of the whole Bidco Senior Agreement.

Regarding the sustainability of the merger related to the level of indebtedness the administrative bodies of the two entities involved in the operation have done an economic and financial plan consisting in a 2015-2019 plan and others projections until 2023.

Regarding the sustainability and the accuracy of the numbers projected by this plan, experts and press have expressed some concerns; but before to analyse these concerns, let’s highlights the focus points of this operation. First of all, the 2015-2019 financial and economic plan is been prepared assuming no dividend pay-out for the ordinary shares and a limit of 7% of dividend pay-out for the saving and the special shares; in these number are not calculated the synergies arising from the partnership and is not considered any kind of expansion investment in these years.

The economic and financial plan stipulated by the company management together with some important financial institutions is reported below.
To recap the most important financial projection until the 2019:

- Net revenues from 6,291 to 7,280 million;
- EBIT from 869 to 1,136 million;
- Net Income from 382 to 557 million.

But as the Explanatory report states: “The Economic and Financial Merger Plan has been prepared using a set of assumptions about the realization of future events and actions that will have to be undertaken by the Directors that include, inter alia, general and hypothetical assumptions

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related to future events and actions by Directors that will not necessarily occur, and to events and actions that the Directors and management cannot influence or can influence only in part, regarding the trend of the main economic and financial indicators or other factors that might influence their evolution.”

The uncertainty of these assumptions are related in particular to:

- The assumption of no investments in 2018-2019 and in the following period;
- The refinancing of the company indebtedness;
- The assumption of no dividends distribution;
- The assumption of constant operating cashflow after the 2019.

It’s fair to say that even the last one assumption, that can be considered a very prudent assumption, in the 2023 with this financial and economic plan the company will achieve a leverage ratio ((Net debt/Ebitda before restructuring cost) with a level similar to what the company had before the merger.

Ending the analysis of the economic and financial plan of the merger, it can be useful the prevision of refinancing the debt by the management with a mix of secured and unsecured instruments that if carried out prior to the requirements for redemption of current debt applying can avoid by the company the utilize of the mergeco facilities subscribed by a pool of 18 banks for a total amount of 6,800 million but that want to be used as a last resort, because more expensive than the other financing method.

To figure out better the details of the merger, it’s useful to highlight that is not provided cash payments and the exchange ratio is fixed at 6.30 shares of Pirelli for every single share of Marco Polo Industrial Holding.

The exchange in favour to the sole shareholder of the merged company will take place with the both categories of shares of Pirelli (That still have a minority presence of stakeholders equals to the 0.169% of the share capital), with the same proportion.

This exchange ratio, considering the peculiarity of the merger, is determined considering these main aspects:

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67 Ibidem
• The merger is between not two companies with different business but with a holding that own an operating company; hence the exchange ratio is not determined by differences in the business but only by differences in the capital structure of the two companies.

• To the sole shareholders of Marco Polo Industrial Holding according to the merger plan, are offered saving and ordinary shares in the same proportion of the saving and ordinary shares already owned by It.

• The exchange ratio has importance only for the owners of the saving shares (the 0.169% of the total share capital) because the ordinary shares, as already written, are totally owned by the Marco Polo Industrial Holding.

Considering all these aspects, the evaluation of the ordinary and saving shares is been computed with a stand-alone perspective, computing only outstanding shares. The method used to calculate the value of the shares is the discounted cash flow asset side, so the sum of:

• The present value of unlevered cash flows;
• Non-operating assets;
• Financials debts, other liabilities and debt relies on the minimum dividend payment for the saving shares;
• Book value of minorities.\textsuperscript{68}

The merger is approved by the extraordinary shareholders’ meeting on 15 February 2016, on the same date is approved the conversion of the saving shares in special shares and is approved also a plan to refinance the debt. The post-merger plan to refinance the debt is concluded within the end of the first semester and is structured in this way: the debt is refinanced for a total amount of 6,400 million, with a total cost of 3.5%. These 6,400 million can be split in:

• A credit facility in dollars with a maturity of 3 years for a total amount of 1,000 million;

- Another credit facility in dollars with a maturity of 5 years for a total amount of 2,800 million;
- A multicurrency revolving credit facility with a maturity of 5 year for 1,000 million.

In addition to these three credit facilities there also another credit facility in amount of 1,600 million with a maturity of 18 months. The implementation of this refinancing plan, permit to Pirelli to avoid the use of the Mergeco Facility as all the Board of Directors and all the management of the company hoped.

To conclude the analysis on the effects of this “reverse” merger, it helpful to show again with a graph the new control chain composition in which appear clear that one of the goal of the merger is been achieved; the shortening of the control chain.

In fact even if the effective control and the ownership is not changed since the tender offer on the October of the 2015, the complicated chain with three different level of holdings above Pirelli has been very simplified with the merger.

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69 Pirelli Press release, Pirelli & C. Spa board approves results for 6 months ended 30 June 2016, 28/7/2016, p.4
Chapter 3
Toward the new Initial Public Offering

3.1 Pirelli Industrial’s spin-off

While the 2015 is been the year in which have been laid the foundations for the future of the company, the 2016 is the year when these foundations have been developed.

Important to remember that since the sign on the “Sale and Purchase and Co-Investment Agreement”, on 22 March 2015, one of the most important items in this agreement become the spin-off of the industrial segment from the consumer one.

This for two reason:
1. The intention of Pirelli to focus on the more profitable consumer segment and to come back on the Stock Exchange with only this segment
2. The possibility to create through the integration of Pirelli Industrial and Aeolus, a pure industrial tyre company, that integrating the two pre-existent facilities and commercial channels would be a global leader producer.

First of all, let’s examine the industrial segment of Pirelli to understand how much it counts in the whole company.

Pirelli substantially in its tyre production is split in:

- Consumer business: automotive tyres (in this segment is included also the premium segment);
- Industrial business: tyres for trucks and agriculture and the steel cord segment.

This second business even if in the last years is not been considered anymore a “core” business for Pirelli but despite the increasing focus on the other business; the industrial business lasted to be worth a sixth of the total entire group.

Starting from the two tables below it can be noted that despite the
decrease in the results. Industrial volume in the last few years is still important:

- 1,397.2 million of net sales in the 2014;
- 1,252.6 million in the 2015;
- 987.7 million in the 2016.

These decreasing numbers: -10.3% in the 2015 and -13.4% in the 2016, that fortunately for Pirelli are offset by the positive returns from the consumer segment; are due in particular by two main reasons: one external and one internal.

The external reason is due to the global decrease in the demand of commercial vehicles and to go in details, considering that NAFTA and

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European markets had an uptrend of respectively +13% and +16%; is due to three specific markets:

- The Russian market decline of about 40% by cause of the penalties to the Russian economy;
- The Chinese market decline of about the 20%;
- The Brazilian market contraction of 48% due to the economic slowdown of the most important South American economy.

