

# AMSTERDAM BRUSSELS

November, 2013



# The Pillars of our Strategy

**1** Innovate to drive differentiation and loyalty

Continuously become more competitive **2**



**3** Drive faster growth



November, 2013

## AMSTERDAM-BRUSSELS



- 1 SIX MAJOR AMBITIONS FOR 2020
- 2 Q3 2013 NET SALES IN LINE WITH FULL-YEAR OUTLOOK
- 3 2013 GUIDANCE
- 4 2014 OUTLOOK
- APPENDICES

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### 1 SIX MAJOR AMBITIONS FOR 2020

# 1

## Product Performance Leadership

**Performance composit index specific to each market segment**

- Safety
- Energy saving
- Longevity
- Road noise reduction

**with a mass reduction bonus when applicable**

**2020 new product performance objective:  
up 10% vs. 2010 product performance**



# 1

## Product Performance Leadership: Example

**5% on performance  
+ 5% on mass reduction bonus  
= 10% global**



**Mass reduction  
105**

**Road noise  
105**

**Longevity  
105**

**Safety  
105**

**Energy saving  
105**

— 2010  
— 2020



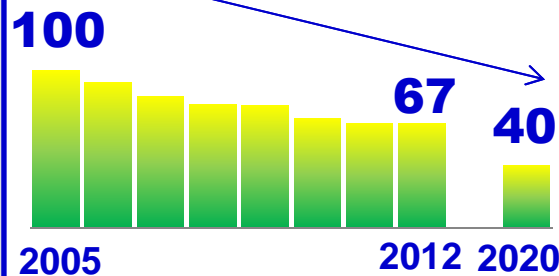
# 2

## Leadership in Responsible Operations

Resource consumption

Air emissions

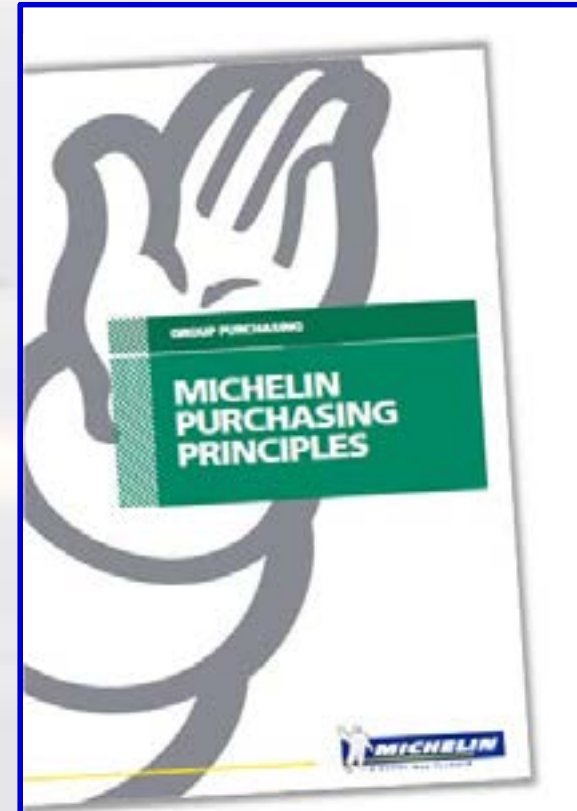
Waste



Responsible  
Production Process



Responsible logistics  
to contribute to 10% CO<sub>2</sub> cut

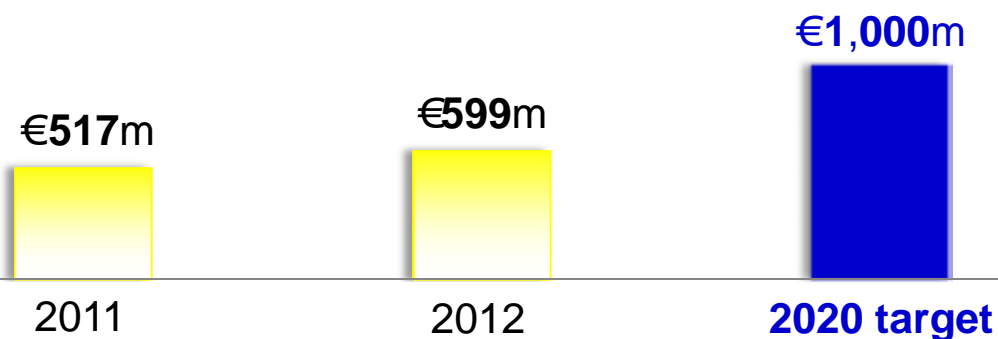


70% of suppliers in line with  
Michelin corporate standards

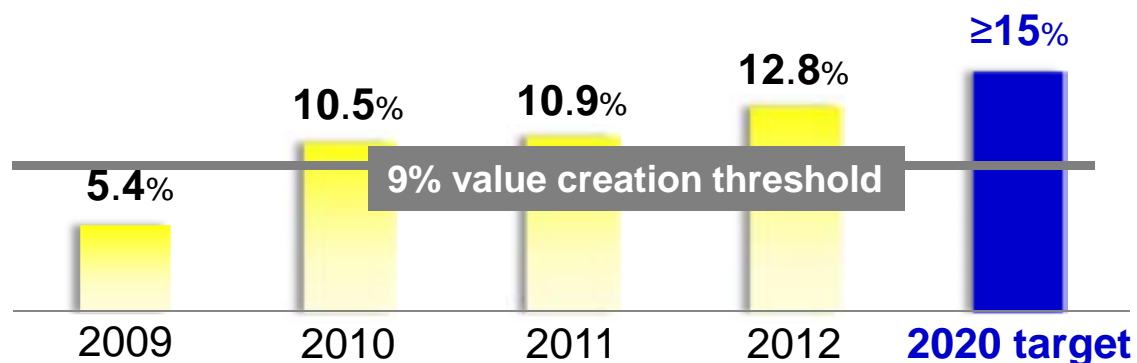
# 3

## Sustainable Financial Performance

**Deliver a structural €1billion  
Free Cash Flow from 2020**



**2020 ROCE:  $\geq 15\%$**





# 4 Commitment to the Well-being and Development of our Employees

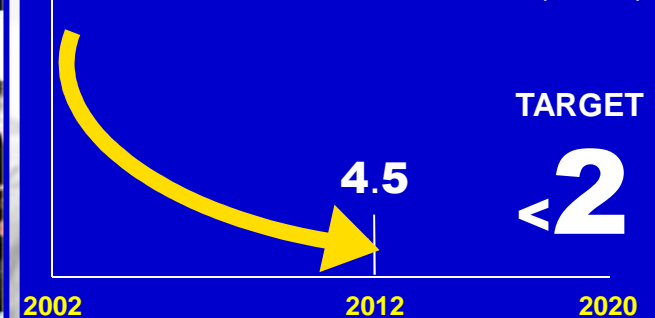
Managers: **75%** coming from within the company

Women managers:

from 18% to **30%**



Total Case Incidence Rate (TCIR)



Achieve and maintain an **85%** Employee Engagement Rate at Group level



# 5

## Live in Harmony with our Communities



**30,000 working days per year donated by Michelin employees to support communities**



**> 2,000 jobs created annually with Michelin involvement to support local businesses**



**100% of Michelin sites deploy a community involvement program**



# 6 Advocacy: Fostering Better Life through Sustainable Mobility



2014 edition in China



**Promote mobility solutions**



**Action for road safety**

Cement kiln



Synthetic sport grounds



Re-use in new tires



**Recycling tires**

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## Q3 2013 NET SALES IN LINE WITH FULL-YEAR OUTLOOK

# Net Sales of €15,282m over First 9 Months, Sales Volumes Up 2% in 3<sup>rd</sup> Quarter

## ► **Markets:** up in Q3

- Europe: Q2 rebound confirmed, but level still weak
- North America: recovery in Car & Light truck tires, especially Tier 3; Truck tires still uncertain
- Emerging markets: good overall trend

## ► **Sales volumes:** up 2% in Q3

- Stable over 9 months, in line with annual objective

## ► **Price effect:** stable in Q3 in relation to H1

- Price rises in countries experiencing currency depreciation

## ► **Currency effect:** -5.3% in Q3

- Combined impact of decline in the USD and CAD (30%), JPY (10%), BRL and ARS (20%) and other currencies

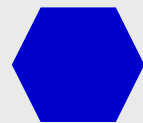




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## **AMSTERDAM-BRUSSELS**

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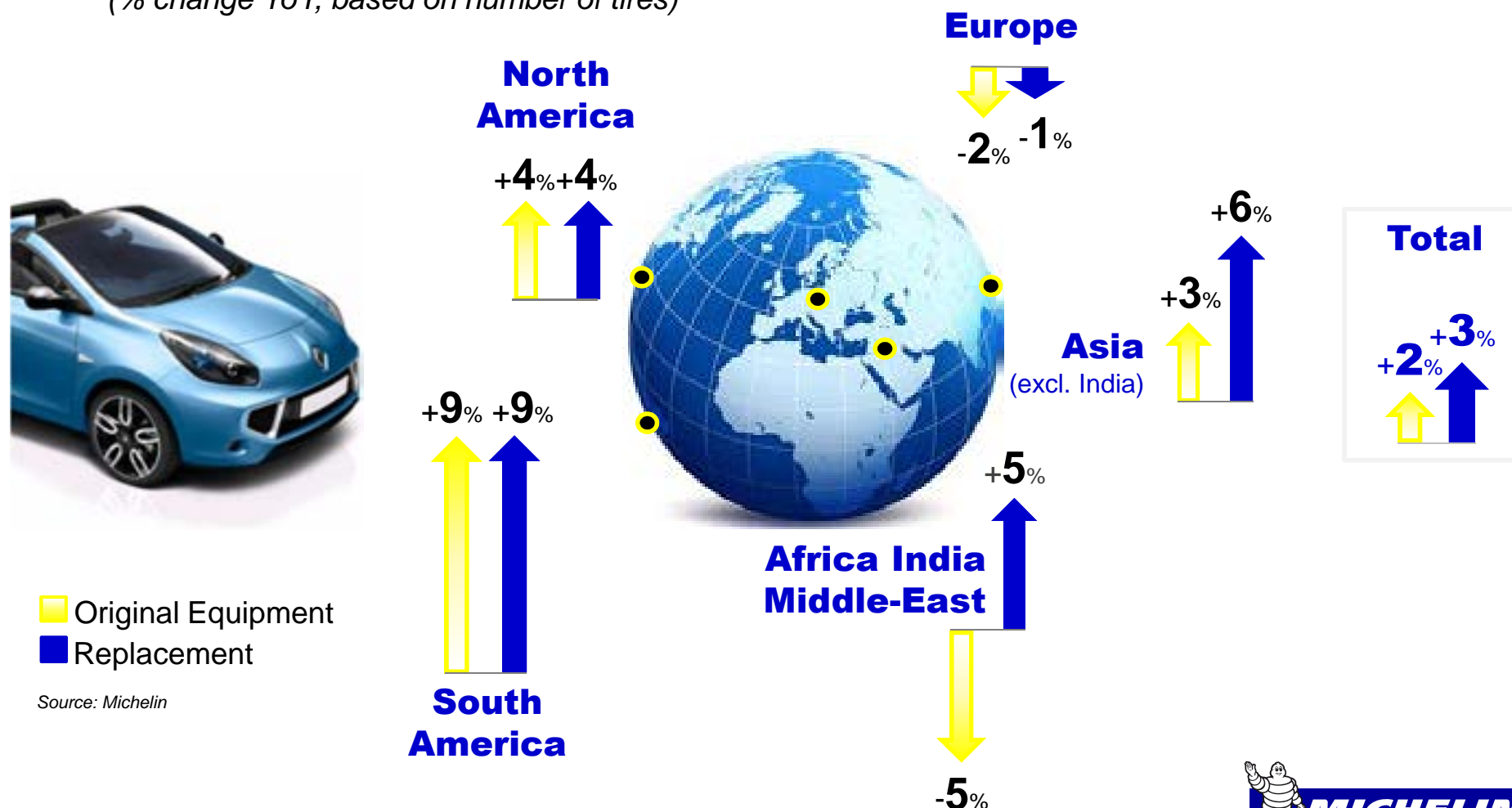


