



# SOCIÉTÉ GÉNÉRALE PREMIUM REVIEW

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December 3, 2014



December 3, 2014

## Société Générale Premium Review



### 1 INVESTOR DAY DIGEST:

CHINA STRATEGY DIGEST

T&B STRATEGY DIGEST

### 2 CONTINUED MARKETS SLOWDOWN

### 3 OUTLOOK



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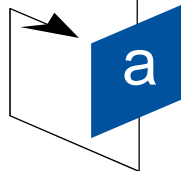
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## INVESTOR DAY - DIGEST



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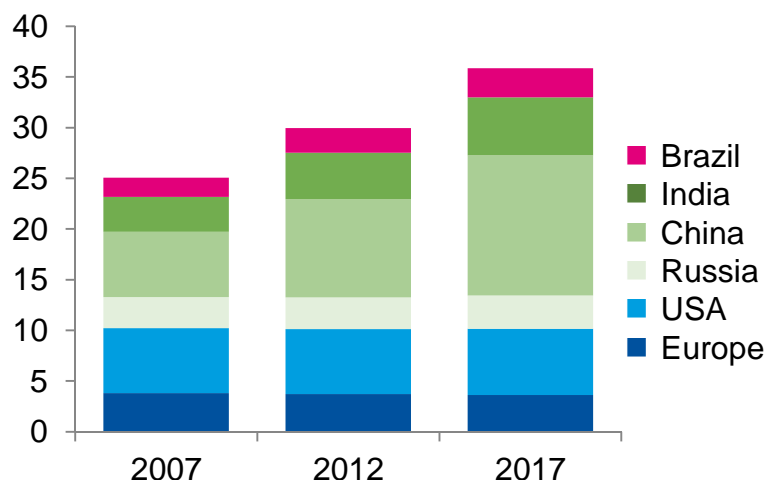


**MICHELIN Ambition in China:  
more than double the business over the next 10 years**

## Already the largest in Truck & bus park and still growing Growing tire market which is getting sophisticated

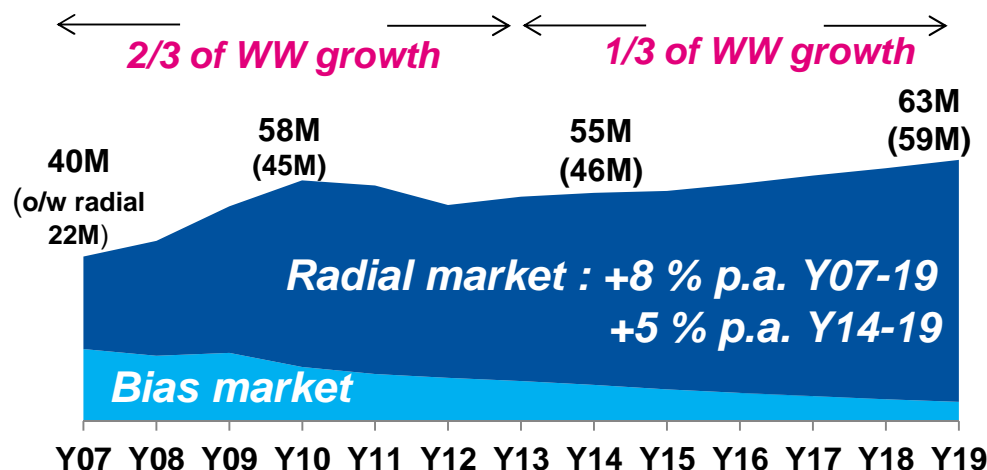


**Truck & Bus park**  
(in millions of vehicles)



**China to represent over 50%  
of worldwide vehicle growth**

**Truck & Bus tire market**  
(in millions of tires)



# Our TB Strategy: to grow profitably in 5 high-value segments, where our differentiated offer is recognized



## Coach



- Go west / low tier city, still **60% population**
- Safety First



## Urban Bus



- Urbanization from 54% to **70% in 2030**
- Safety, Environment, Efficiency



## Dangerous Goods



- **20%+ CAGR** of natural gas import in next 5 years, **#2** in world
- Reliability



## Express Delivery



- E-commerce booming, up to **50%** share of retailing in next 10 years (vs 7% now)
- Uptime



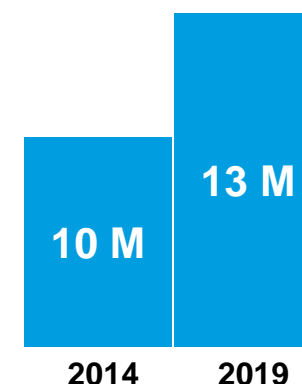
## Cold Chain



- Only **10%** population covered by cold chain logistics, while **80%** in US/Europe
- Uptime



Target segments size  
**28%** radial Market  
Faster growth than market

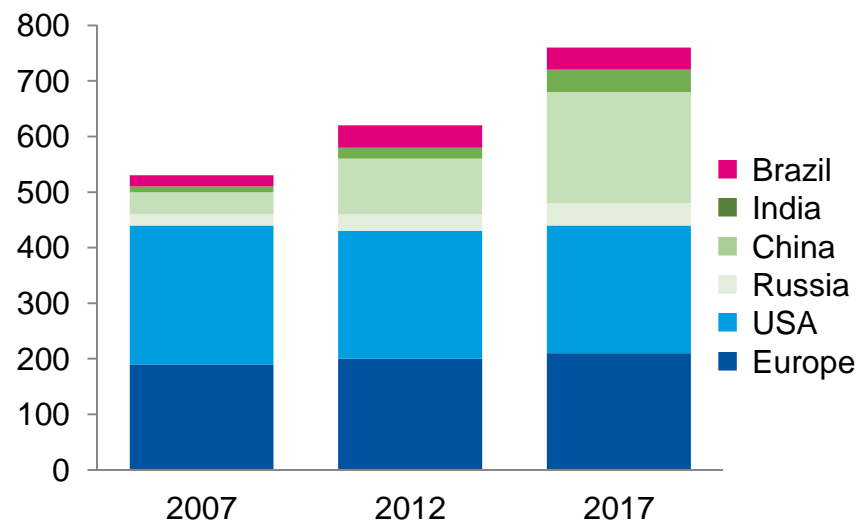


## Fast growing to be the worldwide largest in Passenger car and fast growth of tire market with higher mix



### Car park

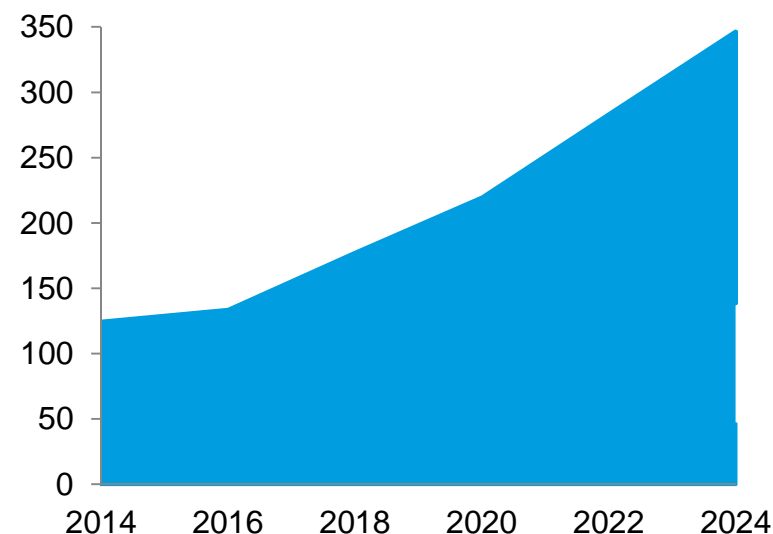
(in millions of vehicles)



