



# LONDON

## J.P. Morgan Cazenove European Automotive Conference

June 10, 2014





June 9, 2014

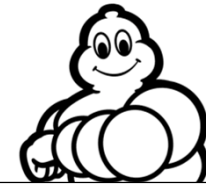
Michelin acquires Sascar, Brazil's Leading Digital Fleet Management Company

A graphic element consisting of a white arrow pointing to the right, with a blue rectangular block at its tip, is located to the left of the main text.

## MICHELIN ANNOUNCED INTENTION TO ACQUIRE SASCAR, BRAZIL'S LEADING DIGITAL FLEET MANAGEMENT COMPANY

## STEPPING UP THE DEVELOPMENT OF SMART TIRE SOLUTIONS

# Michelin Smart Tire Solutions: an innovative leader in the field of tires and services



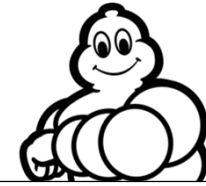
EFFIFUEL™



by

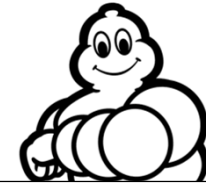
MICHELIN solutions

# Stepping up the development of Smart Tire solutions



- ▶ Services are essential to Michelin and a key lever driving future growth and profitability
- ▶ Converting data to information is key to delivering services and value to our customers
- ▶ Telematics Service Providers are key players in the information Value Chain

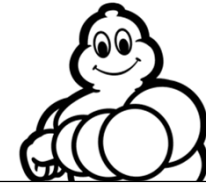
# Michelin acquires Sascar



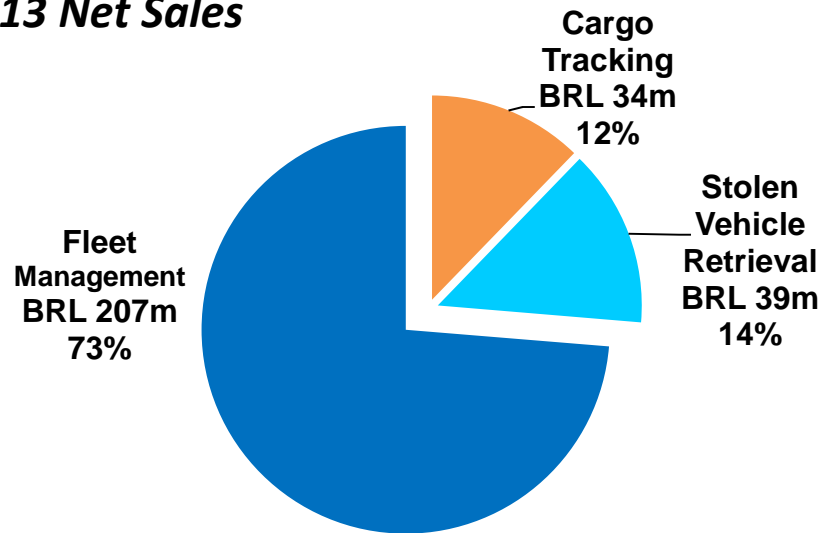
- ▶ Enterprise Value of BRL1,600m (~€520m)
  - Cash out BRL1,353m\* (~€440 m)
  - Net debt BRL247m\* (~€80 m)
  - Representing around 11x 2014(e) EBITDA of Sascar
  
- ▶ Precedent transactions multiples
  - c.10x to 14x LTM EBITDA
  
- ▶ Comparable companies
  - Trading 2014(e) EBITDA multiple ranges: c.14x to 19x

\* Amounts to be adjusted when the acquisition closes

# Sascar at a glance: an emerging market champion with leading technology



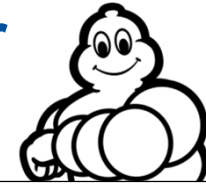
## 2013 Net Sales



- 2013 Net Sales: BRL 280m
- 2013 Net Sales Growth: 24%
- 2013 EBITDA Margin: 37%
- Vehicule Base: 230K (TB & PC)
- Employees: 870 as of June 1, 2014

► Company management welcomes the opportunity to join the Michelin Group

# Fleet management: a significant opportunity for Michelin in Brazil



## ► Fleet Management

- Historically: Tire-centric service offers
  - Per km driven and per landing sales
  - Michelin Earthmover Management System (MEMS)
  - RFID patents opened for adoption of worldwide RFID standard
- Today and moving forward: information integrator driving innovative solutions to fleets - beyond tires
  - Michelin Solutions
  - Digital data collection to drive optimized development and delivery of solution offers
  - Tire management, optimization of fuel consumption and uptime

## ► Michelin: #1 in Truck tires in Brazil

- Leader in radial tire technology
- Very strong presence with large fleet customers
- Solid network of truck tire dealers

# Sascar, an emerging market champion fueled by growth



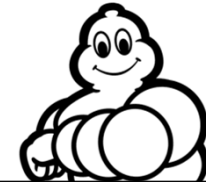
- ▶ 2013: Sascar net sales BRL 280m with only 5% equipped fleets in Brazil
- ▶ Business value driven by demonstrated past and future growth
  - Fleet management 20+% CAGR expected
  - Enhanced demand thanks to efficient new digital technologies
- ▶ Short-term: Extending the customer base:
  - Sascar drives faster growth in Brazil by leveraging Michelin's dealer network, particularly in "Big Fleets"
  - Michelin gains access to Sascar's small fleet customer base
- ▶ Medium-term:
  - Adding more value to the solutions through cross-fertilization (Data analytics, smart reporting)
  - Globalizing Michelin's telematics offer
- ▶ Expected cash flows from customer synergies: €30m to €35m by 2020



# Guidance for Sascar: an acquisition accretive to consolidated earnings



	2014	5-year horizon
Revenue growth	up 14%	up 15%-20% per annum
<i>In % of Net Sales</i>		
EBIT	23%	20%-25%



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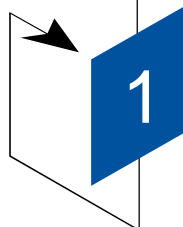
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- 1 MICHELIN: A SOLID PERFORMANCE
- 2 Q1 2014 NET SALES IN LINE WITH ANNUAL GROWTH TARGET
- 3 2014 GUIDANCE CONFIRMED
- 4 APPENDICES



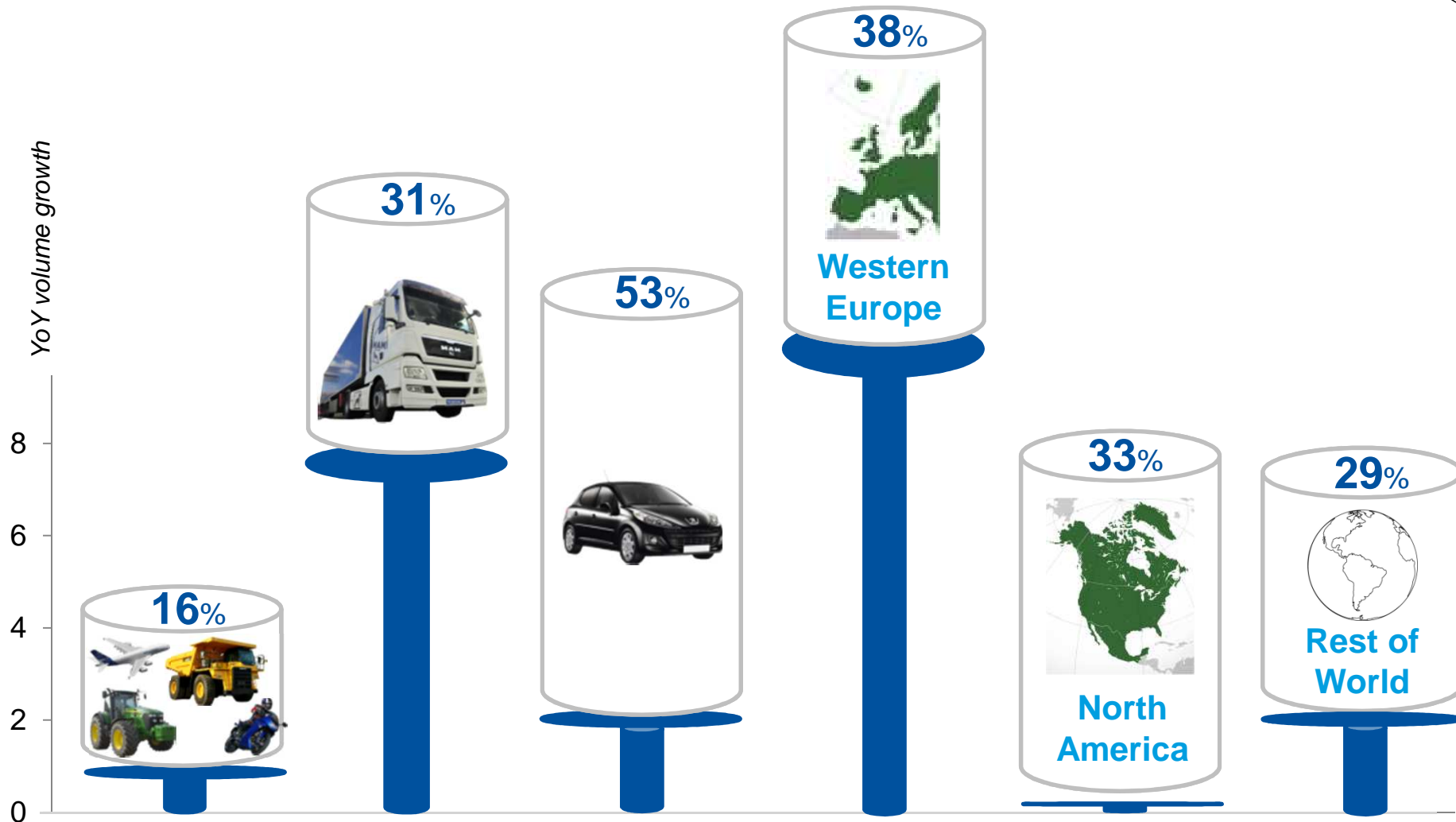
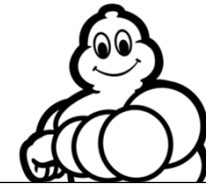
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# MICHELIN: A SOLID PERFORMANCE

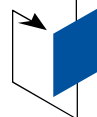
# Natural hedging through a balanced geographic and product mix



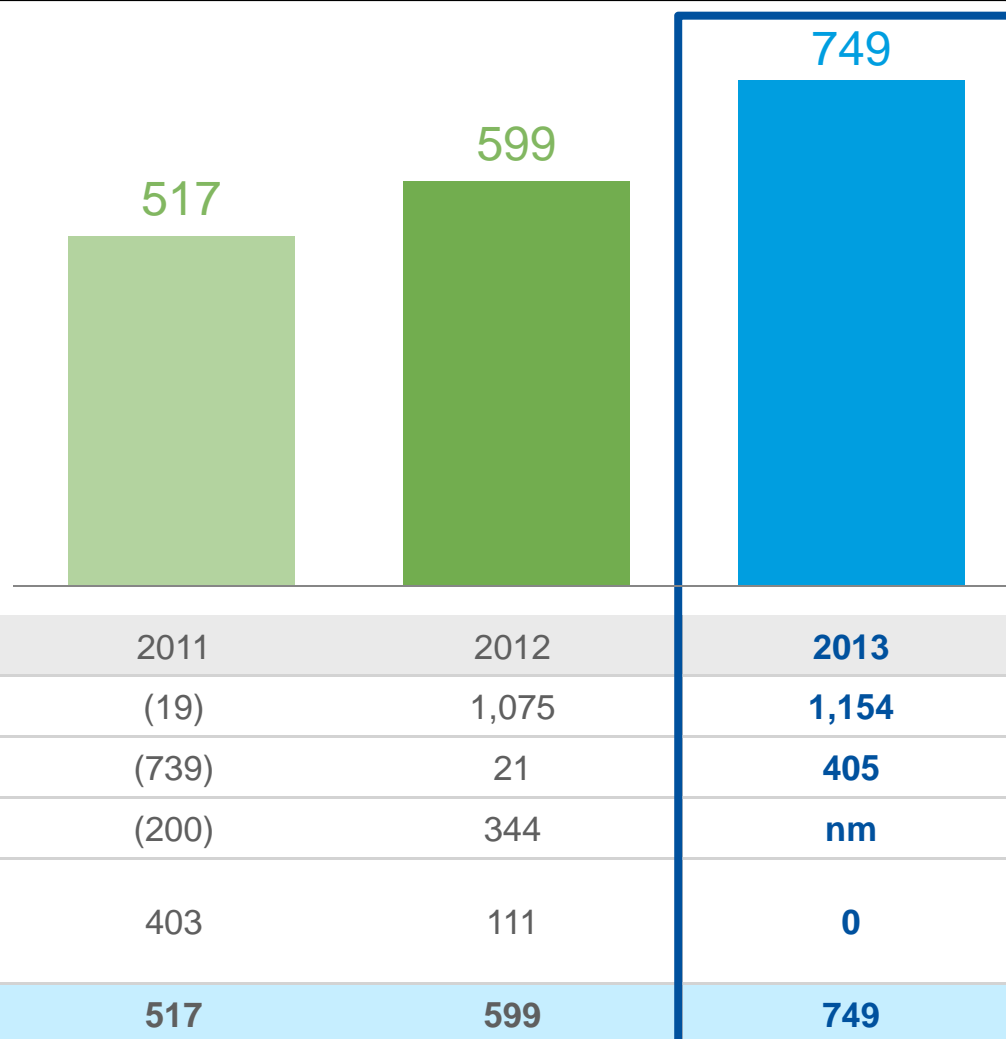
Percentage contribution of each segment/region to total Q1 2014 consolidated net sales