**MARKETS ON A GOOD TREND  
IN Q3 AS EXPECTED**

# Car & Light Truck: All Markets Up in Q3 except Eastern Europe

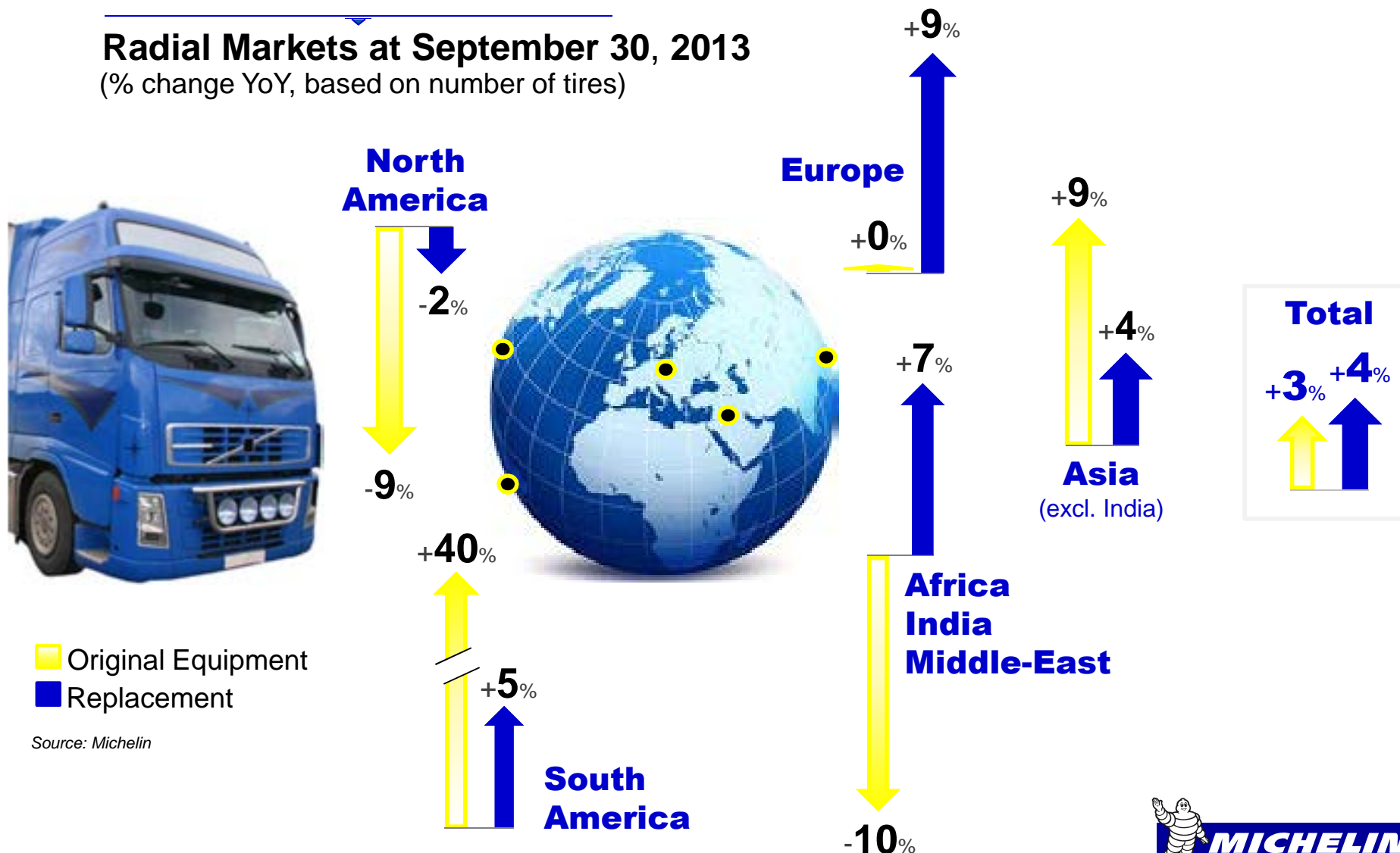
## Markets at September 30, 2013

(% change YoY, based on number of tires)



# Truck: Technical Rebound in Europe but still Uncertain in North America

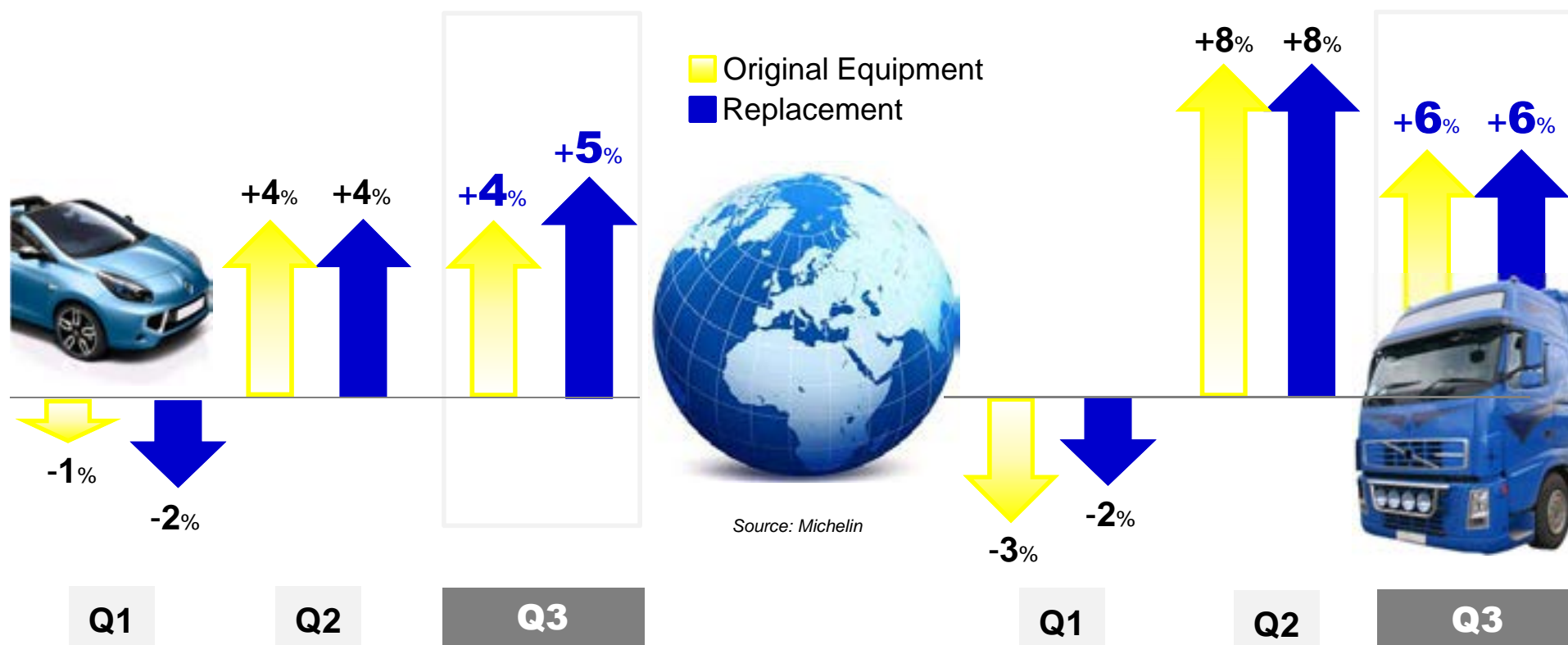
**Radial Markets at September 30, 2013**  
(% change YoY, based on number of tires)



# Cars & Light Trucks and Trucks: Q3 Continues on Q2 Trend

## 2013 worldwide markets by quarter

(% change YoY, based on number of tires)

