



## **Autos Paris Trip**

Goldman Sachs

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June 25, 2015

**NEW MICHELIN  
CROSSCLIMATE TYRE.  
ARM YOURSELF FOR EVERY  
WEATHER CONDITION.**



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performances in dry braking, wet grip ("A" rating for wet braking)

Test the MICHELIN CrossClimate Innovation at: [www.crossclimate.michelin.co.uk](http://www.crossclimate.michelin.co.uk)

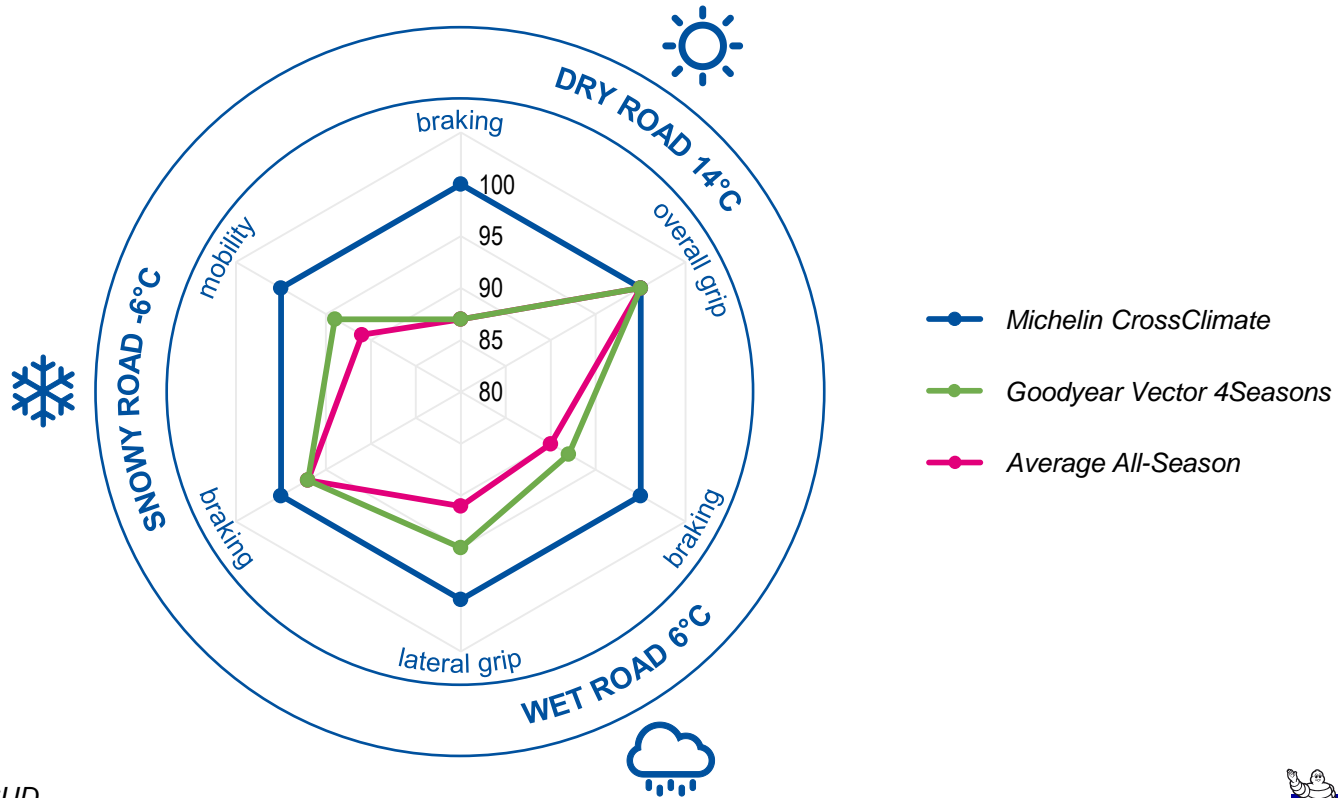


# MICHELIN CrossClimate, a disruptive innovation to support volume growth

- ▶ **The first-ever MICHELIN summer tire certified for winter use**
  - MICHELIN CrossClimate is 'A' wet braking label in all weather conditions according to European labelling
  - It keeps you safe in all types of weather, and brakes 3 meters shorter than the average all-season tire
  - 3PMSF certification for winter use
  - Launched in Europe in May 2015



# MICHELIN CrossClimate: technology leadership demonstrated by TÜV SÜD



Source : TÜV SÜD

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- 1 Q1 highlights
- 2 2015 guidance confirmed
- 3 Use of Cash