**China to represent over 50% of worldwide vehicle growth**

### PC tire market

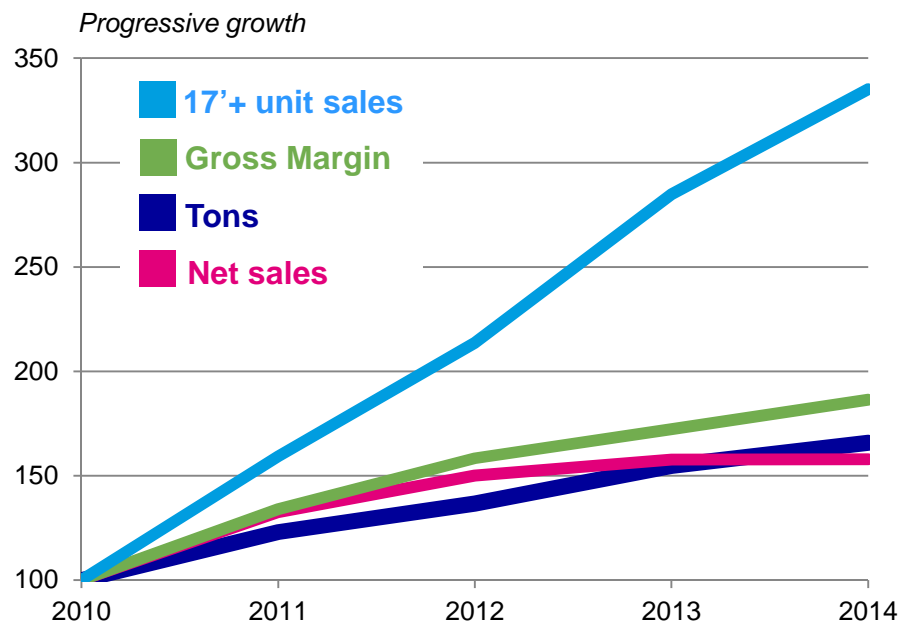
(in millions of tires)



## Our PC strategy: grow quicker than the market



### Business growth 2010-2014 (100 based in 2010)



- ▶ Mix machine to support profitability
- ▶ Increase OE lift
- ▶ Penetrate "Emerging China"



## Core strengths to capture growth

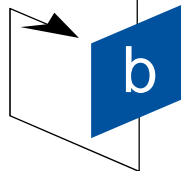


- ▶ MICHELIN brand: capitalize on a superior equity
  - **Leading consumer advocacy and purchasing intention**
- ▶ Product: deliver the “total performance”
  - **an outstanding performance in safety and wear while not compromising in others** (*2014 Autobild test rated Michelin No.1 for China*)
- ▶ Local Footprint: high customer intimacy and supply chain reactivity
  - **8 Sales Offices**
  - **4 plants** (*Production in K tons/year\*: 250 by 2017, JV excluded*)
- ▶ Distribution network:
  - **# PC tire dealers: 7,800**
  - **# T&B tire dealers: 1,800**



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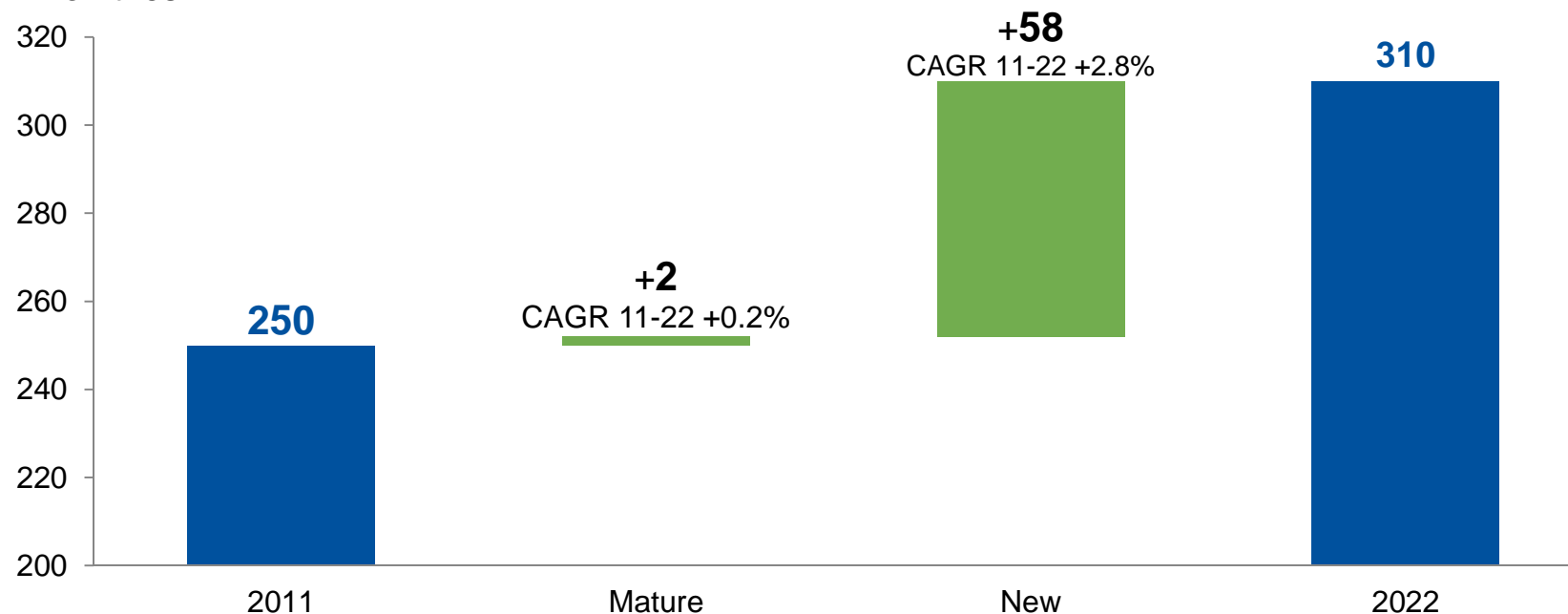
### Group Truck tire ambition:

- Grow MICHELIN share of Premium segment
- Expand in Intermediate
- Keep improving profitability