So to recap these three markets slowdowns bring the whole market to have a decrease of 7% in the commercial vehicles in the 2015 (IHS estimates) and this is sure a cause of the decline in the industrial segment.

The other reason is that probably since many years Pirelli doesn’t aim anymore to the development of this business segment. In fact this can be extracted clearly reading the Pirelli Industrial Plan 2011-2015 that provides investments for a total amount of 1,900 million in the entire five year period; divided in 1,300 million in the consumer segment and 600 million in the industrial segment, despite for example in the 2011, that is the centennial year in which Pirelli operates in the truck tyre industry, this segment registered an increase of 12.3% on the net sales; so a clear vision on the future of company, always more focused to become a pure consumer tyre company. These data are confirmed also in the 2013-2017 industrial plan where is specified that the company efforts regarding the future investment will be split in the following way:
So these investments will bring the production capacity of the consumer segment from the 69 million of tyres for year in the 2013, of which the 48% premium, to the total capacity of 81 million of tyres for year in the 2017 of which the 63% premium.

While the industrial segment according to this plan will reach in the 2017 a total production capacity of 6.8 million of tyres, starting in the 2013 with a capacity of 6.2 million.

From these data can be looked newly a clear strategy of Pirelli that is always more focused on the consumer segment and in particular on the premium segment which corresponds to an always increasing strategy of not focus on the industrial segment.

Then starting from the focus strategy on consumer business, through the entry of ChemChina and so the disposition in the Pirelli 2016 financial results statement of the separation of the two business segments in addition to the intention to come back to the quotation as a pure consumer company; appears clear that the course for the immediate future of Pirelli is just been written.

Despite the integration process is long and is not completed yet, can be highlighted some of the main features of the operation.

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73 Source: https://corporate.pirelli.com/corporate/it-it/investitori/pirelli-at-glance/investimenti-e-capacita-produttiva
An important step towards the integration takes place on 15 July 2016 when the general meeting of Aeolus Tyre (a ChemChina totally owned subsidiary) approved the transfer of the 10% of Pirelli industrial, swapped with the 80% of the car activities of Aeolus that become part of Pirelli, in the same agreement there is also the know-how and technology license agreement signed between Pirelli and Aeolus and the integration of two important CNRC’s assets in Aeolus.74

This can be considered the first step of the integration; but let’s know better the protagonists of the operation, the characteristics of the operation and the control’s operation that are done in order to achieve the separation and to better exploit the potential of the two rising company focused in one only business.

Another important event is the entry in the capital of Pirelli Industrial for a total stake of 38% by the fund China Cinda holding, through the fund High Grade Investment Management Limited. The 38% of Pirelli Industrial is evaluated 266 million euro, so the total equity value is valued 700 million euro.

This number that can appear a bit low considering that in the 2015 the evaluation by the analysts of the Pirelli Industrial segment was between 1,000 million and 1,500 million; but this slowdown valuation can found its origins in the exchange rates with South-America, which economies are not growing fast as 2015, that is one of the principal market of this segment and the downturn on the sales revenues of the last years.

Anyway the cash-in amount of 266 million due to the entry of Cinda in Pirelli Industrial, linked to the high ordinary cash flow generation (326 million) permits to Pirelli to reduce its net debt of 418 million, lowering the net debt of the group on 31 December 2016 to a total amount of 4,912.8 million.

At this point of the operation with regard to the Industrial Segment, the reorganization of the activities result in the way showed on graph below:

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At the beginning of the 2017 TP Industrial Holding that is a totally owned holding by Pirelli, reminding that is in turn owned by CNRC (65%), Camfin (22.4%) and Long-Term Investments Luxemburg (12.6%), owns the 52% of the Pirelli Industrial's capital, capital that is also joined as already written by Cinda (38%) e by Aeolus (10% swapped on 1 October 2016).

Starting from this configuration, to arrive to the new one, some other steps need to be highlighted. First of all, Pirelli Industrial is renamed in Prometeon Tyre Group; in order to ensure that the two segments can pursue their own independent strategy and more in general a wider independence, to the raising company are guaranteed two fundamental points:

- A new control structure
- The syndication of a credit facilities.

The new control structure of Prometeon takes shape on 13 April 2017 when is signed the agreement for the full integration of TP Industrial Holding with the other assets of the sector belonging to CNRC, including Aeolus and Guilin Beili. This integration passes through a revised Pirelli shareholding structure, in fact the 52% of Prometeon owned indirectly by Pirelli through TP Industrial holding, is assigned to Marco Polo, in order to ensure that both Pirelli and TP Industrial can pursue independently their path to grow and their strategies. In addition, TP Industrial Holding's board confirmed Pirelli Chairman Ren
Jianxin as chairman of Prometeon; Pirelli Executive Vice Chairman Marco Tronchetti Provera as vice chairman; and Pirelli Industrial CEO Paolo Dal Pino as CEO.\textsuperscript{76}

So after this assignation the control chain result changed in this way:

![Control Chain Diagram]

The other point has exactly the same goal of the first that is to guarantee definitely a solid independence for Prometon and to do so, on 11 July 2017 is concluded the syndication of the inaugural credit facilities for a total amount of 600 million euro divided as follow:

- A term facility of 450 million
- A revolving facility of 150 million

Both facilities have a maturity on March 2020 with two one-year extension options.

All the goals of the integration agreement are not reached yet, the process has stalled after that the pending acquisition by Aeolus of the 90% of Prometeon’s stake didn’t receive the approval by the China’s institutions on 31 December 2017. Despite this all parties involved are confident for the success of the operation. Now Prometon Tyre Group has 4 factories, 7,300 employers and a commercial presence over 160 countries. But when the integration will be concluded, and so Aeolus that is listed on the Shanghai Stock Exchange, will assume the name “Prometeon Tyre Group Co., Ltd” as the plans of Tronchetti Provera and Ren Jianxin, will born a new leading producer in this segments that:

\textsuperscript{76} Pourriah S., \textit{Pirelli industrial tire unit to become 'Prometeon Tyre' European Rubber Journal}, 4 April 2017

\textsuperscript{77} Ibidem
• “will be the first “pure Industrial tyre company”, one of the leaders in the segment with a production capacity of approximately 18 million pieces;
• will count on a global scale commercial presence, a consolidated industrial structure and around 18,500 employees;
• will be able to exploit the synergies deriving from the complementary nature of the different integrated assets in terms of distribution geographical presence and products;
• will offer a rich portfolio of products covering each market segment. The high-end Premium products will be represented by the Pirelli brand, while the next segment will be represented by Aeolus, and the market segments below by the Yellow Sea, Double Happiness and Torch brands;
• the new group will have two strategic centres, one in Beijing and one in Milan.”

