



Paris  
September 29, 2017

# **Crédit Agricole CIB**

## **Auto Credit Day**

Paris - September 29, 2017

## Crédit Agricole CIB – Auto Credit Day



- 1 / Levers for Growth**
- 2 / Levers for Competitiveness**
- 3 / Ambition for Profitability**
- 4 / A sound financial profile**

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Crédit Agricole CIB – Auto Credit Day



# 1 / Levers for Growth



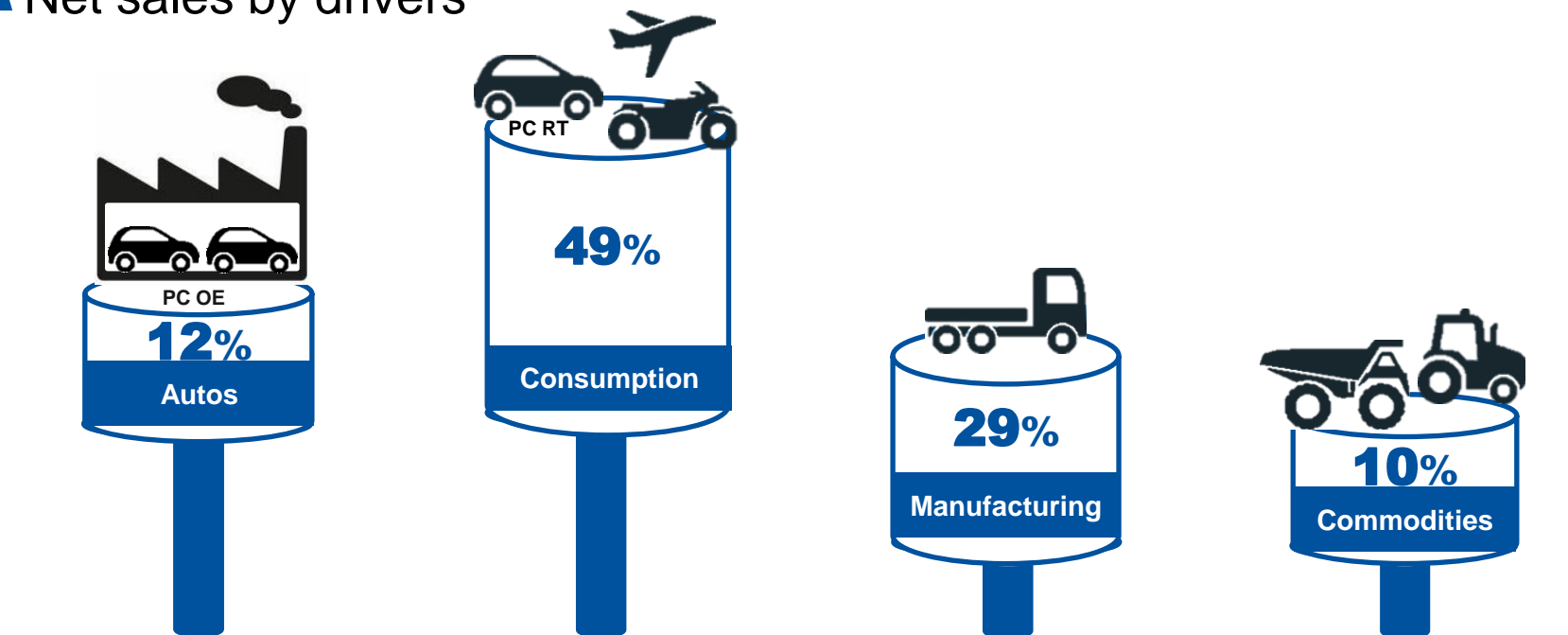
# Four domains of growth

	Tires	Services	Experiences	Materials
2015-2020 ambition	Net sales +20%	Net sales x 2	Net sales x 3	Capitalize on our leadership
Action plan and first steps	 <p>MICHELIN Net promoter Score</p>          	    	       	      

**CUSTOMER – INNOVATION – GROWTH – COMPETITIVENESS**

# A business model strongly linked to consumption

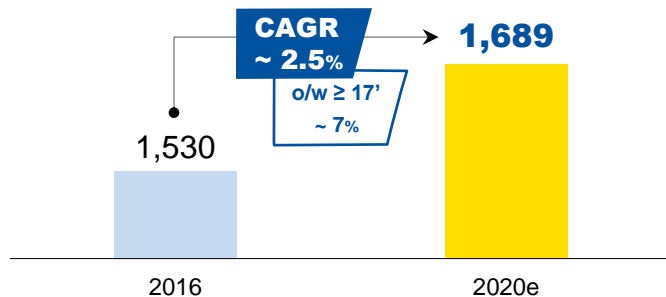
## ▲ Net sales by drivers



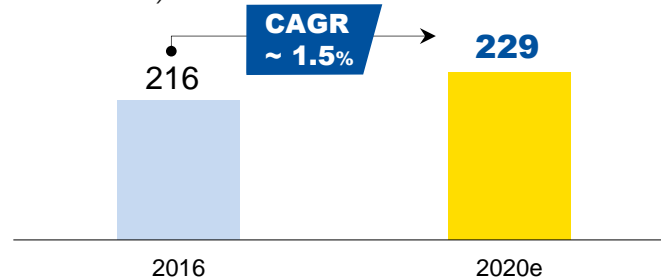
2016 net sales by sector

# 2016-2020 projections: growing worldwide demand

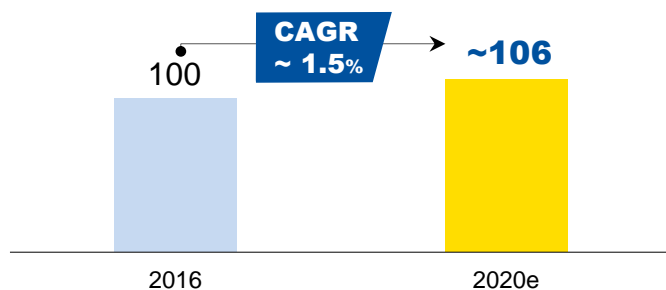
- PC OE&RT market projection (in millions of units)



- TB OE&RT market projection (Radial & Bias in millions of units)

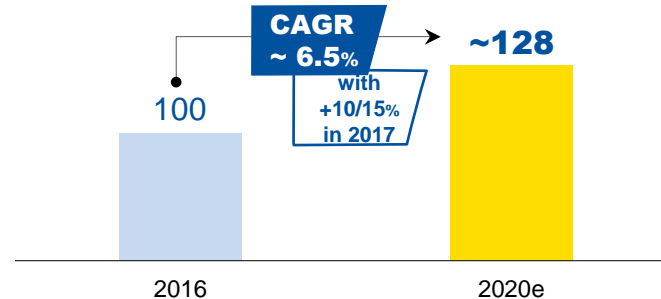


- Agricultural tires\* (base 100 in 2016, in tonnes)



\* OE & RT in Europe and North America

- Mining tires (base 100 in 2016, in tonnes)



# Product launches driving volume and market share gains

## Passenger Car

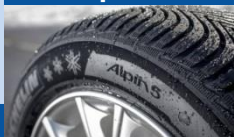
MICHELIN CrossClimate +



MICHELIN Pilot Sport 4 S



MICHELIN Alpin 5



BFGoodrich All Terrain T/A K02



MICHELIN Premier LTX



## Truck

MICHELIN X-One Urban Bus



MICHELIN X®Guard



MICHELIN XWorks



Convoy TripleA



MICHELIN X Line Energy Z



## Specialty



MICHELIN Power RS



MICHELIN XDR3

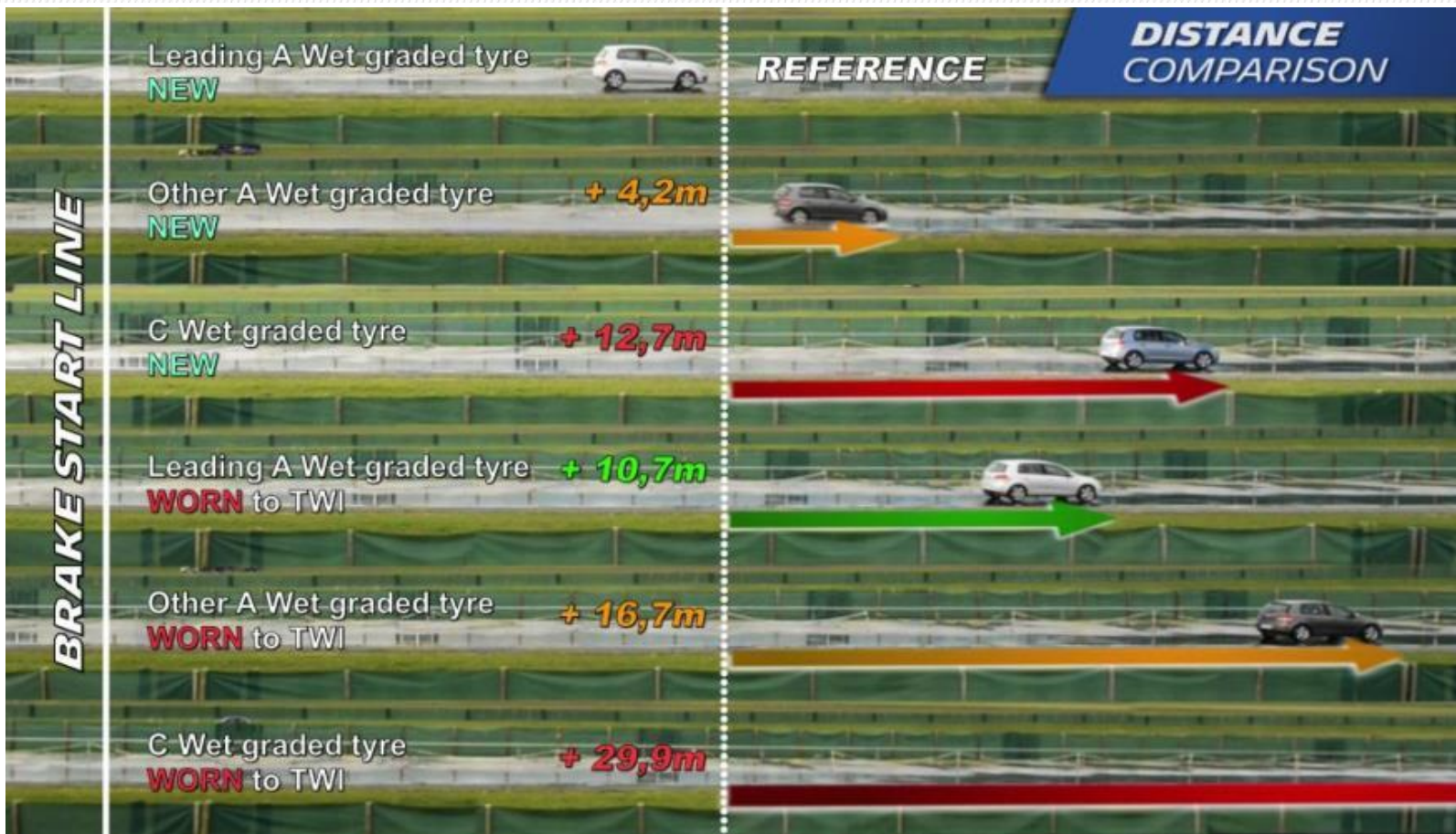


2 tires in 1 technology





# MICHELIN tire – Highest performance new and worn out





# MICHELIN ACORUS technology makes the tire and wheel assembly flexible: it bends but does not break

- Michelin patented new technology for the PC incorporates two flexible rubber flanges mounted on a special wheel body, developed by Maxis Wheels, world's leading manufacturer of wheels.
- A flexible tire and wheel assembly that improves the ride and comfort and also absorbs impacts from potholes and kerbs.
- Initially sold in 19" and above sizes to the OE premium automakers, this Michelin innovation is compatible with all tires on the market.