## Market expansion driven by new countries



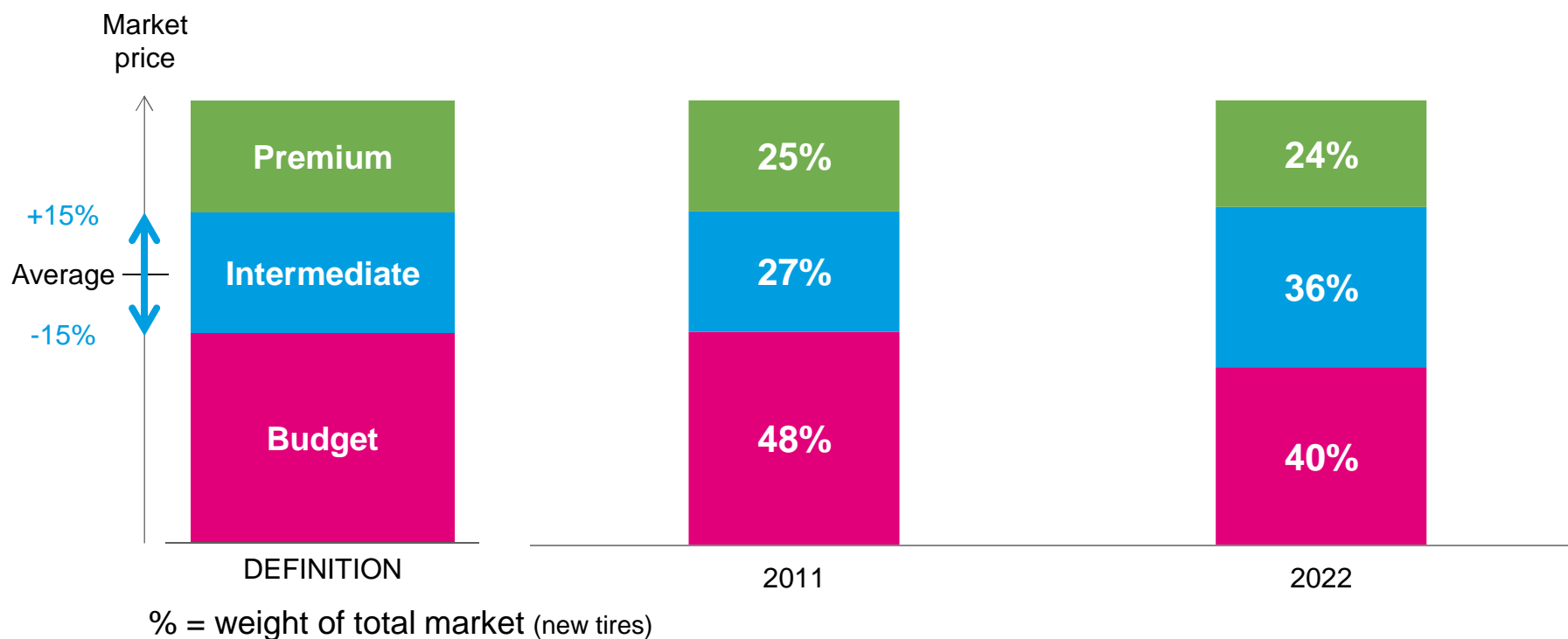
In million tires



Source: Michelin estimates



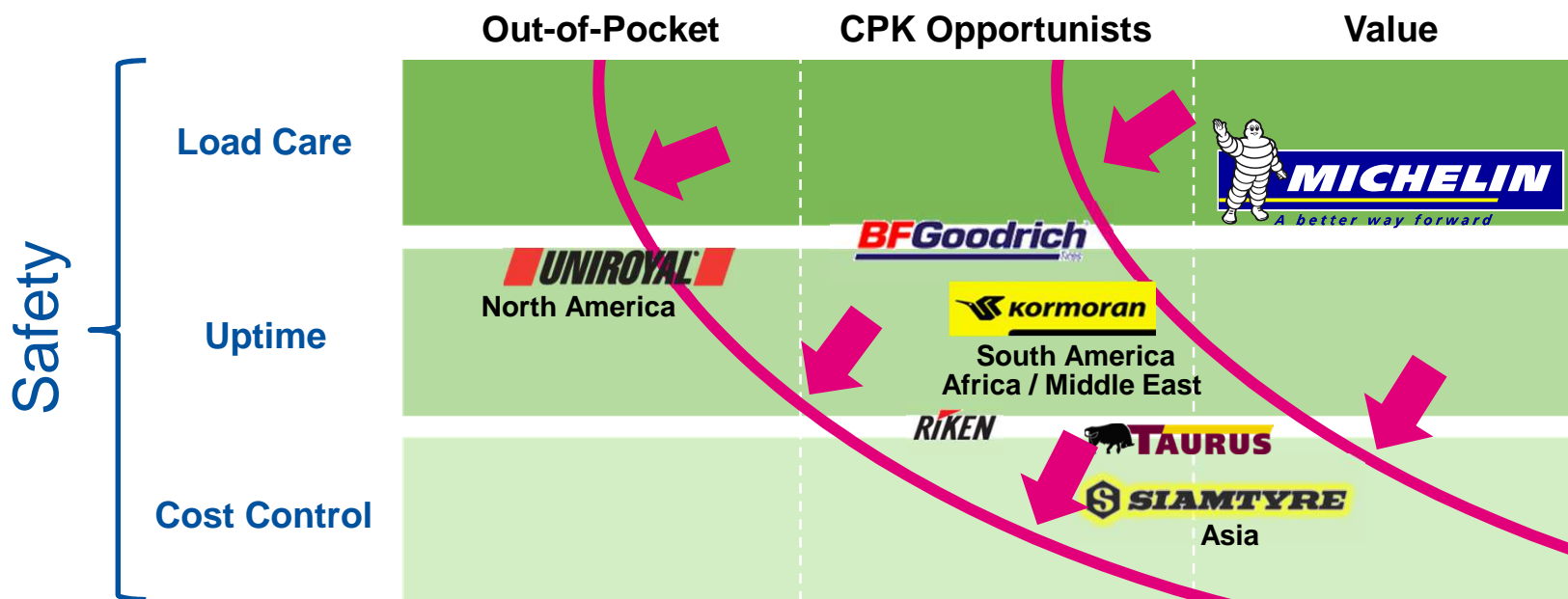
## Pricing tiers: Premium increasing in line with market expansion Intermediate fastest growing segment at expense of Budget



Source: Michelin estimates



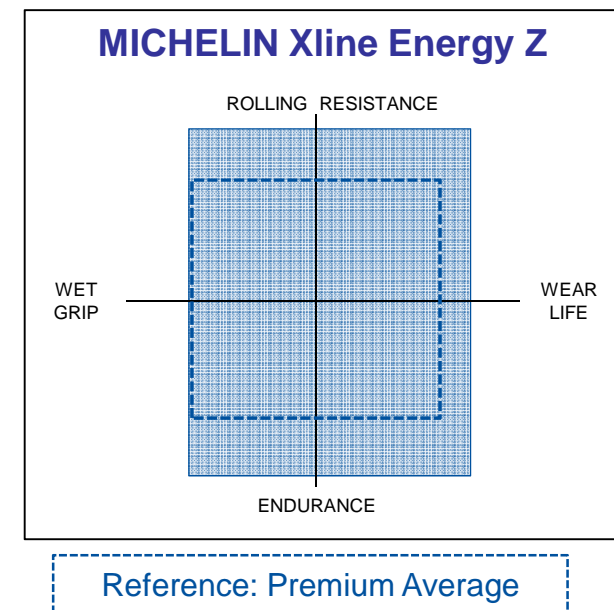
# Strengthen MICHELIN: Best TCO and more affordable Expand Intermediate: CPK, reliability



## Strengthen MICHELIN brand: best TCO and more affordable



- ▶ Matching customer expectations (wear life and fuel efficiency) with innovation to deliver the best total cost of ownership
  - Performance lever
  - Patent clusters
  - Industrial Know-How
- ▶ Competitiveness plan: Truck division to contribute €400m to Group €1bn 2012 – 2016



## Expand **INTERMEDIATE** brands: cost per Kilometer 1<sup>st</sup> life at low price and lean R&D and manufacturing



### ► Worldwide commercial launches from 2013:

#### ■ Intermediate Product Design:

- Product wear life and balance of performance designed to targeted segments
- Reliable casing, excellent manufacturing quality
- Adaptation of material specification to reduce material cost
- Focus on lower mass & fewer components

#### ■ A lean RDI process

- Small and efficient design team

#### ■ A lean manufacturing

- Driven by standardization and process optimization

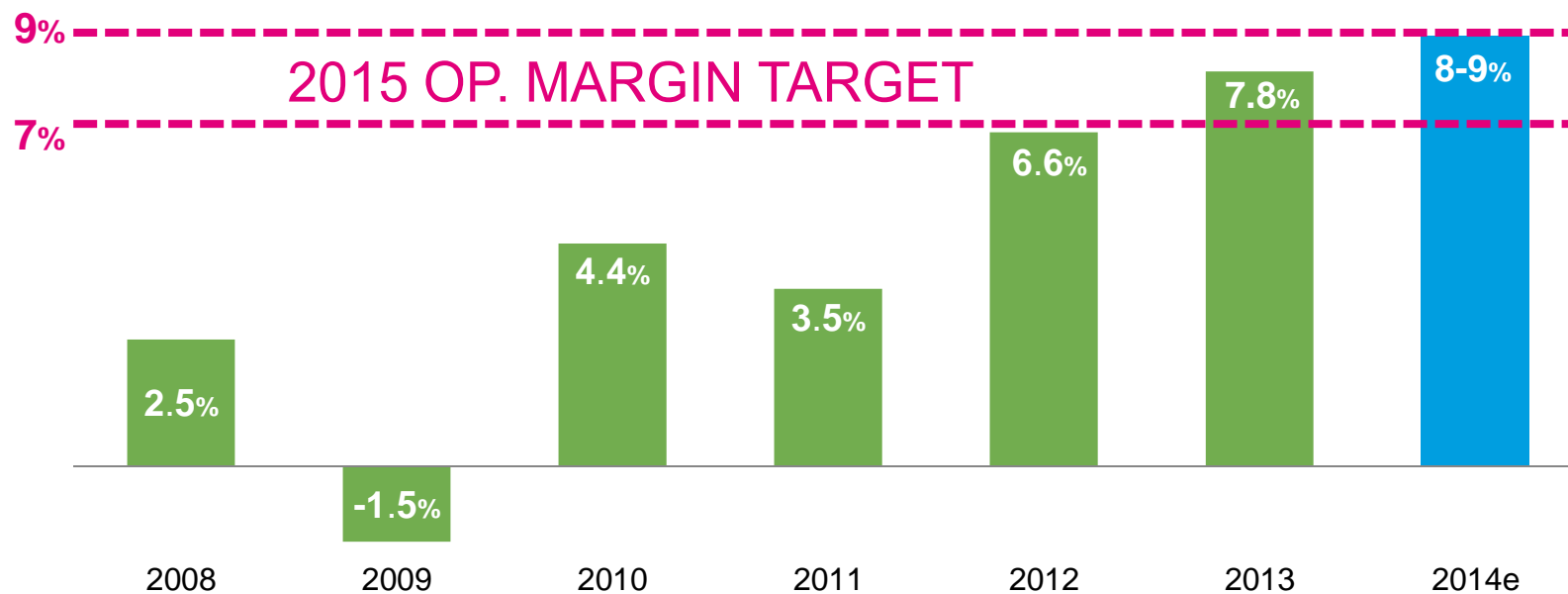


## A recovering profitability



### SR2 Operating margin

(before non-recurring items, in % of net sales)