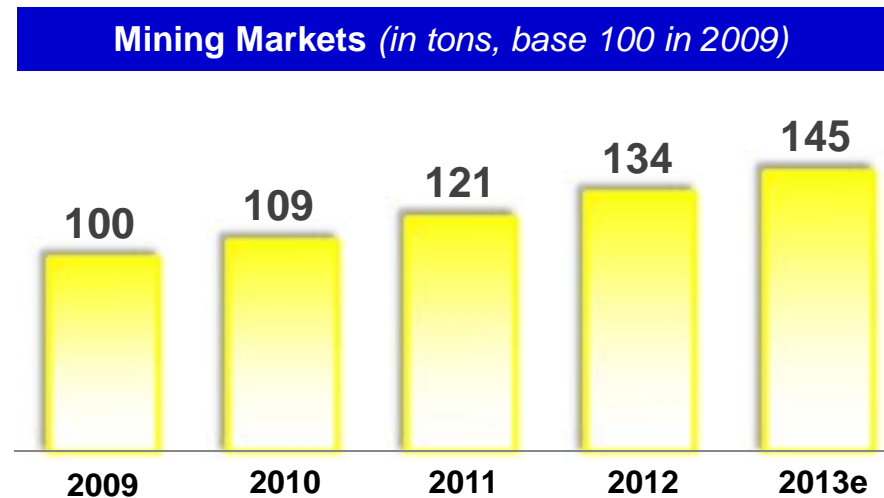


Source: Michelin



## **Earthmover:** Slower Growth in Mining; Other Markets Sensitive to the Business Environment

- ▶ Mining: slower growth



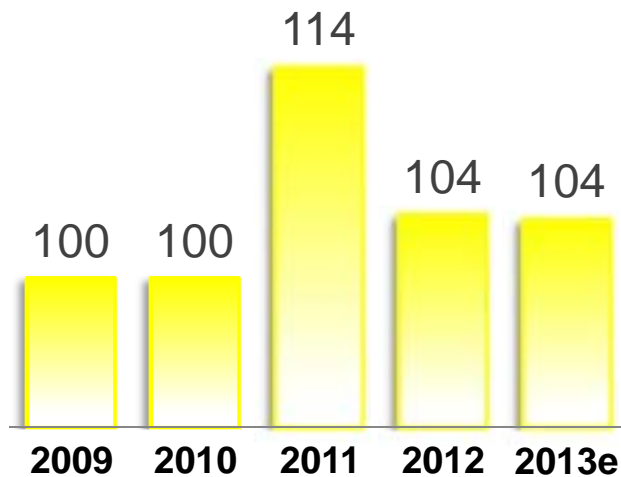
- ▶ Other Earthmover: difficult market conditions
  - Original Equipment: sharp decline
  - Infrastructure: continued inventory draw-downs



# Agricultural: Stable Overall, with Growth in Technical Tires

## Agricultural Markets

(base 100 in 2009, in number of tires)



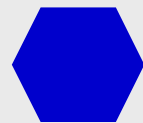
- ▶ Slower demand for OE tires
- ▶ Slight recovery for RT in Europe
- ▶ Growth in demand for technical tires



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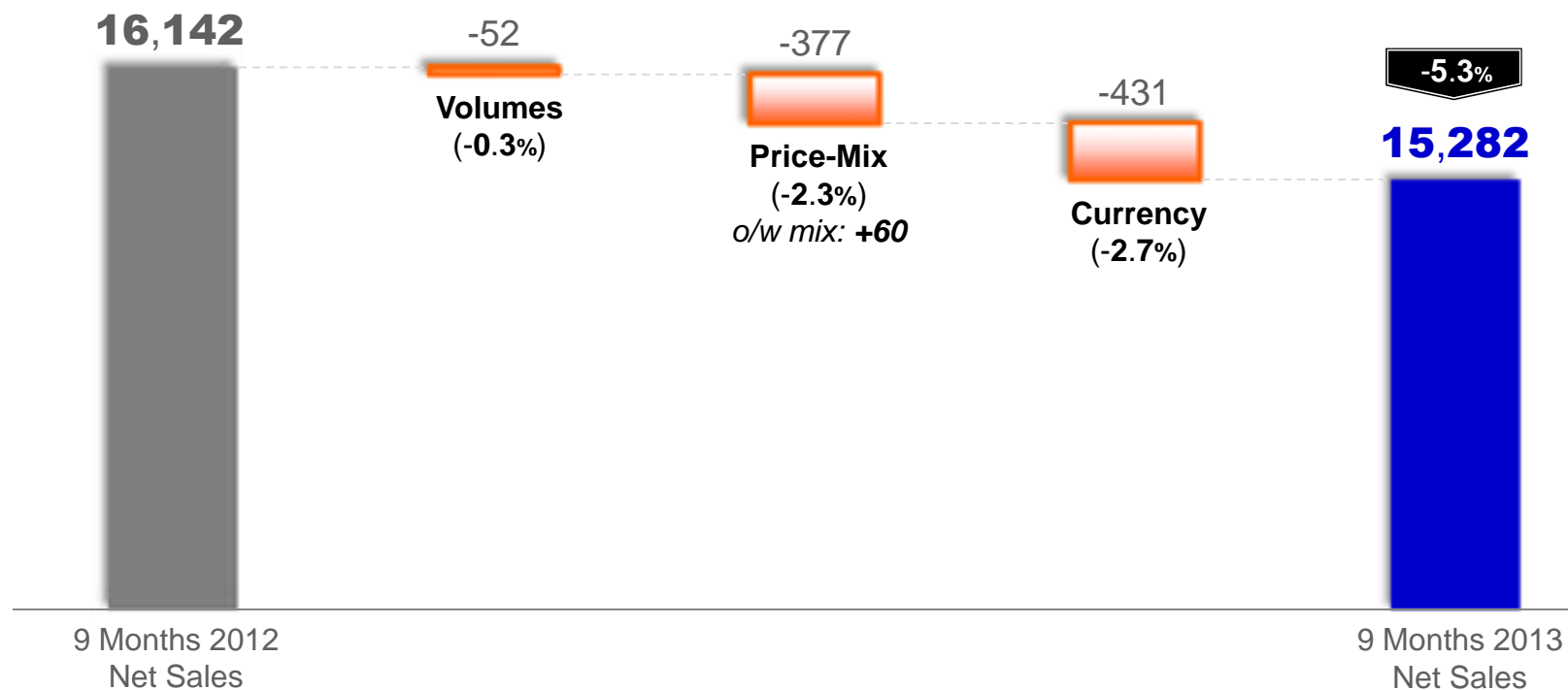


**NET SALES IN LINE WITH  
FULL-YEAR OUTLOOK**

# Volumes in Line with Full-Year Forecasts

## YoY change

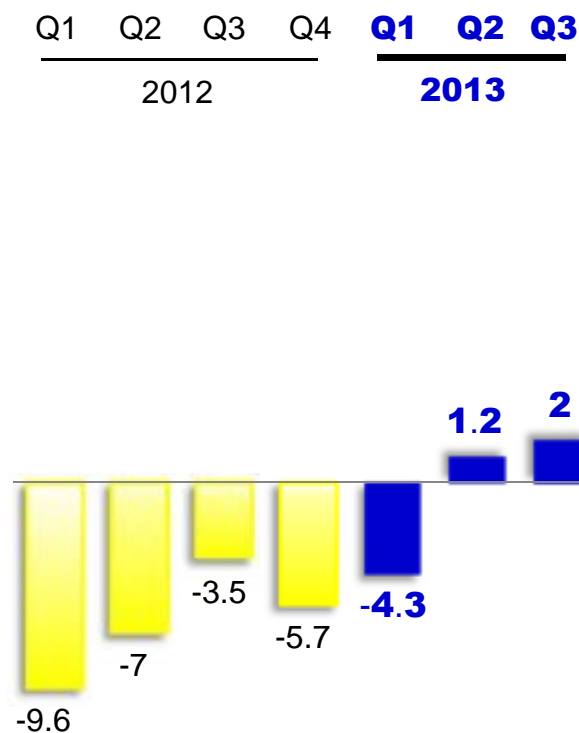
(in € millions and as a % of net sales)



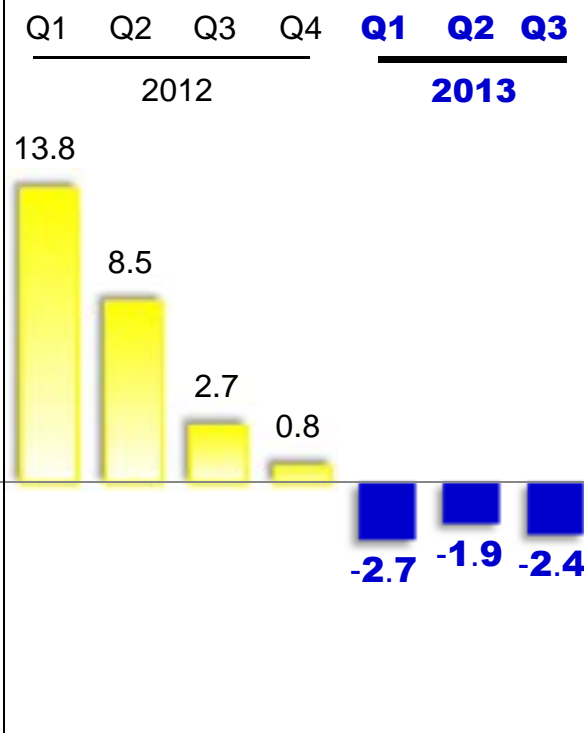
# Continued Growth in Q3, Stable Price Effect and Significant Currency Effect

## % change YoY

### ► Volumes



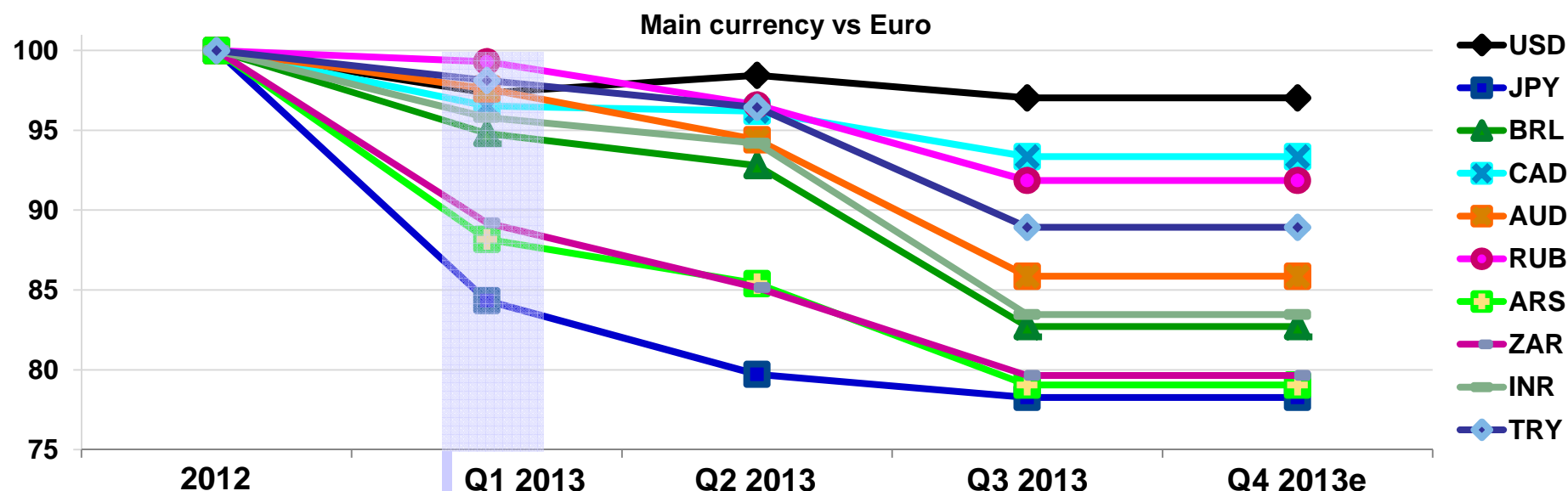
### ► Price-mix



### ► Currency



## Significant Currency Effect: USD and JPY Generally in Line with our February Assumptions



	Guidance 02/2013	Q1 2013	Q2 2013	H1 2013	Q3 2013	9M 2013
Net sales		4,877	5,282	10,159	5,123	15,282
Currency effect / Net sales		-61	-82	-143	-288	-431
Operating income	Flat			1,153		
Currency effect / Op. income		-100/-150		-49		