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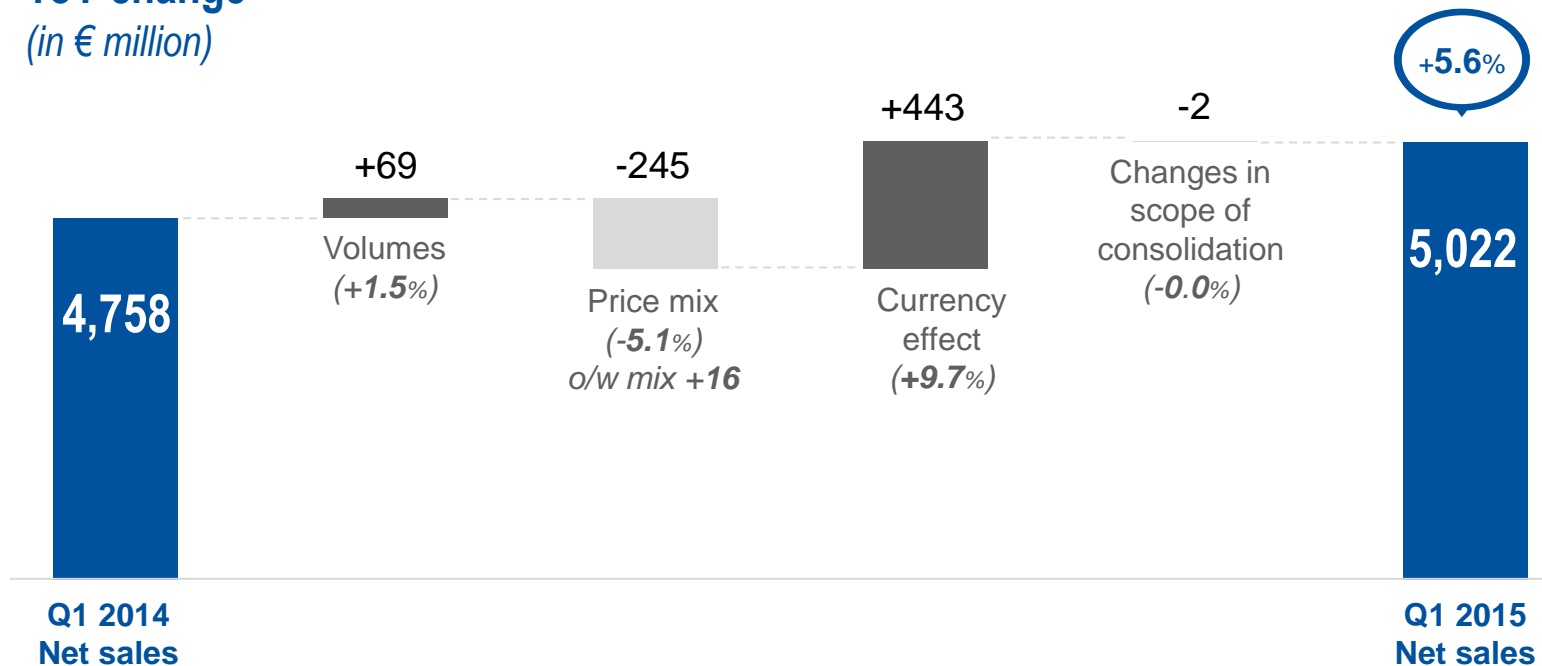
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### Q1 highlights

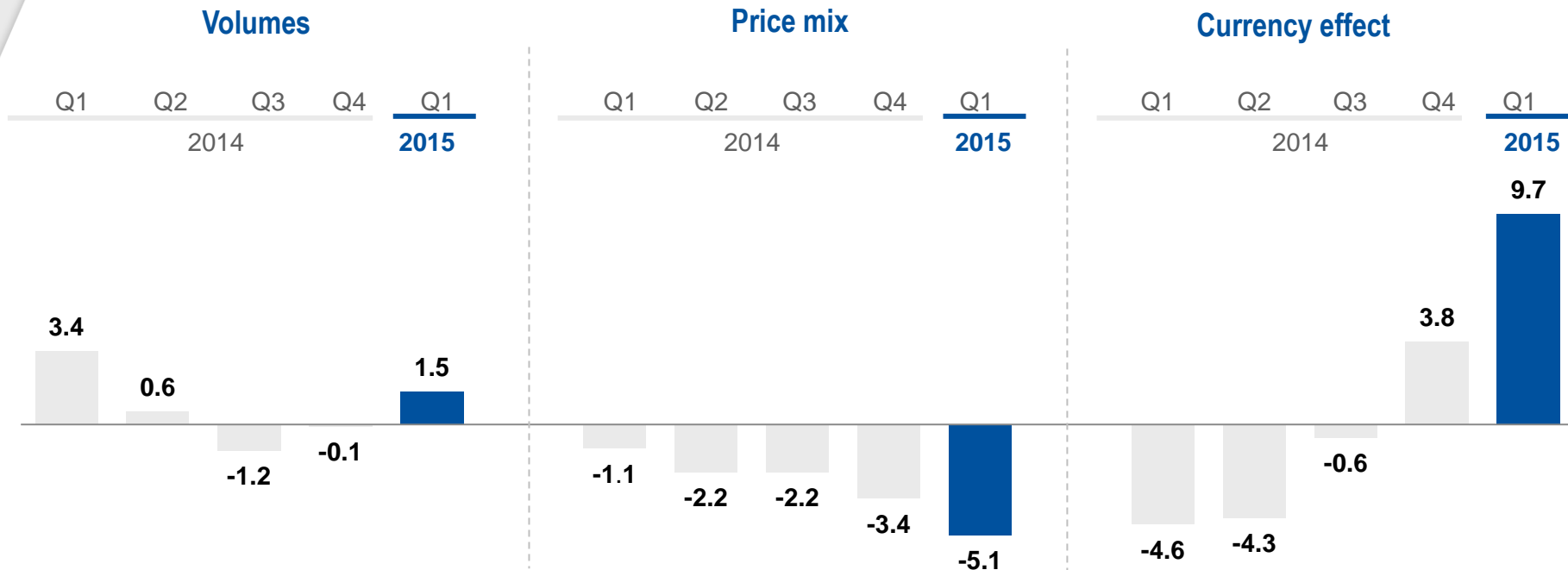
# Net sales up 5.6%, of which 1.5% due to higher volumes