Despite the integration process is not finished yet, the future for the ex-Pirelli Industrial it seems to be clear and the strategy to create two different and independent companies took shape as is been described above. A controversial aspect of the whole operation can be that even if there is an Italian CEO and the Pirelli’s know-how is been protected, It appears clear that while for the consumer segment as will be shown, there is still an important “Italian” component and especially an Italian participation to the share capital that should protect the Italianness of the company, the industrial segment seems to have token definitely the route to China.

3.2 Pirelli’s IPO

Since the Chemchina’s take-over bid and the subsequent delisting, It was declared the intention for Pirelli to come back to the quotation, for only the pure consumer segment, and this new quotation was scheduled the first quarter of 2018.

78 Prometeon Tyre Group, Press release, TP INDUSTRIAL HOLDING: AGREEMENTS SIGNED WITH AEOLUS FOR THE INTEGRATION OF INDUSTRIAL ASSETS, 13 April 2017
Between 2015 and 2017, the group implemented a process of reorganization and industrial development aimed at strengthening the development plans of the activities relating to tyres for cars, motorcycles and velocipedes (Consumer tyres) of Pirelli and the oversight of geographically strategic areas.

On 28 April 2017 by a Pirelli’s press release is declared the intention to accelerate the process of stock market listing to catch the market opportunities and to anticipate the IPO the fourth quarter of 2017, this for the following reasons:

- The already implemented focus on the Consumer business;
- The positive recent financial results of the company;
- The current favourable market conditions.

Thanks to these reasons; the board of Pirelli and Marco Polo have approved the operation proposed by a pool of Banks (Banca IMI, J.P. Morgan and Morgan Stanley), in order to accelerate the IPO process, thanks to a reduction of the net debt/equity ratio with the following operation:

- A financing to Marco Polo for a total amount of 1,250 million that will be entirely repaid with the proceeds of the IPO;
- An increase in capital of Pirelli amounting to 1,200 million which will be fully underwritten by the shareholder Marco Polo and will be destined to repay for the same amount the Pirelli’s debt;
- The refinancing of Pirelli’s credit lines with a lower debt cost and a longer maturity on 4,200 million euro of credit lines.

For the process are nominated Banca IMI, J.P. Morgan and Morgan Stanley as global coordinator and while free float is not defined yet; at this moment CNRC declares its willingness to go below the 50% of the capital.79

On 31 August, with a press release, Pirelli declares that the holding Marco Polo after the quotation will cease its role of direction and control over the Pirelli’s activities; and in the same press release is guaranteed the

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79 Pirelli, press release, PIRELLI AND MARCO POLO APPROVE A TRANSACTION FOR IPO ALREADY FROM FOURTH QUARTER 2017, 28/04/2017
headquarters in Milan and the protection of the Pirelli’s R&D and brand that will continue to be inside the company and lastly It’s provided that the transfer of these will be possible only with an extraordinary majority of 90% of the stake.

On 4 September Pirelli files its application for admission to listing its shares on the Mercato Telematico Azionario and on 18 of the same month, Consob approves its application and so can start the IPO’s roadshow and subsequent bookbuilding that will end on 28 September, but let’s examine all the aspects of this Initial Public Offering.

The Global Offering as can be seen from the Pirelli’s prospectus, is divided into:

- “a public offering of a minimum of no. 35,000,000 shares, equal to 10% of the Global Offering, addressed to retail investors in Italy (the “Italian Public Offering”); and
- a private placement of a maximum of no. 315,000,000 shares, equal to 90% of the Global Offering, addressed to qualified investors in Italy and to institutional investors abroad pursuant to Regulation S of the United States Securities Act of 1933, as amended (the “Securities Act”), and in the United States of America to “qualified institutional buyers” as defined in and pursuant to Rule 144A of the Securities Act, with the exclusion of any country in which the offer of financial instruments is not permitted without specific authorizations of the relevant authorities, in accordance with applicable laws or by way of exception to such provisions (the “Institutional Offering”).

Regarding the Institutional Offering, are granted two options for the Joint Global Coordinators for the stabilisation in the aftermarket:

- A greenshoe option on behalf the members of the syndicate of the Institutional Offering, that gives it the right to purchase at the offer price, 50,000,000 of shares to be offered only in the Institutional Offering for a total quota of 14.3% of the Global Offering

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80 Pirelli, Press release, CONSOB authorizes the publication of the Prospectus, 15 September 2017
An over-allotment option to borrow up 50,000,000 shares to be offered in the case of a possible over-allocation within the Institutional Placement.

These are two typical option given to the Joint Global Coordinator, that in this case is J.P. Morgan, in the stabilisation process in case of over-subscription and can be occur two situations:
1. If the shares price rises, the Global Coordinator exercises the greenshoe option and buys shares from the issuer at the IPO price and in this case, the issuer raises additional proceeds;
2. If the share price falls, the Global Coordinator buy back over allocation from the market to cover the short position, supporting the share price; in this case It not exercise the greenshoe option, issuer doesn’t issue overallocation and the Global Coordinator has a gain selling the share at issue price and buy at the lower market price.

First to see, which of the two way will be taken by J.P. Morgan, let’s proceed with the IPO’s analysis.
A fundamental element in an IPO analysis is the pricing system that follow various steps and can use different methods to set the price.

In fact, Pirelli to set the initial fork for the pricing used the Enterprise Value and the Equity Value ratios, these two ratios are chosen to provide the most accurate and sound measure, as unrelated as possible from the accounting issues.
Other two methods used to evaluate the reliability of the initial fork are the discounted cash flow and the economic valued added method, these two valuation methods are calculated to obtain another parameter that is related to the accounting items of the company. But from these methods the result obtained is higher than the indicative fork, 8.34 euro per share and with a different scenario analysis assuming the variation of the EBITDA margin, illustrated in the graph below, the price fluctuates between a minimum of 6.48 to a maximum of 10.48 euro per shares.
The price setting mechanism will be, regarding the initial fork of Pirelli will be disclosed with the help of the tables below:

**Selected data for Pirelli 2016**

<table>
<thead>
<tr>
<th>Data</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA adjusted</td>
<td>1,082.00 €</td>
</tr>
<tr>
<td>EBIT adjusted</td>
<td>844.00 €</td>
</tr>
<tr>
<td>NET INCOME adjusted</td>
<td>297.00 €</td>
</tr>
<tr>
<td>NFP</td>
<td>5,045.00 €</td>
</tr>
<tr>
<td>Shares outstanding(mln)</td>
<td>1000</td>
</tr>
</tbody>
</table>

Starting from these selected data it can be calculated with the utilize of the Enterprise Value on EBITDA adjusted ratio, the Equity Value on EBITDA adjusted ratio and the Price on Earnings ratio what is been the indicative price fork that at the beginning of the roadshow, so on 14 September 2017, is set between a minimum of 6.30 euro per share to a maximum of 8.30 euro per share.