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## OPERATING SEGMENTS

# Passenger Car & LT and Related Distribution: Stepped-up Growth in Q3

## Passenger car and Light truck (in € millions)



	9 months 2013	9 months 2012	Change
<b>Net Sales</b>	<b>8,023</b>	8,298	-3.3%
Volume growth	+0.9%		

### ► Volumes

- Strong upturn in sales (up 4% in Q3)
- Winter market down as expected

### ► Price-Mix

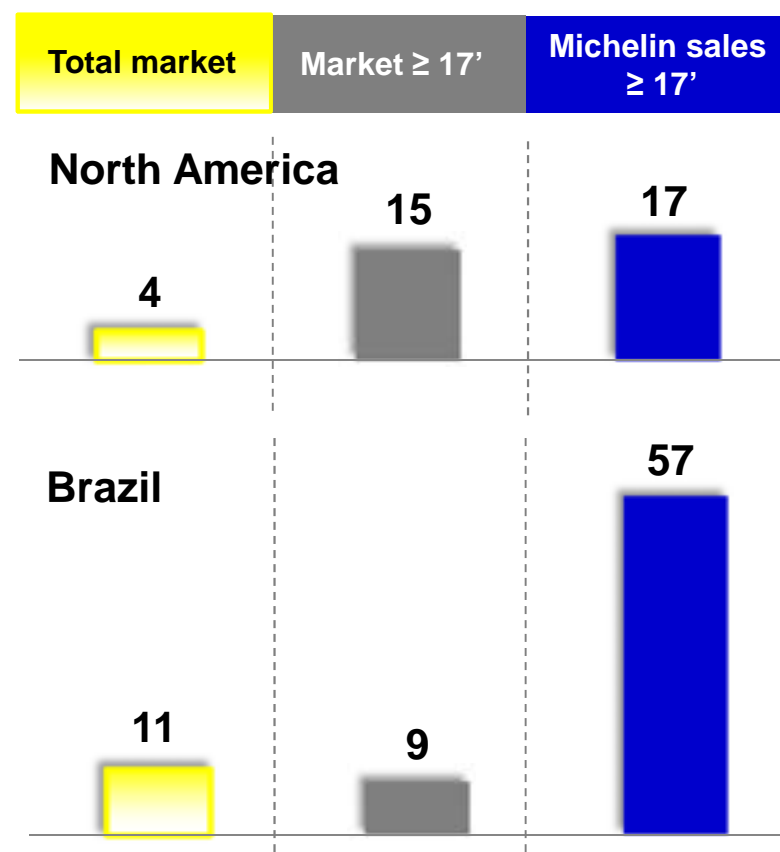
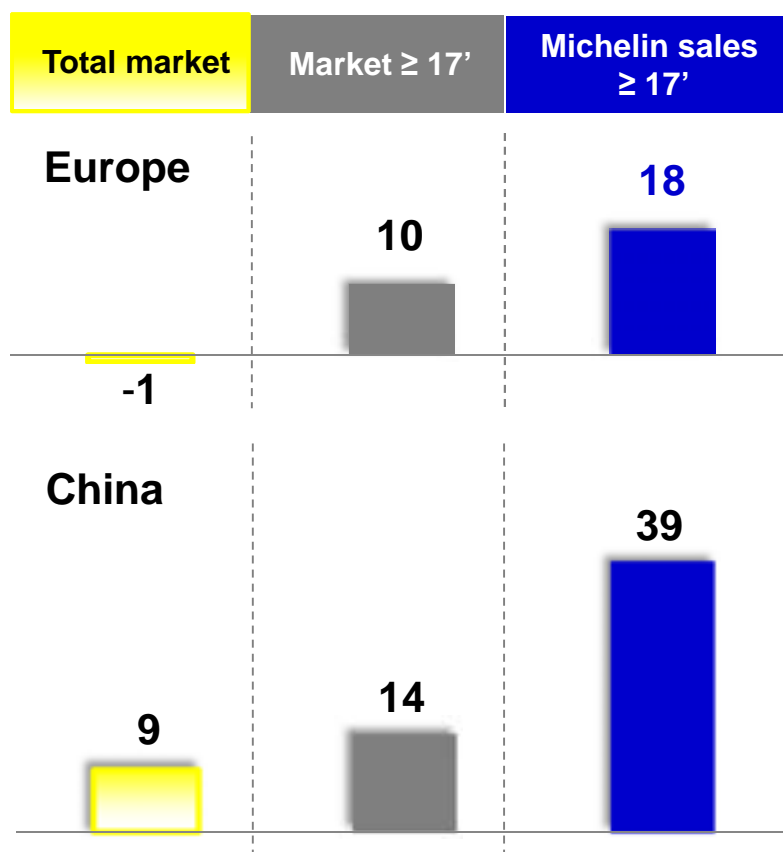
- Price: managed repositioning
- Mix: favorable, led in particular by ≥17'



# The Premium Car & Light Truck Tire Segment: a Major Growth Opportunity Being Seized by Michelin

## Growth in the replacement Car & Light truck market

(YoY change at end-September 2013, in %)



# Truck & Associated Distribution: Continued Improvement

## Truck

(in € millions)



	9 months 2013	9 months 2012	Change
<b>Net Sales</b>	<b>4,781</b>	5,044	-5.2%
Volume growth	-0.6%		

- ▶ Priority given to Truck tire profitability improvement
- ▶ Favorable impact from raw materials
- ▶ Unfavorable currency effect cushioned by price increases in markets experiencing currency depreciation



# Specialty: Resilience in a Difficult Environment

## Specialty Businesses

(in € millions)



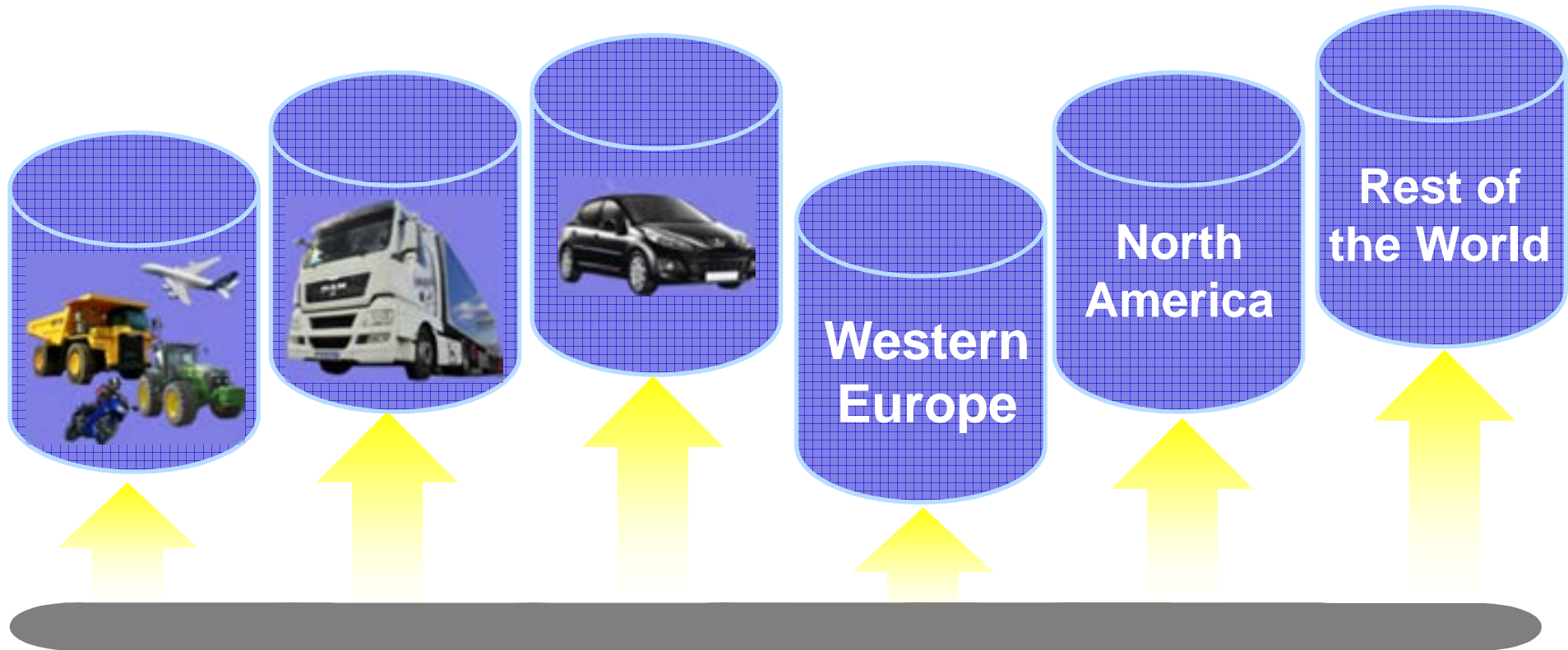
	9 months 2013	9 months 2012	Change
Net Sales	2,478	2,800	-11.5%
Volume growth	-4.2%		