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## CONTINUED SLOWDOWN IN MARKETS

# Passenger Car and Light Truck Tire Market

October : Sharp decline in demand for winter tires in Europe, due to the mild weather



## October 2014 / 2013

Market	Europe*	North America	Brazil	China
Original equipment tires	▲ +3%	▼ -1%	▼ -10%	▲ +7%
Replacement tires	▼ -7%	▲ +4%	▲ +8%	▲ +14%

## YTD (October 2014)

Market	Europe*	North America	Brazil	China
Original equipment tires	▲ +4%	▲ +4%	▼ -17%	▲ +9%
Replacement tires	▲ +2%	▲ +6%	▲ +7%	▲ +8%

\* Russia and Turkey included



## Truck Tire Market:

*Continued deceleration in the RT European market in October given the economic environment, OE and RT accentuated trends in North America and Brazil*



### October 2014 / 2013

Market (Radial + Bias)	Europe*	North America	Brazil
Original equipment tires	▼ -13%	▲ +23%	▼ -43%
Replacement tires	▼ -0%	▲ +5%	▼ -4%

### YTD (October 2014)

Market (Radial + Bias)	Europe*	North America	Brazil
Original equipment tires	▼ -8%	▲ +14%	▼ -21%
Replacement tires	▲ +3%	▲ +10%	▲ +0%

*\* Russia and Turkey included*





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A 3D graphic of a cube with a blue face on the right side. The number '3' is written in white on the blue face. An arrow points from the left face towards the blue face.

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## OUTLOOK

## 2014 guidance



	Previous	October
Volumes	Up by around 3%	Between 1% & 2%
Impact of raw materials prices	Tailwind	Confirmed
Price-mix / raw materials	Positive	Confirmed
Competitiveness / production costs	Neutral	Confirmed
Increase in SG&A expense	Slightly higher	Confirmed
Operating income before non-recurring items	Lifted by growth, excluding any currency effects	Confirmed
Op. margin before NR – Passenger car tires (RS1)	Middle of the 10-12% range	Confirmed
Op. margin before NR – Truck tires (RS2)	Top of the 7-9% range	Confirmed
Op. margin before NR – Specialty businesses (RS3)	Bottom of the 20-24% range	Confirmed
ROCE	More than 11%	Confirmed
CAPEX	Around €2,000m	Confirmed
Structural free cash flow	More than €500m	Confirmed

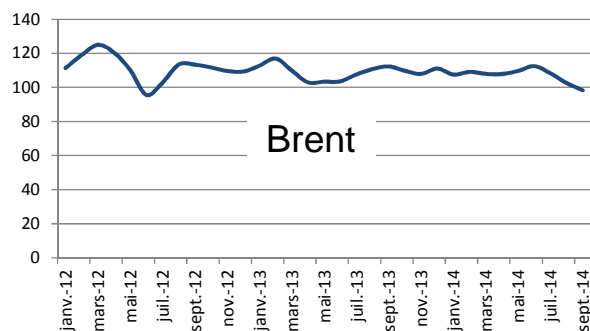


# Raw material trends



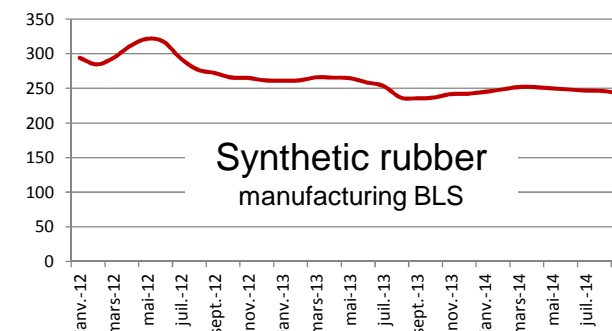
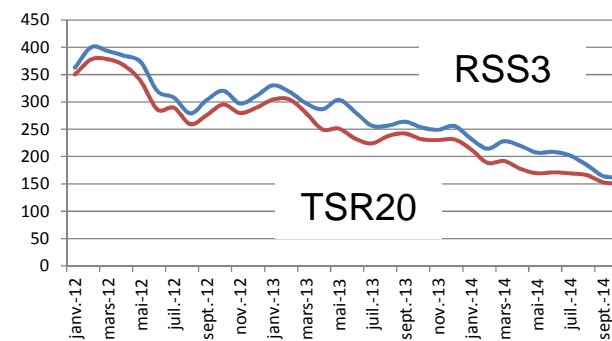
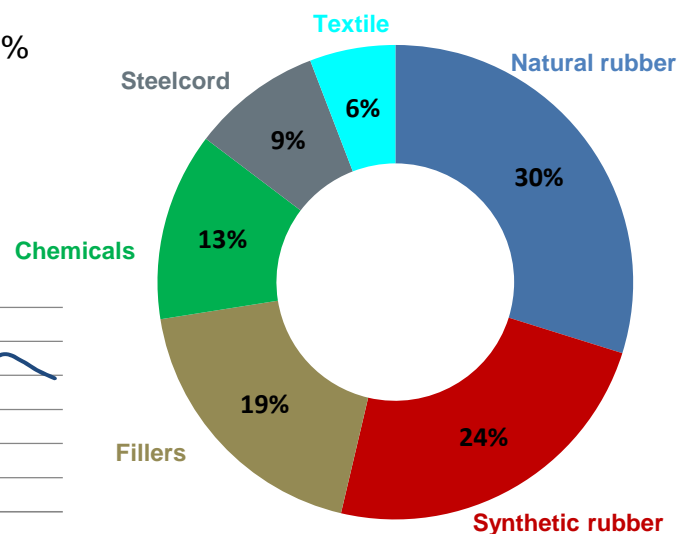
## €/€ exchange rate

Average Q4 13: 1.36  
10/31/2014: 1.25 -8%



## Raw material purchases H1'14

(2 522m€)



## 2015 Outlook: Improving Market Demand Trend



### MATURE MARKETS



### NEW MARKETS



### SPECIALTY MARKETS

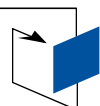
Mining

EM OE & Infra\*

Agricultural\*

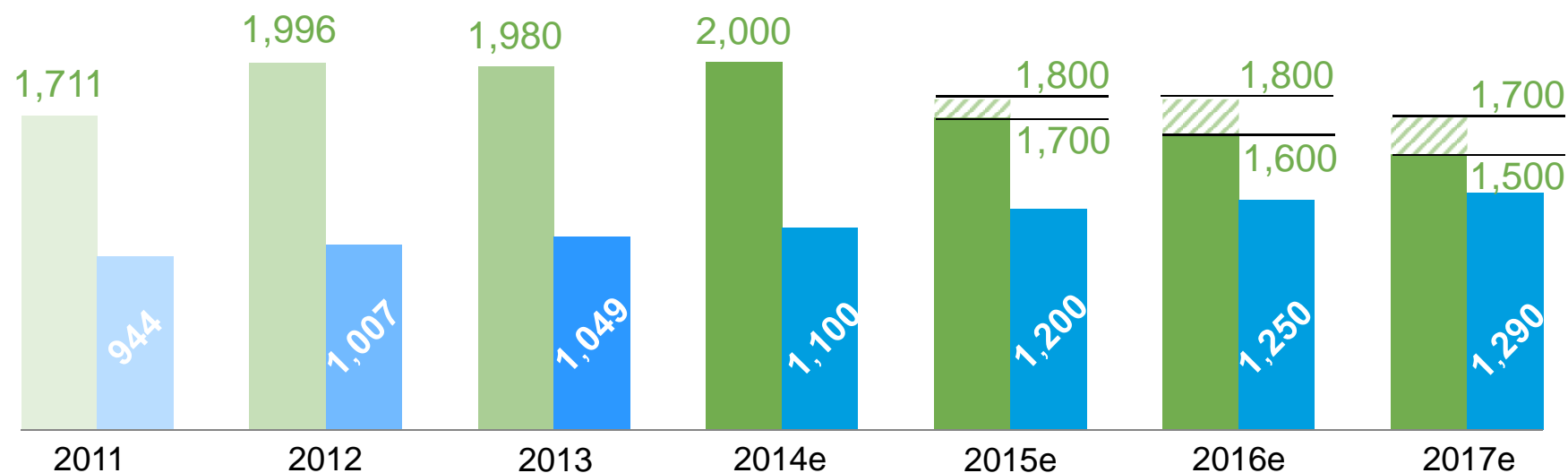
*\* in Europe & North America*

## 2015 & 2016 Capex further adjusted to allow higher asset turnover



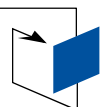
### Capital expenditure and depreciation (In € millions)