**Valuation with EV/EBITDA**

<table>
<thead>
<tr>
<th>Data</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>12,551.20 €</td>
</tr>
<tr>
<td>Equity Value</td>
<td>7,506.20 €</td>
</tr>
<tr>
<td>Price per share</td>
<td>7.51 €</td>
</tr>
</tbody>
</table>

**Valuation with EV/EBIT**

<table>
<thead>
<tr>
<th>Data</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>13,453.36 €</td>
</tr>
<tr>
<td>Equity Value</td>
<td>8,408.34 €</td>
</tr>
<tr>
<td>Price per share</td>
<td>8.41 €</td>
</tr>
</tbody>
</table>
Pirelli has done its comparable analysis taking into account five companies:

- Nokian
- Continental
- Michelin

To regard the tyre industry even if only Nokian’s business is really similar to the Pirelli’s one, in fact the Finnish company has the 89% of its business in the consumer segment, while Continental and Michelin operate in the consumer, agriculture, truck and aviation segments. The other two comparable companies operates in a different segment from the tyres one, but are selected by Pirelli because their business model, brand awareness, positioning and country of origins.

From the two graph below, It can be seen that because its strategy of focusing on the high value segment and so the enhancing of profitability, that as the second graph shows, between its direct competitors, Pirelli results second only to Nokian on the EBIT adjusted margin; and this is one of the reason because in its analysis, Pirelli considers Ferrari and Brembo in its multiple comparable analysis.
On the base of the initial fork price between 6.30 and 8.30 euro per shares; results that Pirelli will be placed in a range considering the multiple EV/EBITDA adjusted between 9.7 and 11.6, considering the multiple EV/EBIT adjusted between 12.5 and 14.8 and according to the multiple P/E adjusted in a range between 13.8 and 18.2.

If are considered all the five comparable companies, It appear that the stock would therefore seem to be cheap considering the multiple’s average, on the basis of the three ratio even in the hypothesis of maximum price.

<table>
<thead>
<tr>
<th>EV/EBITDA</th>
<th>EV/EBIT</th>
<th>P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokian</td>
<td>12.7</td>
<td>16.2</td>
</tr>
<tr>
<td>Continental</td>
<td>7.6</td>
<td>10.7</td>
</tr>
<tr>
<td>Michelin</td>
<td>6.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Brembo</td>
<td>10.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Ferrari</td>
<td>20.6</td>
<td>28.6</td>
</tr>
<tr>
<td>Average</td>
<td>11.6</td>
<td>15.9</td>
</tr>
</tbody>
</table>

On the other hand, if in this analysis are considered only the tyres comparable companies, it appears that the stock price, always considering the already calculated multiples, is higher than competitors. But this as already mentioned can be justified by the high value segment’s focus and more in general by the new strategic positioning of the company that is became rapidly for these aspects more similar to the luxury industry.

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81 Pirelli, press release, STRATEGIC DIRECTIONS FOR THE NEW 2017-2020 INDUSTRIAL PLAN, 1/09/2017
<table>
<thead>
<tr>
<th></th>
<th>EV/EBITDA</th>
<th>EV/EBIT</th>
<th>P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokian</td>
<td>12.7</td>
<td>16.2</td>
<td>20.1</td>
</tr>
<tr>
<td>Continental</td>
<td>7.6</td>
<td>10.7</td>
<td>13.8</td>
</tr>
<tr>
<td>Michelin</td>
<td>6.5</td>
<td>9.9</td>
<td>12.8</td>
</tr>
<tr>
<td>Average</td>
<td>8.9</td>
<td>12.3</td>
<td>15.6</td>
</tr>
</tbody>
</table>

After having analysed the logics between the indicative pricing of the Offer, let’s continue to analyse the whole process.

On 15 September Consob approves the Offer and the Global Offering period starts on 18 and end on 28 September.

On 29 of the same month, Marco Polo International Italy and Pirelli announce the completion of the Global Offer and disclose that the offer price is been fixed at 6.50 euro per share; so the selling shareholder (Marco Polo) will collect proceeds for a total amount of 2,275,000,000 euro that could reach the total amount of 2,600,000,000 euro if the greenshoe option will be entirely exercised by the Joint Global Coordinator; in other words given that the total number of shares is 1,000 million, the total company capitalization is for a total amount of 6,500,000,000 euro.

The offer was a success, in fact in the institutional offering the requests have been 775 million on the 315 million shares offered, so more the twice the shares offered; while in the private placement requests were for 49 million shares, 1.4 times the shares offered.

Before to analyse the first trading day for the Pirelli’s stocks, It can be useful to illustrates all the features of the process.

In the operation are present lock-up clauses; lock-up agreements consist in a legally binding contract for the shares seller, that impose to not sell for a determined period shares in order to ensure stability in the stock price in the first period of trading.

In the Pirelli’s IPO is provided for Pirelli to not sell within 180 days from the first day of trading, for Marco Polo for the same time period for the indirect owned shares by LTI and for 360 day for the shares owned by Camfin and SPV Lux.82

In the operation, It was also provided a special award for the top management of the company, equals to the 2% of the total IPO’s proceeds if the equity value at debut was equals to 6,700 million; but as already

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82 Pirelli & C. S.p.A., Summary of the prospectus, p.55
seen this target hasn’t been reached.
Lastly, it’s useful to highlight that in the IPO’s prospectus is provided that the company will have a dividend pay-out ratio, starting from the 2018 of the 40%.
After have analysed all these considerations, let’s focus on the date of the return of Pirelli’s stocks on the Mercato Telematico Azionario.
The 4 of October was a hectic day for the fluctuation of the Pirelli’s stock. Surely can be said that It was not a great debut for the share, but despite the initial decrease of 3% in the first hours the stock price at the end of the day it’s of 6.47 euro per share, so a total decrease of 0.46% from the starting price of 6.5 euro per share.
This not enthusiastic beginning didn’t scare the Pirelli’s board, indeed the Vice Chairman and CEO, Marco Tronchetti Provera at the closing of the first day of trading declares that the results on the Stock Exchange for Pirelli can be looked after some months and that is natural the volatility in the first day of transaction.\textsuperscript{83}
To finish the IPO’s analysis, the focus will shift on the stabilization process. J.P. Morgan as the Global Coordinator of the IPO until the 27 of October has made 18 title stabilization, has exercised partially the greenshoe option for 18.904.836 shares over a total of 50 million shares available as a result of the over-allotment; so the remaining 31.095.164 shares are returned to Marco Polo.
The IPO ends with 368.904.836 ordinary shares placed equals to about the 37% of the shares; while Marco Polo hold the 63% of the share capital equals to 631,095,164 shares, from the IPO Marco Polo collects a total amount of 2,400 million euro that as already provided will be used for 1,250 million to repay the Marco Polo’s bank financing.
In the end, to recap, the new shareholder structure is composed as reported in the graph below:

\textsuperscript{83} Mangano M., Tronchetti: “I risultati in Borsa li vedremo fra qualche mese”, Il Sole 24 Ore, 5 October 2017
It’s important to note that even if the Marco Polo composition is always the same of the last analysis, which is:

- 65% owned by ChemChina through the holding Fourteen Sundew
- 22.4% owned by Camfin
- 12.6% owned by Rosneft through the holding LTI

The novelty now is that with the 37% of free float on Pirelli, Chemchina fall in its ownership on Pirelli to 45% so under the 50%, while to Camfin and LTI corresponds respectively the 10% and 5% of Pirelli share capital; these participations will be stable in the next 6-12 months thanks to the lock-up.

3.3 Pirelli’s future perspectives after IPO

On 4 October Pirelli reached exactly what was in the intentions since the entry of ChemChina in the share capital of Camfin, to be the only one pure consumer tyre company in the world focusing on High Value products. Pirelli at today seems to be one of the most healthy company, the equity value of the company in the listing day results equal to 6,500 million that is practically the same value of 2015, in fact the tender offer of 2015 assessed the equity value 7,300 million; but if we consider the net

debt of 1,200 million and that the company included also the industrial segment and the Venezuelan subsidiary; It can be surely note that thanks to the Pirelli’s management and its strategy, in two year Pirelli manages to return on the Stock Exchange as a partially different company, and with a reinforced capital structure and perspectives.

Now in fact, Pirelli results to be the only one consumer player focused on the high value segment, it’s well placed in an high attractive market, that presents entry barriers and should outgrow the standard market 4X in the long term, due in particular to the grow of the luxury automotive market in China.

Ambitious future targets that can be extracted from the 2017-2020 industrial plan, can be reached exploiting its leadership position, that is illustrated in the following table:

<table>
<thead>
<tr>
<th>LEADERSHIP POSITION IN HIGH VALUE MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
</tr>
<tr>
<td>![Map of Europe]</td>
</tr>
<tr>
<td><strong>GLOBAL LEADER</strong></td>
</tr>
<tr>
<td>![Car Icon]</td>
</tr>
<tr>
<td>![Car Icon]</td>
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<td>![Car Icon]</td>
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<td>![Car Icon]</td>
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<tr>
<td>![Car Icon]</td>
</tr>
</tbody>
</table>

In the specific, focusing the attention on the Tier one competitive area so considering as competitors Bridgestone, Michelin, Goodyear, Continental and Nokian; it can be looked that unlike the 4 full-liners company; Pirelli and Nokian has reached a different strategic positioning.

But as for the 4 full-liners companies, Pirelli “play a different game” also respects Nokian.
More investments, more focus on the high value segment, an higher expected Compounded Average Growth Rate, better positioning, high level of EBIT adjusted margin second only to the Nokian one. All these aspects related to the optimistic prestige and premium automotive market’s previsions; permits to Pirelli to set ambitious but not unrealistic target for the 2020.

In order:
- CAGR (Compounded Average Growth Rate) 2016-2020 expected to be ≥9%;
- High Value weight on Revenues from 55% on the 2016 to 63% on 2020;
- Adjusted EBIT margin from 17.5% to 18.5-19.5%;
- High Value weight on EBIT from 81% to 85%;
- CapEx on Revenues of 7% of which 82% to High Value segment;

Ibidem
- Net financial position/adjusted EBITDA, from the 4.6x on 2016 to the already reached less than 3x on the end of the 2017 to less than 2x for the end of 2020.

All these previsions seem to wish to Pirelli a rosy future, thanks to all the work done in the last years.

Investors seem to believe to Pirelli, in fact despite the first day, in 4 months the stock price has gone up to 7.40 euro per share, an increase of 13.85% on 5 February 2018; the share price movements can be seen in the graph below.

Surely the final output of the whole transformation process and of the relisting can't be seen in those first months, but for what can be looked at the moment; Pirelli seems to have taken the right path for its future development and thanks to the whole reorganization and so the new focus strategy, if in particular will reach to lower its NFP/Adjusted EBITDA ratio, could be looked newly as an healthy company and could have not barriers to reach its goals and targets, but as already seen the situation can change rapidly and Pirelli has to be ready to meet the challenges; and now with its brand, positioning, numbers surely can.

**Conclusion**

The main purpose of this work was to analyse the Pirelli’s evolution through all control’s changes and through all the restructuring process that the company has carried out in these last 7/8 years.

The company that is been analysed in the beginning of the analysis

87 Source: http://www.hl.co.uk
doesn’t exist anymore, now there is a new one. Surely can be said that Pirelli has reached great goals implementing its focus strategy. It can be seen from the last financial results, related to the first nine months of 2017, that the company continue to increase its financial performances: +9% of revenues, +10% of EBIT adjusted and increasing of its margin of 0.2%, +94% of net income and an improvement of the net financial position of 625 million.

These are not chance outcomes but are the results of what Pirelli has worked for in all these years. Need a special mention one of the main figure that is been present in all the events that Pirelli has afforded in the last 25 years: Marco Tronchetti Provera. As It’s been illustrated, Pirelli has changed more times control and the weights in the ownership; but probably the only one element of continuity with the past, and probably the only one that can be considered the carrier of the whole transformation is him.

Pirelli in these last years, passes through three big changes in the ownership, the long control chain has been modified more times, but also thanks to peculiarity of the holding structure Tronchetti Provera has maintained the control until the entry of the ChemChina. Nevertheless, also in this situation the historical manager of the company manages to lead the Italian tyres producer.

The costs of the transformation weren’t insignificant: Pirelli as company has lost an important and historical business as the industrial one and probably also something that probably has been an higher media attention: the Italian ownership, even if as already seen the Italian headquarter, the Pirelli’s know-how and brand have been protected.

Furthermore, Pirelli doesn’t afford all these costs in change of nothing, in fact as seen, It’s also due to all these transformation that the company reaches a total renovation.

This can be a perfect example of how a company with a clear vision and strategy succeeds in a complete restructure.

First of all, Pirelli is now the only one pure consumer tyre producer in the world and being this, the company can concentrate all its efforts and resources to focus on the client and more in specific in the high value segment clients, this seem to be a winner choice, as also results seems to
confirm.
After the not enthusiastic debut in the Milan’s stock exchange also investors seems to have confidence in the Pirelli’s future; in fact as reported in the consensus estimate, that is an average of the financial analysts previsions on the stock, Pirelli’s target price is set at 7.83 euro per share.