In tests\* with a 21" tire driven through a pothole:

- standard assembly version punctured the tire at 28kph
- the MICHELIN ACORUS technology flexible assembly did not puncture at any speed



\* Tire dimension: 285/30R21; pothole: 80mm deep, 700mm long, 70° impact angle

# Acquisition of NexTraq, a US industry leader in the field of commercial-fleet telematics

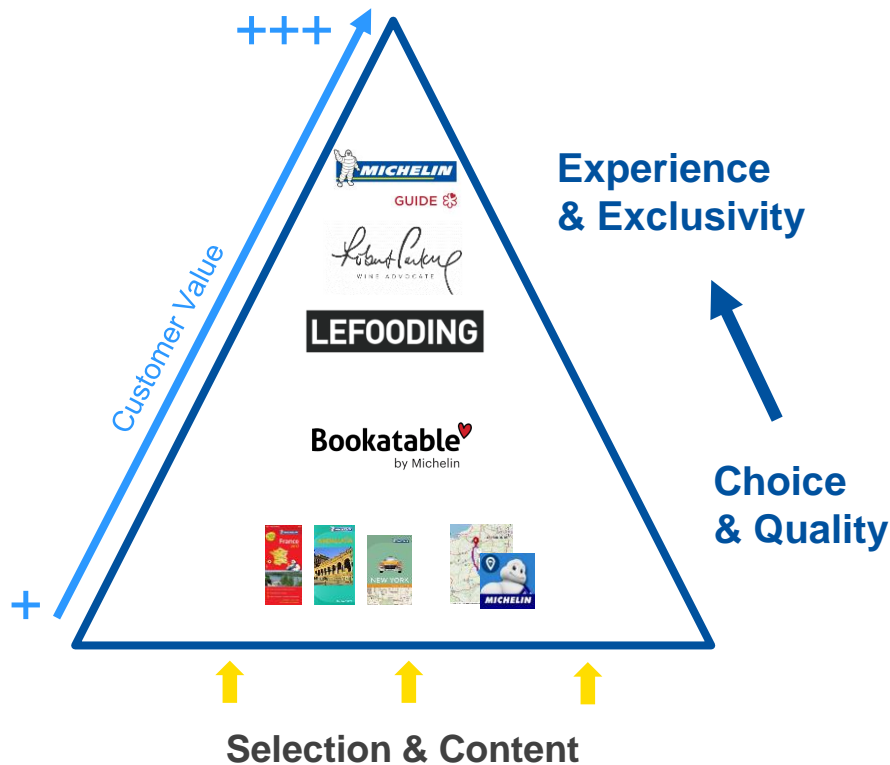


- Leader in SaaS fleet management for small-to medium-size businesses (Class 3-5 fleets ranging from 2 to 50 vehicles)
- NexTraq helps customers with driver behavior, scheduling, route optimization, vehicle trip history, fuel card integration, vehicle maintenance, and data integration enhancing fleet productivity
- Significant synergies expected with the Michelin Group through:
  - Service and solutions platform in North America
  - Technology expertise cross-fertilization between Sascar, Michelin solutions and NexTraq
  - Volume growth thanks to the strategic fit between Michelin and NexTraq customer bases;

## KEY FIGURES

- Turnover: ~\$50m
- EBITDA: ~50%
- **110,000** subscribers in 2016 (67,000 in 2010)
- **100** employees

# Michelin Experiences: Become the global “Selection” benchmark in the world of gourmet dining and travel services



- Capitalize on the **MICHELIN Guide**'s worldwide reputation in the field of fine dining
- Expand the **geographic and segment footprint** with **aligned brands/solutions** for our customers
  - Destinations
  - Professionals (chefs, winemakers, hoteliers, etc.)
  - Advertisers
  - High-income consumers
- Create and engage a broad, qualified, committed audience in the **digital** world to benefit all of our businesses

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# 2 / Levers for Competitiveness



# H1 savings in line with 2017-2020 competitiveness plan

<i>In € millions</i>	<b>H1 2017</b>	<b>2017-2020 plan</b>
SG&A	64	500/550
Manufacturing - Logistics	60	450/500
Materials	22	150/200
<b>Total</b>	<b>146</b>	<b>~1,200</b>

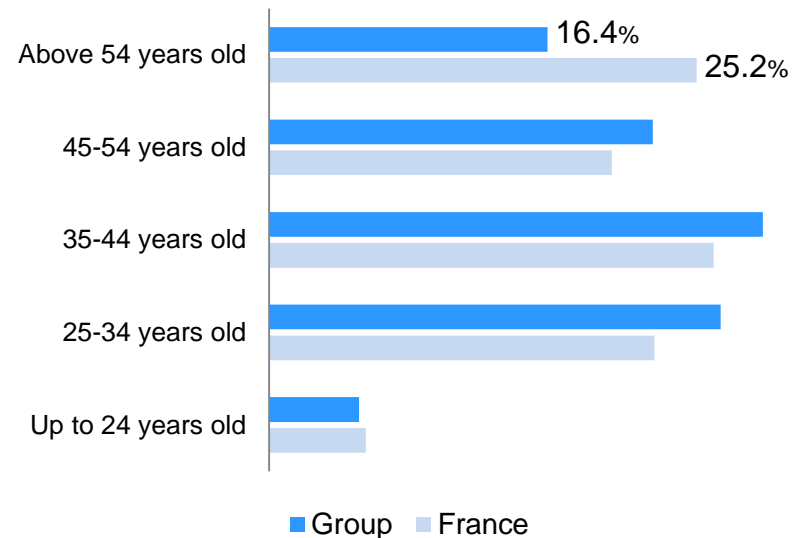
# The reorganization project announced in June will enable corporate positions to be reduced by 1,420 worldwide

▲ A more agile, customer-focused Group capable of unleashing all its power

- Leverage the age pyramid:
  - 3,500 employees retiring in France and the United States between 2018 and 2021
- Optimize hiring:
  - 2,080 new hires in France and the United States between 2018 and 2021



## ● Age pyramid, Group and France\*



\* Manufacture Française des Pneumatiques Michelin

# Investing to create value

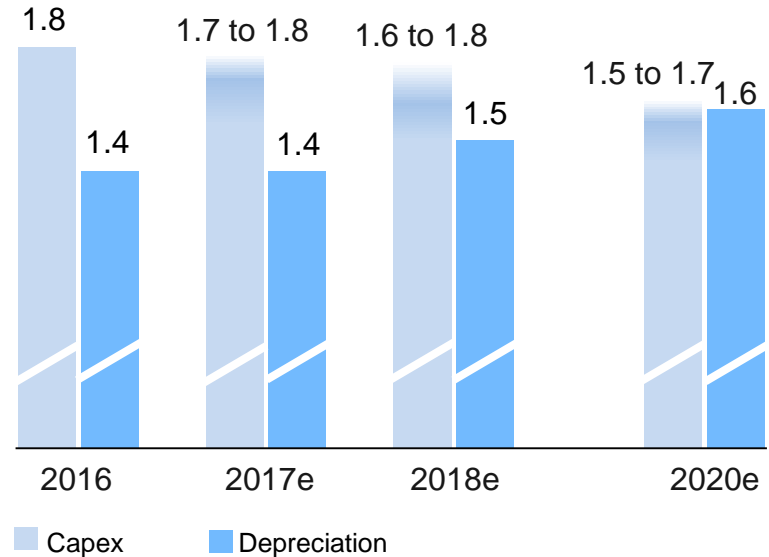
## ▲ Successfully carry out our priority Capex and M&A projects to drive expansion:

- In growing markets: Premium PC, North America and Asia
- In the supply chain to improve customer service (information systems, logistics)
- In digital services
- In raw materials and semi-finished products



## ▲ Closing the gap between Capex and depreciation:

(in € billions, at current exchange rates)



# Optimizing Working Capital Requirements

- Inventory:

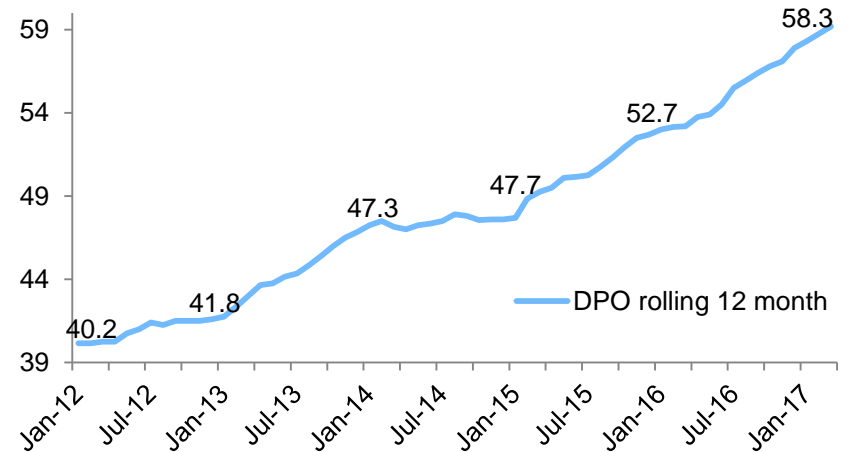
- At least a €250m reduction expected from OPE by 2020 from 2016

- Receivables:

- Benchmark position around 13% of net sales

- Payables:

- Further improvement through TOP and reverse factoring





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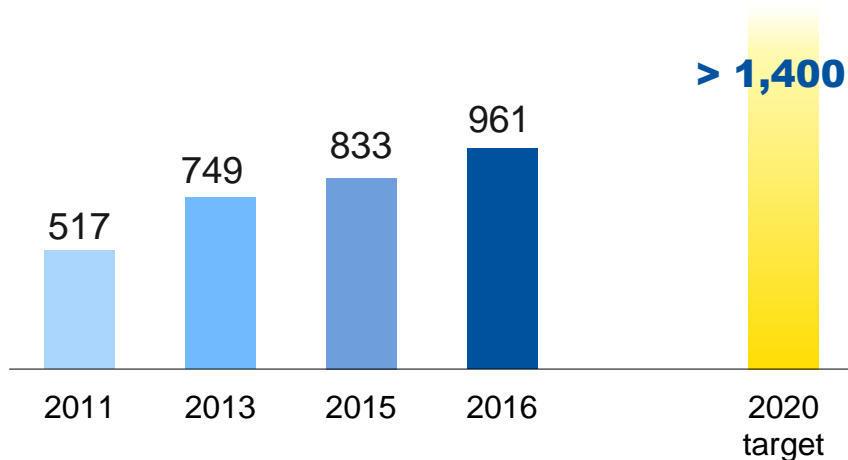