■ Capital expenditure  
■ Depreciation

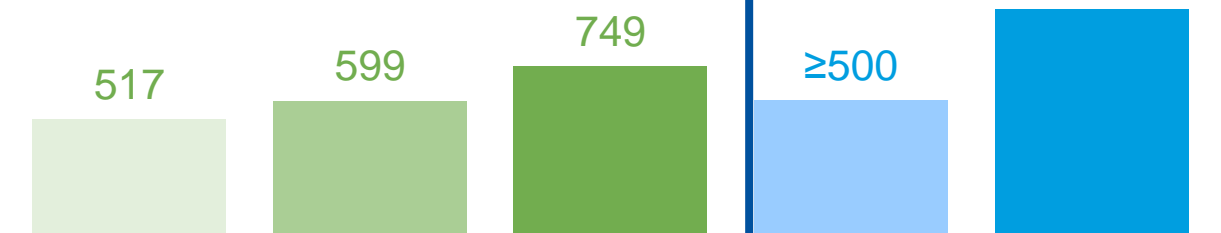




## A business that structurally generates Free Cash Flow



### Structural free cash flow (In € millions)



In € millions	2011	2012	2013
Reported free cash flow <sup>(1)</sup>	(19)	1,075	1,154
WCR impact of raw materials costs <sup>(2)</sup>	(739)	21	405
Year-end volume effect on WCR <sup>(3)</sup>	(200)	344	nm
One off <sup>(4)</sup> <i>(Sales of Hankook shares in 2011, sale of the Parisian building 2012)</i>	403	111	0
<b>Structural free cash-flow <sup>(1) - (2) - (3) - (4)</sup></b>	<b>517</b>	<b>599</b>	<b>749</b>



## Cash deployment:

payout increased to 35%, no further dilution, external growth



### ► New payout ratio, 2013-2020:

- 35% of consolidated net income *(before non-recurring items)*

### ► Shareholder commitment:

- scrip dividend discontinued
- share bought back 2013-2014: 293M€
- shares cancelled: 225M€

### ► Acquisitions to accelerate group's strategy:

- on Services through Sascar's 440M€ acquisition
- on tires through active search in Asia

### ► Pensions:

- more than 85% of defined benefits plans funded *(for USA-Canada-UK plans)*



## Next events

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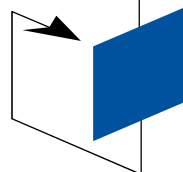


- ▶ **February 10, 2015:** 2014 results
- ▶ **April 22, 2015:** First-quarter 2015 net sales
- ▶ **May 22, 2015:** Annual general meeting of shareholders
- ▶ **July 28, 2015:** First-half 2015 results
- ▶ **October 22, 2015:** Third-quarter 2015 net sales



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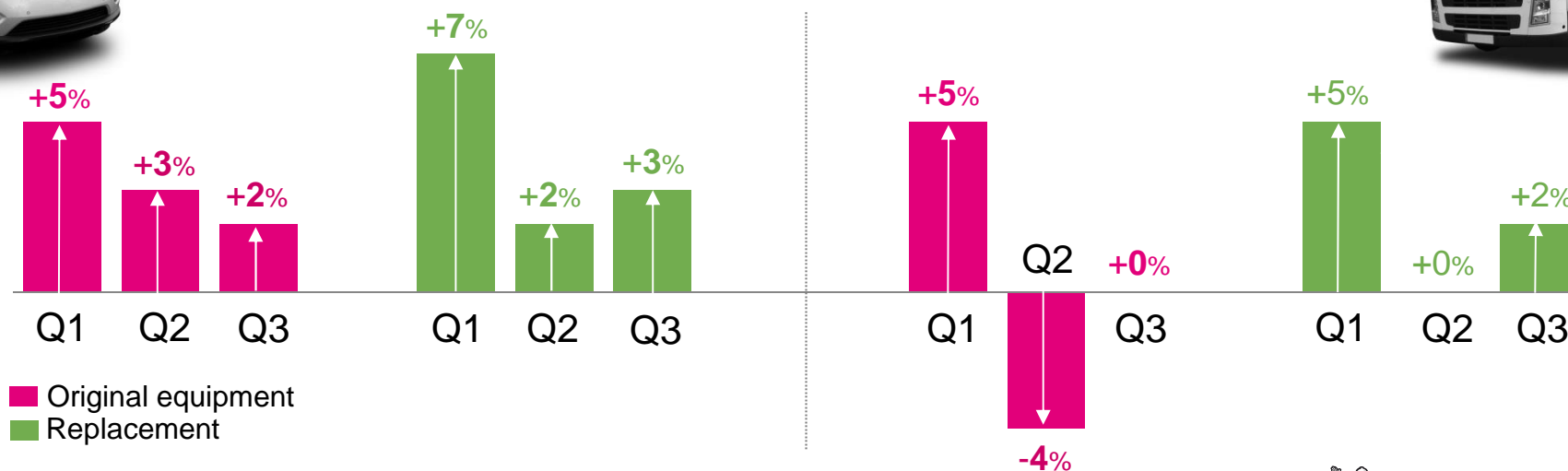


## APPENDICES

## Car and Light truck & Truck: Slowdown starting in Q2



### 2014 Worldwide markets, quarter by quarter (% change YoY, in number of new tires)



Source: Michelin



## Car and Light truck: slowdown starting in Q2



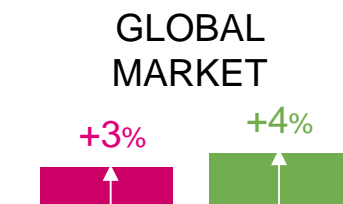
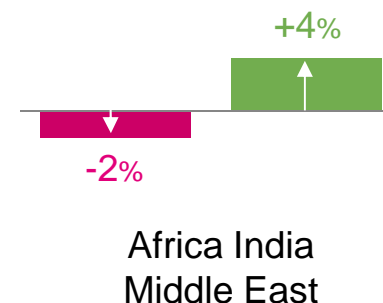
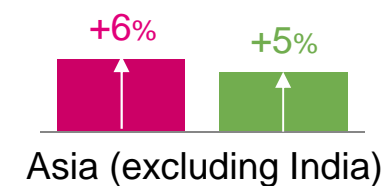
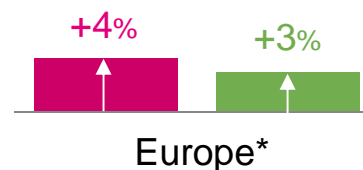
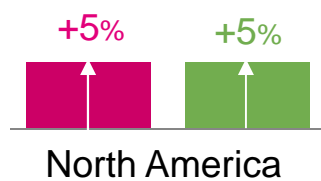
### Markets at September 30, 2014 (% change YoY, in number of tires)



■ Original equipment  
■ Replacement

\* Including Russia and Turkey

Source: Michelin



## Truck: continued slowdown in Europe and lower growth in new markets



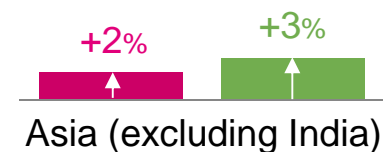
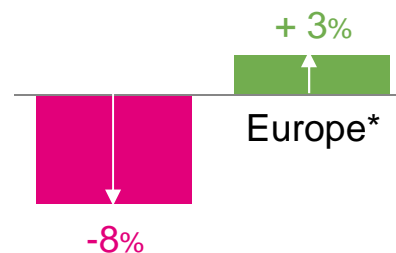
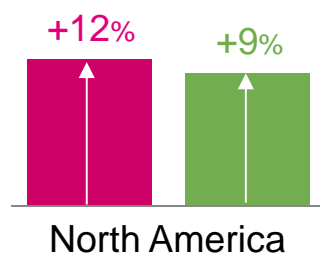
### Markets at September 30, 2014 (% change YoY, in number of new tires)



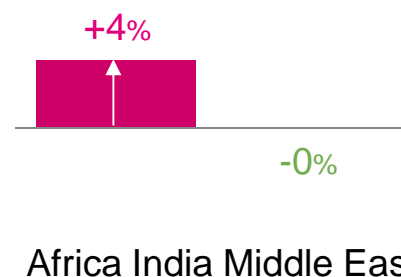
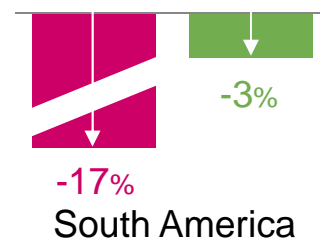
■ Original equipment  
■ Replacement