# A business that structurally generates Free Cash Flow



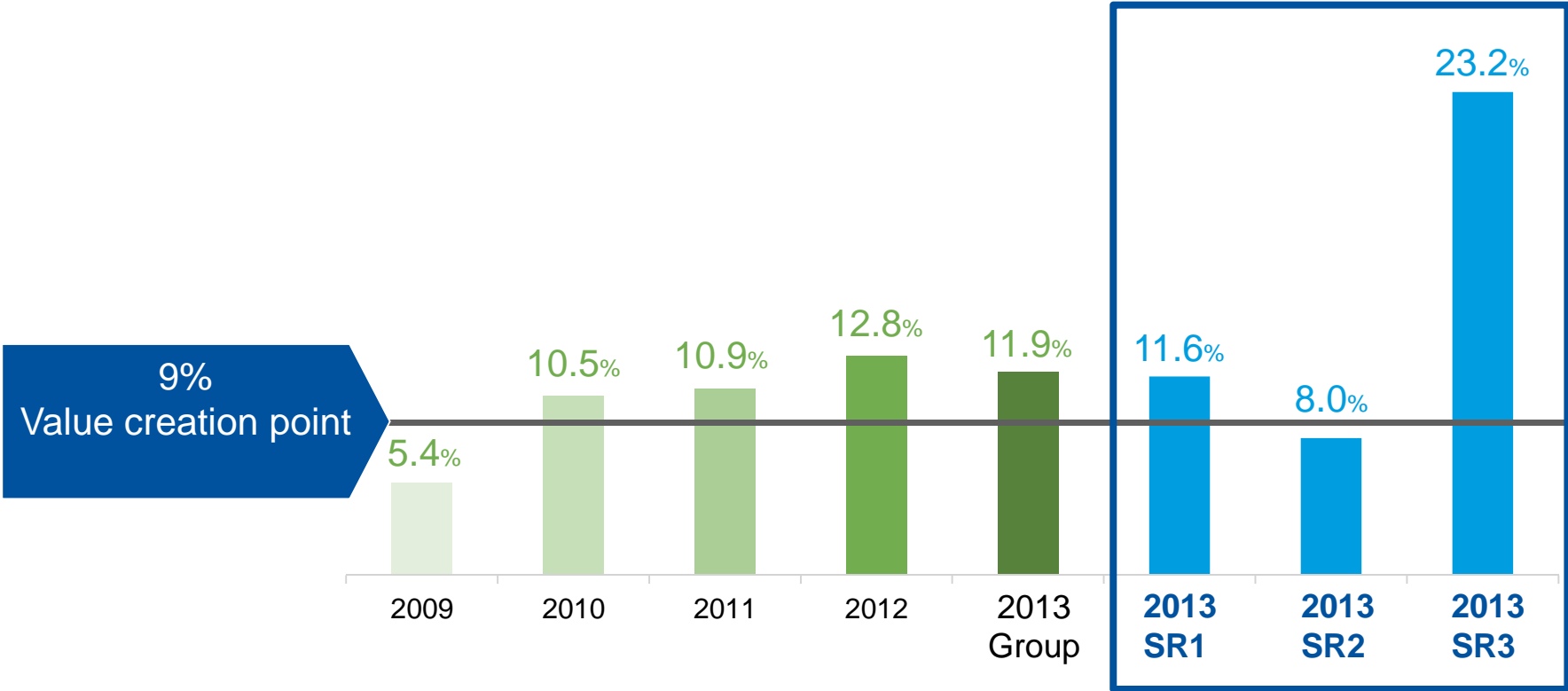
## Structural free cash flow



# Fourth straight year of value creation while investing in the growth regions

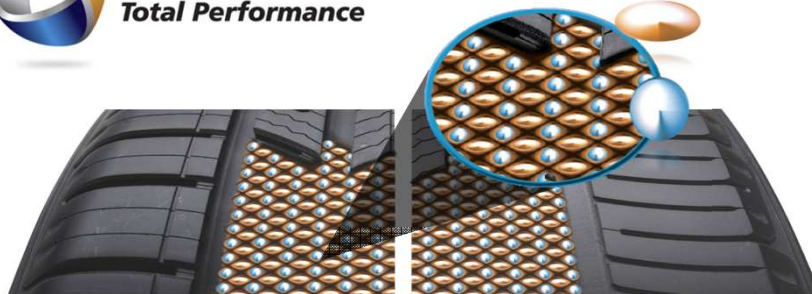
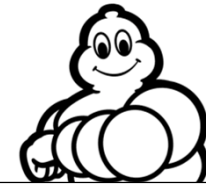


## Return on capital employed (ROCE) *(after tax)*



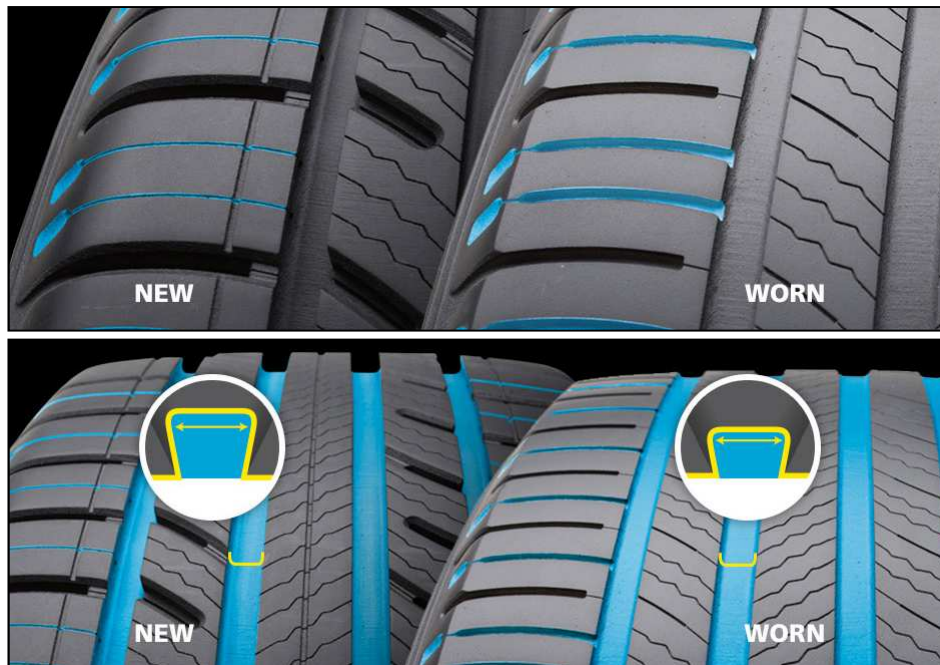
# Superior Products & Services: MICHELIN

## EverGrip™ technology makes even worn tires safe

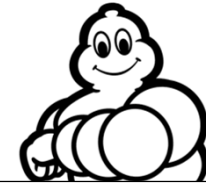


- ▶ Revolutionary compounds
- ▶ Self-regenerating tread patterns

**PREMIER® line launch**  
in April 2014, in North America



# Superior Products & Services: X-Coach in China and Alpin 5 in Passenger car





# Superior Products & Services: New Products and Michelin Solutions with Effifuel Offer



**MICHELIN X® LINE™ Energy™:**  
truckers reduce their operating budget by €644/year  
while lowering their CO<sub>2</sub> emissions by 1,371 kg.



**Michelin Opens its Patents for  
Adoption of Worldwide RFID1 Standard**



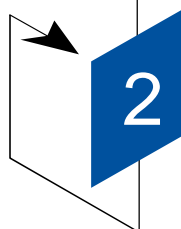
**Michelin Solutions Launches Effifuel™**  
help operators to monitor and reduce vehicle fuel consumption





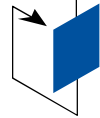
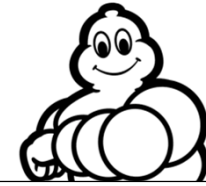
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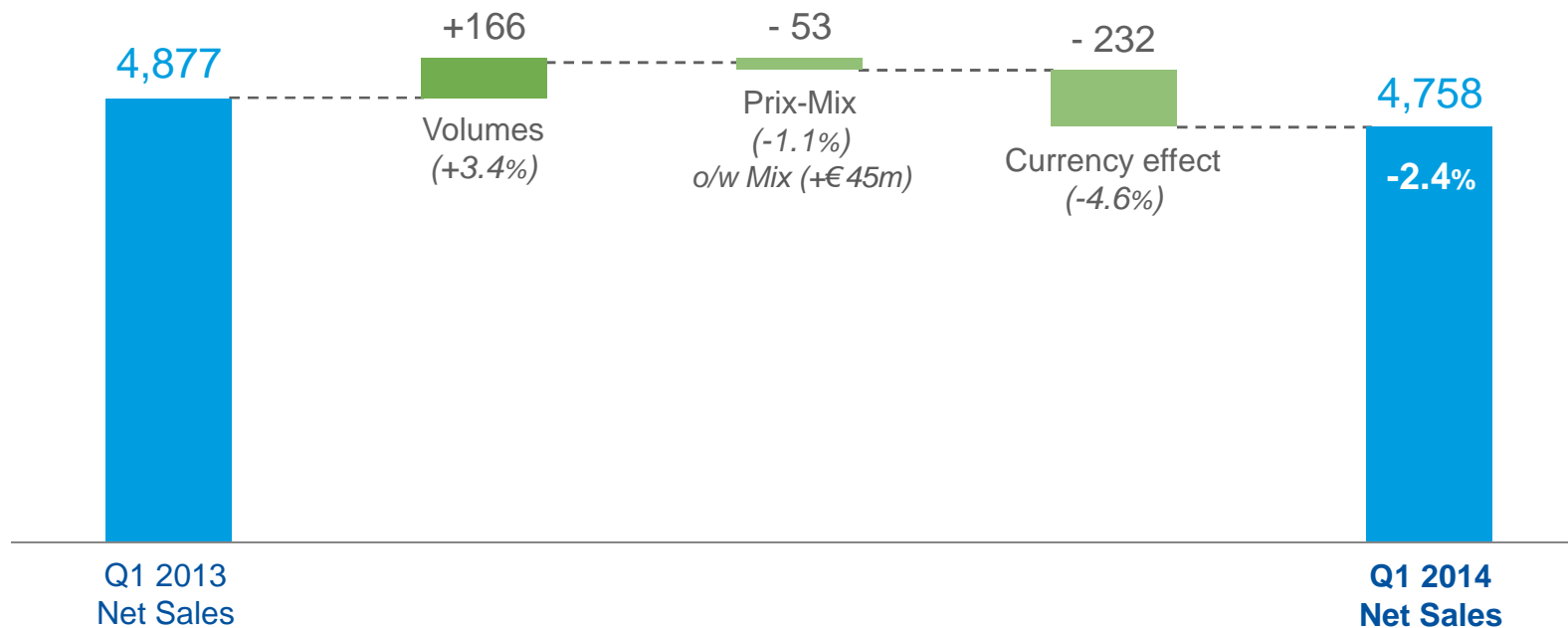