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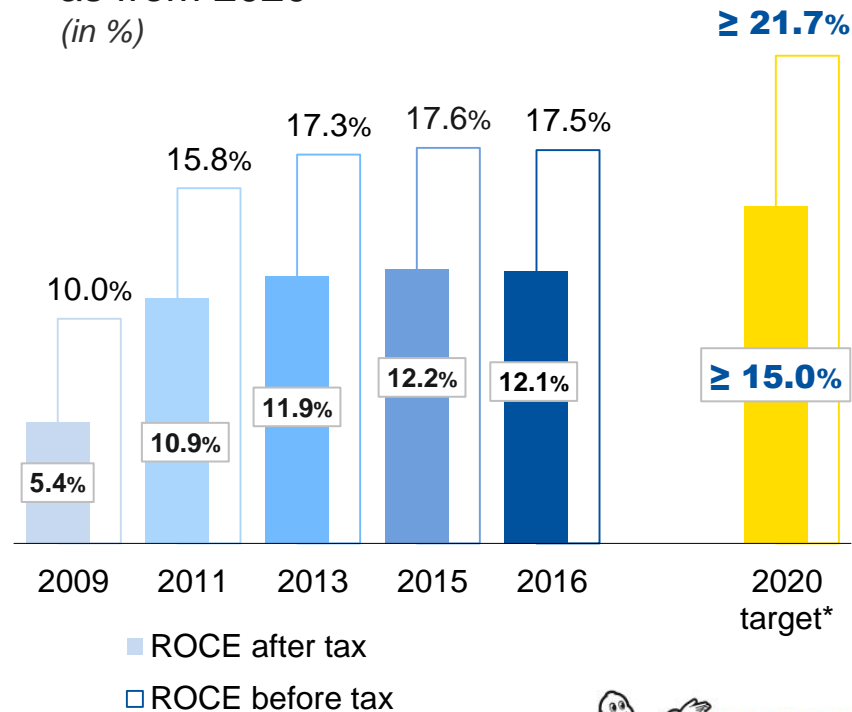
**Ambition for Profitability**

# 2016 performance in line with 2020 objectives

▲ Deliver structural FCF > €1,400m  
as from 2020  
(in € millions)

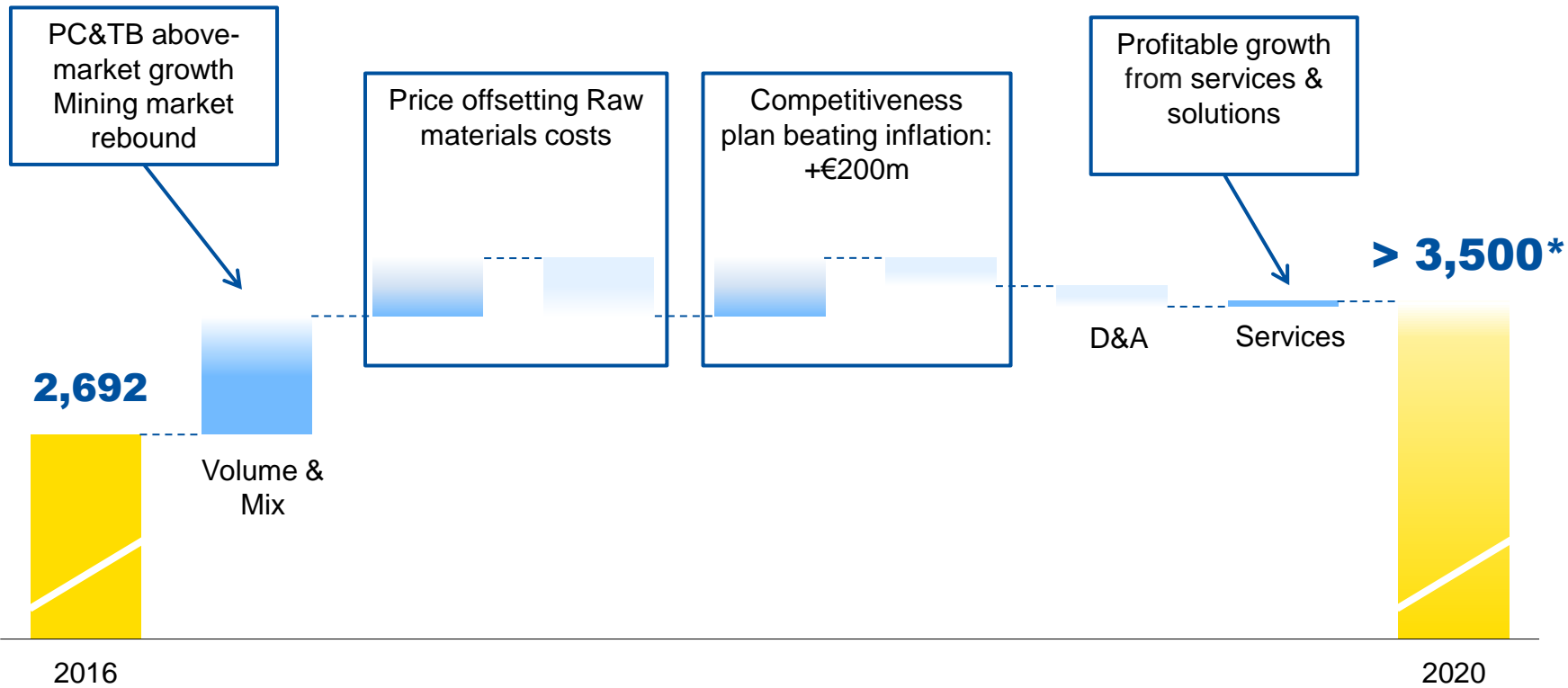


▲ Deliver an after-tax ROCE\* ≥ 15%  
as from 2020  
(in %)



\* At constant scope of consolidation excluding goodwill

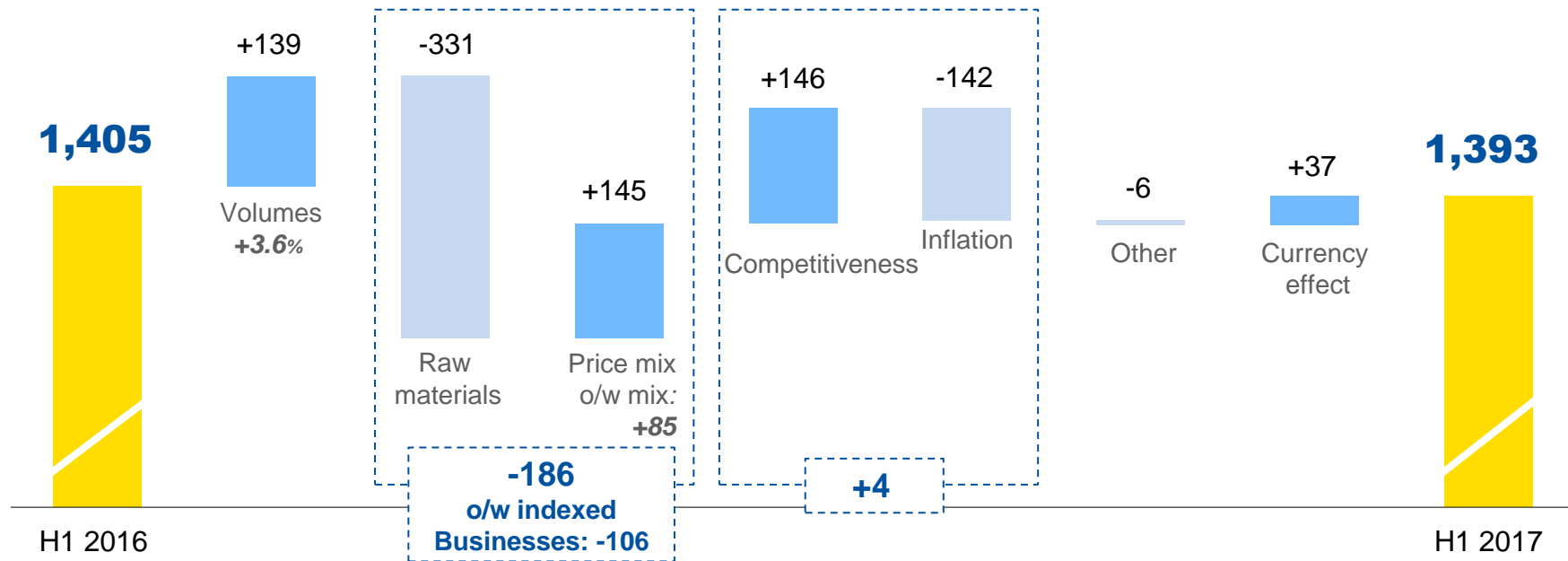
# 2016-2020 organic scenario: profitability levers



\* At 2016 exchange rates

# H1 2017 Operating income from recurring activities of €1.4 billion, stable and in line with the Group's roadmap

▲ YoY change in operating income from recurring activities (in € millions)





# 2017 guidance confirmed: on the road to our 2020 objectives

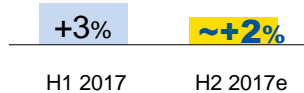
	2017
Volumes	Growth in line with the markets
Operating income from recurring activities at constant exchange rates	> 2016
Net price-mix/raw materials effect	Non-indexed businesses: neutral
Structural FCF*	> €900m

\* Adjusted for the payment in January 2017 of the €193m capitalized interest on OCEANE bonds

# 2017 market scenario: agile management in a highly volatile environment



**PASSENGER CAR: +2%/+3%**

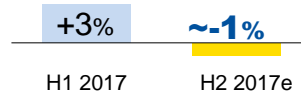


**Growth in line with long-term trends**

- H2 slightly better than Q2, which saw a fall-off in demand after the Q1 buying surge



**TRUCK: +0%/+2%**

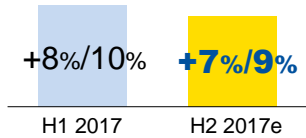


**Growth in line with long-term trends**

- H2 down due to H1 pre-buy



**SPECIALTY: +8%/+10%**



- Of which Mining tires: +10%/+15%
- Of which Agricultural tires: rebound in OE in Q2; slight increase in RT over the year
- Expanding markets in the other businesses

Source: Michelin

# 2017 scenario: agile management in a highly volatile environment

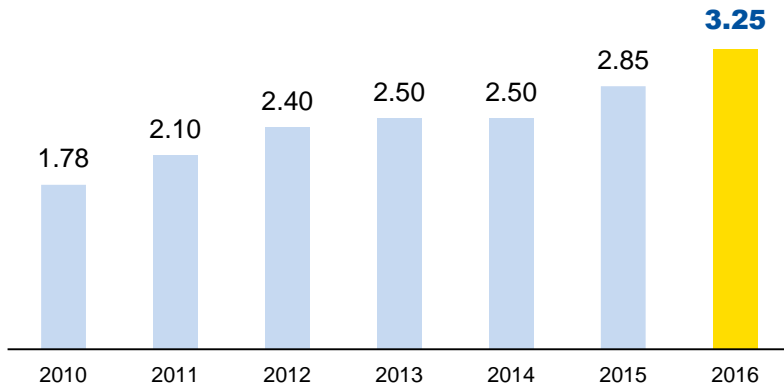
	H1 2017 as reported	H2 2017	2017
Impact of raw materials costs	-€331m	Around €450m headwind	Around €800m headwind
Currency effect	+€37m	€120 to €150m headwind	€85m to €115m headwind*
Net price-mix/ raw materials effect	Indexed -€106m Non-indexed -€80m	Positive	Indexed businesses: negative Non-indexed: neutral
Competitiveness plan gains vs. inflation	+€4m	Neutral	Slightly positive

\* Based on August average exchange rates extended to December 2017, with 2013-2016 droptthrough ranging from 30% to 48%

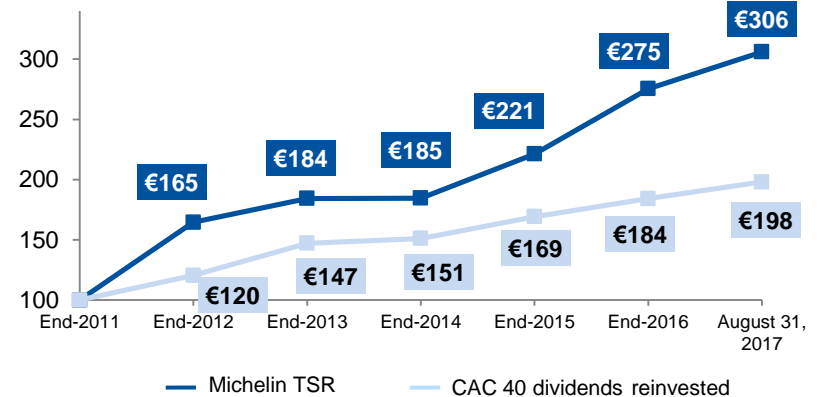
# Sustained shareholder return policy: dividends and share buybacks