\* Including Russia and Turkey

Source: Michelin



TOTAL MONDE

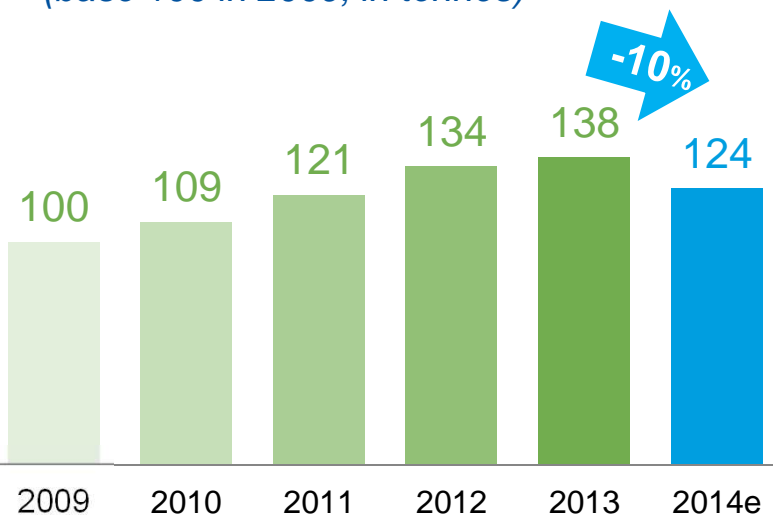


## Earthmover markets: continued recovery in OE & Infrastructure and slightly stronger inventory drawdowns in mining

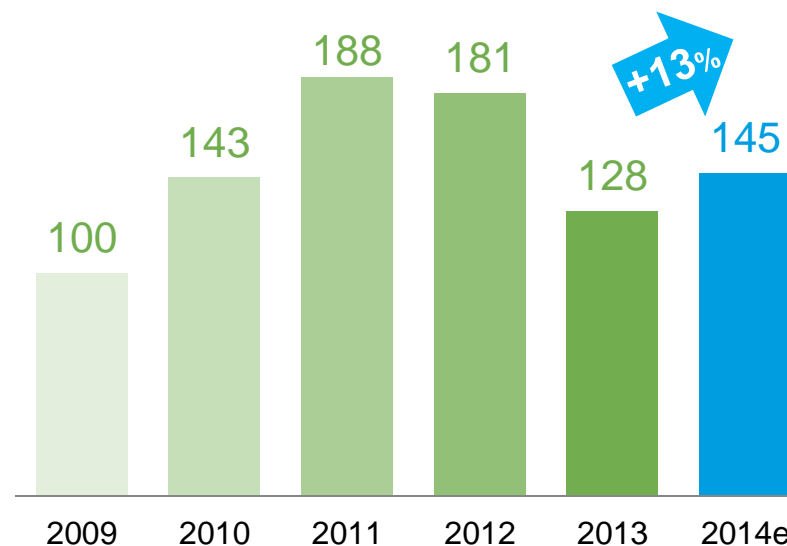


### Earthmover markets

(base 100 in 2009, in tonnes)



### Mining



### Infrastructure and Original equipment (Europe and North America)

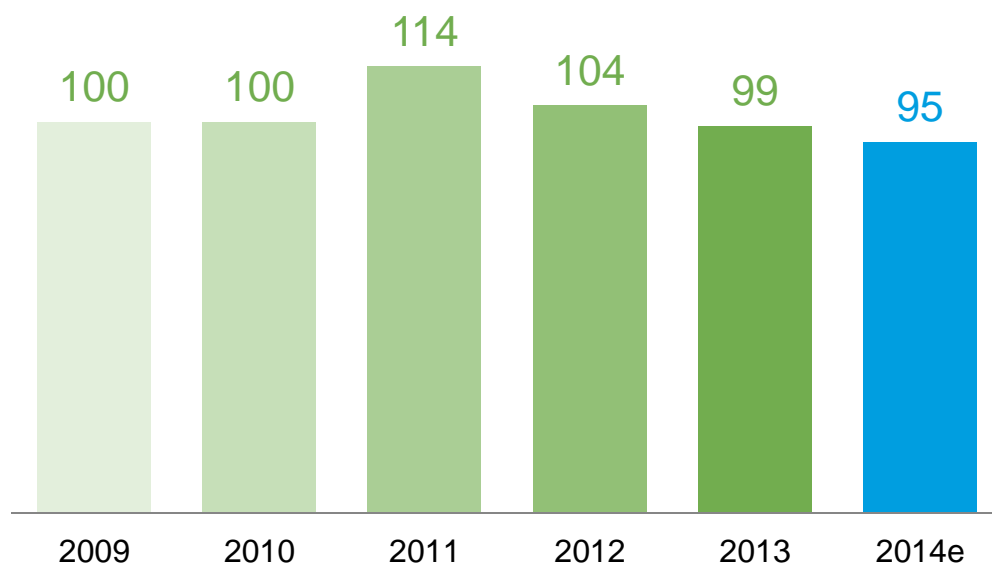




## Agricultural: contracting OE demand



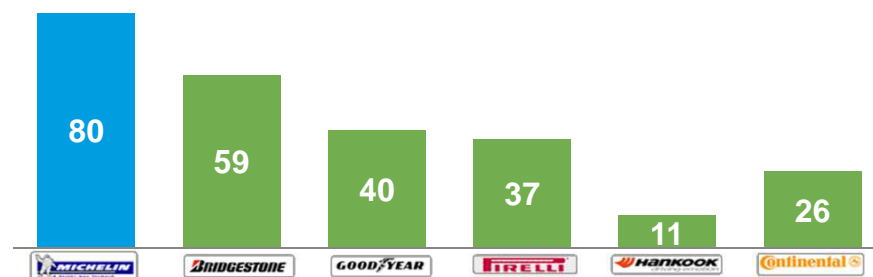
### Agricultural tire markets – Europe and North America (in number of tires, base 100 in 2009)



## China core strength: Brand – MICHELIN capitalizes on a superior equity



### Consumer Advocacy (%)



### Purchasing intention (%)

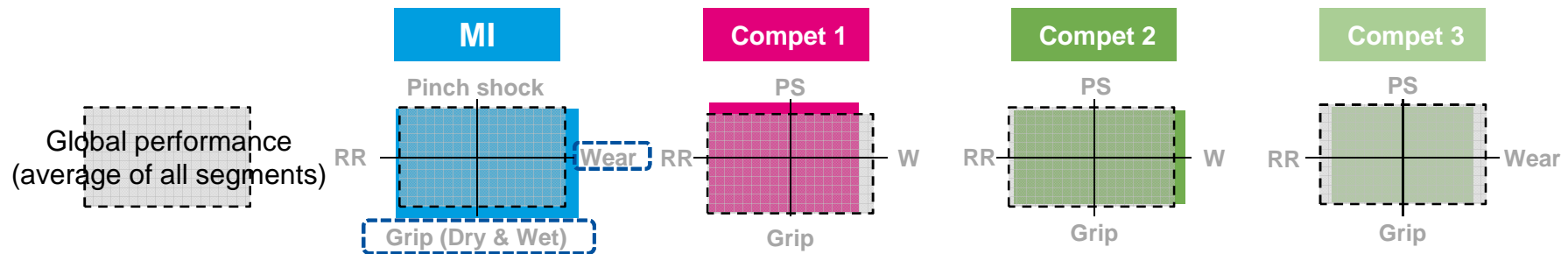


- MICHELIN a leading brand with a high purchasing intention

Period: 2013 H2 BCM report

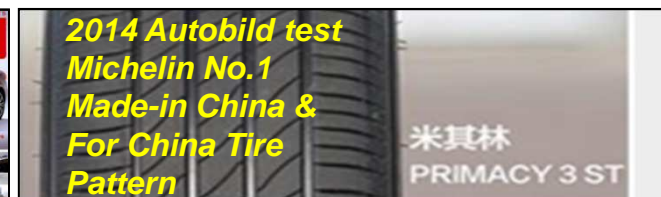


## China core strength : Product – Deliver the “total performance”



Source: Michelin

MICHELIN,  
an outstanding performance  
in **safety** and **wear**...  
...while **not compromising** in others