- ▶ Growth in Mining sales and weakness in Earthmover OE and Infrastructure
- ▶ Good sales dynamic for Agricultural OE
- ▶ Contractual price adjustments in Mining and Earthmover and Agricultural OE
- ▶ Unfavorable currency effect





# A Natural Hedging through Balanced Geographic Exposure and Business Portfolio



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### 3 2013 GUIDANCE

# 2013 Markets in Line with the Original Scenario

## EUROPE



## NORTH AMERICA



## NEW MARKETS



## MINING



## **2013 Objective:** Operating Income\* excluding the Currency Effect up around €150m YoY

- ▶ **Unfavorable currency environment**
- ▶ **Group steering to offset the currency effect:**
  - Volumes up in Q4
  - Margin management: positive price-mix / raw materials ratio
  - Tighter management of production costs and SG&A
- ▶ **FCF confirmed in line with structural objective of €500m**
  - Capital spending of around €2bn
- ▶ **ROCE > 10%**

\* : *before non-recurring*

## **Q3 2013 Key Takeaways**

- ▶ **Volumes up in Q3 as expected**
- ▶ **Heavily unfavorable currency environment in Q3 and H2**
- ▶ **Group steering: objective to offset the annual currency effect as much as possible**

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### 4 2014 OUTLOOK

# 2014 Outlook

## MATURE MARKETS



## NEW MARKETS



## SPECIALTY MARKETS

Mining

EM OE & Infra

Agricultural

### ► 2014 operating margin\* targets:

#### SR1

- from 10 to 12%
- in the middle

#### SR2

- from 7 to 9%
- at the upper end

#### SR3

- from 20 to 24%
- at the lower end

\* : *before non-recurring*





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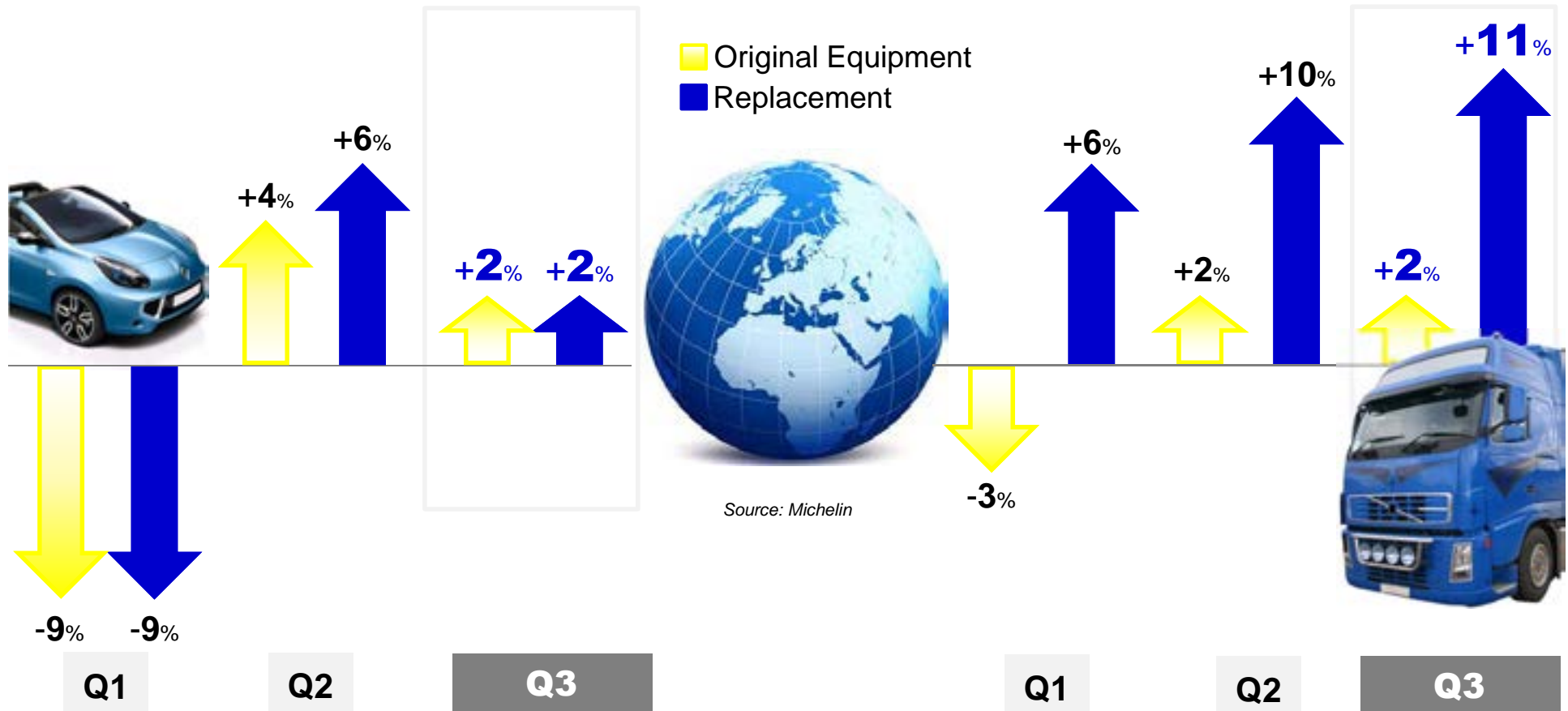


## APPENDICES

## Europe: Rebound Confirmed in the West and Downturn in Eastern Europe in 3<sup>rd</sup> Quarter

### Quarterly performance at September 30, 2013

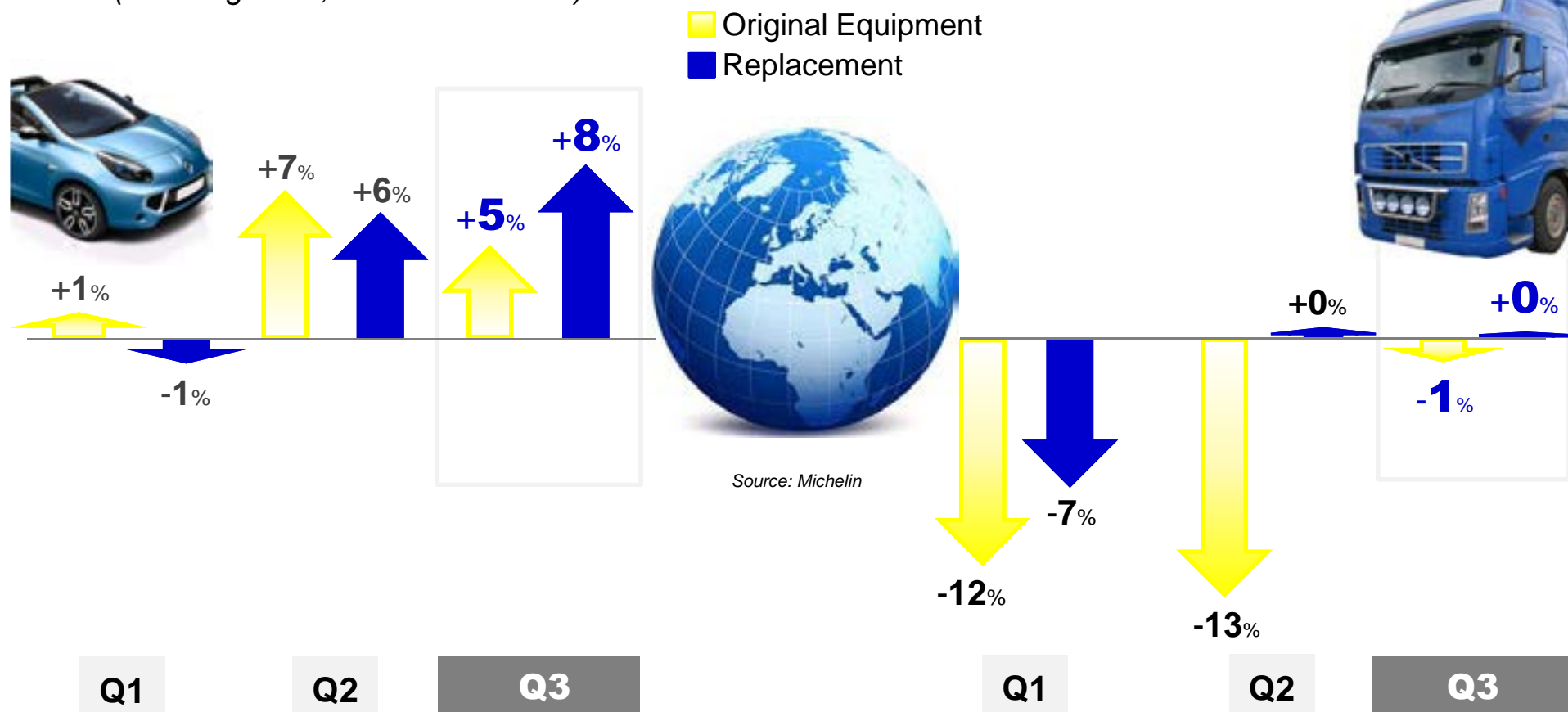
(% change YoY, in number of tires)