- 2016 dividend: €3.25 per share, representing a payout ratio of 36.5%
- Share buyback programs
  - €750m committed in 2015-2016 and cancellation of 4.5% of outstanding shares
  - 2017: €71m delivered out of a €100m program to offset the dilution from share-based compensation

## ● Dividend per share (in €)



## ● Total Shareholder Return





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# 4 / **A sound financial profile**

# A business that structurally generates free cash flow

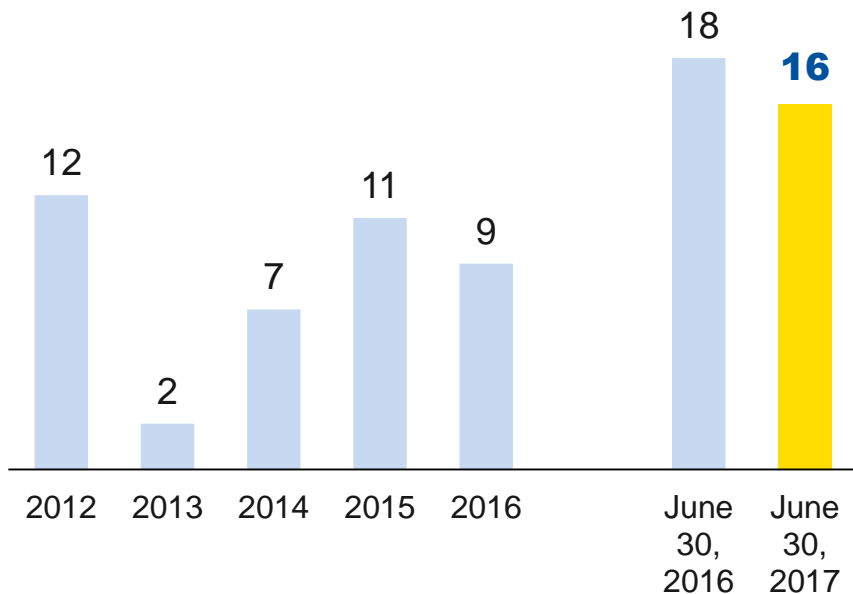
## ▲ Structural free cash flow (in € millions)

	2013	2014	2015	2016
	749	717	833	961
<b>Free cash flow</b> <sup>(1)</sup>	1,154	322	653	1,024
Acquisitions <sup>(2)</sup>	0	(400)	(312)	(16)
WCR impact of raw materials costs <sup>(3)</sup>	405	177	132	79
WCR impact of year-end volumes <sup>(4)</sup>	nm	(172)	nm	nm
<b>Structural free cash flow</b> <sup>(1) - (2) - (3) - (4)</sup>	749	717	833	961

# A robust balance sheet after the share buybacks, confirmed by the rating agencies

## ▲ Gearing at year-end

Net debt/equity, in %



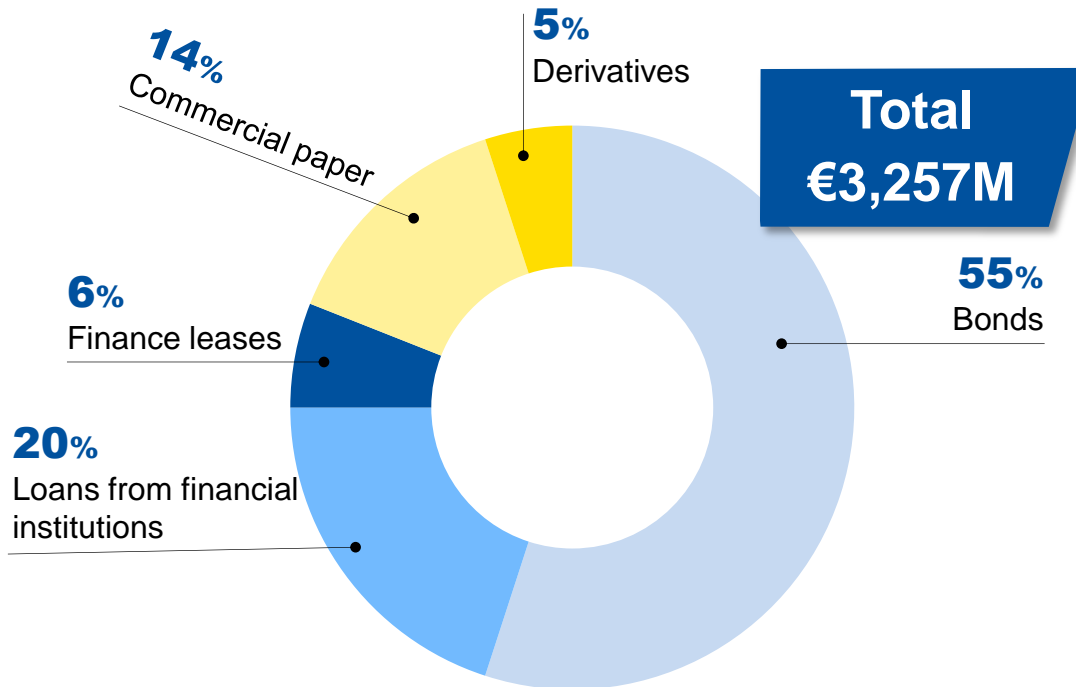
## ▲ Solid long-term ratings

Short term	S&P Moody's	A-2 P-2
Long term	S&P Moody's	A- A3
Outlook	S&P Moody's	Stable Stable

*Unsolicited rating from Fitch at F2, A-/Stable*

# Strong Diversification of Michelin's Sources of Financing

▲ Gross Debt by Financing Type as at June 30, 2017



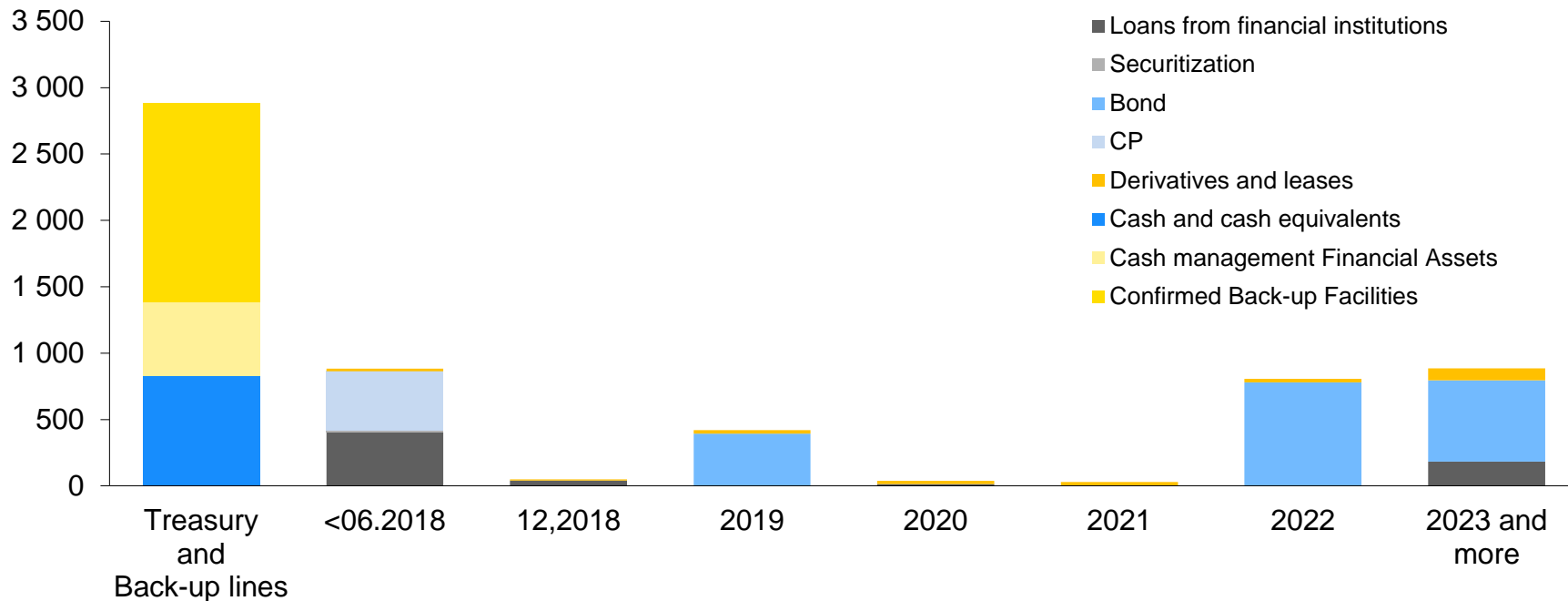
# Cash and Liquidity Reserve

- €1,496M of cash & cash equivalents and €492M of cash management financial assets at Dec 31, 2016
- €1,500m of an undrawn committed syndicated credit facility successfully refinanced in December 2014 with 17 banks for 5 years plus 2 extension options of 1 year each (5+1+1)
  - Back-up facility
  - EUR and/or USD
  - No financial covenants
- Main short-term debt programs:
  - French Commercial Papers (NEUCP/BT): maximum size €1.5bn
  - USCP program launched in April 2012: maximum \$700m
  - Pan-european receivables securitization program: €300m total capacity
  - US receivables securitization program: \$200m total capacity
  - Reverse factoring: up to €300m



# A comfortable cash position

▲ Debt maturities\* at Jun. 30, 2017 (carrying amount, in € millions)