## Q1 2014 NET SALES IN LINE WITH ANNUAL GROWTH TARGET

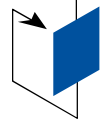
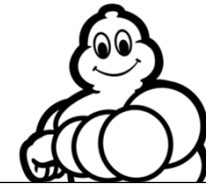
# Net sales up 2.5% at constant scope of consolidation and exchange rates



**YoY change**  
(In € millions)

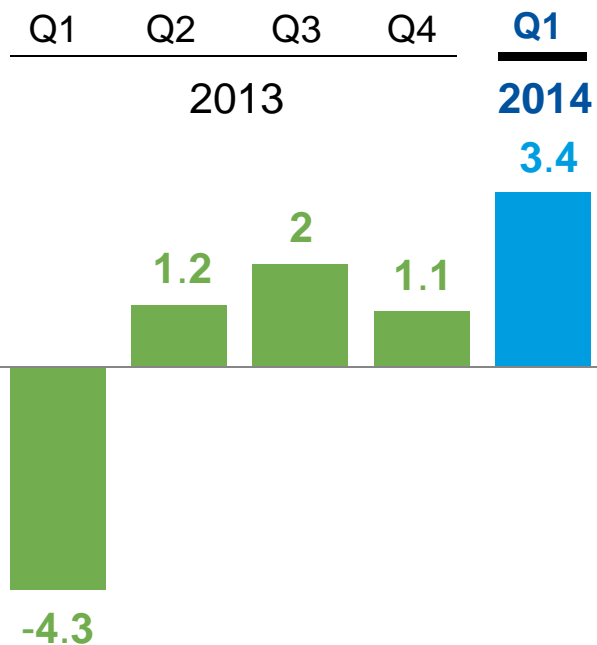


# Higher volumes and carefully managed pricing policy

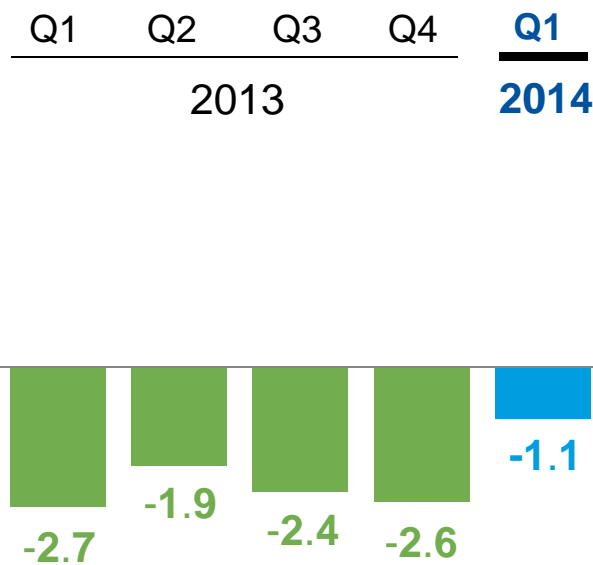


YoY change  
(in %)

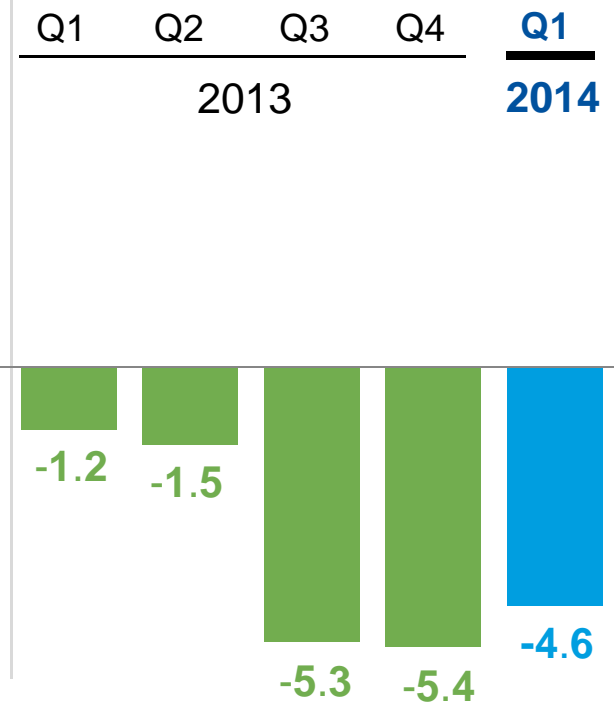
## ► Volumes



## ► Price-Mix



## ► Currency effect



# Car and Light truck tires and related distribution: Growth driven by the premium strategy and the MICHELIN brand



## Car and Light truck tires (In € millions)



	Q1 2014	Q1 2013	% change
<b>Net sales</b>	<b>2,520</b>	<b>2,582</b>	<b>-2.4%</b>
<i>Volume growth</i>	<i>+2%</i>		

- ▶ Unfavorable **currency effect** (-4%)
- ▶ **Volumes**
  - Growth in MICHELIN brand tonnages, in line with the market
  - BFGoodrich and Kleber brand tonnages down due to the competitive pricing environment
- ▶ **Price-Mix**
  - Application of raw materials indexation clauses in OE and selected repositionings in mature RT markets
  - Price increases to partly offset the currency effect (Brazil, Argentina, Russia, Japan among others)
  - Sustained improvement in the ≥ 17' mix



# Truck tires and related distribution: firm momentum in the first quarter



## Truck tires (in € millions)



	Q1 2014	Q1 2013	% change
<b>Net sales</b>	<b>1,462</b>	1,477	-1.0%
<i>Volume growth</i>	<i>+8%</i>		

- ▶ Unfavorable **currency effect** (-6%)
- ▶ **Volumes**
  - Growth effectively captured in upwardly trending markets
  - More pronounced growth in OE markets
- ▶ **Price-Mix**
  - Application of raw materials clauses
  - Price increase to partly offset the currency effect
  - Mix effect dampened by the faster growth in OE sales

# Specialty businesses: volumes virtually unchanged, as expected



## Specialty business (in € millions)



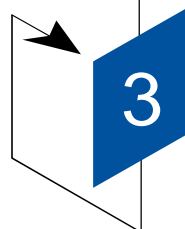
	Q1 2014	Q1 2013	% change
<b>Net sales</b>	<b>775</b>	<b>818</b>	<b>-5.2%</b>
<i>Volume growth</i>	<i>+1%</i>		

- ▶ Unfavorable **currency effect** (-5%)
- ▶ **Growth** in every segment except mining
  - Mining volumes stable QoQ, reflecting the net impact of ongoing inventory drawdowns by mining customers, as expected, and sustained mining operations
  - Strong growth in Agricultural, 2-Wheel, Aircraft tire volumes
- ▶ **Price:** Application of raw materials clauses



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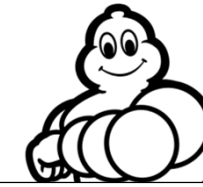


## 2014 GUIDANCE CONFIRMED



# Passenger car & Light truck tire market:

mature markets up, but growth held back by Eastern Europe



## April 2014 / 2013

Market	Europe*	North America	Brazil	China
Original Equipment	▲ +3%	▼ -2%	▼ -19%	▲ +11%
Replacement	▲ +2%	▲ +8%	▲ +4%	▲ +10%

## YTD (April 2014)

Market	Europe*	North America	Brazil	China
Original Equipment	▲ +7%	▲ +3%	▼ -13%	▲ +9%
Replacement	▲ +4%	▲ +7%	▲ +4% **	▲ +11%

\* Russia and Turkey included

\*\* 2013 Brazilian market: imports revised



# Truck tire market: rebound continued in Western Europe, sharp slowdown in Eastern Europe and South America



## April 2014 / 2013

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▼ -8%	▲ +8%	▼ -10%
Replacement	▲ +3%	▲ +6%	▼ -2%

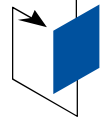
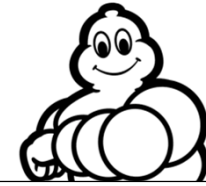
## YTD (April 2014)

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▼ -2%	▲ +7%	▼ -1%
Replacement	▲ +13%	▲ +8%	▲ +8%

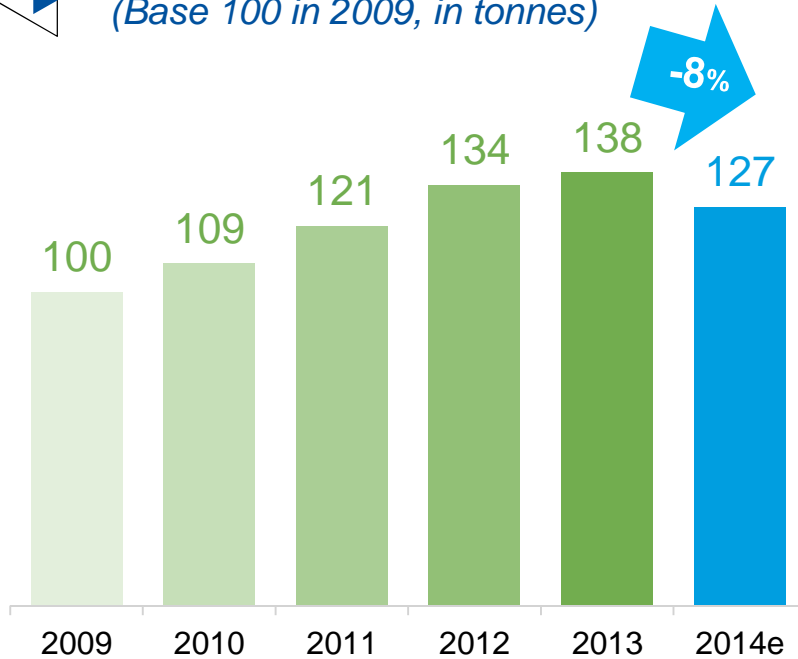
\* Russia and Turkey included



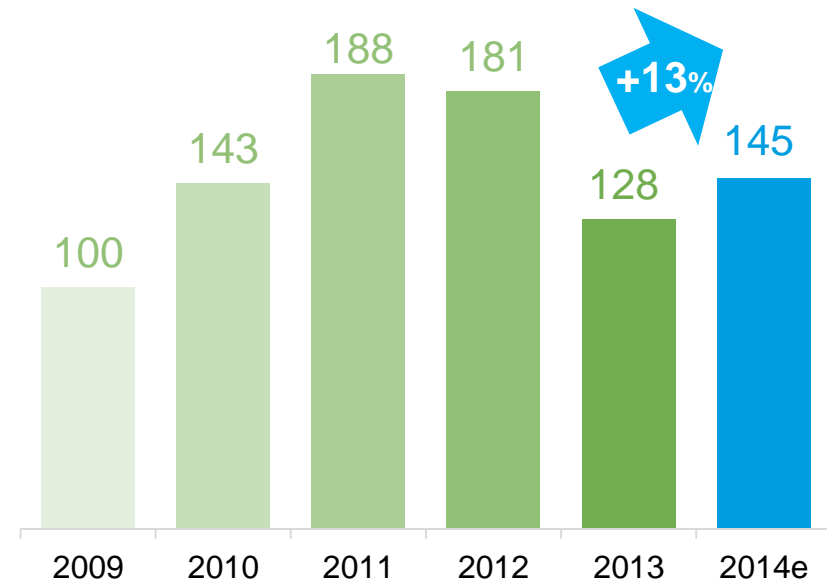
# Uneven Earthmover markets



**Earthmover markets**  
*(Base 100 in 2009, in tonnes)*



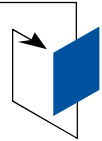
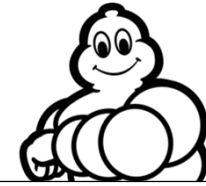
**Mining**