## ► YoY change (in € million)



# Q1: volumes up on high prior-year comparatives, prices adjusted in light of weaker raw materials prices

## ► YoY change in %

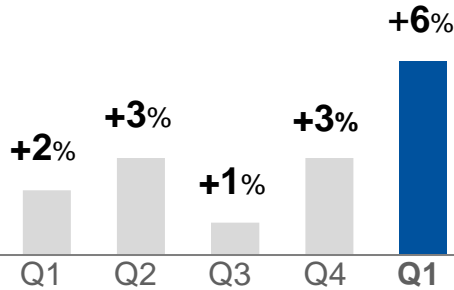




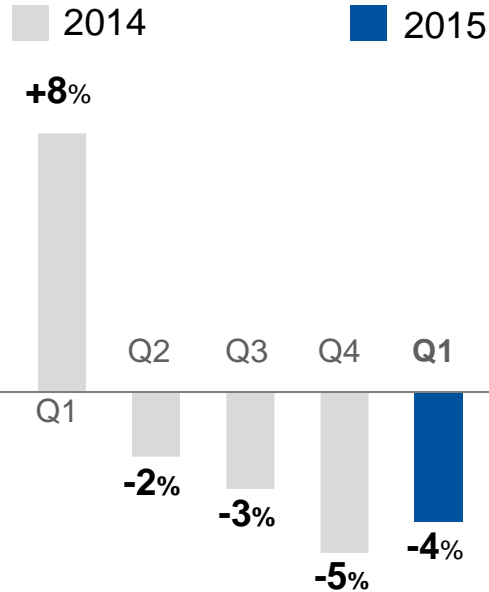
# Strong growth in Passenger car/Light truck tire volumes sold, Truck and Specialty volumes in line with markets

## ► YoY change in tons

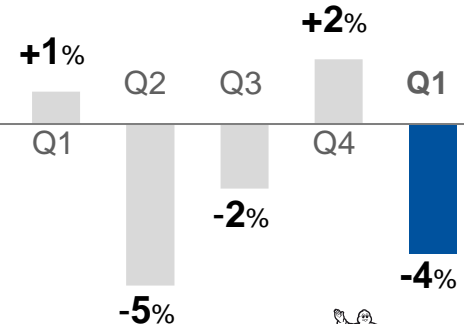
Car and Light truck tires  
& related distribution