\* interest excluded, only nominal amounts

# Outstanding bond issues

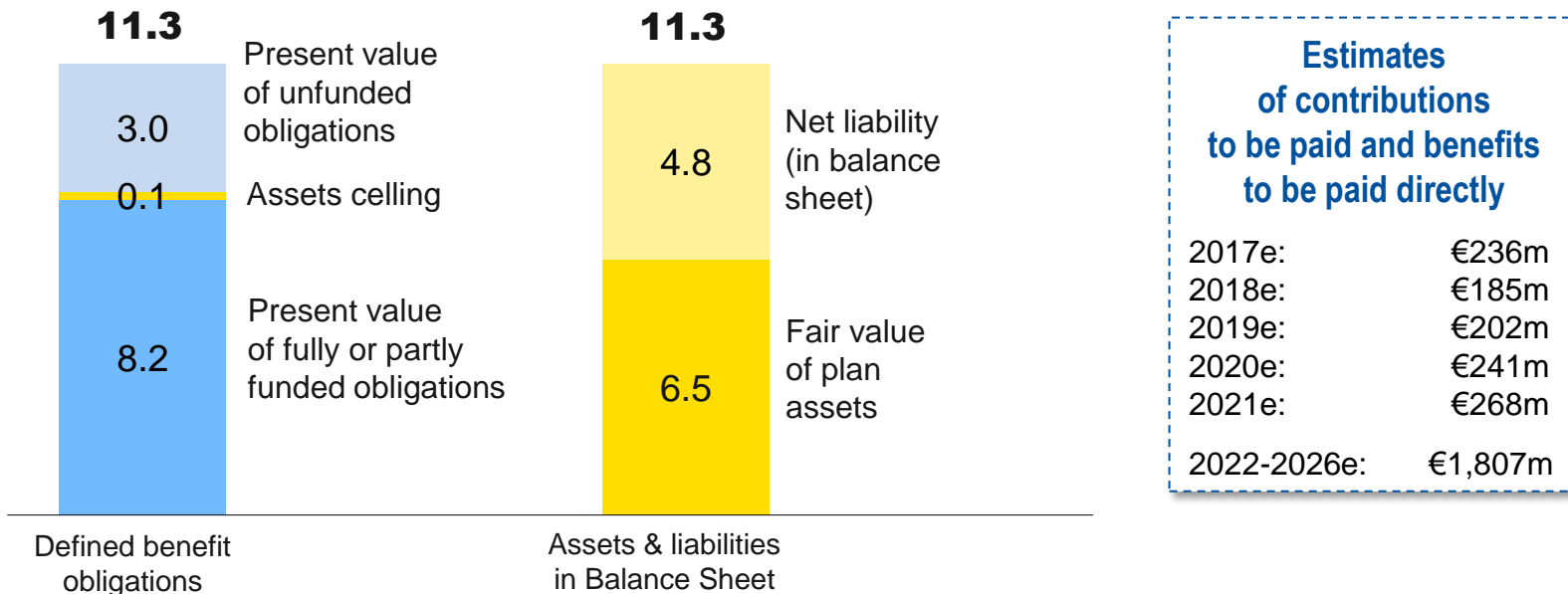
Issuer	MICHELIN Luxembourg	Compagnie Générale des Etablissements MICHELIN	MICHELIN Luxembourg	MICHELIN Luxembourg	MICHELIN Luxembourg
<b>Issue Type</b>	Senior Note Bond	Senior Note Convertible	Senior Note Bond	Senior Note Bond	Senior Note Bond
<b>Principal Amount</b>	€ 400 mn	\$ 500 mn + TAP \$100 mn	€ 300 mn	€ 300 mn	€ 302 mn
<b>Offering price</b>	99,912%	100% & 103,85%	99,967%	99,081%	98,926%
<b>Rating corporation at Issuance date</b>	BBB+ (S&P) Baa1 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)
<b>Current coporation rating</b>	A- (S&P) ; A3 (Moody's) ; unsolicited A- (Fitch)				
<b>Coupon</b>	2,75% p.a	ZERO Conv premium 128%	1,125% p.a	1,75% p.a	3,25% p.a
<b>Issue Date</b>	11-juin-12	05/jan/2017 & 25/apr/2017	19-mai-15	19-mai-15	21/sep/2015 & 27/sep/2016
<b>Maturity</b>	20-juin-19	10-janv.-22	28-mai-22	28-mai-27	30-sept.-45
<b>Interest payment</b>	Annual June 20	N/A	Annual May 28	Annual May 28	Annual Sept 30
<b>ISIN</b>	XS0794392588	FR0013230745	XS1233732194	XS1233734562	XS1298728707
<b>Denomination</b>	€ 1'000 with min. tradable amount € 1'000	\$ 200'000 with min. tradable amount \$ 200'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000

# Systematic and Efficient Management of the Main Financial Risks under the Governance of the Financial Risk Committee

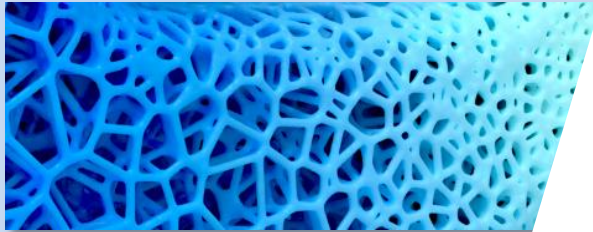
- **Liquidity risk:**
  - Secured financing : RCF, undrawn committed syndicated credit facility of €1,500m
  - Diversified financing sources
  - Conservative approach with available short- term instruments much above our needs
  - Non-risky cash investment
  - Risk managed at diverse horizons: very short term (5 d), monthly on a rolling 18 months, 5 years financial plan
- **Interest rate risk:**
  - Managed by currency at central level only
  - Defined fixed/variable thresholds
- **FX rate risk:**
  - Accounting FX exposure systematically hedged on a daily basis
- **Counterparty risk:**
  - Duly authorized counterparts (Group banks, CDS, ratings, market cap, ...) with defined thresholds in €
  - Managed on a weekly basis

# Defined benefit plans as at December 31, 2016

▲ (in € billions)



Michelin unveiled a concept tire that illustrates its vision of the mobility of the future in a combination of groundbreaking technologies and services.



An airless wheel



A tread which you can top up,  
with a 3D printer



Connected tire



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# Appendices

# PC Tire Market: Good momentum in OE markets except in North America where vehicle sales are declining. Replacement demand shaped by high dealer inventories in Europe, North America and sustained market in China.

## ▲ July 2017/2016

% YoY change in number of tires	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Brazil	China
Original equipment	▲ +4%	▲ +5%	▼ -2%	▲ +3%	▲ +6%
Replacement	▲ +2%	▼ -1%	▼ -2%	▲ +0%	▲ +6%

## ▲ YTD July 2017

% YoY change in number of tires	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Brazil	China
Original equipment	▲ +1%	▲ +1%	▼ -0%	▲ +11%	▲ +4%
Replacement	▲ +4%	▲ +2%	▼ -0%	▲ +7%	▲ +7%

\* Turkey included

# TB Tire Market : Flat replacement demand in Europe and strong growth in all other zones/segments helped by the comparison basis and a favorable economic environment.

## ▲ July 2017/2016

% YoY change in number of tires (Radial + Bias)	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Brazil
Original equipment	▲ +7%	▲ +7%	▲ +27%	▲ +40%
Replacement	▲ +2%	▲ +0%	▲ +25%	▲ +17%

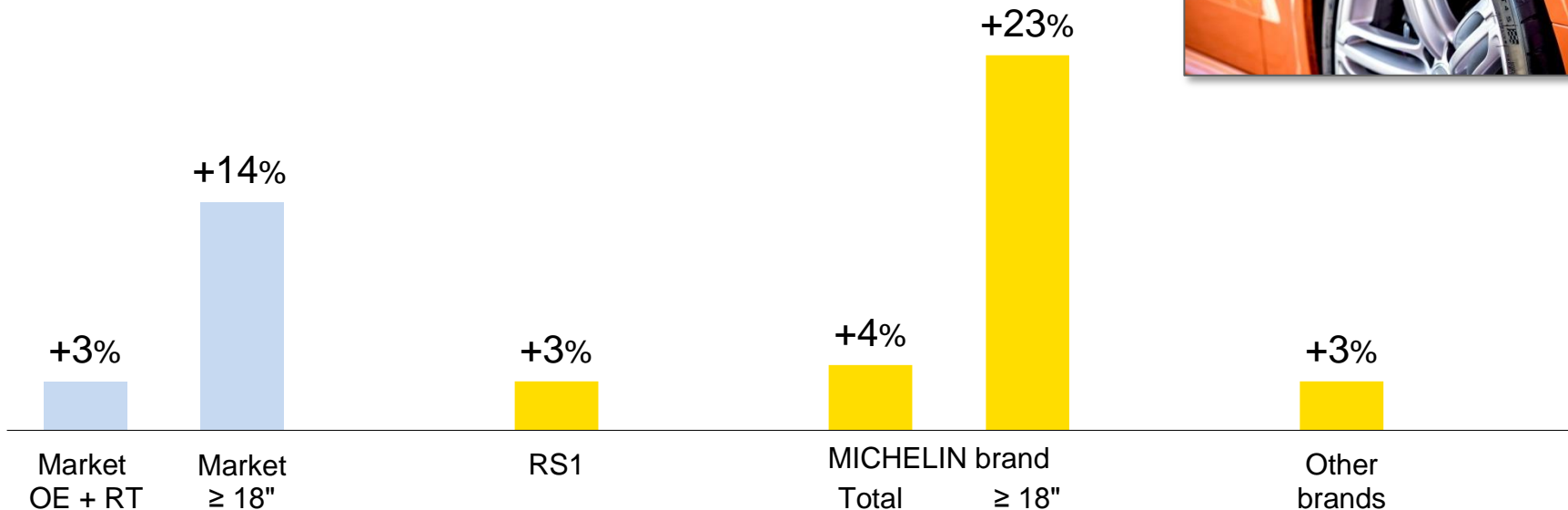
## ▲ YTD July 2017

% YoY change in number of tires (Radial + Bias)	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Brazil
Original equipment	▲ +7%	▲ +6%	▲ +7%	▲ +8%
Replacement	▲ +7%	▲ +5%	▲ +1%	▲ +12%

\* Turkey included

# PC: still a robust product mix momentum

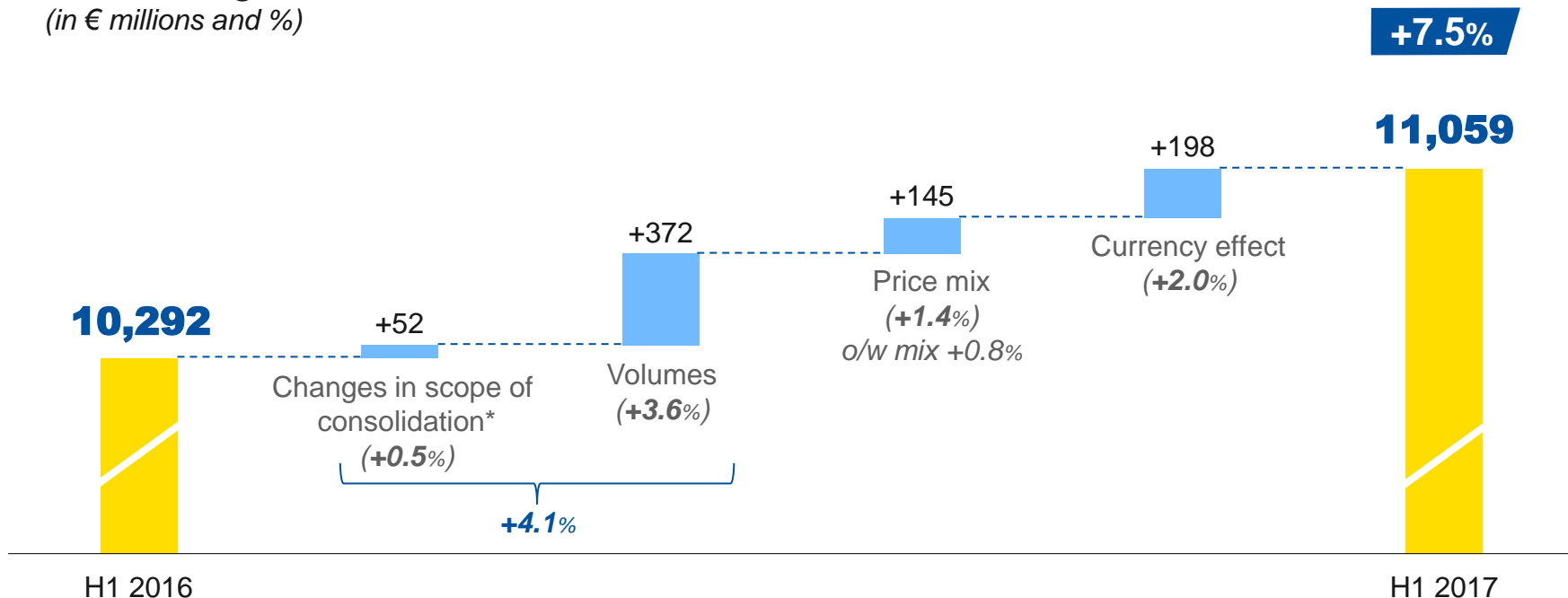
## ▲ Passenger car growth (YoY, markets in units and sales in kt)