**Infrastructure and original equipment**  
*(Europe and North America)*

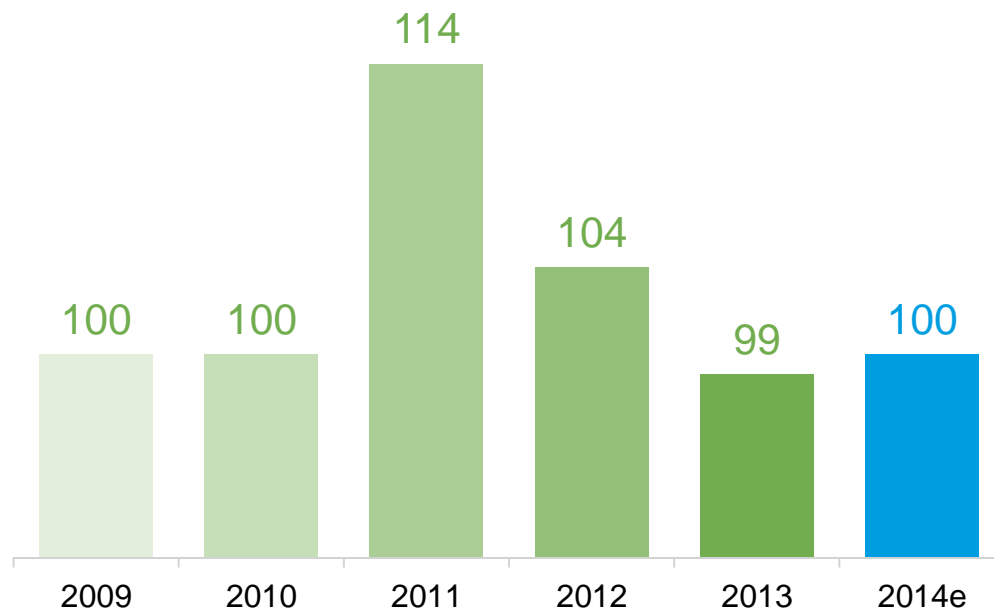


# Agricultural: stable overall but robust demand for technical tires



## Agricultural tire markets - Europe and North America

(in number of tires, base 100 in 2009)

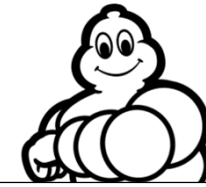


# 2014 GUIDANCE CONFIRMED

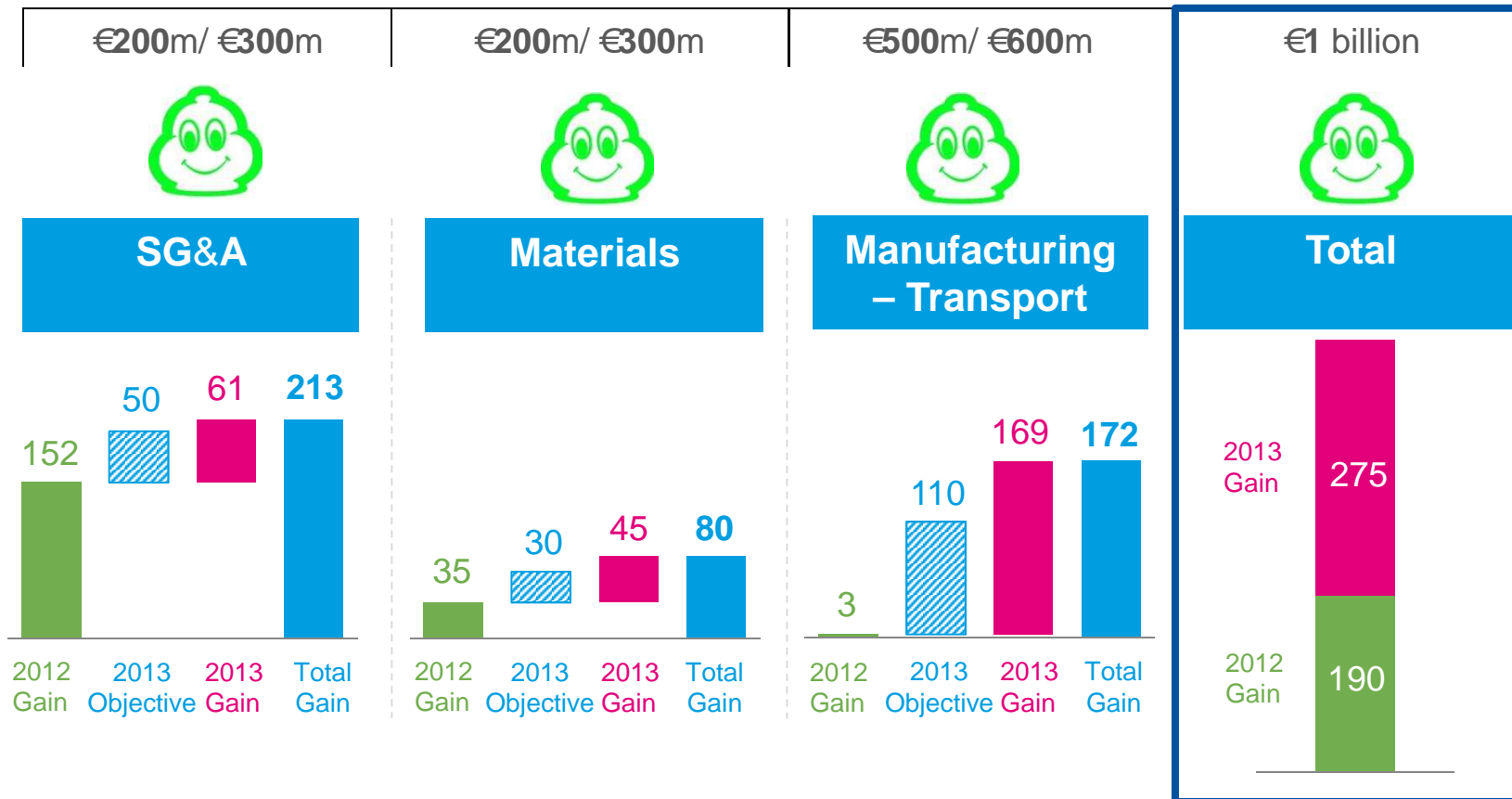


	2013	Guidance 2014	
Volumes	+ 0%	Increase in volumes of around 3%	confirmed
Impact of raw material price	+ €619m	Tailwind (due to the measurement of raw materials inventory at weighted average cost)	confirmed
Price / raw materials	+ €69m	Positive	confirmed
Competitiveness / production costs	+ €30m	Neutral	confirmed
Increase in SG&A expense	- €1m	Slightly higher	confirmed
Operating income before non-recurring items	€2,234m	Lifted by growth, excluding any currency effects	confirmed
Operating margin before non-recurring items – Passenger car tires (RS1)	10.2%	Middle of the 10-12% range	confirmed
Operating margin before non-recurring items – Truck tires (RS2)	7.8%	Top of the 7-9% range	confirmed
Operating margin before non-recurring items – Specialty businesses (RS3)	20.6%	Bottom of the 20-24% range	confirmed
ROCE	11.9%	More than 11%	confirmed
CAPEX	€1,980m	Around €2,000m	confirmed
Structural free cash flow	€749m	More than €500m	confirmed

# 2012-2016 Competitiveness Plan: €465 million in gains in two years despite weak volumes



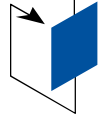
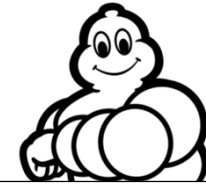
## GAIN OBJECTIVES 2012 – 2016\*



\*Before inflation and including avoided costs

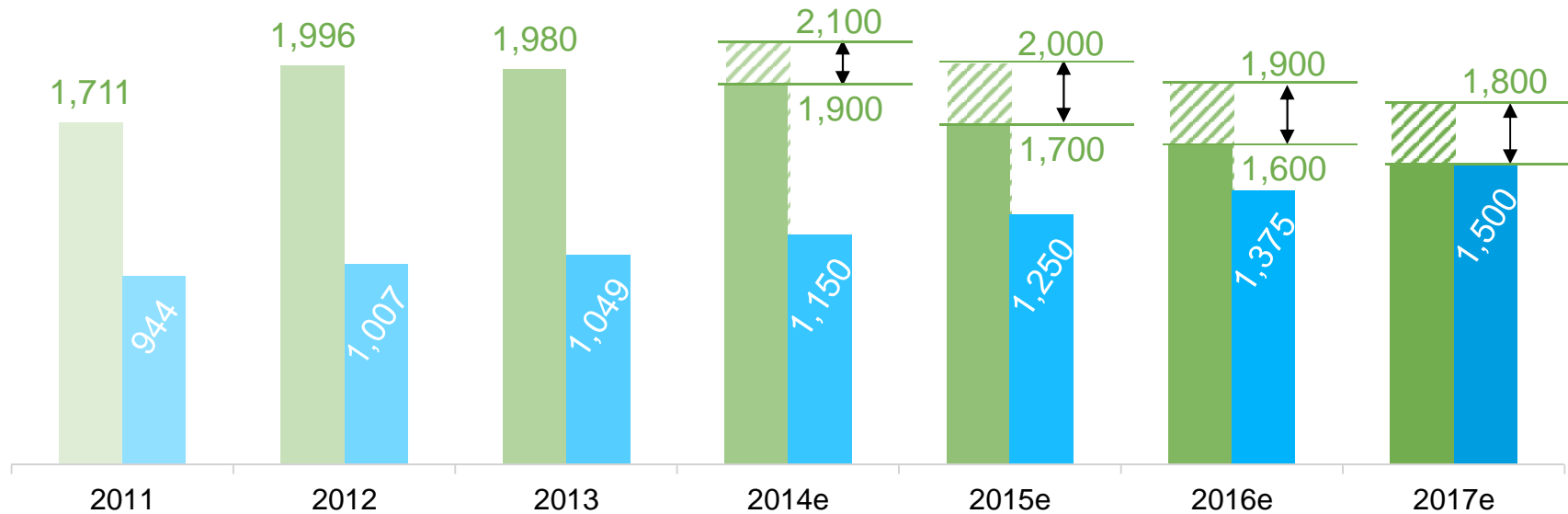


# Capex will peak in 2014

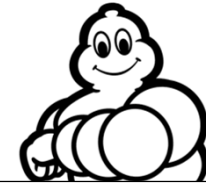


## Capital expenditure and depreciation (In € millions)

- Capital expenditure
- Depreciation



## Next events



Once a month

**Tire market trends**

July 29, 2014

**First-Half 2014 Results**

October 22, 2014

**Net sales at September 30, 2014**

November 10, 2014

**Investor day in Shenyang (China)**

February 10, 2015

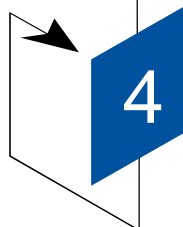
**Full-year 2014 Results**





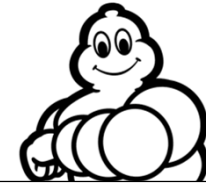
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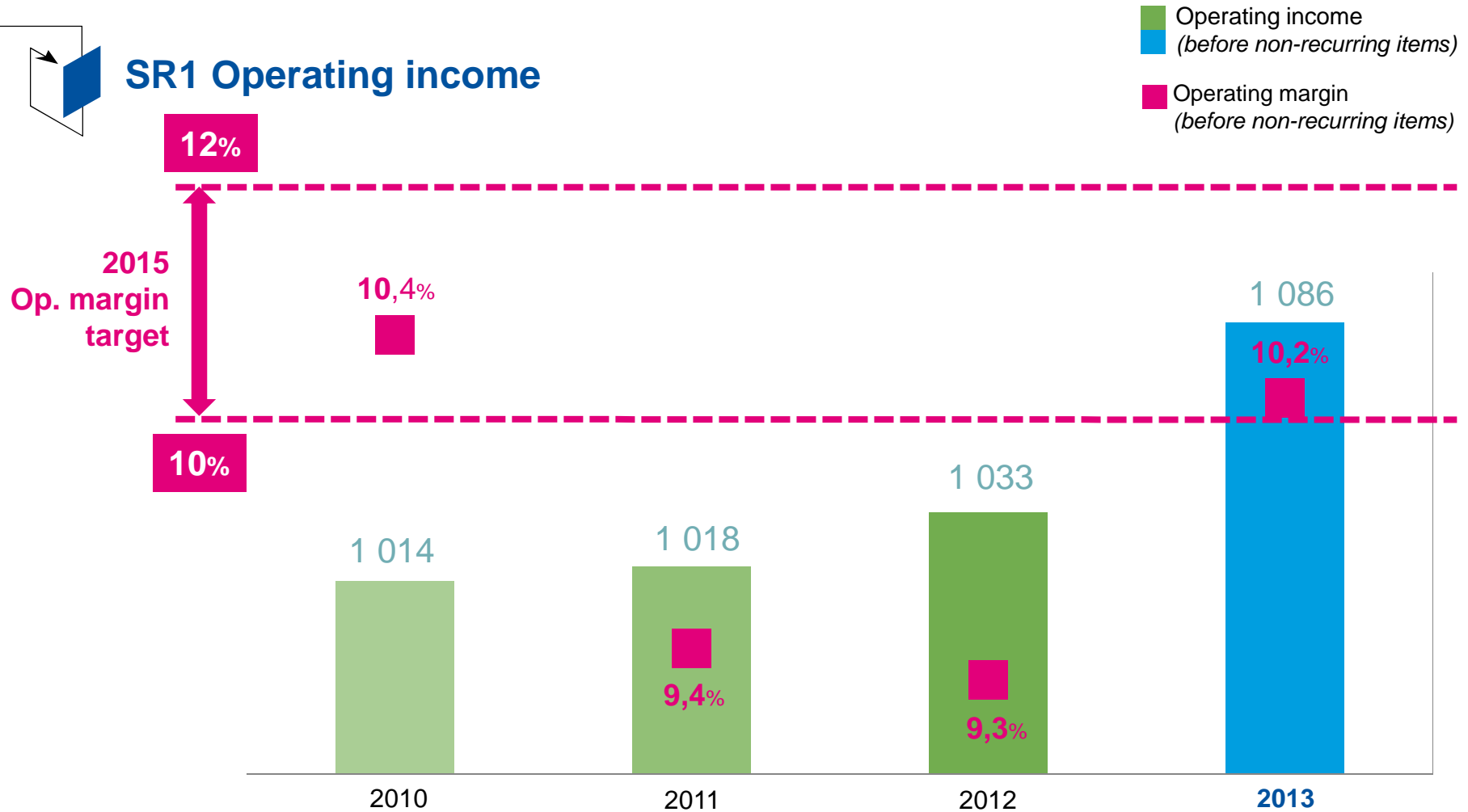