<table>
<thead>
<tr>
<th>Current stock price</th>
<th>7.35 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Price</td>
<td>7.83 €</td>
</tr>
<tr>
<td>Upside</td>
<td>+6.5%</td>
</tr>
</tbody>
</table>

This target price is due in particular to the expected grow in the luxury automotive market, so again thanks to the focus strategy.

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88 Source: www.Pirelli.com
89 Ibidem
In addition to these data and this target price, there is also other analysts that are even more optimistic on the future of the Pirelli’s stock price:

- UBS set the target price at 8.50 euro per share and forecasts that thanks to the best pricing control in the industry, Pirelli could achieve until the 2020 a triplication of the operating cash flow and a total increase in the free cash flow of +10%;
- Exane indicates the stock as top pick in the industry, with a rating “outperform” and assessing the fair value between 8.3 and 8.8 euro per share;  
- In the end, also Mediobanca review its prevision higher than the consensus after the publication of the Nokian’s financial report, the first Pirelli’s competitor, assessing the industry’s multiples and evaluating that Pirelli is traded at 27% of discount respect the Nokian’s stocks.

Considering all these aspects seems that Pirelli will faces a rosy period, but the challenges are many, first of all Pirelli is dealing with an high debt, also thanks to all the financing operations done starting from the tender offer that raise the ratio Net Financial Position/EBITDA Adjusted to a level of 4.6 that has to be lowered below 2 according to the 2020’s targets; and if by one side the tender offer resulted necessary to the restructuring, on the other side it’s not an easy target. In addition, needs to be said that the growth of Pirelli is strictly related to the prestige cars industry and if this can be positive in the last years and for the forecasts also in the next years (this industry is expected to outgrow the standard market 4x in the long-run), is surely a risk to be linked only to one sector.

Pirelli finally after a long transformation period is became a new company that thanks to its brand awareness, its high technology, it’s clear and defined strategy, can afford all the challenges of the next future; and even if situations change quickly, as shown in all the analysis the company has always been ready to face them.

90 www.finance.yahoo.com
91 Castellarin R., Mediobanca, da Nokian Tyres buone notizie per Pirelli, MF Milano Finanza 5 February 2018
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- YAHOOFINANCE: http://finance.yahoo.com
Pirelli’s evolution.

From a conglomerate to the only one ‘pure consumer tyre company’:

a long restructuring process

Supervisor:

Prof. Riccardo Bruno

Candidate:

Gianalberto Mele

Student Number: 672521

Co-Supervisor:

Prof. MARCO VULPIANI

ACADEMIC YEAR

2016/2017
Executive Summary

Pirelli & C. S.p.A. is a multinational company based in Milan, nowadays it’s a pure consumer tyres producer, with around 30,000 employees and a turnover of 5,000 million is one of the major player in the tyre industry. The company is not been always as now and the aim of the analysis is to cover all the events and operations that Pirelli deals with from the 2010 to nowadays to become the only one pure consumer tyres producer of the world.

The process and so the analysis begin in the 2010 with the entry as industrial partner and second main shareholder of Vittorio Malacalza in the company and ends with the relisting of the transformed company. The first chapter presents the long control chain of Pirelli, the dynamics of control, the changes on the control, in particular the entry first of Malacalza Investimenti and then after the litigation between Malacalza and Tronchetti Provera, the historical Chairman and President of the group, the entry of the Russian Rosneft in the ownership of the group. The second chapter presents the entry of the Chinese ChemChina in the company through the holding Marco Polo, the acquisition of Pirelli, the Tender Offer made by Marco Polo in order to delist the company and start the company reorganization, to be prepared to return on the Stock Exchange with a renewed profile. The third and last chapter analyses first the industrial segment spin-off, then the whole IPO’s process and in the end there is an analysis on what the company is became, future goals, future prospects and some consideration about the company evaluation.

Malacalza Investimenti in the June of the 2010, bought the 30.4% of GPI (the holding company that controls Camfin), and the 12.3% of Camfin that in total can be translated as the control of the 25% of the Pirelli’s stake that leads the group, headed by Vittorio Malacalza, to being the second largest investor in Pirelli right after the 25.8% owned by Tronchetti Provera.

The control chain of Pirelli after the entry of Malacalza can be summarized in this way:

The Pirelli’s shareholders structure on 2010 was:

- 47.9% of free float
• 46.2 % under a shareholders’ agreement
• 5.9% owned by Camfin

The shareholders’ agreement was composed by the following companies with these percentage of company’s stakes:

• Camfin 20.32%;
• Mediobanca 4.61%;
• Edizione 4.61%;
• Fondiaria Sai 4.42%;
• Allianz 4.41%;
• Ass. Generali 4.41%;
• Intesa Sanpaolo 1.62%;
• Massimo Moratti 1.19%;
• Sinpar 0.63%.

Camfin with a total equity ownership of 26.22% results clearly the major shareholder (5.9% of shares owned by Camfin are outside the agreement because a rule of the same prohibits to every member to have a weight higher than 50% within the pact).

The major shareholders of Camfin are

• Gruppo Partecipazioni Industriali (G.P.I.) 41.23%;
• Malacalza Investimenti S.r.l 12.10%.

Lastly G.P.I. major shareholders are:

• Marco Tronchetti Provera & C. S.p.a. with 61.89% of ownership;
• Malacalza Investimenti S.r.l with 30.4% of ownership.

This control chain can be translated in the indirect control of Pirelli shares equals to the 25.8% of shares for Marco Tronchetti Provera and 25% for Malacalza’s group.

With these numbers can start an industrial and strategic partnership, enforced also by a shareholders’ agreement signed by them, shareholders’ agreement that had as object their respective participation on Camfin and indirectly on Pirelli.

Since the 2009-2011 Pirelli’s industrial plan, was highlighted the intention
for Pirelli to focus only and exclusively on the tyres segment, that in the 2010 represents the 98% of the total revenues. In this year begin also the transformation process through the sale of Pirelli Broadband Spa for about 30 million and the separation of Pirelli RE.