Truck tires  
& related distribution



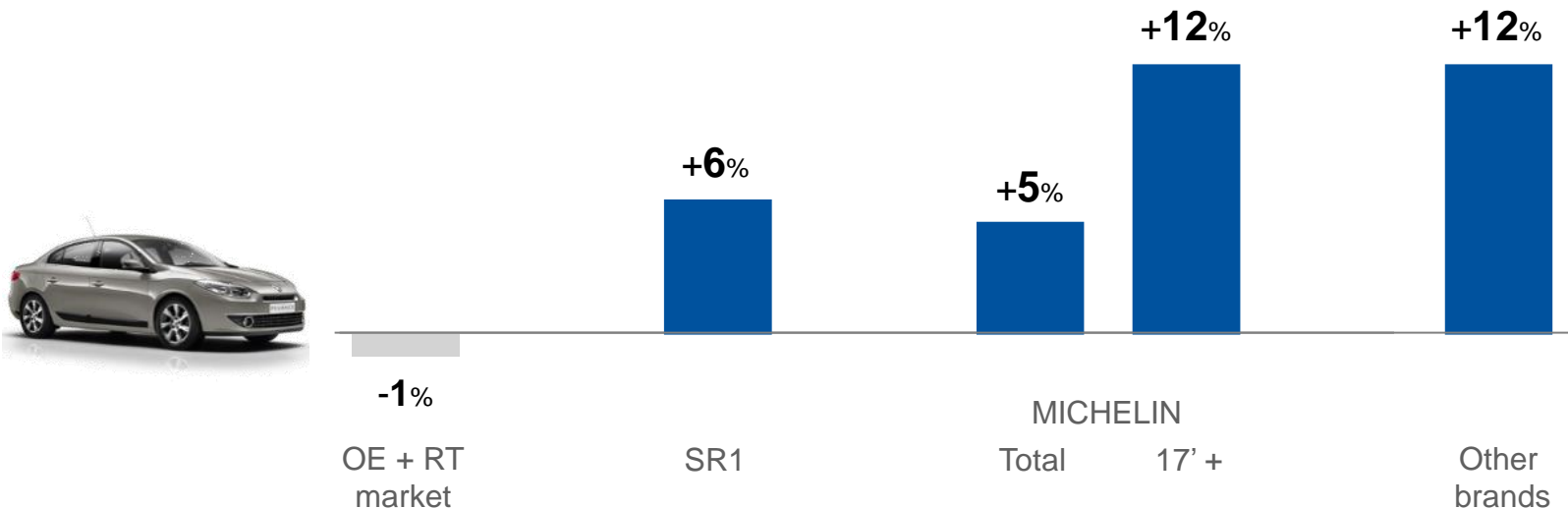
Specialty businesses



# Q1 PC: Strong volume growth, steady mix improvement for the MICHELIN brand, sharp upturn in sales volumes for other brands

## ► Car and Light truck volume growth

(YoY, in '000 tons)



Source: Michelin

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2015 guidance confirmed

# Passenger car Tire Market: May Markets penalised by one lower day of sales. Day adjusted markets are trending positive but Russia & CIS and OE Brazil.

## May 2015 / 2014

Market	Europe*	North America	Brazil	China
Original equipment tires	▼ 0%	▲ +2%	▼ -17%	▲ +5%
Replacement tires	▼ -3%	▼ -1%	▼ -2%	▲ +12%

## YTD (May 2015)

Market	Europe*	North America	Brazil	China
Original equipment tires	▲ +3%	▲ +3%	▼ -15%	▲ +7%
Replacement tires	▲ +1%	▼ -1%	▲ 0%	▲ +8%

\* Russia and Turkey included

# Truck Tire Market: May Markets penalised by one lower day of sales. Day adjusted markets are trending up but Russia & CIS and Brazil.

## May 2015 / 2014

Market (Radial + Bias)	Europe*	North America	Brazil
Original equipment tires	▼ -1%	▲ +8%	▼ -40%
Replacement tires	▼ -1%	▼ -6%	▼ -10%

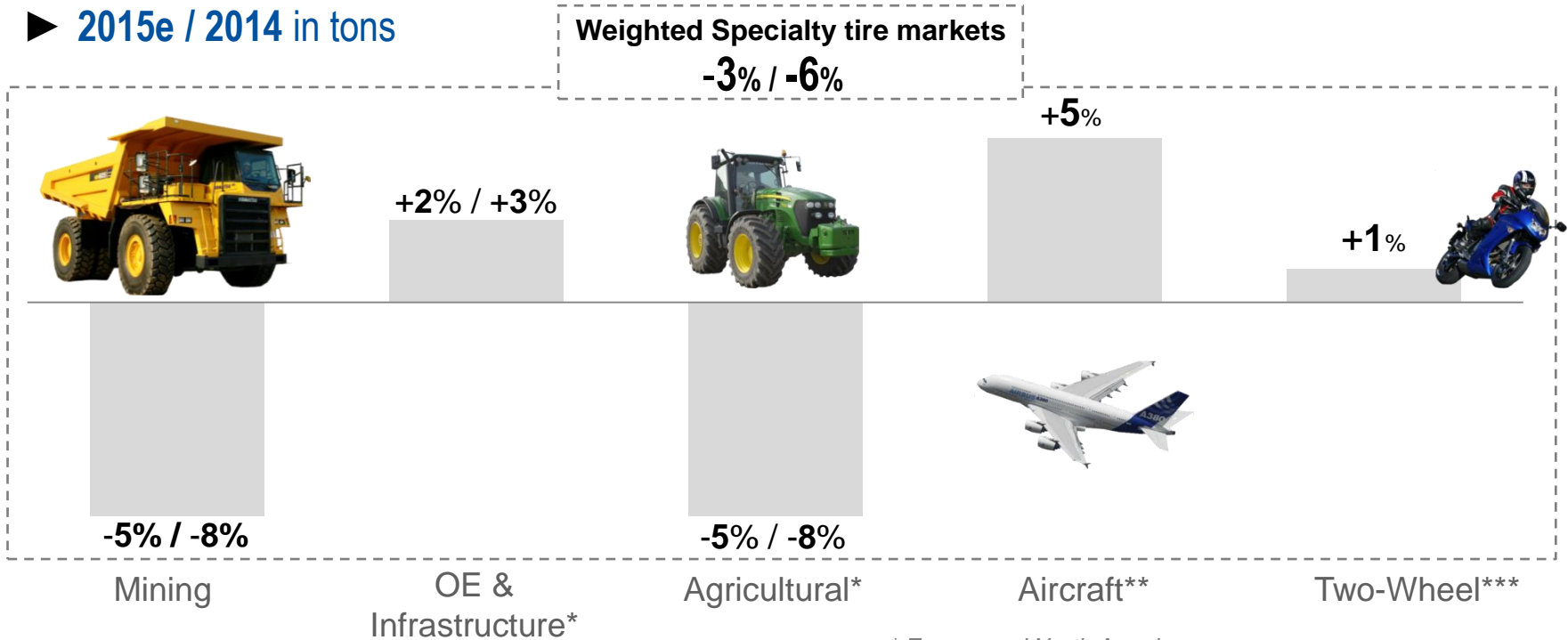
## YTD (May 2015)

