

# 2013 MainFirst Auto IAA Investor & Analyst Conference

Frankfurt - September 11, 2013



# Key Takeaways

- ▶ **First-half 2013: business performance in line with objectives**
  - **Generation of FCF despite the usual seasonal variations**
  - **Upturn in demand in the second quarter**
  - **Margins managed with a careful pricing policy**
  - **Mining tire business still expanding**
- ▶ **Strategy moving forward as scheduled**
  - **Robust profitability**
  - **Efficient competitiveness plan**
  - **Capital programs being deployed on schedule**

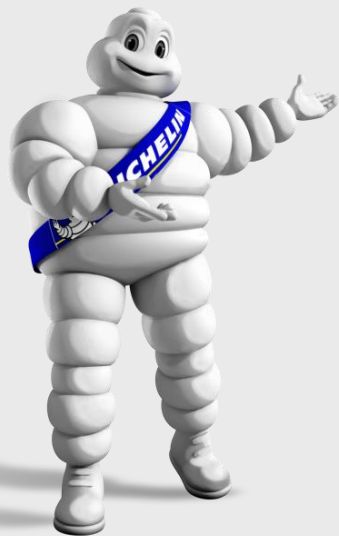
**2013 guidance confirmed**



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- 1** FIRST HALF BUSINESS PERFORMANCE IN LINE WITH 2013 OBJECTIVES
- 2** BUSINESS PERFORMANCE OBJECTIVES
- 3** 2013 MARKETS & OUTLOOK
- 4** APPENDICES



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# FIRST HALF BUSINESS PERFORMANCE IN LINE WITH 2013 OBJECTIVES



# First Half Business Performance in Line with 2013 Objectives

- ▶ €1,153m in **operating income** (down 12.7% YoY), reflecting as expected:
  - A 1.5% decline in **volumes** in markets that were weak in the first quarter and showing signs of improvement in the second
  - Firm **unit margins**
  - **Manufacturing performance** in line with objectives
- ▶ €507m in **net income**, after a €250m provision on projects to improve competitiveness
- ▶ **Robust financial structure** maintained
  - €147m in **free cash flow** at a time of ambitious capital expenditure

**2013 guidance confirmed**



# Financial Highlights

## H1 2013 & H1 2012 figures as reported

<i>In € millions</i>	H1 2013	H1 2012
<b>Net Sales</b>	<b>10,159</b>	10,706
<b>Operating Income</b> <i>before non-recurring items</i>	<b>1,153</b>	1,320
<b>Operating Margin</b> <i>before non-recurring items</i>	<b>11.3%</b>	12.3%
<i>Non-recurring Items</i>	<b>(250)</b>	+97
<b>Operating Income</b> <i>after NR</i>	<b>903</b>	1,417
<b>Net Income</b>	<b>507</b>	915
<b>Investment</b>	<b>762</b>	660
<b>Net Debt-to-Equity Ratio</b>	<b>12%</b>	26%
<b>Free Cash Flow*</b>	<b>147</b>	7

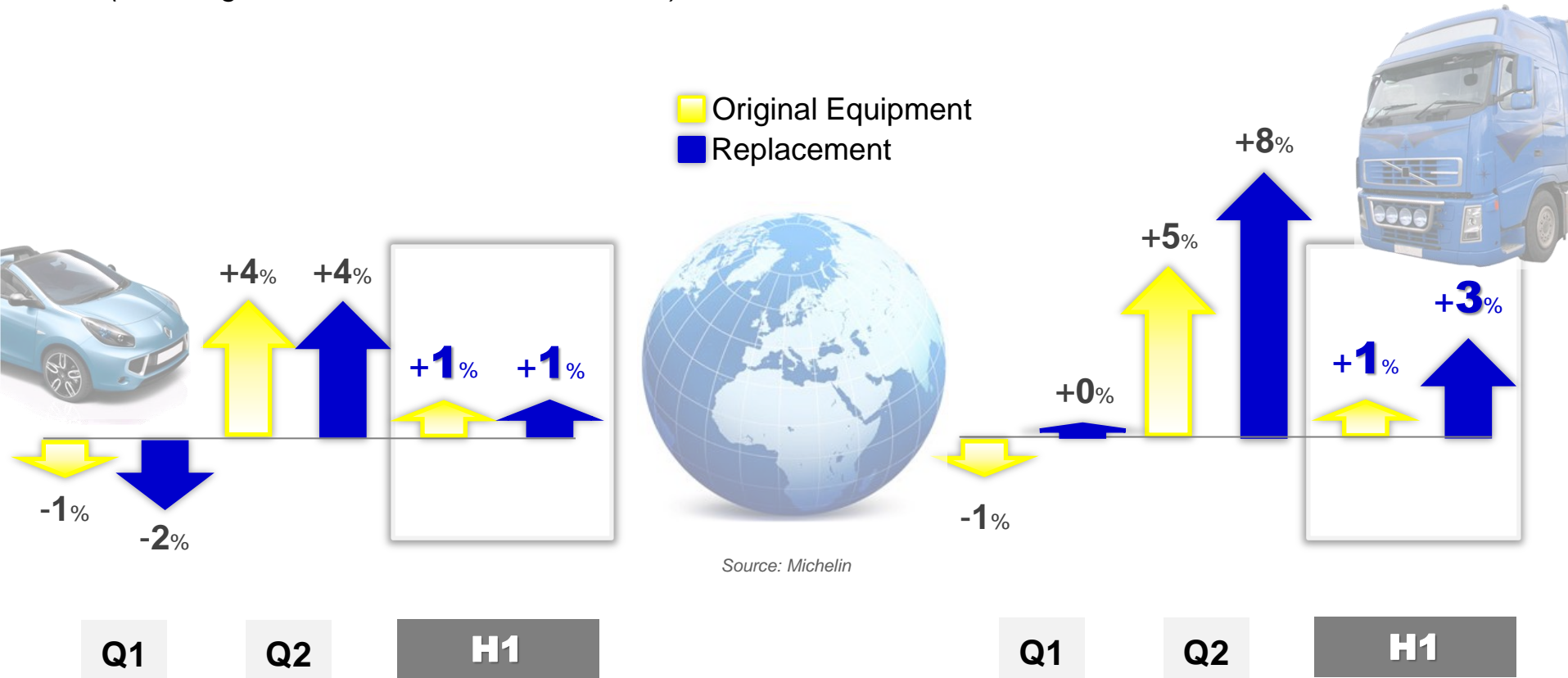
\*Free Cash flow: Cash flows from operating activities less cash flows used in investing activities