## APPENDICES

# Car and Light truck: disciplined unit margin management



## SR1 Operating income

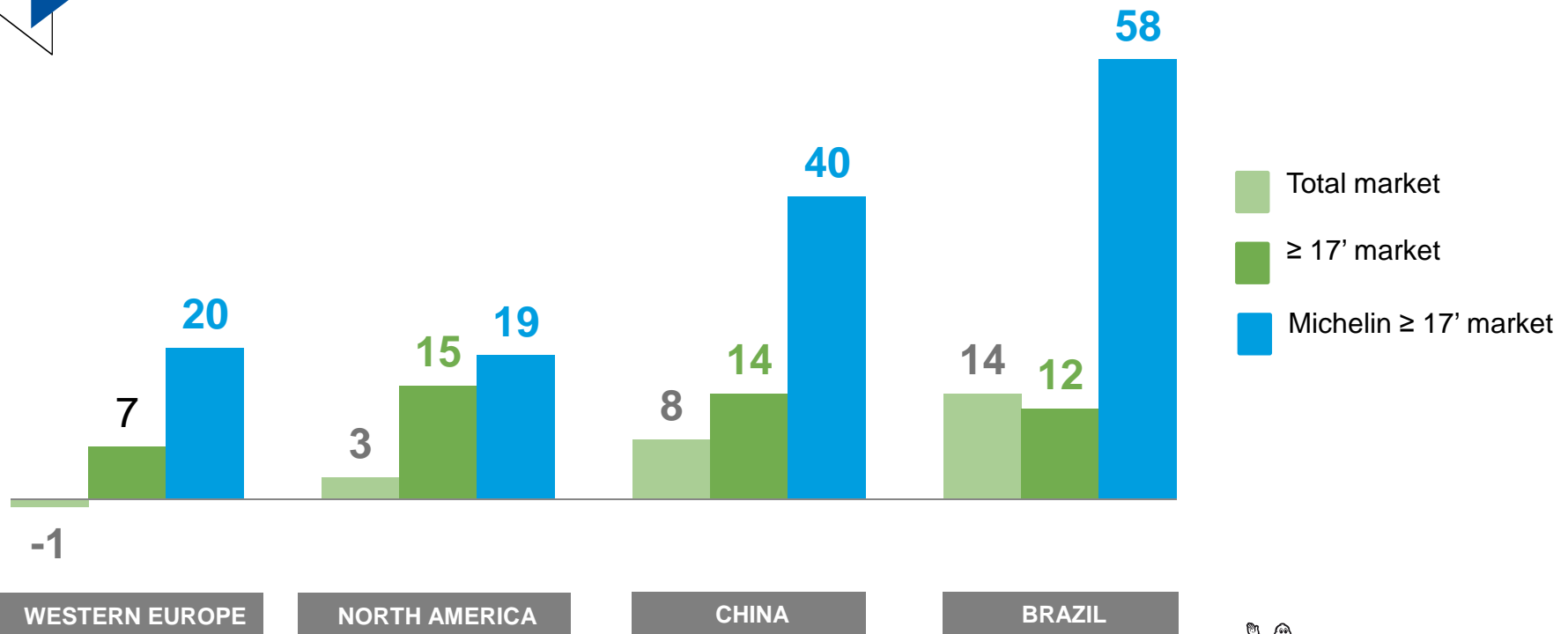


# Premium Car and Light truck: technological leadership and the MICHELIN brand

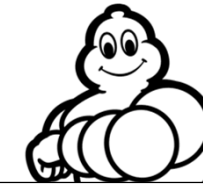


- ▶ **Original equipment:** 67% of 2013 ≥17' certifications
- ▶ **Replacement:** 39% of 2013 ≥17' sales

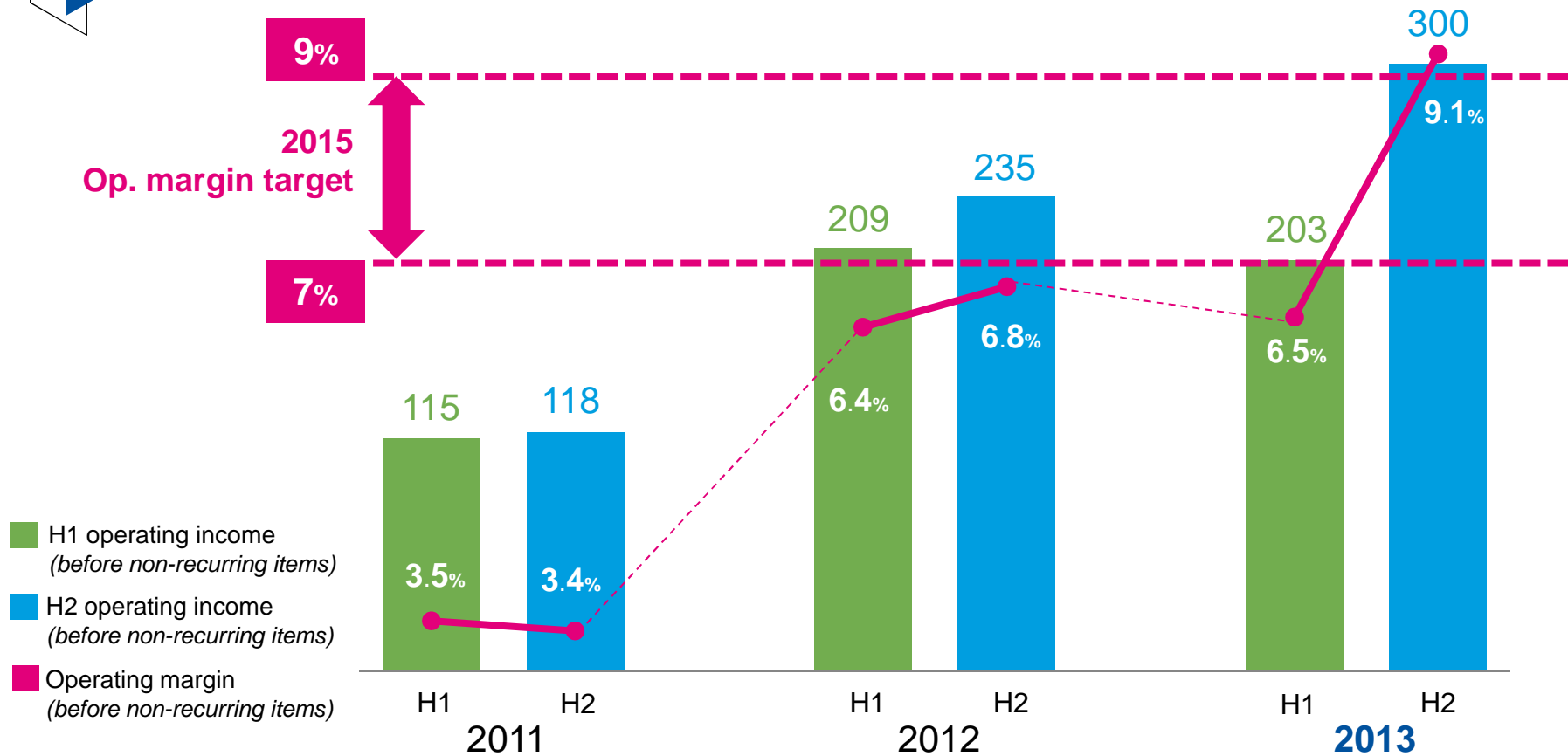
## Replacement Car and Light truck markets (% YoY change in 2013)



# Truck tires: priority focus on restoring margins



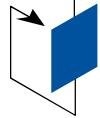
## Operating income



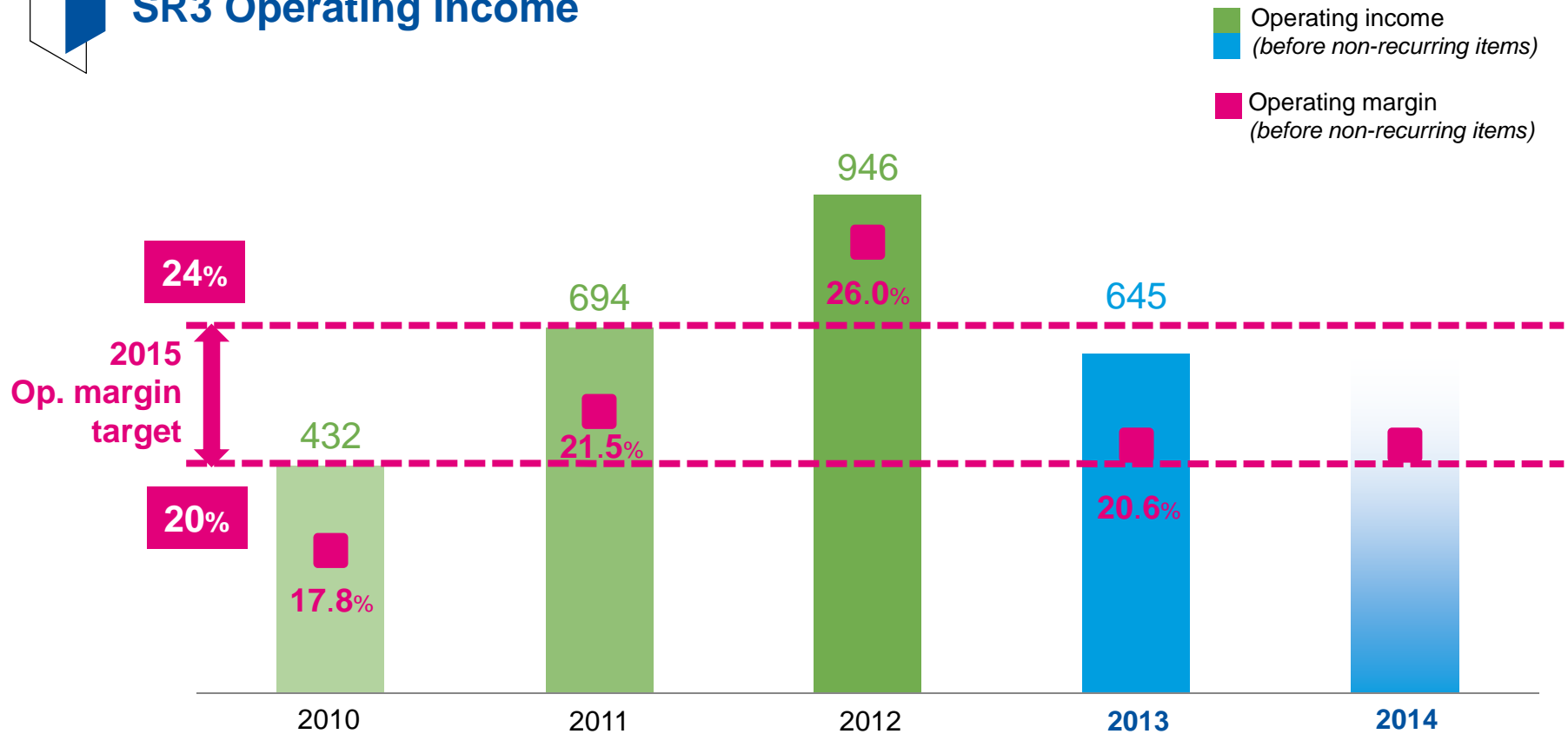
- H1 operating income (before non-recurring items)
- H2 operating income (before non-recurring items)
- Operating margin (before non-recurring items)