Source: Michelin

# H1 2017 Net sales supported by growth in volumes and price increases

▲ YoY change:  
(in € millions and %)

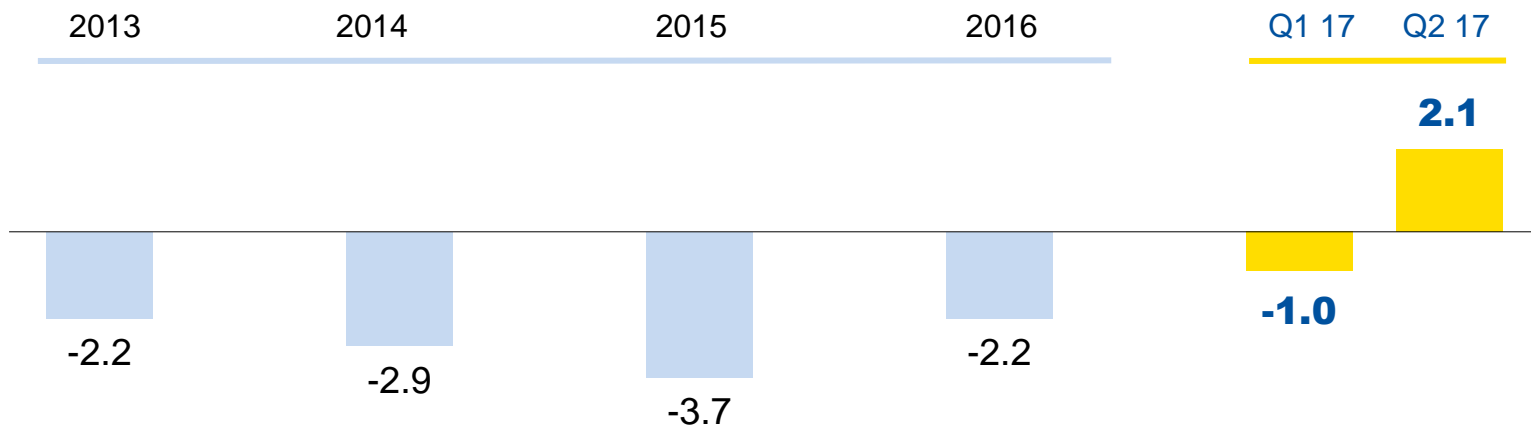


\* Levorin



# Q2 2017 price effect: first quarter of increase after more than four years of decline linked to raw materials price trend

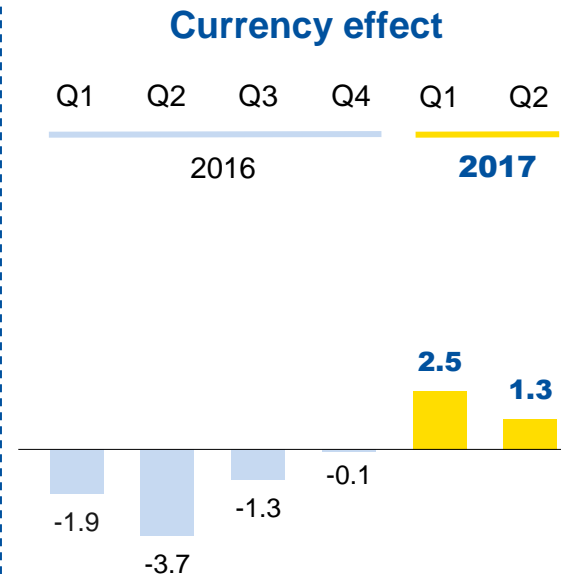
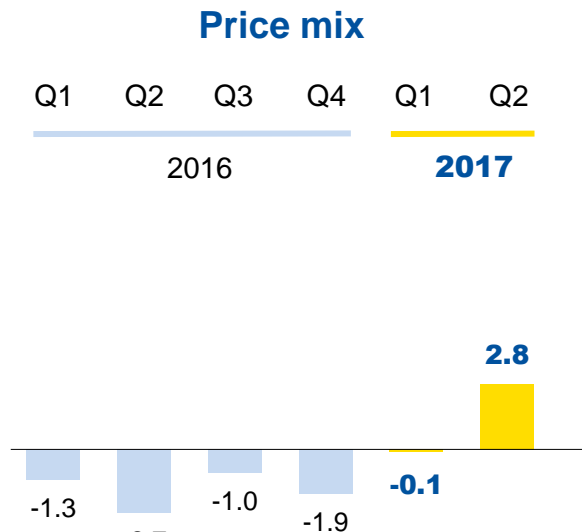
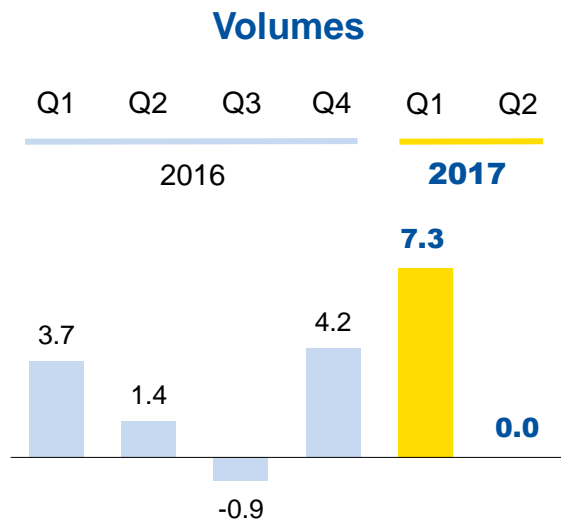
▲ (in %)



- Q2 2017: initial impact of the price increases ahead of their full impact in H2

# Q2 2017: volumes stable given the Q1 surge in early buying; initial impact of higher prices

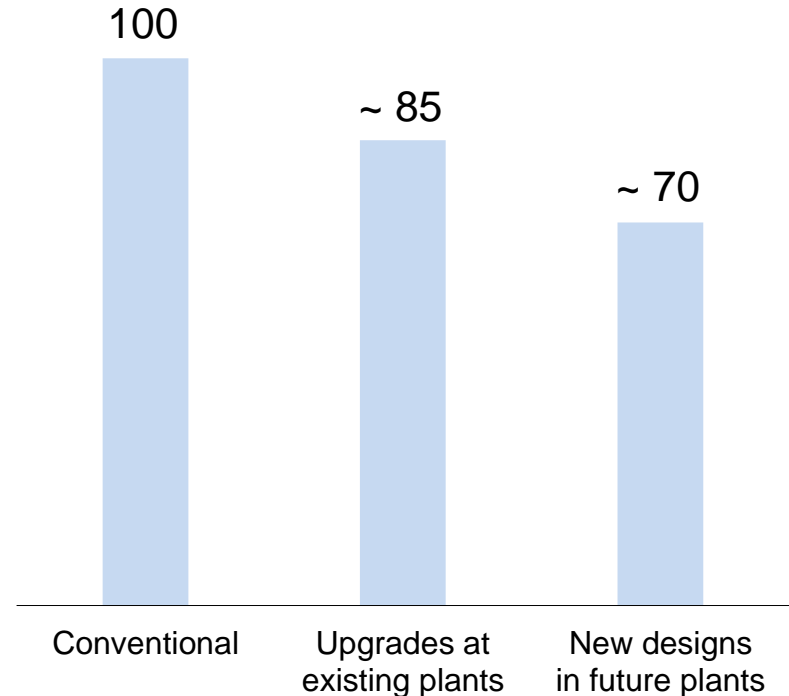
▲ YoY quarterly change  
(in %)



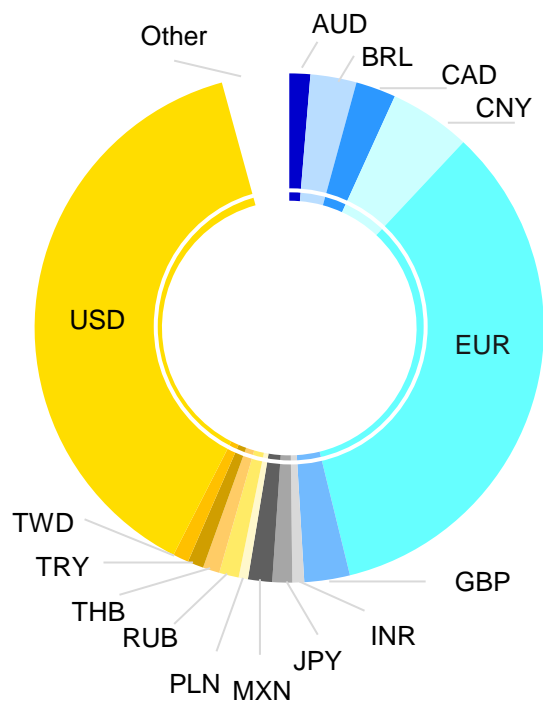
# New drivers: decreasing capital expense costs

- **Future plants** will cost 30% less per tonne of passenger car tire than previous projects, thanks to:
  - The purchase of less customized machinery
  - Streamlined flows
  - More flexible building blocks
  - Co-designing products and processes
  - Optimized engineering processes
- The selected solutions will be aligned with the upgrades at **existing plants**, with the goal of reducing unit capex cost by 15%
- Differentiation of our products will remain unchanged

▲ CAPEX/tonne 100-indexed (Passenger Car)



# 2016 net sales by currency



% of net sales	
AUD	1%
BRL	3%
CAD	3%
CNY	5%
EUR	34%
GBP	3%
INR	1%
JPY	1%
MXN	2%
PLN	1%
RUB	1%
THB	1%
TRY	1%
TWD	1%
USD	38%
Other	4%

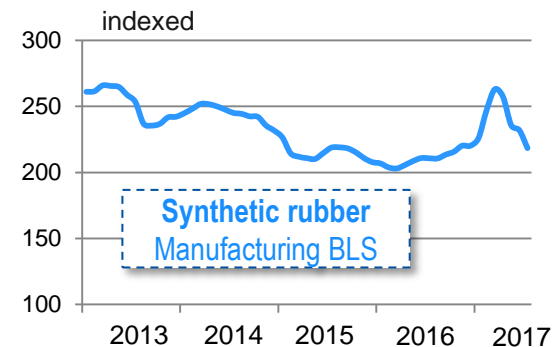
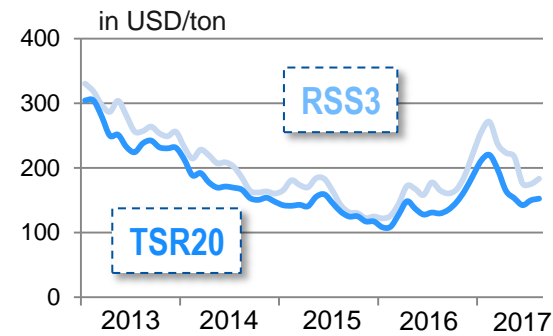
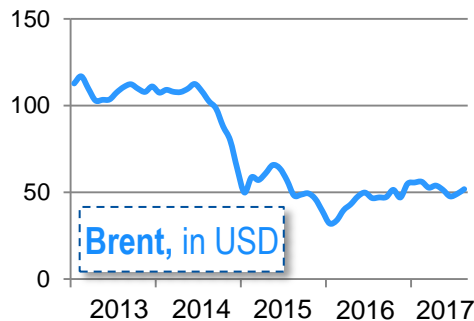
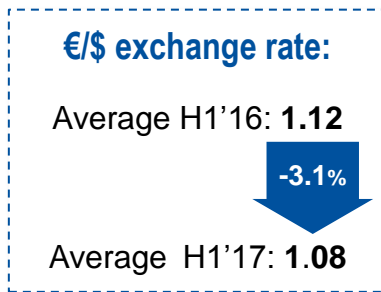
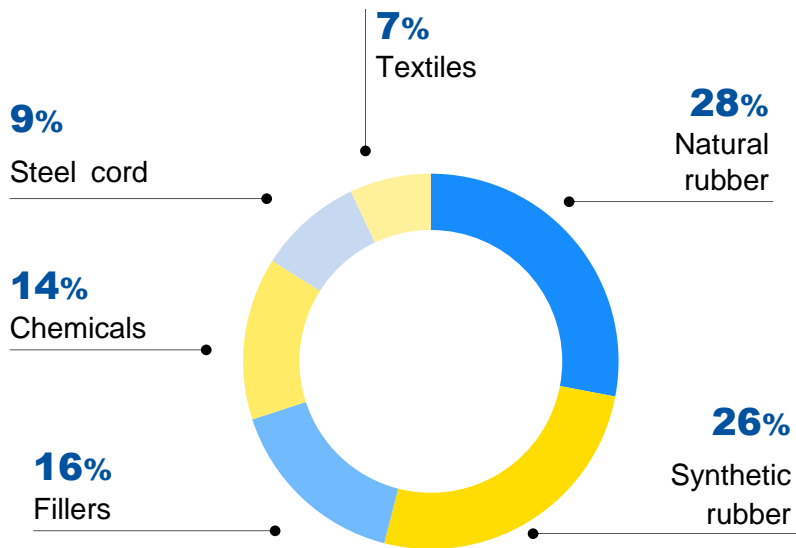
- EBIT sensitivity to €/€ exchange rate:

A one cent change in the average annual €/€ exchange rate would lead to a € 15-20 million change in EBIT for the year.

- Reminder: annual Net sales to EBIT droptthrough ranging from 30% to 48% over 2013-2016

# Raw materials in H1 2017

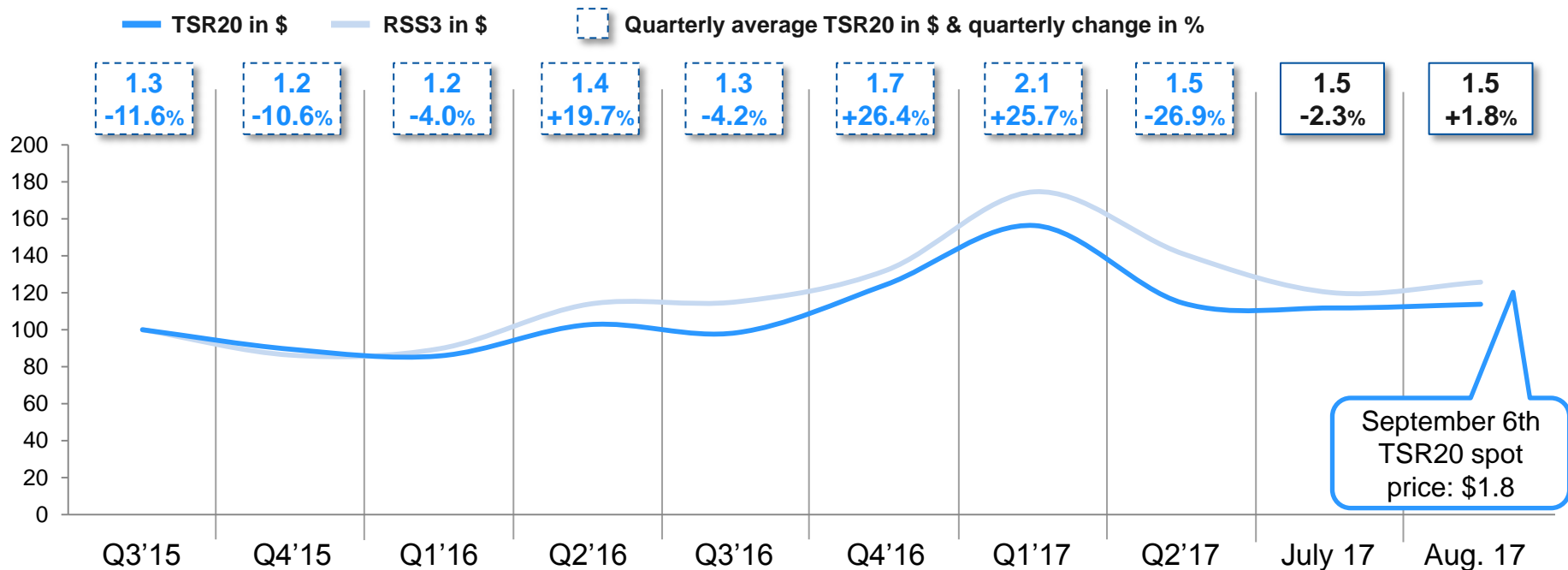
## ▲ Raw material purchases in H1 2017 (€2.6bn)





# Natural rubber price trend

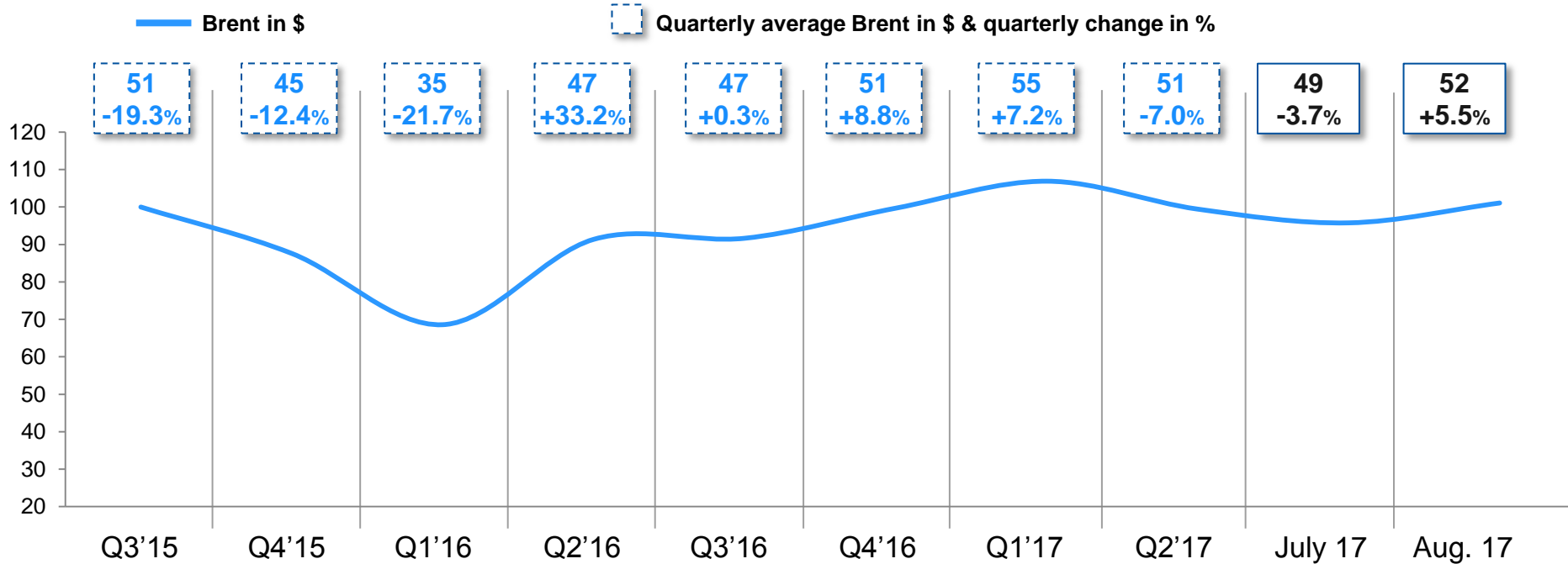
▲ At end-August 2017 (per kg, base 100 in Q3'15)



Source: SICOM

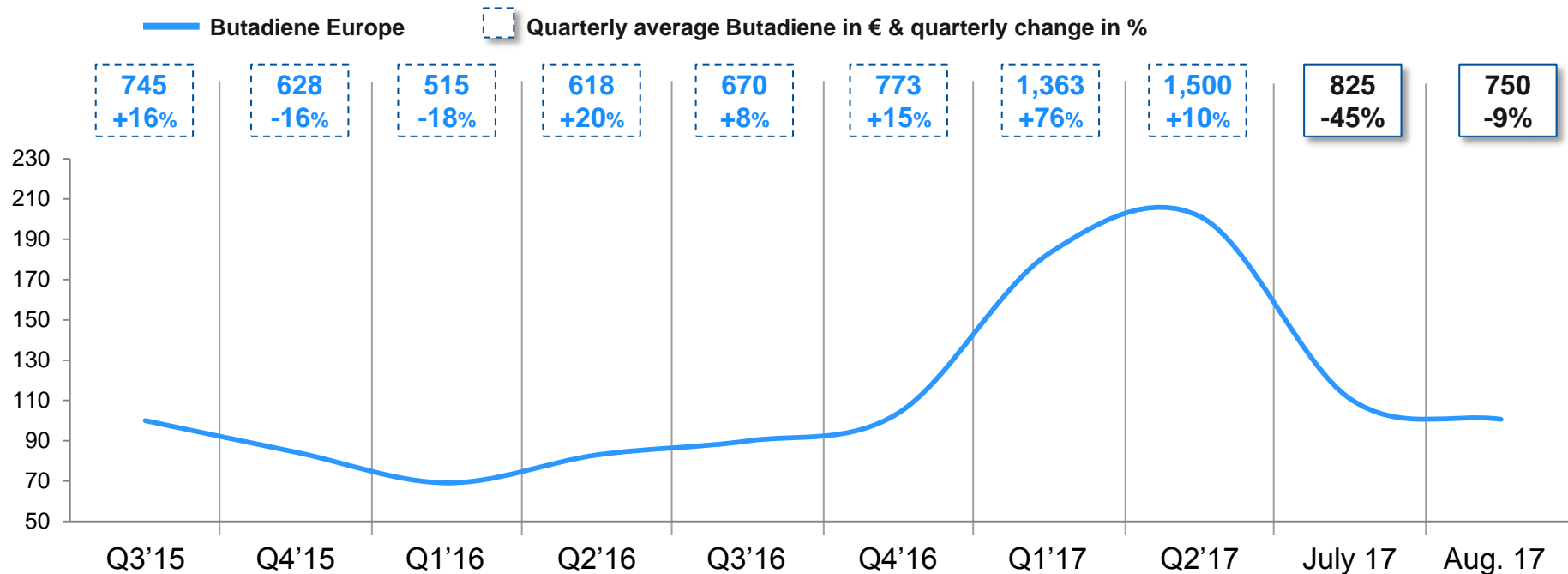
# Brent price trend

▲ At end-August 2017 (per barrel, base 100 in Q3'15)