# North America: Recovery in Car and Light Truck Market; Truck Market Still Uncertain

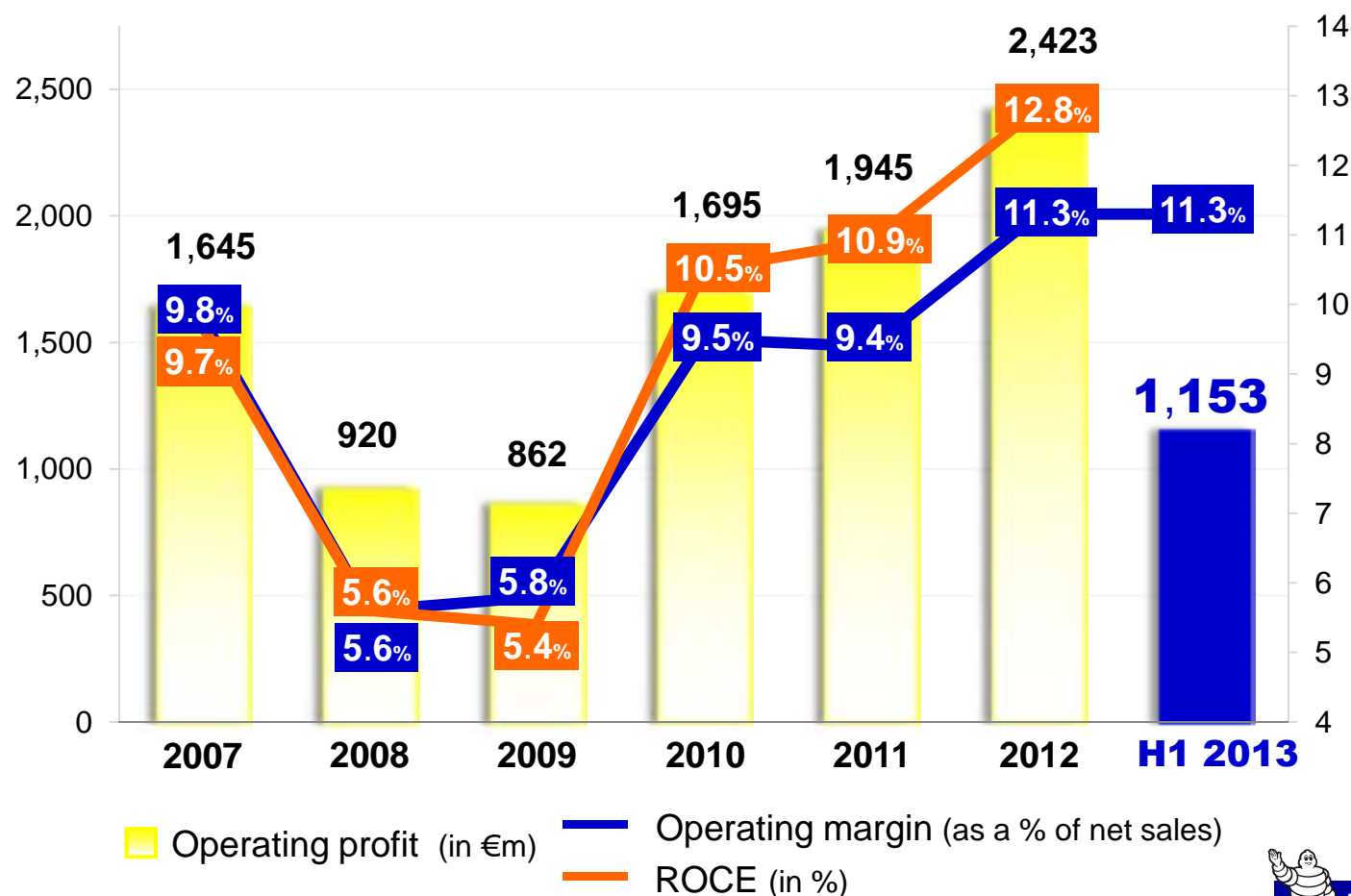
## Quarterly performance at September 30, 2013

(% change YoY, in number of tires)



## Group Key Figures: Leverage the Group's Strengths to Enhance Profitable Growth and Reduce the Cost Structure

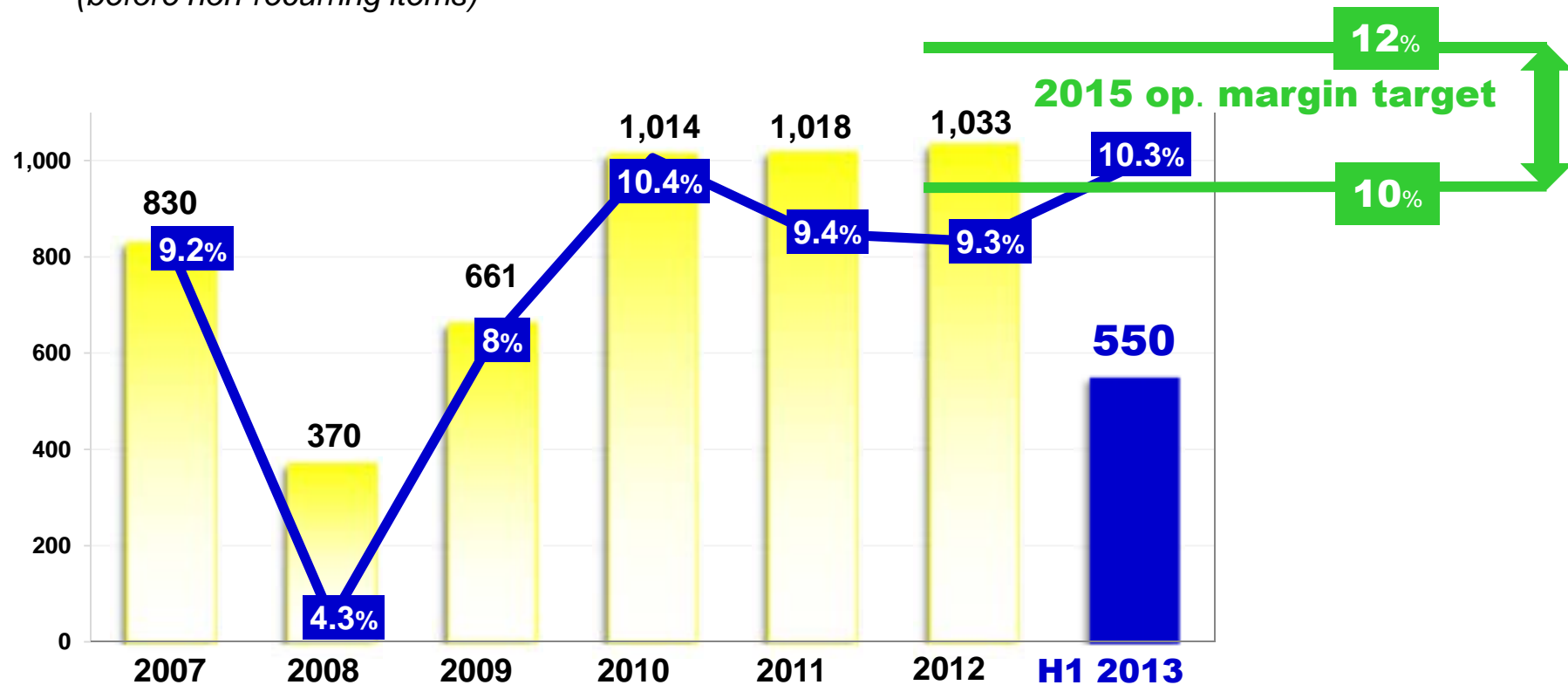
### Operating profit and margin (before non-recurring items) & ROCE



## Car & Light truck Margins: Grow OE Profitability and Lift Mix through Product Innovation and 17'+ Strategy

### Operating profit and margin

(before non-recurring items)

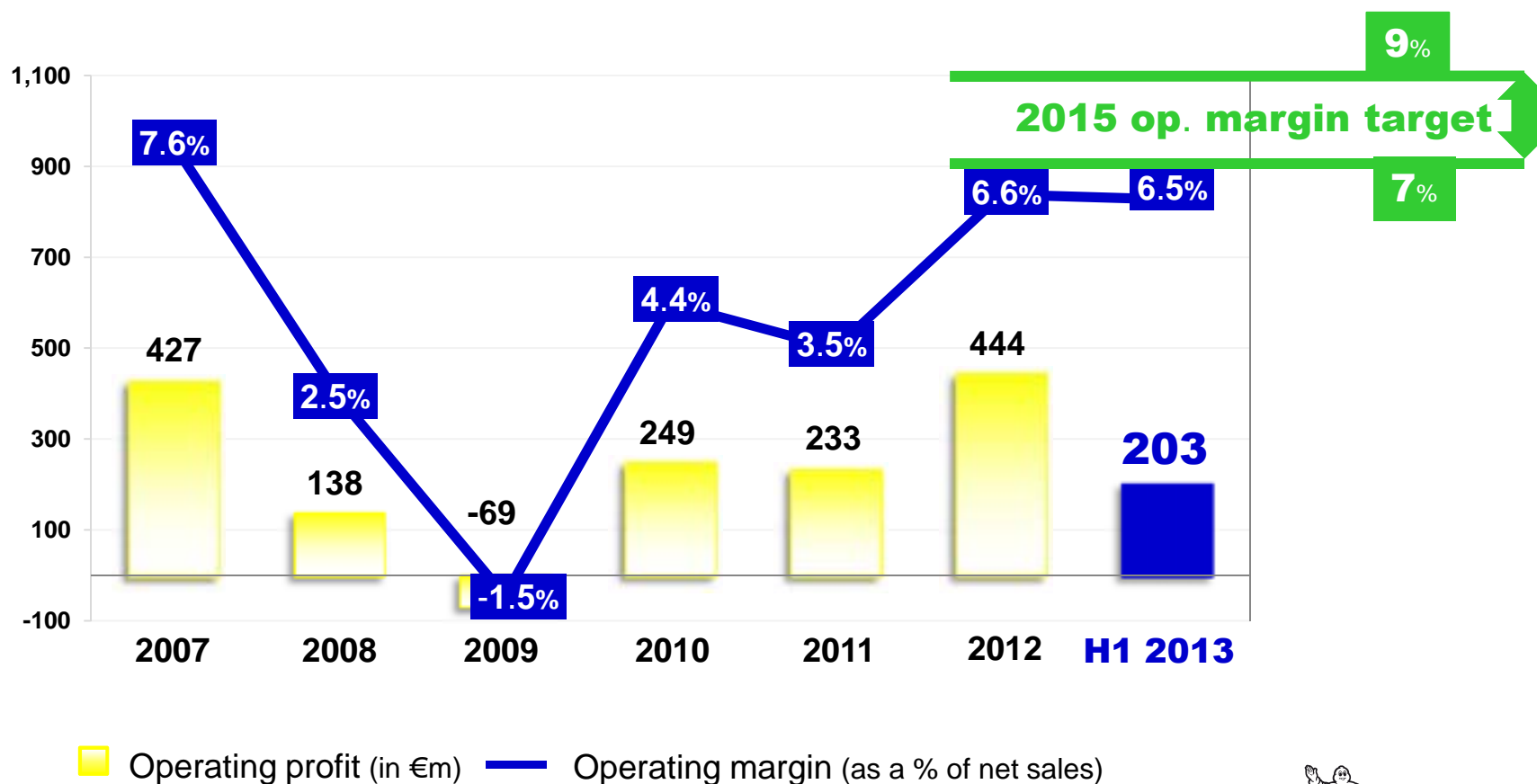


■ Operating profit (in €m) — Operating margin (as a % of net sales)