Market (Radial + Bias)	Europe*	North America	Brazil
Original equipment tires	▲ +2%	▲ +17%	▼ -44%
Replacement tires	▼ -3%	▲ +2%	▼ -8%

\* Russia and Turkey included

# Specialty markets to trend down by an estimated 3% to 6% in 2015

► 2015e / 2014 in tons



\* Europe and North America

\*\* Commercial aircraft

\*\*\* Motorcycle Europe, USA, Japan

Source : Michelin

# 2015 guidance confirmed: growth in line with the markets and EBIT before non recurring items up excluding any currency effects

	2015 new	2015 old
<b>Volumes</b>	Growth in line with the markets	Growth in line with the markets
<b>Impact of raw materials prices</b>	<b>Around €600m tailwind</b>	Around €450m tailwind
<b>Price-mix / Raw materials</b>	<b>Negative in H1, positive full year</b>	
<b>Competitiveness/cost inflation</b>	<b>Neutral over the year</b>	Neutral
<b>Currency effect on operating income</b>	<b>Above €350m</b>	Around + €150m (o/w +€250m from EUR/USD)
<b>Operating income before non-recurring items</b>	Up excluding any currency effects	Up excluding any currency effects
<b>ROCE</b>	More than 11%	More than 11%
<b>CAPEX</b>	<b>Around €1,800m</b>	Between €1,700m and €1,800m
<b>Structural free cash flow</b>	Approx. €700m	Approx. €700m

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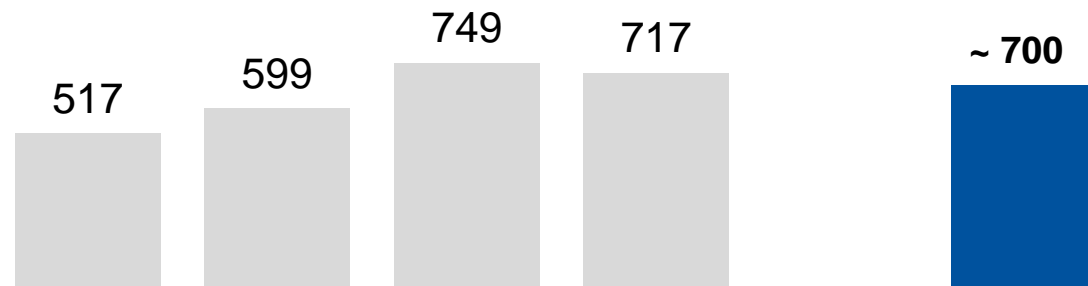
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### Use of Cash