# The specialty businesses are structurally robust



## SR3 Operating income



## More than €100m in productivity gains through industrial restructuring decided in 2013 and 2014

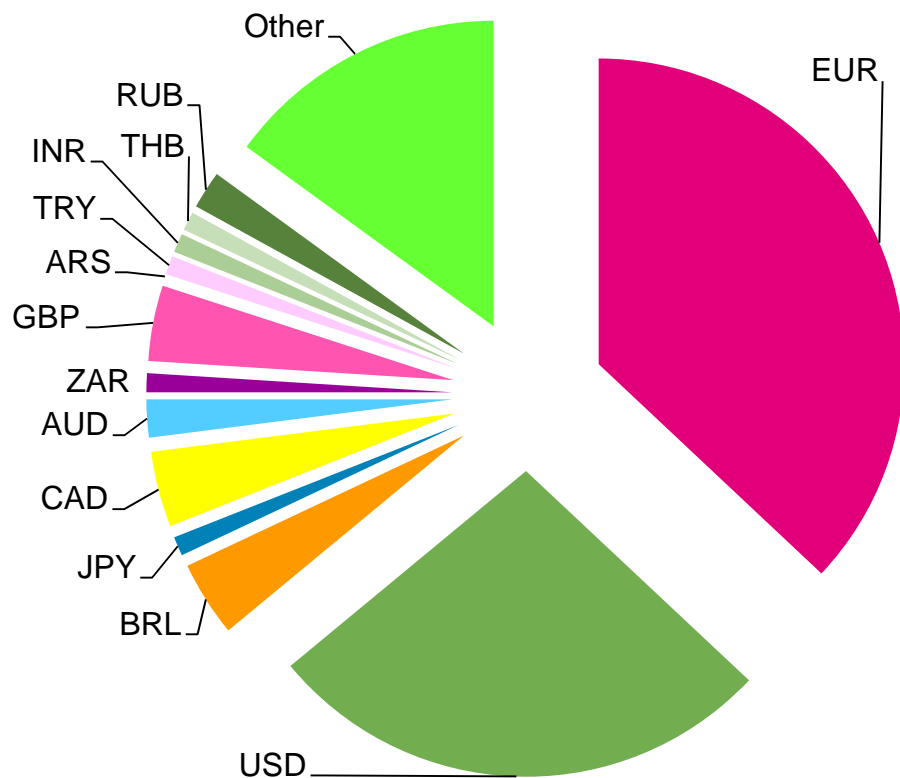


<i>In € millions</i>	2013	2014	2015	2016	2017	
						<b>Total</b>
<b>Non-recurring expense</b>	<b>(250)</b>	<b>(90)</b>				
dont cash out	<b>(42)</b>	<b>(90)</b>	<b>(64)</b>	<b>(25)</b>	<b>0</b>	<b>(221)</b>
<b>Cash in (asset sales)</b>			<b>23</b>			
						<b>Annual gains after 2017</b>
<b>Productivity gains</b>	<b>0</b>	<b>54</b>	<b>71</b>	<b>110</b>	<b>114</b>	<b>114</b>

# High exposure to currency rates due to the Group's broad global footprint



Q1 net sales by currency

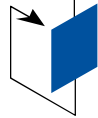
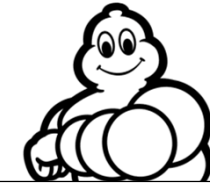


% total net sales by currency		2014 currency assumptions*
EUR	37%	
USD	27%	1.38
BRL	4%	3.23
JPY	1%	141.24
CAD	4%	1.53
AUD	2%	1.53
ZAR	1%	14.88
GBP	4%	0.83
ARS	0,5%	10.77
TRY	1%	3.06
INR	1%	84.45
THB	1%	44.78
RUB	2%	49.45
Other	15%	

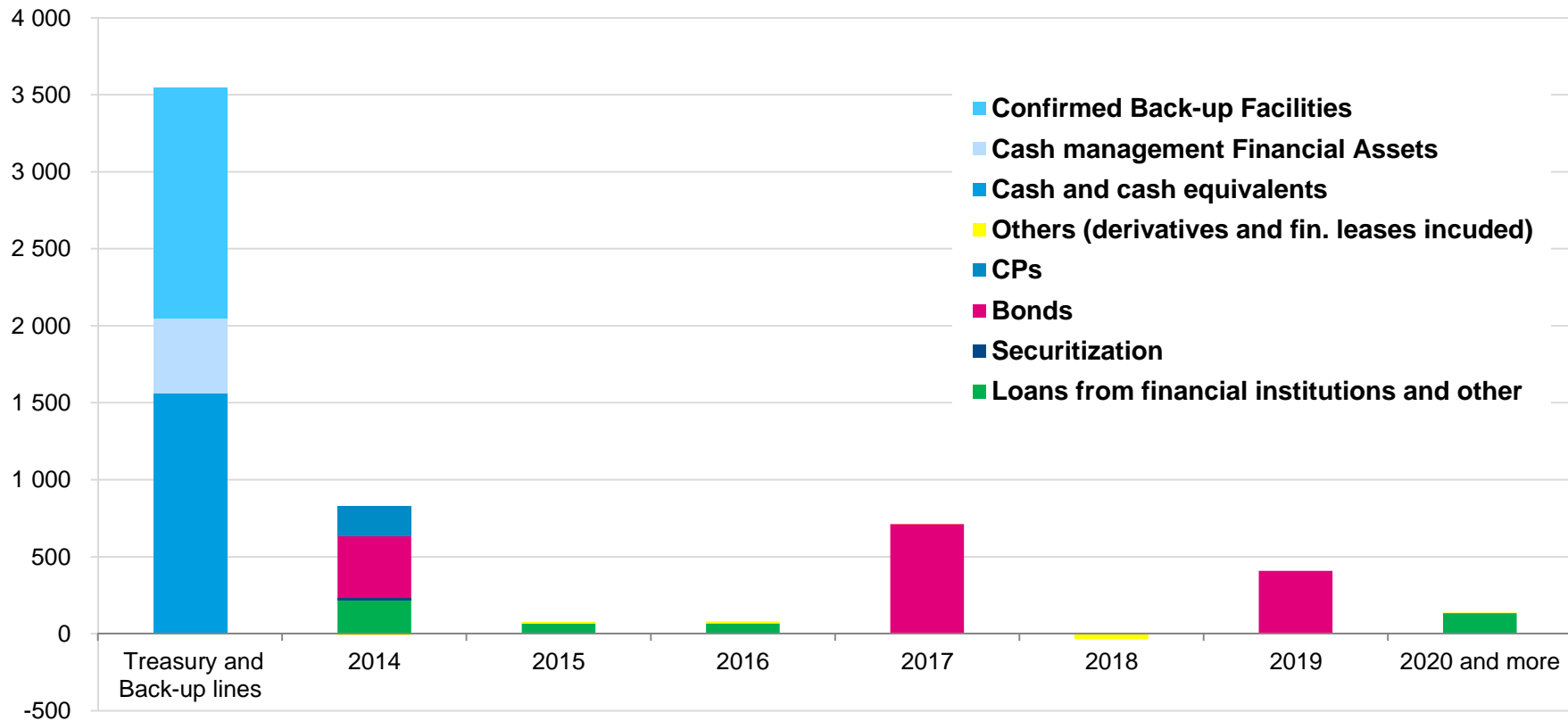
\* As of March 2014



# An exceptional cash position

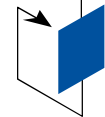
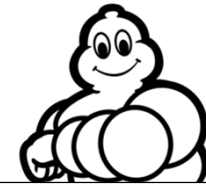


## Debt maturities at December 2013 (Nominal value, in € millions)

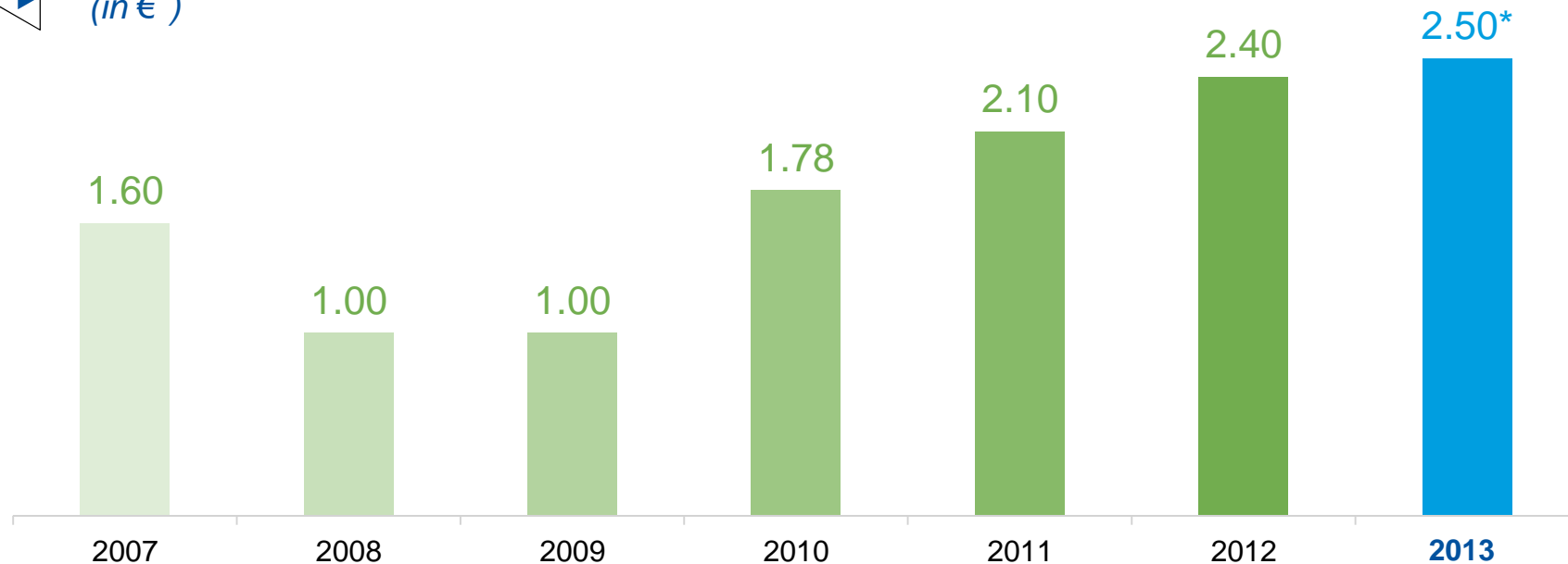




# Shareholder commitment and cash redeployment: payout increased to 35%



## Dividend per share (in €)

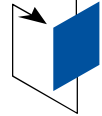
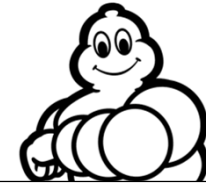


**New payout ratio, 2013-2020:**  
**35% of consolidated net income** *(before non-recurring items)*

\* Submitted to shareholder approval at the May 16, 2014 Annual Meeting



# Contacts



## Investor Relations

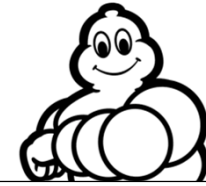
**Valérie MAGLOIRE**  
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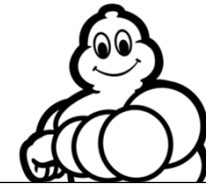
*[investor-relations@fr.michelin.com](mailto:investor-relations@fr.michelin.com)*

# Aircraft services: driving the best total cost solutions for airlines



- Per landing billing
- Complete management of tire lifecycle

# Mining services: reduce total tire cost through effective, predictive preventive maintenance



Optimize total cost of ownership



P, T.