# Butadiene price trend

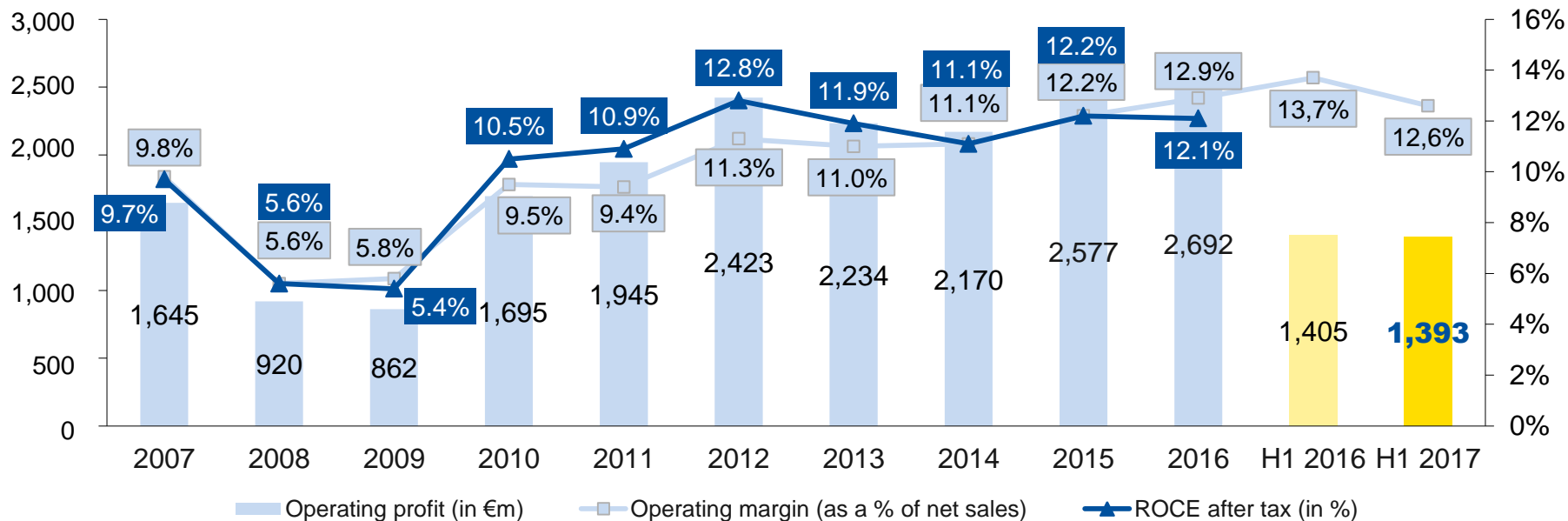
▲ At end-August 2017 (per ton, base 100 in Q3'15)



Source: IHS

# 2016: a year of progress, in line with our 2020 roadmap

## ▲ Group operating income and margin\* & ROCE

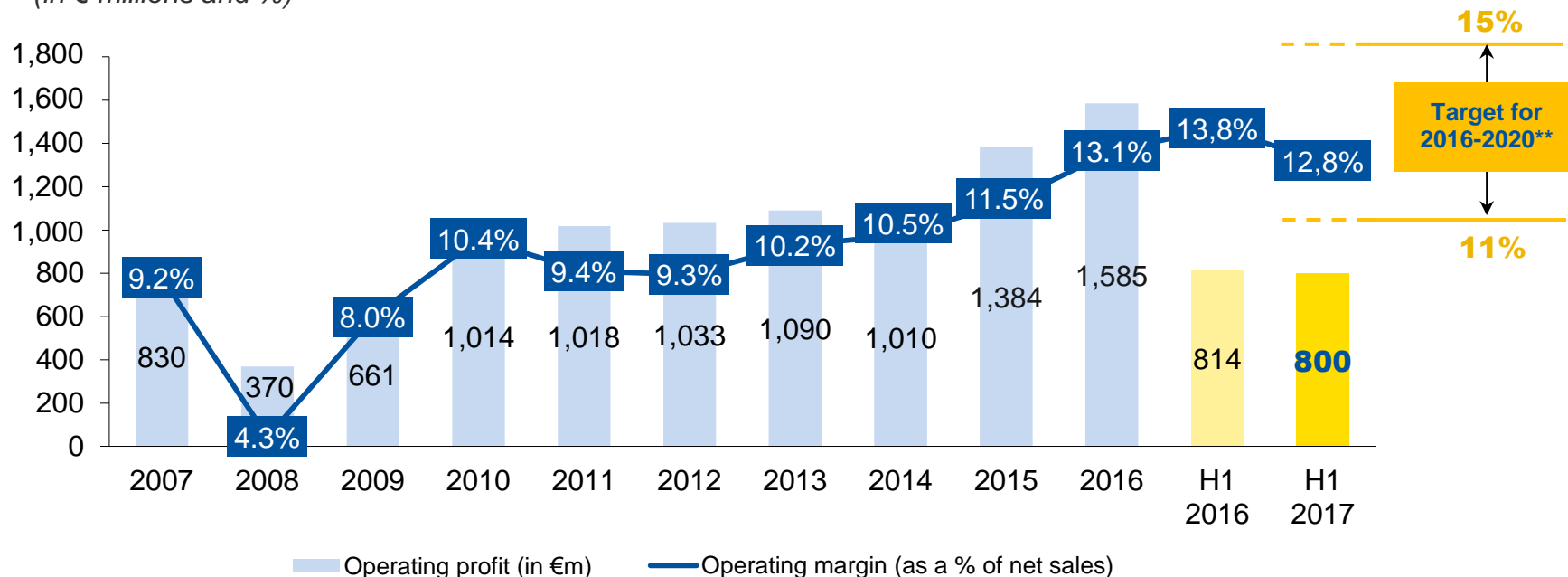


\* On recurring activities.

# Improving PC margins: product innovation, contribution from the 17" and over strategy, better customer service

## ▲ RS1 operating income and margin\*

(in € millions and %)



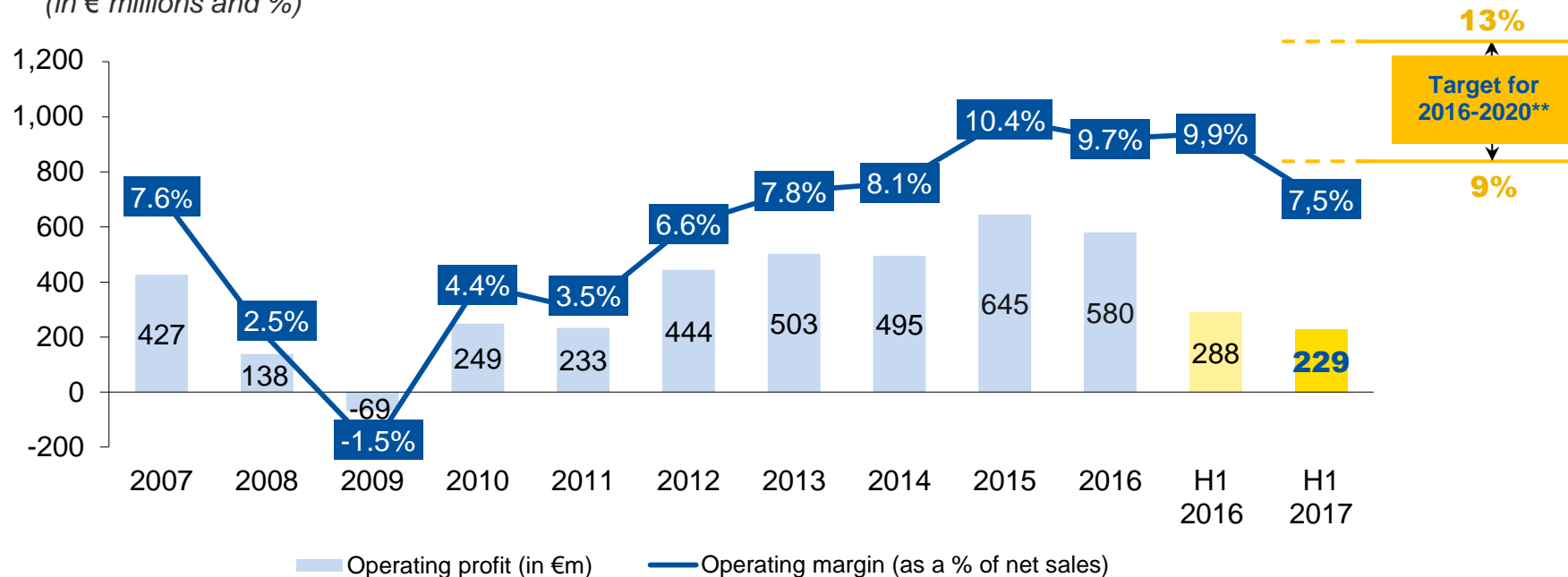
\* On recurring activities.

\*\* At constant scope of consolidation and raw materials prices, and with markets expanding at a 2.5% CAGR

# Consolidation in TB margin led by competitiveness, product innovation and customer satisfaction

## ▲ RS2 operating income and margin\*

(in € millions and %)



\* On recurring activities.

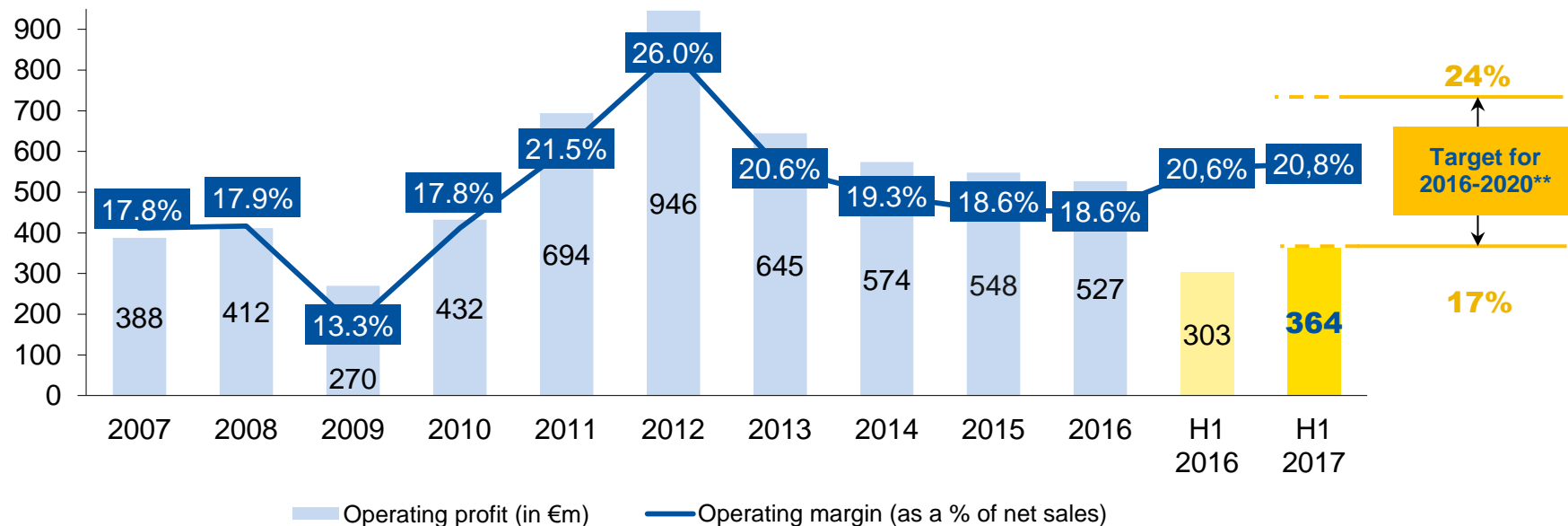
\*\* At constant scope of consolidation and raw materials prices, and with markets expanding at a 1.5% CAGR



# Specialty businesses: solid margin resistance in challenging markets

## ▲ RS3 operating income and margin\*

(in € millions and %)



\* On recurring activities.

\*\* At constant scope of consolidation and raw materials prices, and with markets expanding

# Disclaimer

"This presentation is not an offer to purchase or a solicitation to recommend the purchase of Michelin shares. To obtain more detailed information on Michelin, please consult the documentation published in France by Autorité des Marchés Financiers available from the <http://www.michelin.com/eng/> website.

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