# State-of-the-art management process that structurally generates Free Cash Flow



*In € millions*

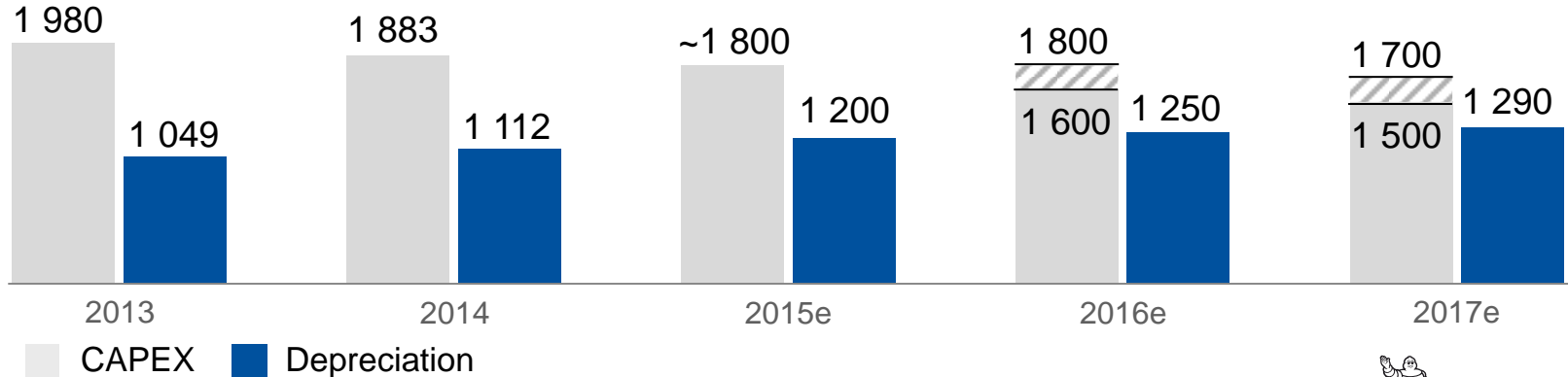
	2011	2012	2013	2014	Total	2015e
<b>Reported free cash flow <sup>(1)</sup></b>	(19)	1,075	1,154	322	2,532	
<b>WCR impact of raw materials costs <sup>(2)</sup></b>	(739)	21	405	177	(136)	
<b>Year-end volume effect on WCR <sup>(3)</sup></b>	(200)	344	nm	(172)	(28)	
<b>Non-recurring items <sup>(4)</sup></b>	403	111	-	(400)	114	
<b>Structural free cash flow <sup>(1) - (2) - (3) - (4)</sup></b>	517	599	749	717	2,582	Approx. 700

# Invest to create value

## ▶ Succeed in our priority investments to capture growth and deliver innovative solutions

- In the supply chain, to improve customer services (IS, logistics centers)
- In growing markets: PC HVA tires, North America, China
- In Truck fleet and Digital services
- In raw materials and semi-finished products

## ▶ Reducing the gap between capital expenditure and depreciation (In € millions)



# Acquisitions in line with Michelin's strategy

## ▶ Targeted acquisitions

## ▶ Types of businesses being explored:

- Tier 2/Tier 3 Asian tire makers
- Digital and telematics service providers in mature regions
- Upstream investments



Reasonable amounts allowing Michelin to maintain its rating, thanks to FCF generation



# Optimize cost of capital through a €750m share buyback program

- ▶ **Proven ability to generate structural FCF on a recurring basis**
  - EBITDA growth, WCR optimization
  - Employee benefit obligations under control (defined benefit plans over 85%-funded at Dec 2014)
- ▶ **A value-creating opportunity for the Group**
- ▶ **Amount staggered over a 18-24 month period beginning on April 27, 2015:**
  - €750m, equivalent to over one year's worth of structural FCF or slightly over 2 years worth of post dividend structural FCF
  - In 3 tranches (of around 6 months and €250m each)
  - Existing authorization: buyback of up to 10% of the capital at a maximum purchase price of €140
  - Capital reduction planned through the cancellation of shares at year end

## Key Takeways

- Strong Q1 with above-market unit sales growth of 1.5% including +6% in PC
- 2015 guidance confirmed: growing EBIT beyond Forex tailwind
- €750m share buyback program over 18-24 months

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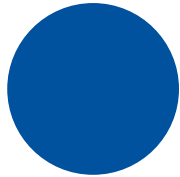


## Upcoming events

- **July 28, 2015:** First-half 2015 results
- **October 22, 2015:** Net sales at September 30, 2015
- **February 15, 2016 :** 2015 results