# Truck Margins: Ready to Lift Margins thanks to Plant Efficiency, Product & Service Plan

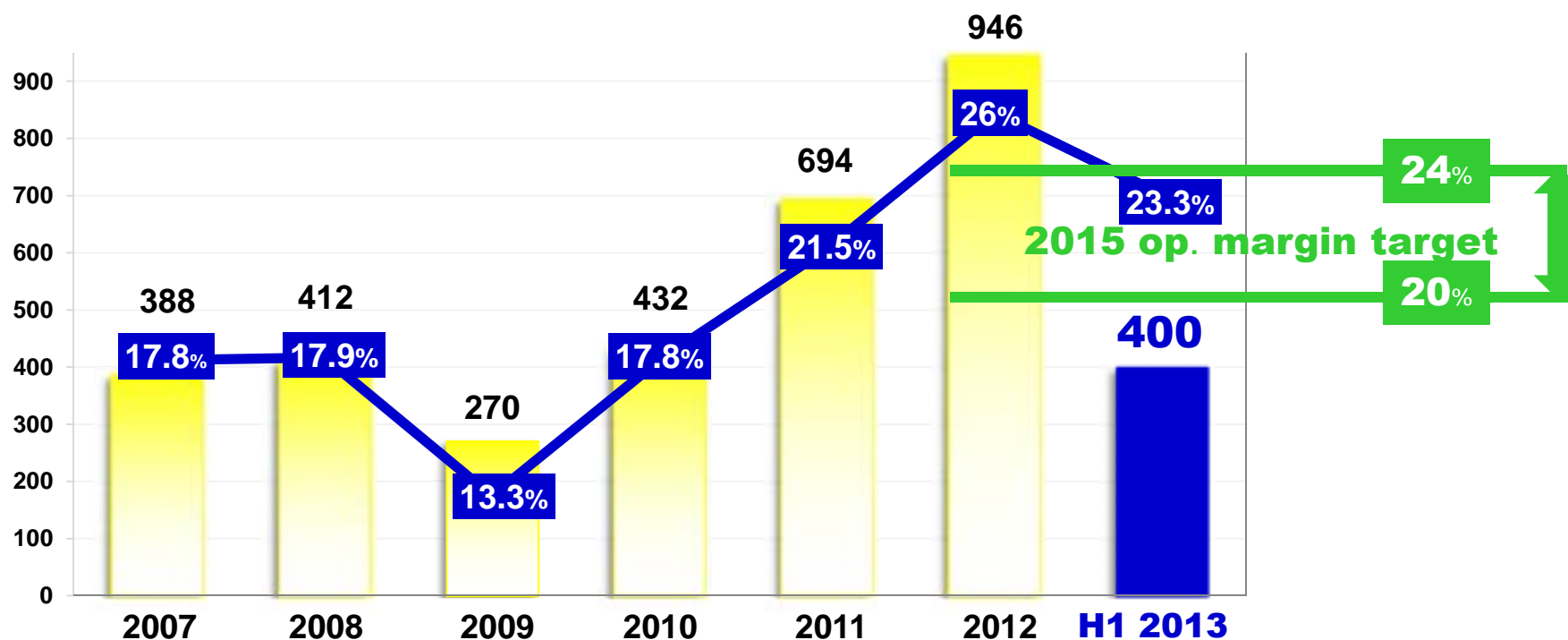
## Operating profit and margin (before non-recurring items)



## Specialty Tires: Strong Margins at Targetted Levels

### Operating profit and margin

(before non-recurring items)



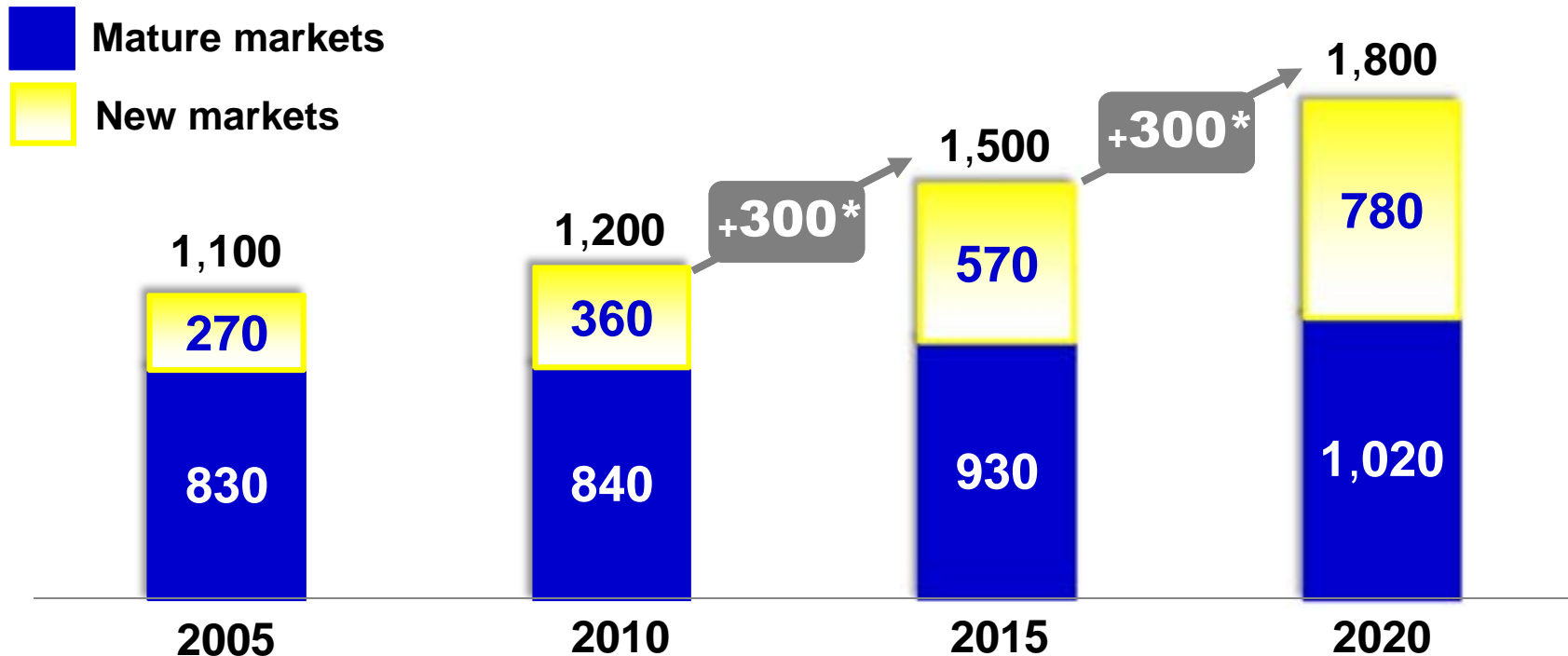
■ Operating profit (in €m) — Operating margin (as a % of net sales)





## Passenger Car and Light Truck: Stronger Momentum Worldwide

Passenger car & Light truck tire markets  
(in millions of tires)



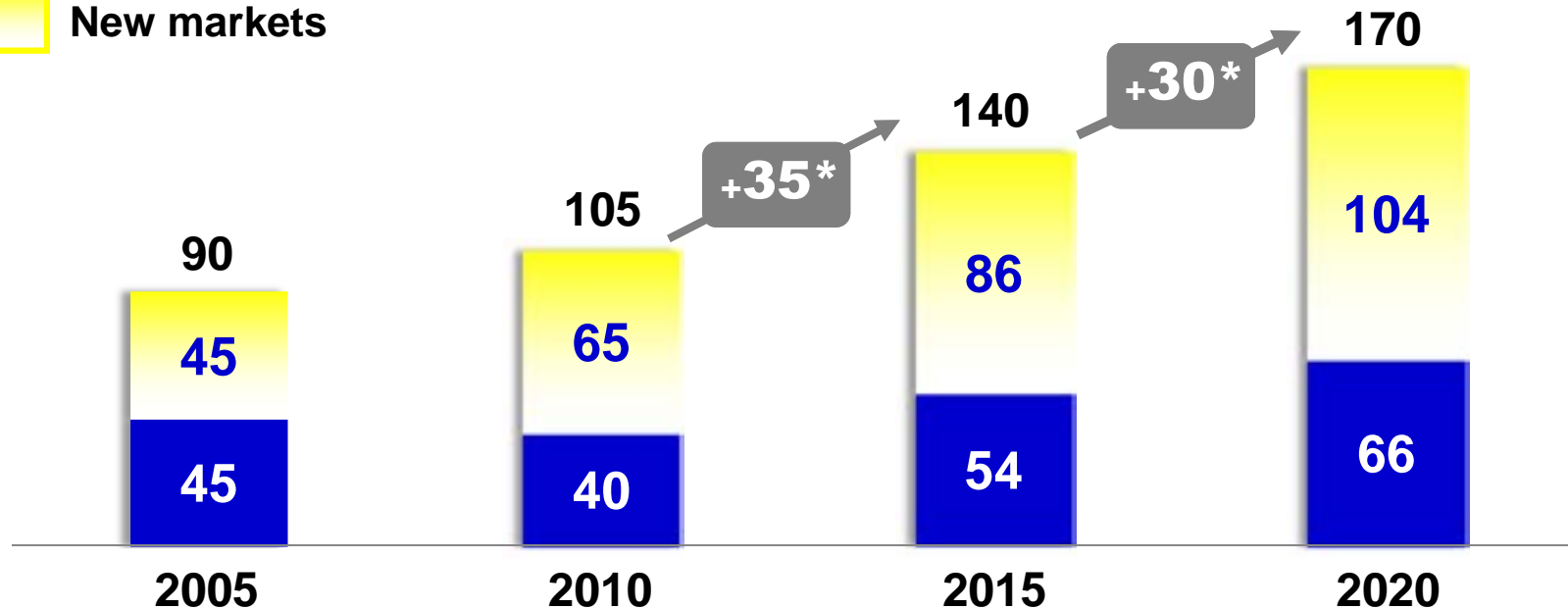
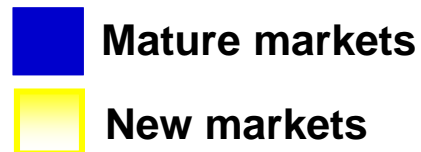
Michelin estimates