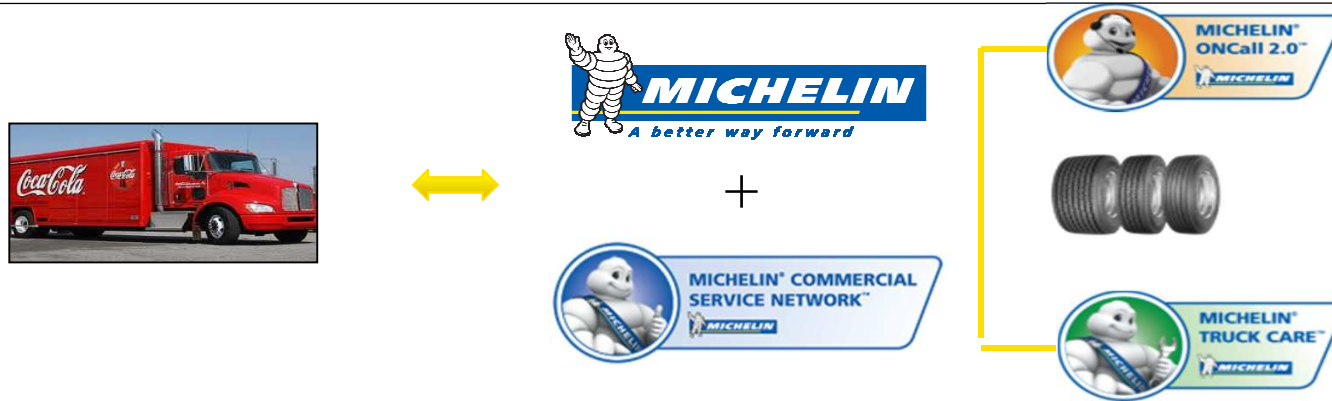
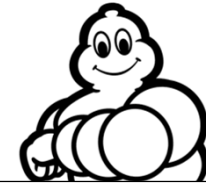
1 sensor per tire



1 device per truck

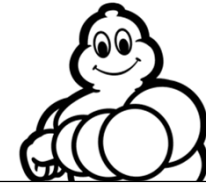


# Truck services: a key driver of improved profitability in North America Truck



- ▶ Franchised network of leading service providers – the Michelin Commercial Services Network (MCSN) - 560 locations and growing
- ▶ Services focused on improving fleet uptime, fuel economy, asset management and reducing total fleet operating costs -> two new services launched in 2014 to date with more under development for launch in 2014 and 2015
- ▶ Services have contributed significantly to North America truck profitability both directly and indirectly

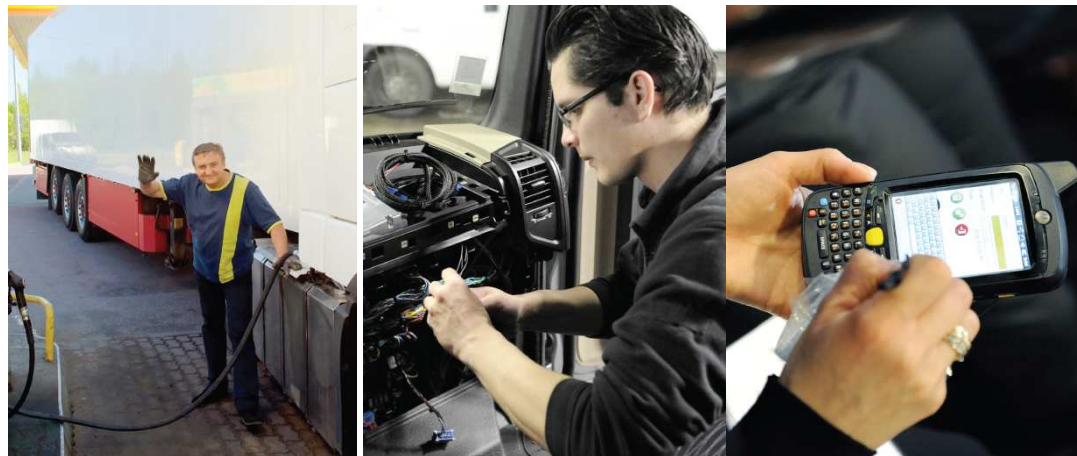
# Truck fleet solutions : EFFIFUEL, the first new offer from MICHELIN solutions



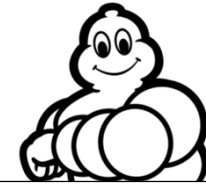
▶ Help reduce and control fuel consumption for fleets

- ▶ For a truck traveling 120,000 km/year, savings can be greater than € 2,500
- ▶ Effifuel solutions enable to offset up to 100% of the tire budget

- Contractual commitment to reduce fuel spend
- Training in eco-driving and real time monitoring of driver behavior
- Tire management, low rolling resistance tires, cloud based tread/pressure monitoring
- Telematics integration and deep analytics

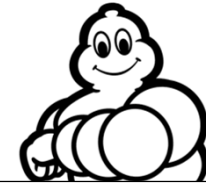


## Services are essential to Michelin and a key lever driving future growth and profitability



- ▶ Allow Michelin and its customers to extract the optimum value from our products
- ▶ Let the customer focus on key aspects and the core competencies of their business
- ▶ Facilitate value demonstration of our market leading product portfolio
- ▶ Create a direct relationship, stronger intimacy and deeper roots with our customers
- ▶ Reinforce and strengthen the relationship with our distribution network
- ▶ Michelin - the MICHELIN brand and the Michelin quality it stands for - is legitimate in mobility and Smart Tire solutions

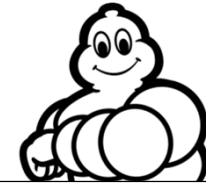
# Converting data to information is key to delivering services and value to our customers



- ▶ Many services opportunities exist to add value to B2B customers:
  - Tire program management
  - Route management, breakdown service and driving behavior
  - Fuel consumption and management
  - Uptime improvement and potentially insurance against downtime
  - Operation cost reduction and efficiency gains
  
- ▶ Real time information availability and transparency is key
  - Allows responsiveness, immediate action
  - Allows flexibility in asset utilization, business model evolution for B2B customers
  
- ▶ Customers need and expect more
  - Fleets can be over-burdened with raw data that, alone, adds limited value
  - Michelin can be a leader in the development and delivery of an effective information based solution ecosystem
  - B2B customers are ready to pay for services that drive value to their bottom line

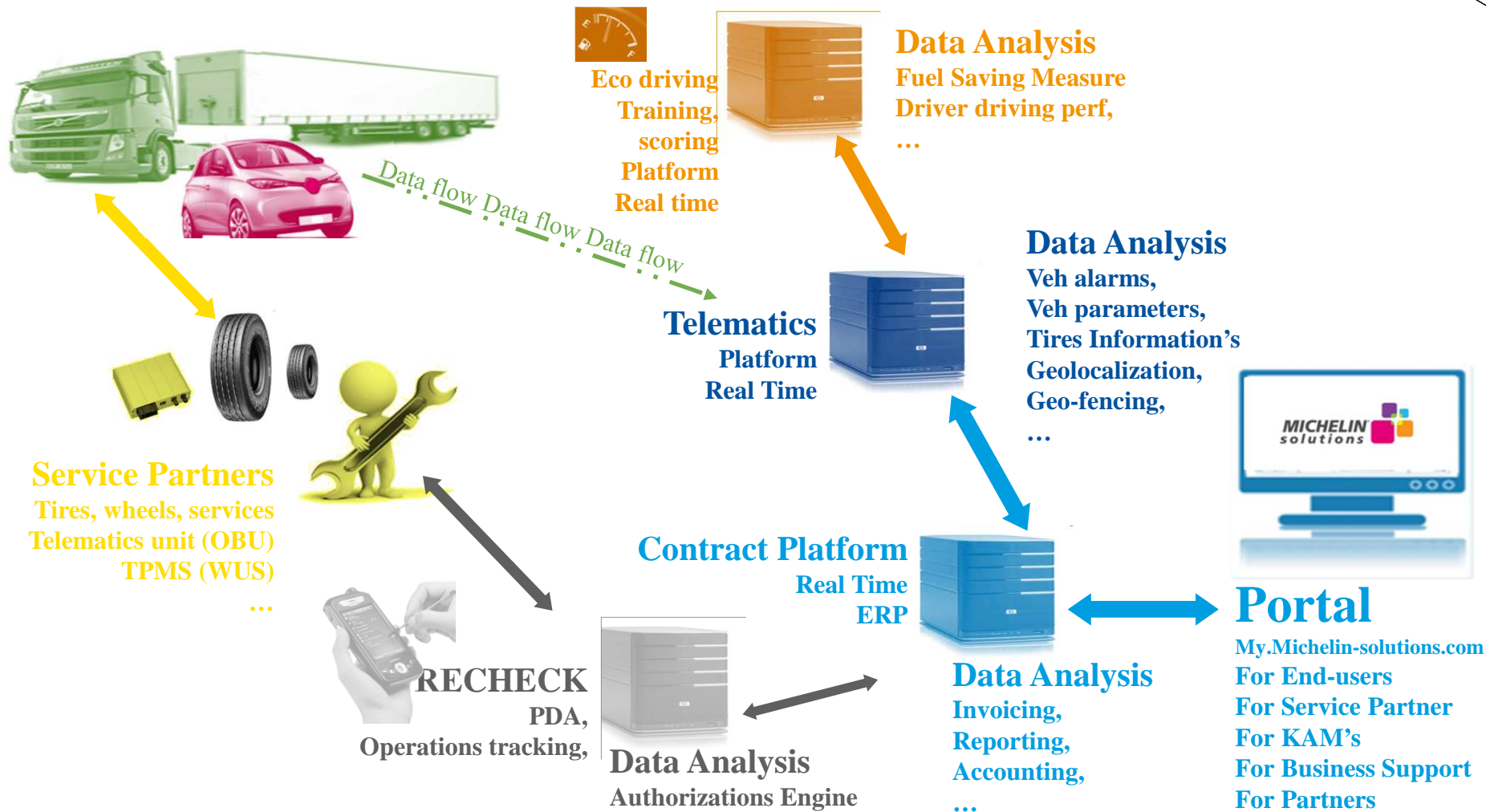


# Telematics Service Providers are key players in the information Value Chain

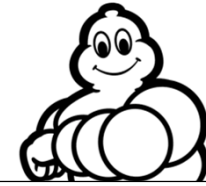


- ▶ They capture and generate the information flow
  - No Information, no Analytics, less Value for the customer
- ▶ They bring key expertise and capabilities
  - Fast-moving technology with solution cost rapidly decreasing
- ▶ They provide an entry point and technology platform to the customer
  - On which value added capability and features can be added
- ▶ They know how to work in a fast moving, high growth environment
  - Depending on regions, between 5 and 20% of vehicles are connected.
  - In 10 years, the majority of vehicles will be connected in all regions
- ▶ However, they are even more valuable as part of a bigger, broader solution capability!

# EFFIFUEL™: Michelin solutions' information chain creates Shared Value for the Group and its customers



# Fleet management: a growth opportunity

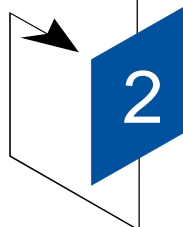


- ▶ Average revenue per unit (ARPU)
  - Truck: 30-50€/mth in Europe & North America  
20-30€/mth in Brazil
  - Passenger car: 5-10€/mth worldwide average
- ▶ Telematics
  - Truck: 5%-15% of market is equipped
  - Passenger car: approx. 5% of market is equipped
- ▶ Outlook for vehicle equipment
  - More than 50% of vehicles equipped by 2025
- ▶ Outlook for ARPU
  - Natural trend for competitive pricing to be offset by more value-added services
  - Ex: pay as you drive and stolen vehicle insurance



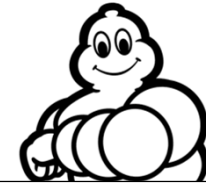
June 10, 2014

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## TRANSACTION RATIONALE

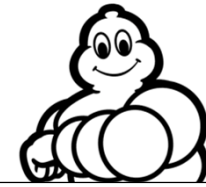
# Michelin acquires Sascar



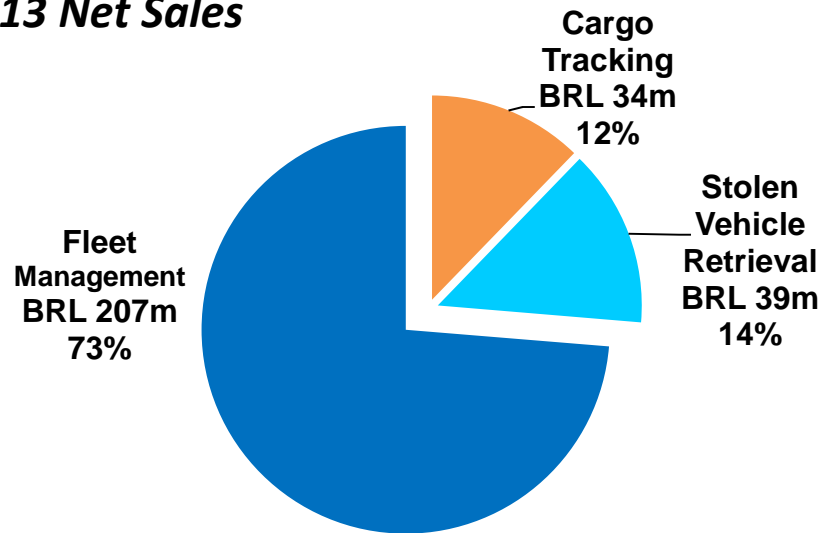
- ▶ Enterprise Value of BRL1,600m (~€520m)
  - Cash out BRL1,353m\* (~€440 m)
  - Net debt BRL247m\* (~€80 m)
  - Representing around 11x 2014(e) EBITDA of Sascar
  