On 2012 happens that Camfin’s debt with banks of 382.4 million that exceeded the target debt stipulated on the 2009 of 250 million has to be refinanced in this year because on the December 2012 Camfin has to repay the first tranche of this debt equals to 132.4 million, in order to come back to the target indebtedness with the banks. As reported in a note on the agreement with the banks, Camfin has three options:

1. A capital increase (that is the option supported by Malacalza that doesn’t need liquidity and will permit to Pirelli to reduce the debt/equity ratio);

2. Sale of all or a part of the Pirelli’s share out of block shareholders agreement (which represents the 31.54% of the ordinary shares and its composed by the totality of the shares of Camfin, MedioBanca, Edizione, Assicurazioni Generali, Fondiaria SAI, Intesa Sanpaolo, SINPAR, Massimo MORATTI);

3. Alternative operations to be agreed with the financing banks.

Around this debt arises a litigation between the two main shareholders that will be won by Marco Tronchetti Provera and this lead to:

- The issue of an exchangeable bond of 150 million by Camfin exchangeable with Pirelli’s shares, as Marco Tronchetti Provera hoped;
- The end of the shareholders agreements between Marco Tronchetti Provera and Malacalza Investimenti;
- A new shareholders’ agreements between Marco Tronchetti Provera (MTP), Marco Tronchetti Provera Partecipazioni (MTTP), Gruppo Partecipazioni Industriali (GPI), Nuove Partecipazioni (NP), Lauro cinquantaquattro (L54), Intesa and Unicredit;
- The launch of a tender offer on the Camfin outstanding shares to proceed with the delisting of Camfin and to shorten the control chain, through the Newco (Lauro Sessantuno) composed by the companies that are part of the shareholders agreements.
Malacalza sells its participation in Camfin and in G.P.I. for 0.80 euro per shares to the Newco and in addition to this participation that is equal to the 25%, have been transferred to the Newco the 35.41% of Camfin’s shares through the Nuova Partecipazioni that has received these shares in turn by G.P.I. (29.45%) and by Assicurazioni S.p.A., Yura International B.V. and Fidim S.r.l.(5.96%). With these operations the Newco takes the control on Camfin with a total stake of 60.99%. Because the Newco increase of more than 30% its participation on Camfin, the Newco can launch a Mandatory Public offer. This tender offer, that has a price of 0.80 that will be raised by Consob because will demonstrate collusion between Malacalza and the Newco, the Newco will reach the 95.95% of the Camfin’s share capital and doing so, can exercise the right of squeeze-out and acquires the totality of the equity and can proceed with the Camfin delisting, shortening the control chain. The possibility of a waterfall tender offer is avoided because as already mentioned Camfin doesn’t own the 30% of Pirelli and even if it’s inside the blocking syndicate, Camfin doesn’t totally control it because its quota inside the syndicate is lower than 50%, and lastly in addition the nature of the syndicate is not binding.

Subsequent to this, the other most important change in the Pirelli’s ownership is the entry of the Russian Rosneft on 2014 through a Luxemburg’s fund that buy the 50% of Camfin for a total amount of 552 million and the other 50% become owned by a Newco that is composed in this way:

- 76% is owned by Nuova Partecipazione (with Marco Tronchetti Provera as major shareholder);
- 12% owned by Intesa Sanpaolo;
- 12% owned by Unicredit.

Changes in the ownership doesn’t ending with the entry of Rosneft, in the 2015 the giant state-owned Chinese company ChemChina decides to invest in Pirelli’s ownership, and this will be a definitive step through the transformation process. On 22 March 2015, China National Tire & Rubber Co. (CNRC), a subsidiary of ChemChina, Camfin and the shareholders of Camfin (Coinv SpA. and Long-Term Investments Luxembourg) signed a binding
agreement for a long-term industrial partnership related to Pirelli. This agreement has the goal to strengthen the Pirelli’s development plans, and to enlarge the cover of strategic geographically areas and in the end to reach an industrial integration between the tyre activities of the industrial segment of Pirelli and CNRC.
Related to this industrial operation, ChemChina also do a financial operation, in order to get the control of Pirelli.
The agreement signed, that was in the specific a Sale and Purchase and Co-Investment Agreement, and that will be integrated on 5 august 2015, stipulates that:

- Through a holding company: “Marco Polo Holding International”, the purchase of the an initial 20.34% of the ordinary share for a price of 15 euro per share of Pirelli, directly held by Camfin and subsequently the purchase of another 5.85% held by Cam 2012, a company totally owned by Camfin, for a total stake of 26.19% of the total stake.
- The reinvestment by Camfin of part of the proceeds deriving from the sale and the purchase of Pirelli ordinary shares directly held by Camfin
- The shareholders agreement between CNRC, ChemChina, Camfin, Coinv, LTI and LTI Ita that regulates the transfer of the shares in the new company and what It will be the new Pirelli corporate governance.
- After the above operation the Sale and Purchase and Co-Investment Agreement provides that Marco Polo Holding will launch a mandatory tender offer on the ordinary Pirelli’s shares and a voluntary tender offer on the savings shares capital of Pirelli in order to proceed with the delisting of Pirelli.

Before to analyse the strategic reason of the delisting, it's important to highlight the loan agreements done in order to finance this operation and in particular the funds needed for this operation are raised in this way:

- “Bidco Senior Facilities Agreement”: a loan agreement signed on 30 April 2015 and modified on 11 December 2015, for a total amount
of 4,400 million euro destined to display the financial resources to make the operation. This agreement is signed by Holdco e Marco Polo by one side and a group of important banks on the other side headed by J.P. Morgan Limited as global co-ordinator.

- “Multicurrency Term and Revolving Facilities Agreement”: a loan agreement for a total amount of 2,200 million euro destined to refinance in part the debt of Pirelli and in part its working capital. This agreement is signed by the same parties of above.

From the same agreement can be extracted what will be the future evolution of Pirelli:

- The separation of the Pirelli’s Premium segment from the industrial and consumer segment, to bring in the Italian Stock exchange a Pure Tyre Company;
- The merger between the Pirelli’s Truck segment and Aeolos, a ChemChina’s subsidiary, that is one of the largest steel radial tyre producer and the largest off-the-road tyre production enterprise.

In fact, Pirelli is always moving more in this direction, focus on the premium segment, that bring higher revenues, higher margins and permits to exploit the luxury cars industry that constantly outgrow the wider automotive industry, and the entry of ChemChina and the consequent separation of the two main business lines of Pirelli, surely accelerate the process of transformation.

Let’s focus on the take-over bid; as reported in the agreement in fact, Marco Polo will launch a Mandatory Tender Offer and a Voluntary Tender Offer on 20 August 2015 at the price of 15 euro per share.

Marco Polo International Holding Italy S.p.A is totally owned by Marco Polo International Italy S.p.A that is in turn controlled indirectly for 65% by CRNC via two companies: Fourteen Sundew (“SPV Lux”) and CNRC International Holding (HK) Limited (“SPV HK 2”); and for the other 35% is controlled by Camfin with stakes respectively of:
• 50% for COINV spa that is in turn owned by Nuove Partecipazioni with a stake of 76% and by Unicredit and Intesa Sanpaolo both with a stake of 12%;
• 25.94% for Long-Term Investments Luxembourg controlled directly and indirectly by Rosneft;
• 24.06% for LTI Holding srl.