\* Of which 70% in new markets



## Truck: Robust Growth across every Truck Tire Market

### Radial Truck Tire Markets (in millions of tires)



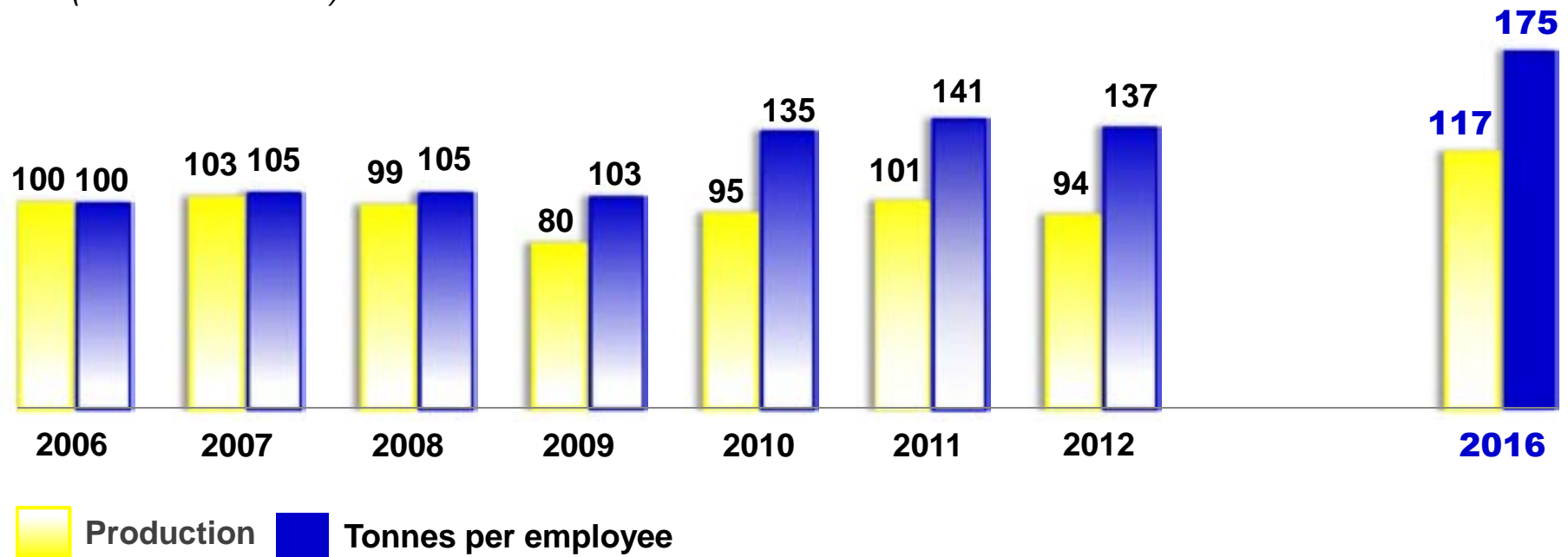
Michelin estimates

\* Of which 70% in new markets



## Enhance Productivity: Improving Output per Employee

**Tonnes per employee**  
(base 100 in 2006)



**Continuous improvement + industrial footprint**

# 2012-2016 Competitiveness Plan: €1billion\*

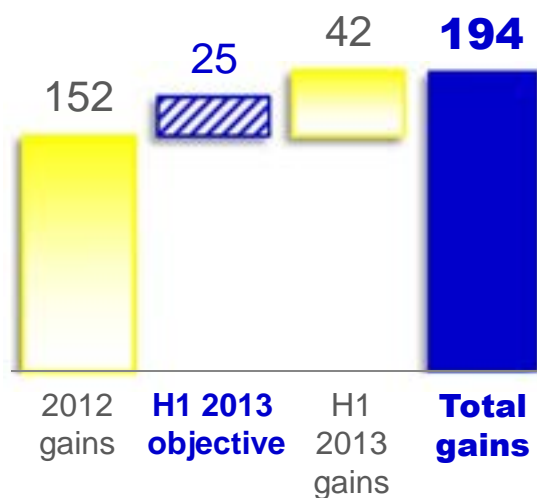
€317m achieved in 18 months with weak volumes

## OBJECTIVES

▼  
-€200m/ -€300m



**SG&A**



▼  
-€200m/ -€300m



**Materials**



▼  
-€500m/ -€600m



**Manufacturing  
– Transport**



\*before inflation and including avoided cost



## The June-2013 Projects will Eventually Deliver more than €70m in Productivity Gains a Year mainly in Truck

- ▶ Development of a highly competitive Truck tire production center in La Roche-sur-Yon, doubling output from 800,000 to 1.6 million units a year by 2019
- ▶ Closure project of Truck tire facilities in France, Algeria and Colombia

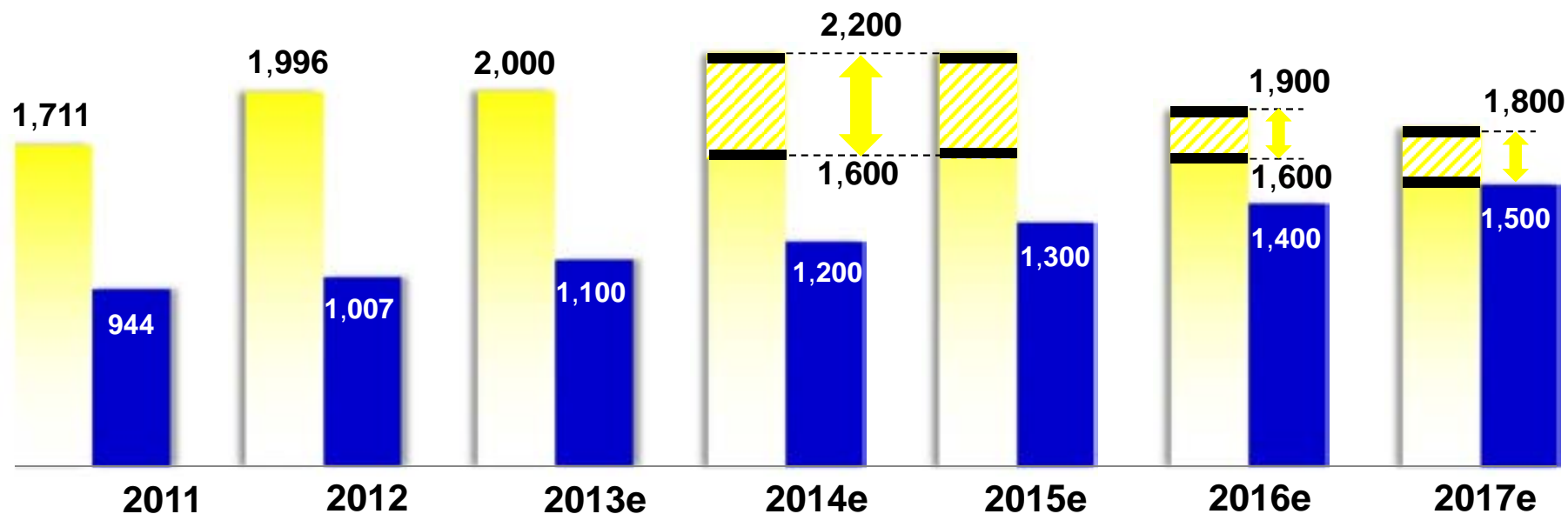
<i>In € millions</i>	2013	2014	2015	2016	
					Total Non-recurring expense
<b>Non-recurring expense</b>	(250)	0	0	0	(250)
<b>o/w cash out</b>	(42)	(70)	(25)	(10)	
					Net cash
<b>Cash in (asset sales)</b>			+23		(135)
					Annual gains after 2016
<b>Productivity</b>		<b>+53</b>	<b>+65</b>	<b>+72</b>	<b>+72</b>
<b>o/w Truck</b>		+38	+50	+57	+57



# Investing to Enhance our Competitive Strengths and Drive New Growth

**Capex and depreciation**  
(in € millions)

Capex  
Depreciation



## Capital Programs Being Deployed on Schedule to Capture Growth

- ▶ **Brazil** (Michelin-brand Car & Light truck in large rim diam.): production ramp-up (**17KT** in 2013)
- ▶ **China** (Michelin-brand Car & Light truck in large rim diam. and Truck): production ramp-up (**25KT** in 2013)
- ▶ **India** (Michelin Radial Truck): **1<sup>st</sup> tire**: July 2013
- ▶ **United States** (Mining giant tires): **1<sup>st</sup> tire**: end-2013





# Mining Business: Favorable, Enduring Market Structure

Customer demand focused on cost reduction and dumper uptime

A wide base of profitable customers such as:



No credible substitute product



High degree of independence from suppliers:

- proprietary processes
- vertical integration in semi-finished products



Multiple barriers to entry:

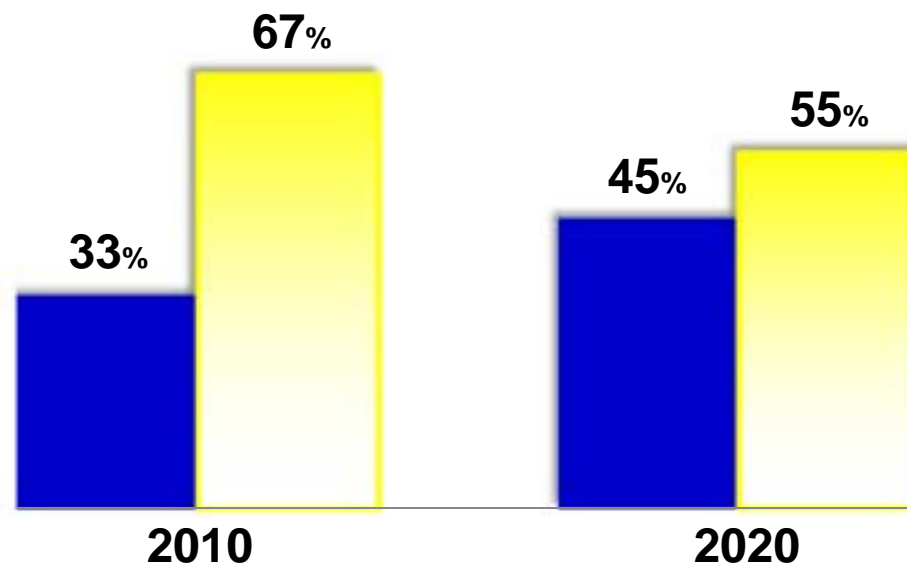
- capital intensity,
- no turnkey plant,
- high technological content,
- testing capabilities



**Long-term partnership relations with customers**

## Sales in Mature and New Markets

As a % of net sales



# Contacts

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