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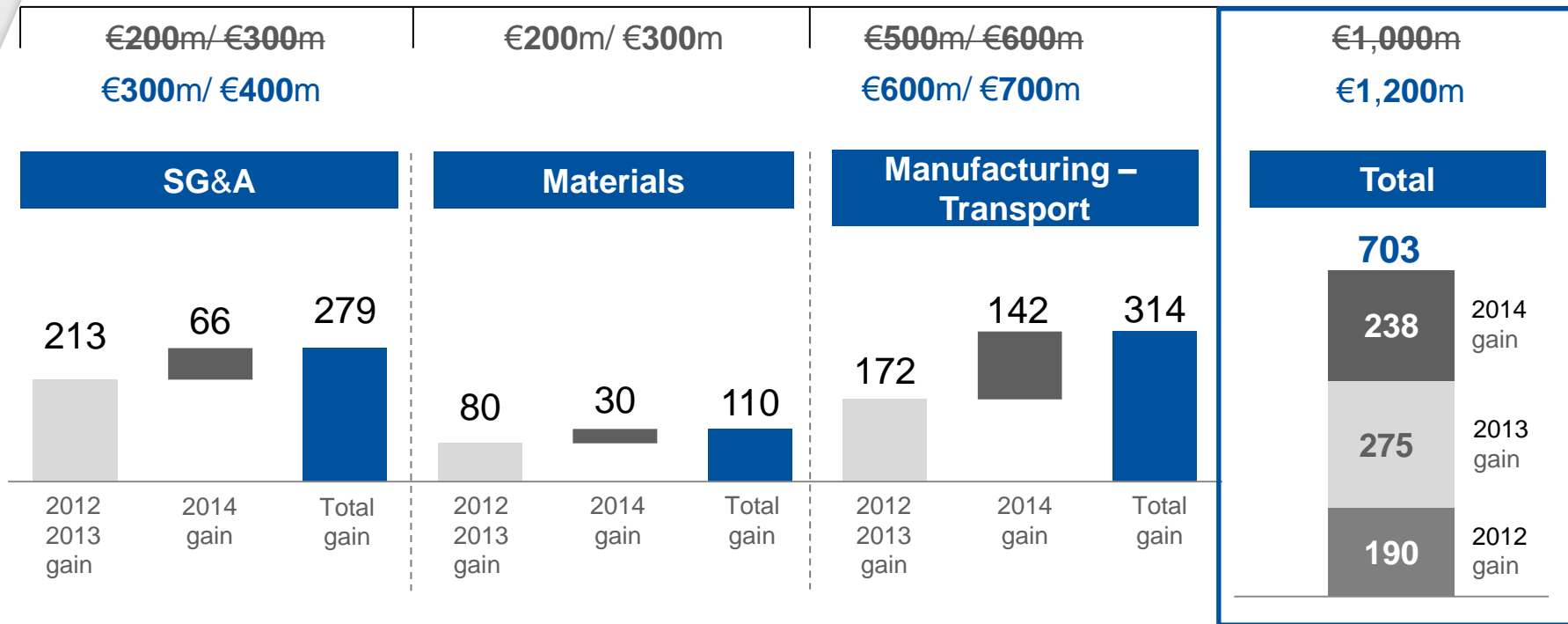
## Appendices





# Speeding up the 2012-2016 competitiveness plan: target raised to €1,200m

## TARGETED GAINS\*, 2012 – 2016



\* Before inflation and including avoided costs

# AlloPneus & Blackcircles: a customer-oriented business aligned with Michelin's Digital strategy

- Acquisition of a 40% stake in **Allopneus**, France's leading tire e-tailer, for €60m
- Full acquisition of **Blackcircles**, UK's leading tire pure e-tailer for £50m
- Group synergies:
  - Develop market access through a fast-growing channel (up 10%/year in France)
  - Increase Digital know-how
  - Generate additional traffic for Euromaster and ATS
- Acquisitions in figures:
  - Allopneus 2014 net sales of €210m for 3 million tires sold
  - Blackcircles 2014 net sales of £28m for 0,3 million tires sold
  - Bothes #1 internet pure players in their domestic markets



## 600M€ in bonds issued to anticipate 2017 bond financing at low rates

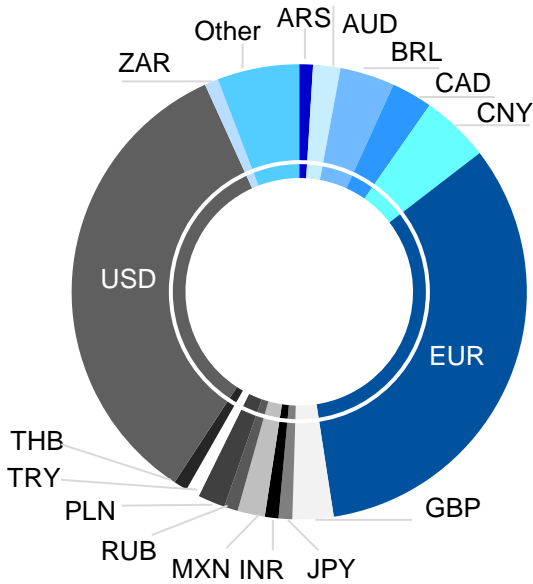
<b>Issuer</b>	<b>MICHELIN LUXEMBOURG SCS</b>
<b>Guarantor</b>	<b>Compagnie Financière du groupe Michelin "Senard et Cie"</b>
<b>Type</b>	– Senior Unsecured Bond
<b>Expected issue ratings</b>	– A3 (Moody's) / BBB+ (S&P)
<b>Maturities</b>	– 2 tranches : 7-year, 12-year
<b>Size per tranche</b>	– €300 million, €300 million,
<b>Interest Rates (all in)</b>	– 1,125% for the 7-year bond; 1,75% for the 12-year bond
<b>Documentation</b>	– Standalone / Luxembourg listing / English law / Change of Control / MWC / 3-month par call
<b>Global Coordinator, Structuring Advisor &amp; Active Bookrunner</b>	– Crédit Agricole CIB
<b>Structuring Advisor &amp; Active Bookrunner</b>	– Deutsche Bank
<b>Active Bookrunners</b>	– HSBC – MUFG – NATIXIS