## China core strength: Local Footprint



### 8 Sales Offices

Beijing  
Shenyang  
Xi'an  
Chengdu  
Shanghai  
Guangzhou  
Hong Kong  
Taipei



### 4 Plants

- **Shenyang** (TC & PL)
- **Shanghai** (TC)
- **Shanghai** (steel cord)
- **Wuhu** (TC Warrior)

*Production (K tons/year)\**

<u>2013</u>	<u>2017</u>
140	250

\*JV excluded



## China core strength: Distribution network



# Dealers	TC	PL
Durable	2,000	130
Advocate	3,000	70
Transactional	2,800	1,600
<b>Total</b>	<b>7,800</b>	<b>1,800</b>

Sales  $\geq 5\%$

$2\% < \text{Sales} < 5\%$

Sales  $\leq 2\%$

% = weight of each province in Michelin China net sales



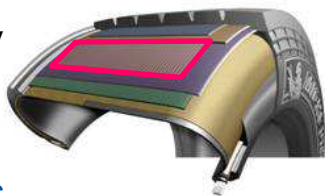
MICHELIN T&B brand

## Matching customer expectations (wear life and fuel efficiency) with innovation



### INFINICOIL™

Wear life  
Fuel efficiency  
Mass



*Xone Multi*  
*X Line Tropic*

### ENERGYFLEX™

Fuel efficiency  
Mass  
Retreadability

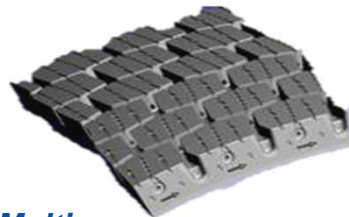


*X Line*  
*X Multi*

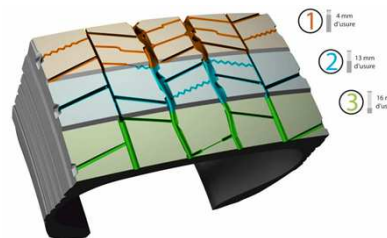
- Performance lever
- Patent clusters
- Industrial Know-How