On the closing date, the tender offer launched by Marco Polo Industrial Holding is subscribed for a total number of shares of 159.1 million that permit the Bidco to reaches the 87% that is under the threshold of 95% necessary to the squeeze-out right. The offer period of the Mandatory Tender Offer has been reopened from 21 to 27 October 2015. In this week thanks to the new subscriptions and also to the purchase by Marco Polo International Holding of others Pirelli’s outstanding shares, the Bidco reaches the 95.969% of the share capital, getting able to exercise its squeeze-out right and so concluding the tender offer successfully and ordering the delisting to Borsa Italiana.

After the conclusion of the tender offer, Marco Polo International Holding, after the purchase of the few remaining saving shares, proceeds to a reverse merger with Pirelli.

The merger that bring to the extinction of the absorbing company and the continuation of the absorbed company, is done in order to shorten the control chain and to transfer the indebtedness of Marco Polo, indebtedness raised to finance the acquisition, to Pirelli whose cashflows will be used to repay financial debts and its equity constitutes a guarantee of the whole Bidco Senior Agreement.

The process of transformation move on regarding the spin-off of the industrial segment on 2016 and 2017, segment that despite is not considered “core” anymore collect in the 2016 net sales for 987 million. The spin-off of the Pirelli industrial segment is strictly related with the integration of the same with the ChemChina’s subsidiary Aeolus

An important step towards the integration takes place on 15 July 2016 when the general meeting of Aeolus Tyre (a ChemChina totally owned subsidiary) approved the transfer of the 10% of Pirelli industrial, swapped with the 80% of the car activities of Aeolus that become part of Pirelli, in the same agreement there is also the know-how and technology license
agreement signed between Pirelli and Aeolus and the integration of two important CNRC’s assets in Aeolus.

This can be considered the first step of the integration; another important event is the entry in the share capital of Pirelli Industrial for a total stake of 38% by the fund China Cinda holding, through the fund High Grade Investment Management Limited. The 38% of Pirelli Industrial is evaluated 266 million euro, so the total equity value is valued 700 million euro. The integration process goes through also to a new control structure for the industrial segment: at the begging of the 2017 TP Industrial Holding that is a totally owned holding by Pirelli, owns the 52% of the Pirelli Industrial’s capital, capital that is also joined as already written by Cinda(38%) e by Aeolus (10% swapped on 1 October 2016).

Starting from this configuration, to arrive to the new one, some other steps need to be highlighted. First of all, Pirelli Industrial is renamed in Prometeon Tyre Group; in order to ensure that the two segments can pursue their own independent strategy and more in general a wider independence, to the raising company are guaranteed two fundamental points:

- A new control structure
- The syndication of a credit facilities.

The new control structure of Prometeon takes shape on 13 April 2017 when is signed the agreement for the full integration of TP Industrial Holding with the other assets of the sector belonging to CNRC, including Aeolus and Guilin Beili. This integration pass through a revised Pirelli shareholding structure, in fact the 52% of Prometeon owned indirectly by Pirelli through TP Industrial holdind, is assigned to Marco Polo, in order to ensure that both Pirelli and TP Industrial can pursue independently their path to grow and their strategies.

- After having analysed also the not completed yet integration process, the focus can be shifted on the relisting of Pirelli as a pure tyre consumer producer. The IPO that was on plan for the 2018, is
anticipated to the last quarter of 2017 for the following reasons:
The already implemented focus on the Consumer business;
• The positive recent financial results of the company;
• The current favourable market conditions.

The IPO features can be summarized with the table below:

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<th>Minimum 35,000,000 shares (10%)</th>
<th>Maximum 315,000,000 shares (90%)</th>
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<td>Public Offering</td>
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<td>Private Placement</td>
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<td>Total number of shares</td>
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<td>Company capitalization considering the price fork</td>
<td>6.3-8.3 billion</td>
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<td>Greenshoe</td>
<td>50,000,000 (14,3% of the offer)</td>
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<td>Free float</td>
<td>35% (40% with greenshoe)</td>
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<td>Lock-up</td>
<td>180 days for Marco Polo International Italy</td>
<td>365 days for SPV LUX and Camfin</td>
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On 29 September 2017 the price is set at 6.50 per shares.
The offer was a success, in fact in the institutional offering the requests have been 775 million on the 315 million shares offered, so more the twice the shares offered; while in the private placement requests were for 49 million shares, 1.4 times the shares offered.
The 4 October is the first day on the Stock Exchange and even if the first day was not enthusiastic for the title on 5 February 2018, after five months from the listing, the price is raised to 7.40 euro per shares.
The Global Coordinator of the IPO (J.P. Morgan) until the 27 of October has made 18 title stabilization, has exercised partially the greenshoe option for 18.904.836 shares over a total of 50 million shares available as a result of the over-allotment; so the remaining 31.095.164 shares are returned to Marco Polo. Concluding, the IPO ends with 368.904.836 ordinary shares placed equals to about the 37% of the shares; while Marco Polo held the 63% of the share capital equals to 631,095,164 shares, from the IPO Marco Polo collects a total amount of 2,400 million euro that as already provided will be used for 1,250 million to repay the Marco Polo’s bank financing.
The good results from the IPO are due in particular to the good financial results that Pirelli achieved in the last years thanks to its positioning and to its always increasing focus on the premium and prestige segment.
This focus strategy that is been implemented by Pirelli in all the years
analysed in this text, permits to the company to start to collect good results as can be seen from the last financial results, related to the first nine months of 2017: +9% of revenues, +10% of EBIT adjusted and increasing of its margin of 0.2%, +94% of net income and an improvement of the net financial position of 625 million. Considering these numbers and considering the high targets that Pirelli would like to achieve within the 2020:

- CAGR (Compounded Average Growth Rate) 2016-2020 expected to be ≥9%;
- High Value weight on Revenues from 55% on the 2016 to 63% on 2020;
- Adjusted EBIT margin from 17.5% to 18.5-19.5%;
- High Value weight on EBIT from 81% to 85%;
- CapEx on Revenues of 7% of which 82% to High Value segment;
- Net financial position/adjusted EBITDA, from the 4.6x on 2016 to the already reached less then 3x on the end of the 2017 to less than 2x for the end of 2020.

Pirelli, as also various financial analysts believe, can reach these targets and thanks to its focus strategy and to the whole process of transformation now can rely on a market segment that outgrows the automotive market of 4 times. The best positioning, the best margins of all its competitors (excluded Nokian), the highest investments in R&D and to complete an expert management, that until the 2020 will be leaded by Marco Tronchetti Provera, all these aspects permit to have optimistic expectations of Pirelli, that surely will face important challenges but after its evolution to a pure tyres company it is certainly better structured to face all of them.