# Moody's upgraded Michelin long term rating

		CGEM	CFM
Short term	S&P	A-2	A-2
	Moody's	P-2	P-2
Long term	S&P	BBB+	BBB+
	Moody's	<b>A3</b>	<b>A3</b>
Outlook	S&P	Stable	Stable
	Moody's	Stable	Stable

# 2015 guidance: positive currency effect on EBIT estimated above €350m

## 2014 net sales by currency



% of net sales	
ARS	1%
AUD	2%
BRL	3%
CAD	3%
CNY	5%
EUR	34%
GBP	3%
INR	1%
JPY	1%
MXN	2%
PLN	1%
RUB	1%
THB	1%
TRY	1%
USD	36%
ZAR	1%
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.

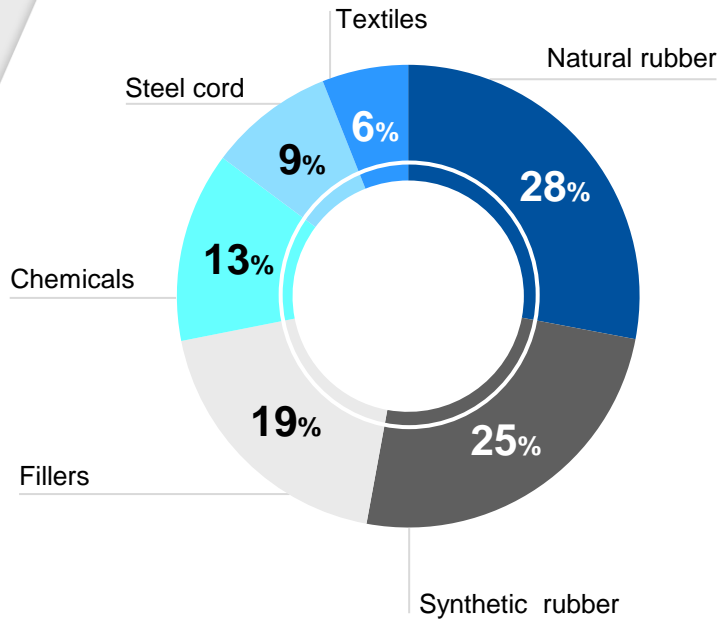
Forex Euro / USD – 12/31/2011 – 03/31/2015



Source: Thomson One

# 2014 Raw Material and price trends over Q1 2015

## ► Raw material purchases FY 2014 (€4,958m)

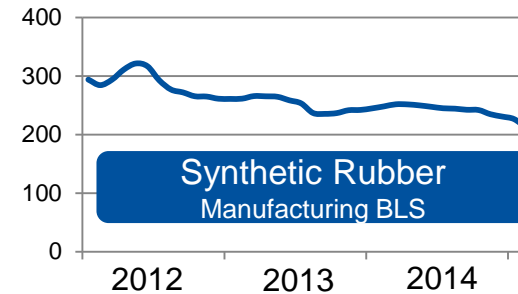
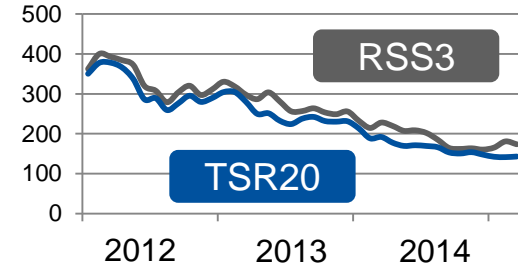
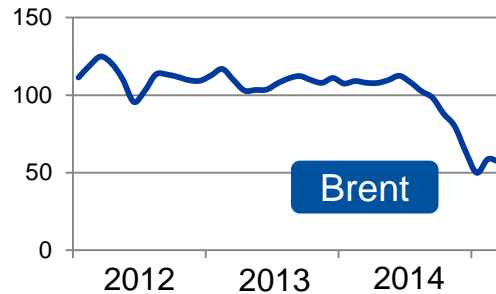


### Forex €/\$ :

Average Q1'14 : 1,37

-17%

Average Q1'15 : 1,13



## Disclaimer

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# Contacts

**Valérie Magloire**  
**Matthieu Dewavrin**

**+33 (0) 1 78 76 45 36**

27, cours de l'île Seguin  
92100 Boulogne-Billancourt - France

[investor-relations@fr.michelin.com](mailto:investor-relations@fr.michelin.com)