- ▶ Precedent transactions multiples
  - c.10x to 14x LTM EBITDA
  
- ▶ Comparable companies
  - Trading 2014(e) EBITDA multiple ranges: c.14x to 19x

\* Amounts to be adjusted when the acquisition closes

# Sascar at a glance: an emerging market champion with leading technology



**2013 Net Sales**

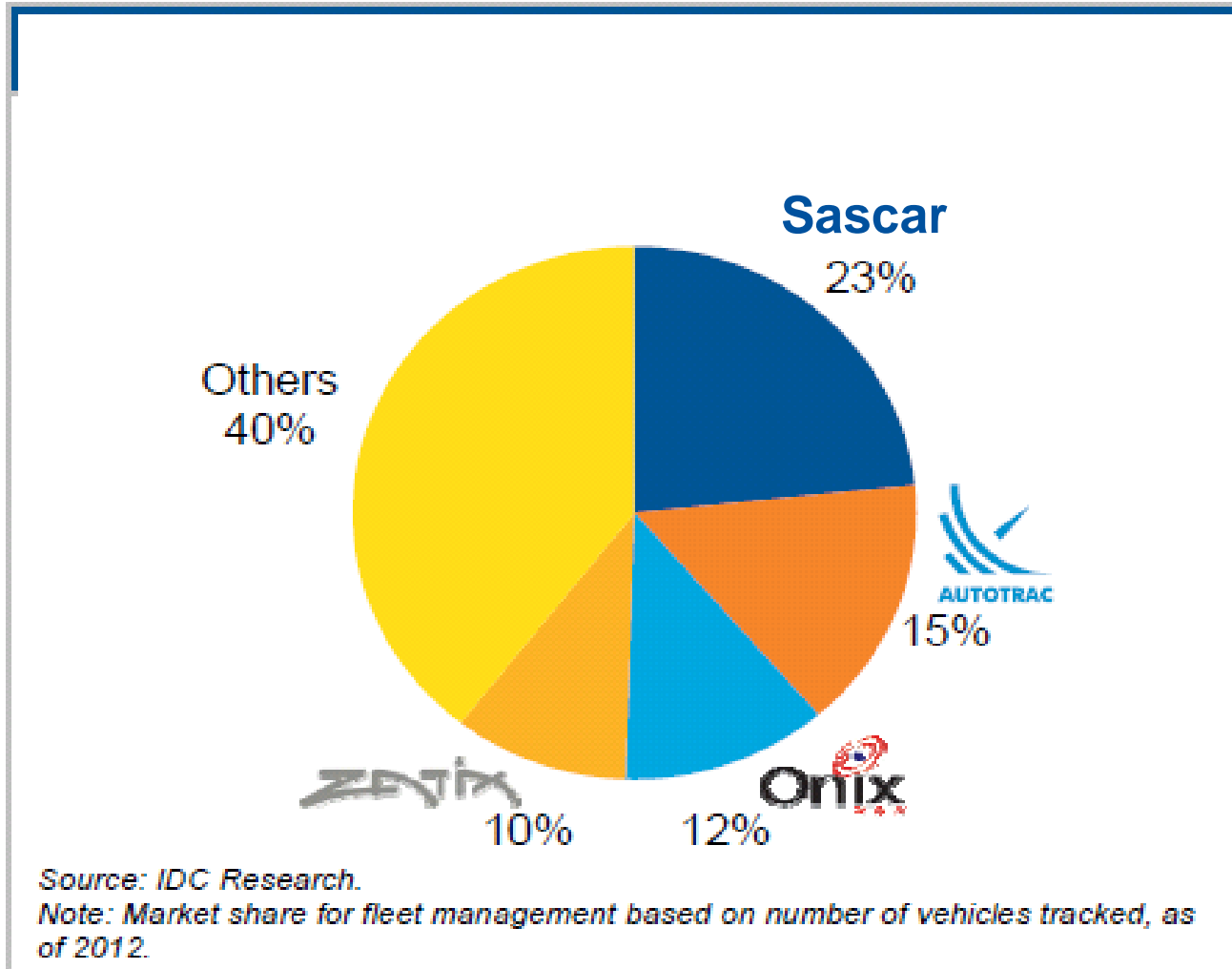
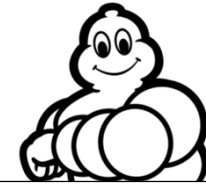


- 2013 Net Sales: BRL 280m
- 2013 Net Sales Growth: 24%
- 2013 EBITDA Margin: 37%
- Vehicule Base: 230K (TB & PC)
- Employees: 870 as of June 1, 2014

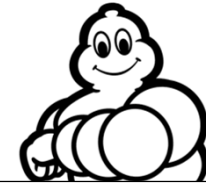
► Company management welcomes the opportunity to join the Michelin Group



# Sascar: #1 market share in fleet management



# Sascar's leading SaaS-based solution suite



- ▶ 160 engineers and software developers at the forefront of digital telematics

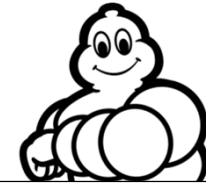


SaaS: Software As a Service



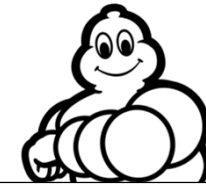


# Sascar's customer portfolio: small & medium fleets

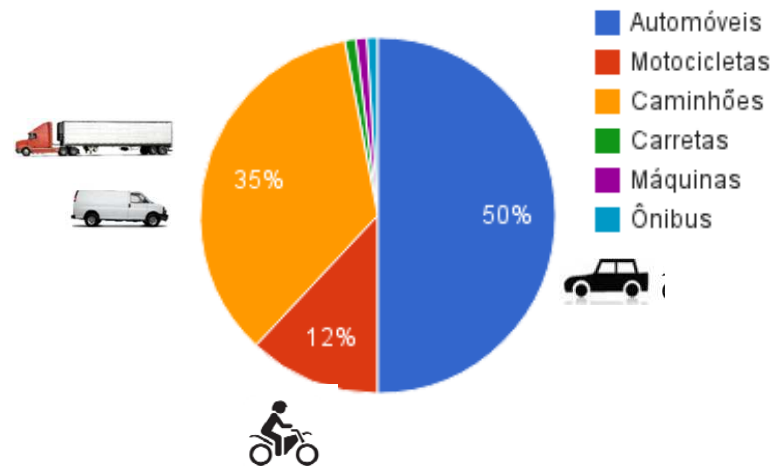


- ▶ 230,000 vehicles managed
  - Trucks: approx. 190,000 for 33,000 fleet customers
  - Passenger car: approx. 40,000
  
- ▶ Truck fleet portfolio
  - Fleets < 5 vehicles ~ 45%
  - Fleets 5-20 vehicles ~ 50%
  - Fleets > 20 vehicles ~ 5%
  
- ▶ A dedicated customer service capability
  - 200 direct field and telesales personnel

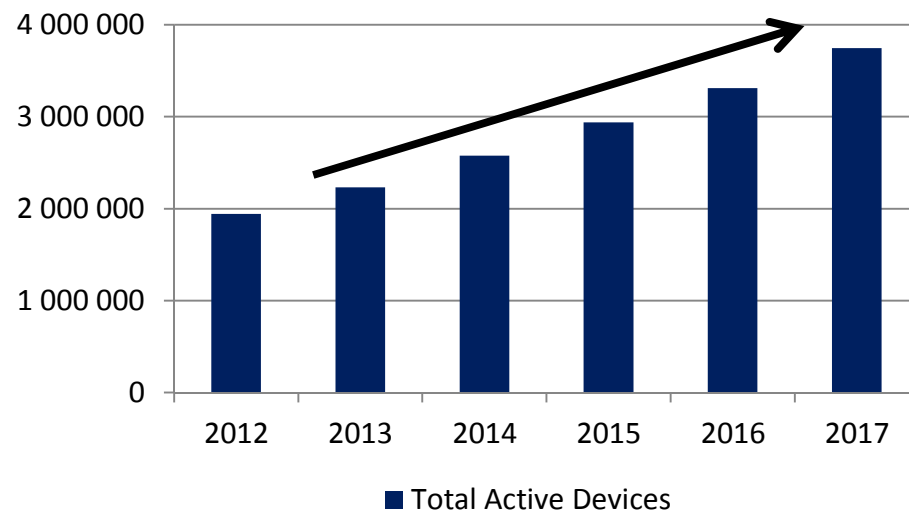
# A fast-growing market: only 4% of Brazil vehicles presently equipped



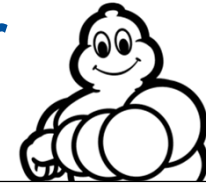
Brazil 2012 : 2,3 M vehicles equipped



Market Growth +15% CAGR



# Fleet management: a significant opportunity for Michelin in Brazil



## ► Fleet Management

- Historically: Tire-centric service offers
  - Per km driven and per landing sales
  - Michelin Earthmover Management System (MEMS)
  - RFID patents opened for adoption of worldwide RFID standard
- Today and moving forward: information integrator driving innovative solutions to fleets - beyond tires
  - Michelin Solutions
  - Digital data collection to drive optimized development and delivery of solution offers
  - Tire management, optimization of fuel consumption and uptime

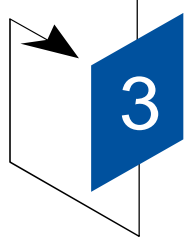
## ► Michelin: #1 in Truck tires in Brazil

- Leader in radial tire technology
- Very strong presence with large fleet customers
- Solid network of truck tire dealers



June 10, 2014

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## 3 FINANCIAL IMPACT



# Sascar, an emerging market champion fueled by growth



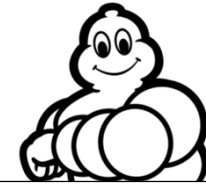
- ▶ 2013: Sascar net sales BRL 280m with only 5% equipped fleets in Brazil
- ▶ Business value driven by demonstrated past and future growth
  - Fleet management 20+% CAGR expected
  - Enhanced demand thanks to efficient new digital technologies
- ▶ Short-term: Extending the customer base:
  - Sascar drives faster growth in Brazil by leveraging Michelin's dealer network, particularly in "Big Fleets"
  - Michelin gains access to Sascar's small fleet customer base
- ▶ Medium-term:
  - Adding more value to the solutions through cross-fertilization (Data analytics, smart reporting)
  - Globalizing Michelin's telematics offer
- ▶ Expected cash flows from customer synergies: €30m to €35m by 2020

# Guidance for Sascar: an acquisition accretive to consolidated earnings



	2014	5-year horizon
Revenue growth	up 14%	up 15%-20% per annum
<i>In % of Net Sales</i>		
EBIT	23%	20%-25%

# Key Takeaways



- ▶ Sascar, the Leading Digital Fleet Management Company in Brazil, possesses a strong foundation of growth, profitability and technology
- ▶ The Michelin Group will strengthen and extend Sascar's winning position by leveraging our:
  - Deep knowledge of the respective mobility markets and fleet and customer needs in these markets
  - Ability to quickly integrate Sascar technology into existing offers and to build innovative solutions around current and future Sascar technology bricks
- ▶ The assets, capabilities and scale of the Michelin Group ensure a strong, growing and profitable future for Sascar
- ▶ This acquisition is completely consistent with Michelin's purpose and mission these past 125 years – to further mobility and to provide a Better Way Forward.
- ▶ Services growth fueled by market leading technology enables and drives Michelin's continued mobility leadership in the 21<sup>st</sup> century