### REGENION™

Wear life  
Fuel efficiency  
Mass



*X Multi*



*X Incity, X Line*

### CARBION™

Wear life  
Fuel efficiency



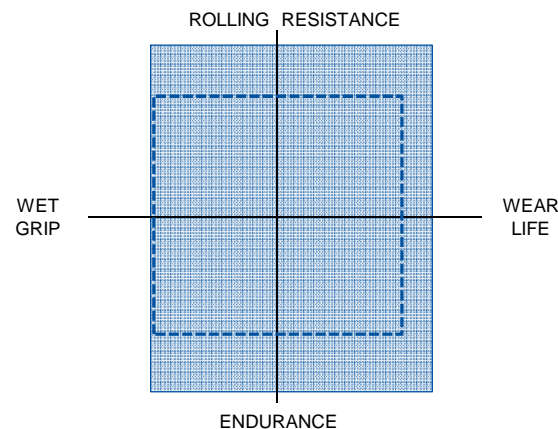
*X Multi*

## The best total performance for customers

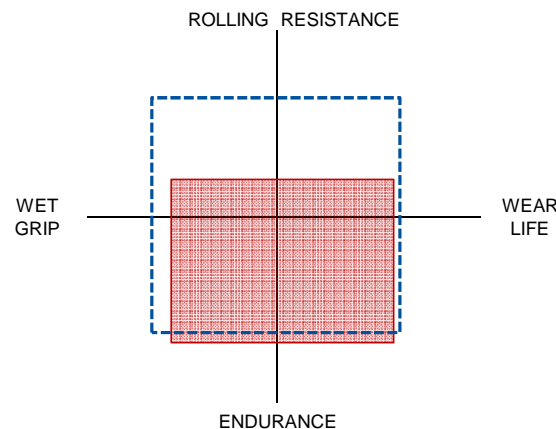


Europe: 315/70R22,5 Steer Axle – Long Haul

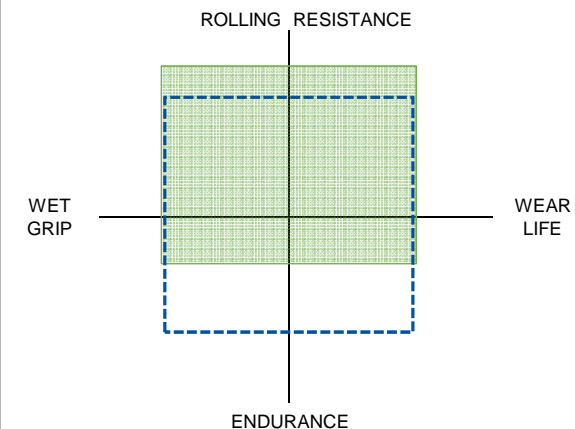
### MICHELIN Xline Energy Z



### Competitor A



### Competitor B



Reference: Premium Average

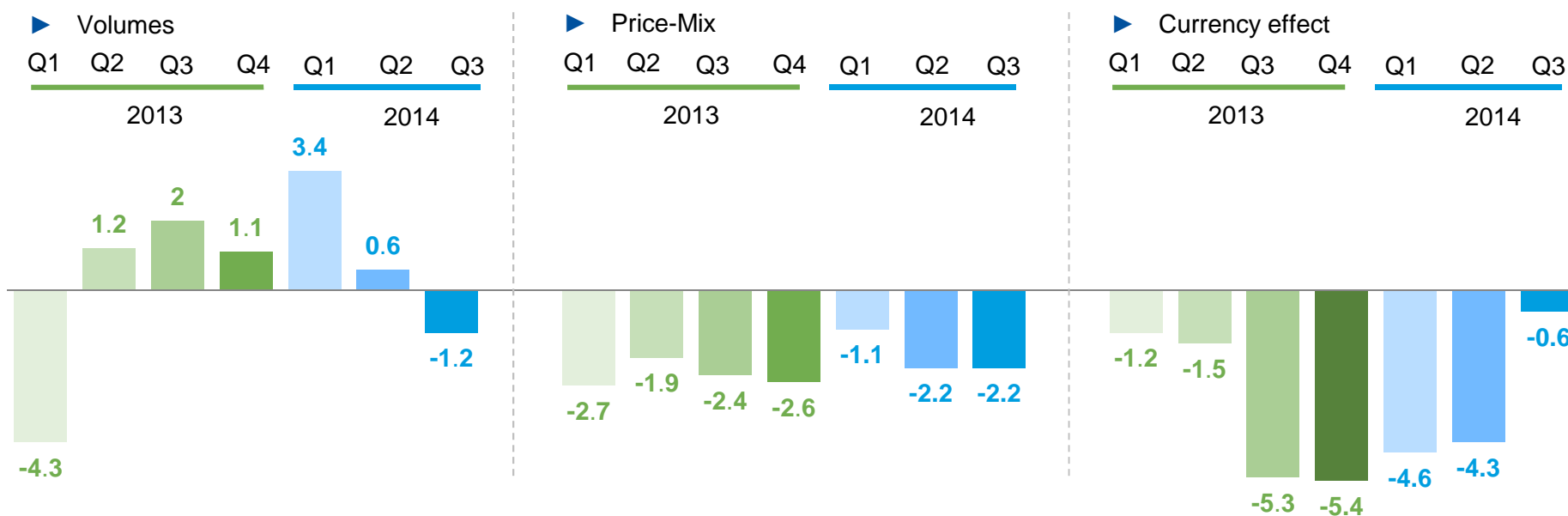
Source: Michelin estimates



## Q3: stabilized price-mix effect in a very competitive environment



### YoY change (in %)

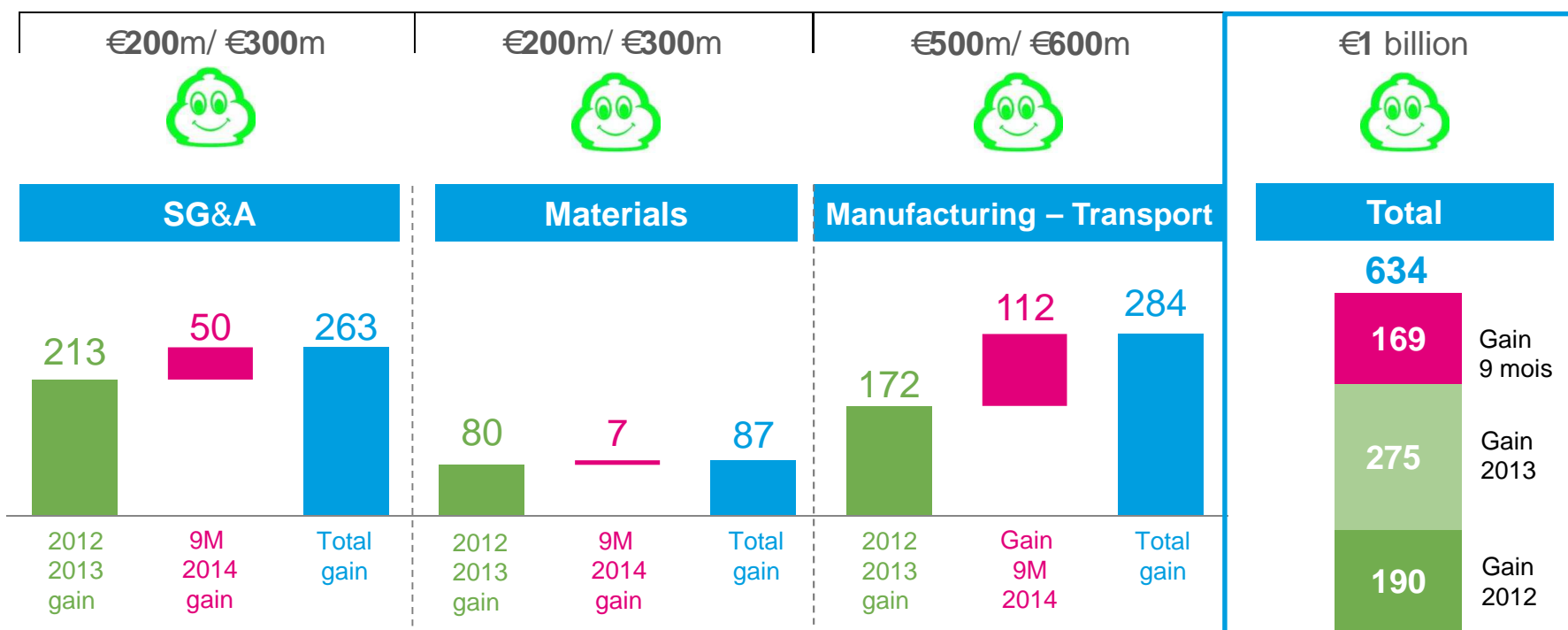




## 2012-2016 Competitiveness Plan : as of end-September, acceleration in manufacturing gains in 2014 confirmed



### GAIN OBJECTIVES 2012 – 2016\*



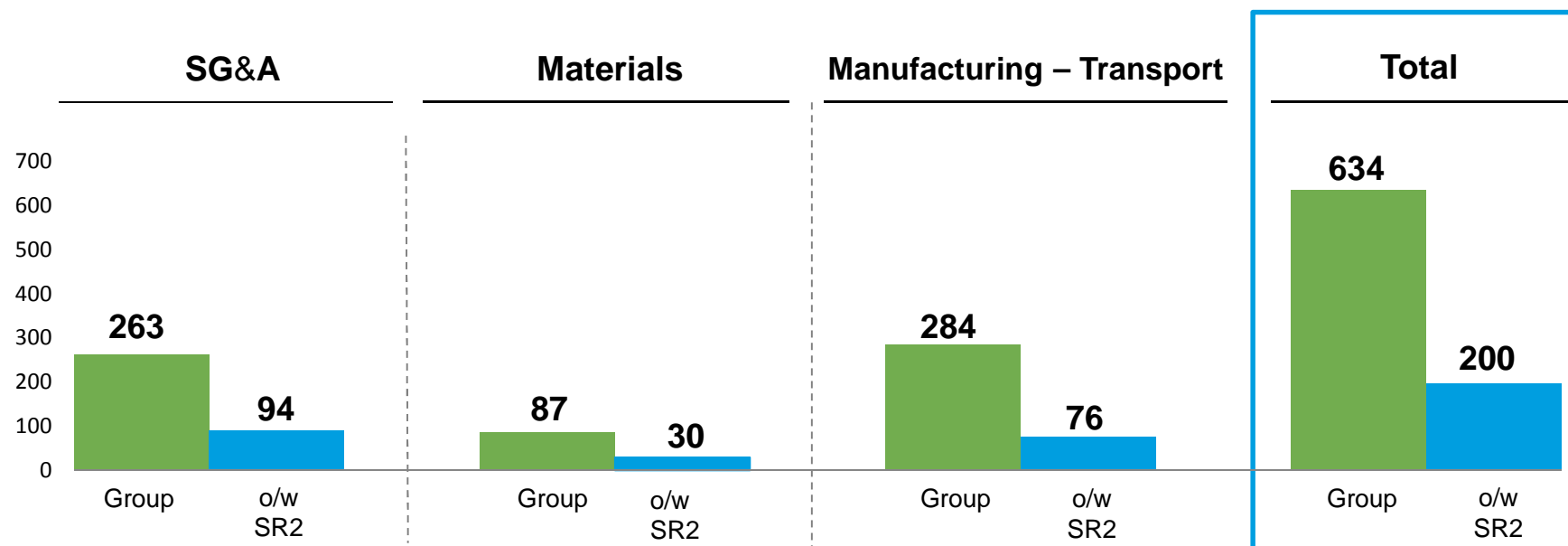
\*Before inflation and including avoided costs



## Truck division to contribute €400m to Group €1bn 2012 – 2016 competitiveness plan



**Gains\* achieved 2012 – Sept. 2014**  
(in € million)



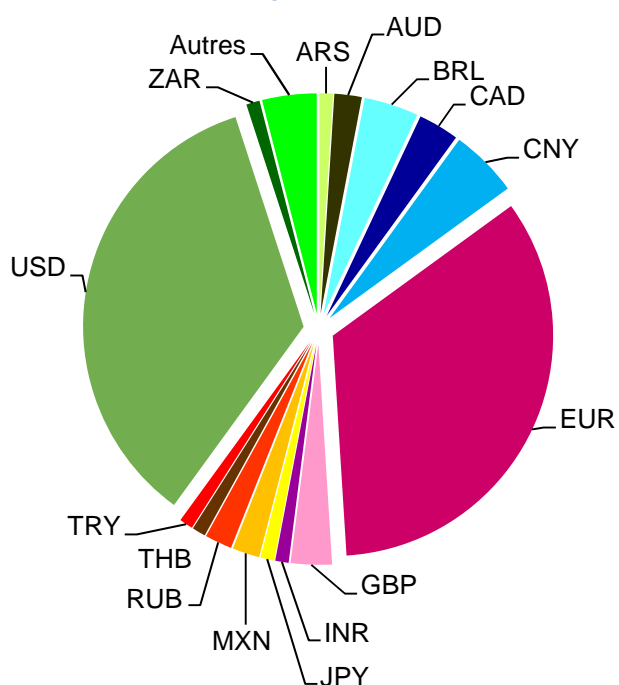
*\*Before inflation and including avoided costs*



## Positive 0.8% currency effect in September



### 9M 2014 net sales by currency



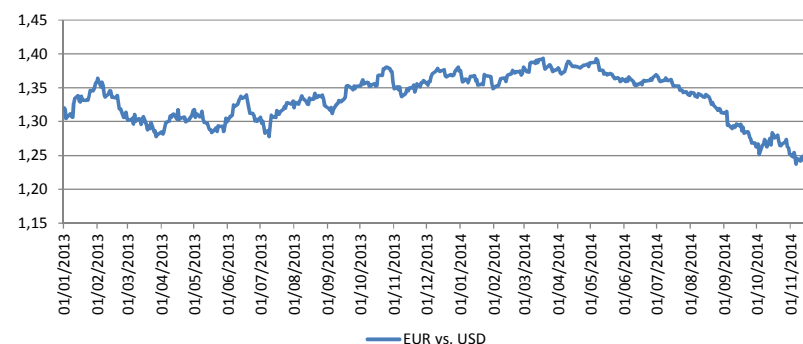
#### % of net sales

ARS	1%
AUD	2%
BRL	4%
CAD	3%
CNY	5%
EUR	34%
GBP	3%
INR	1%
JPY	1%
MXN	2%
RUB	2%
THB	1%
TRY	1%
USD	35%
ZAR	1%
Autres	4,0%

### EBIT sensitivity to €/€ exchange rate

A one cent change in the average annual €/€ exchange rate leads to a variation of €15-20 million in annual EBIT.

### €/€ exchange rate – Jan. 01, 2013 / Nov. 27, 2014



Source: Thomson One





## Disclaimer

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*"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.*

*This presentation may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions at the time of the publication of this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or induced by these statements."*



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