# Car & Light truck – Truck:

## Promising Upward Trends in the 2<sup>nd</sup> Quarter

**Worldwide markets by quarter, first-half 2013**  
 (% change YoY, based on number of tires)



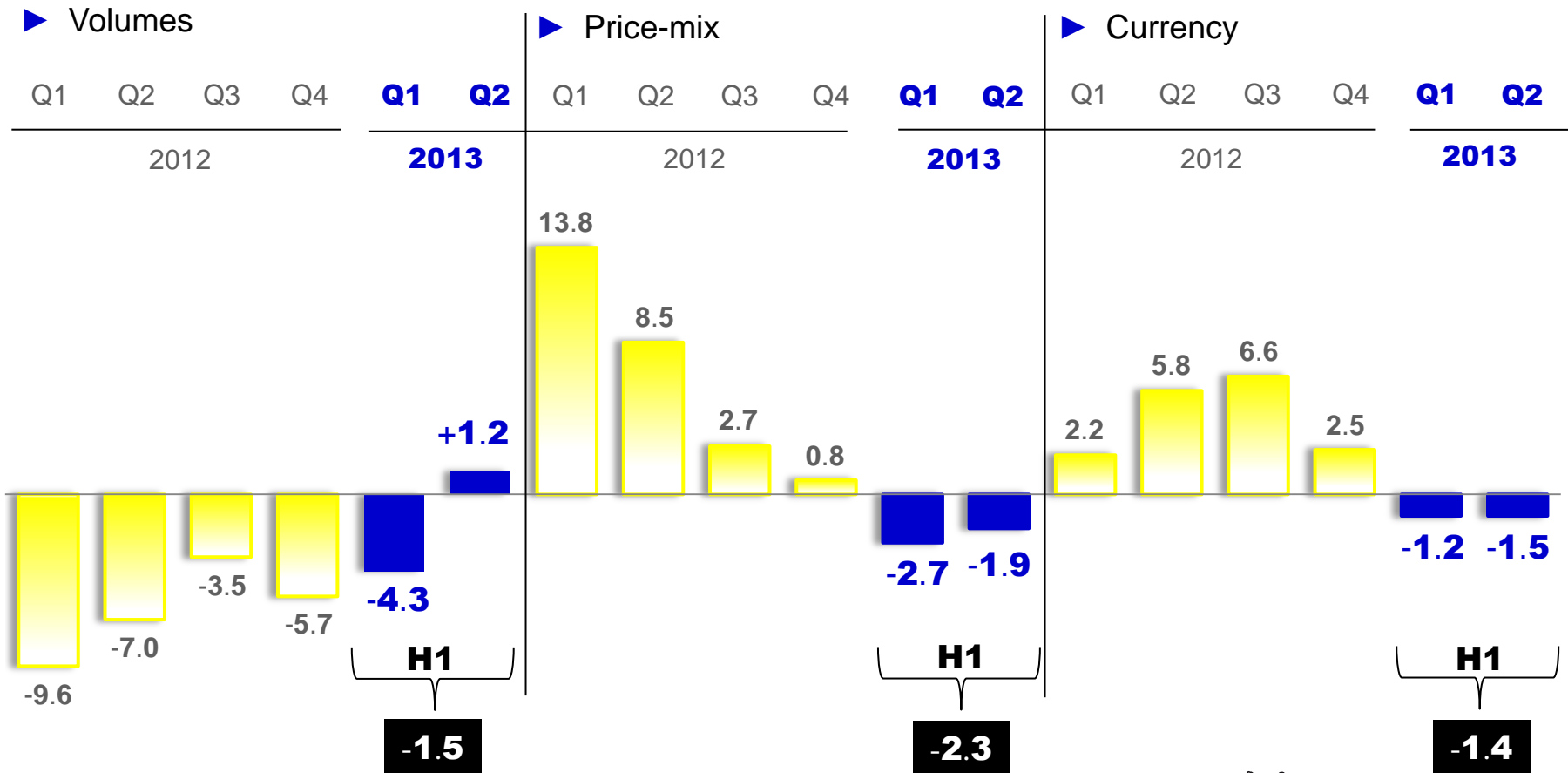
Source: Michelin



# Volumes: Upturn in Q2 as Expected

## Price-mix: Prices Leveled out QoQ in Q2

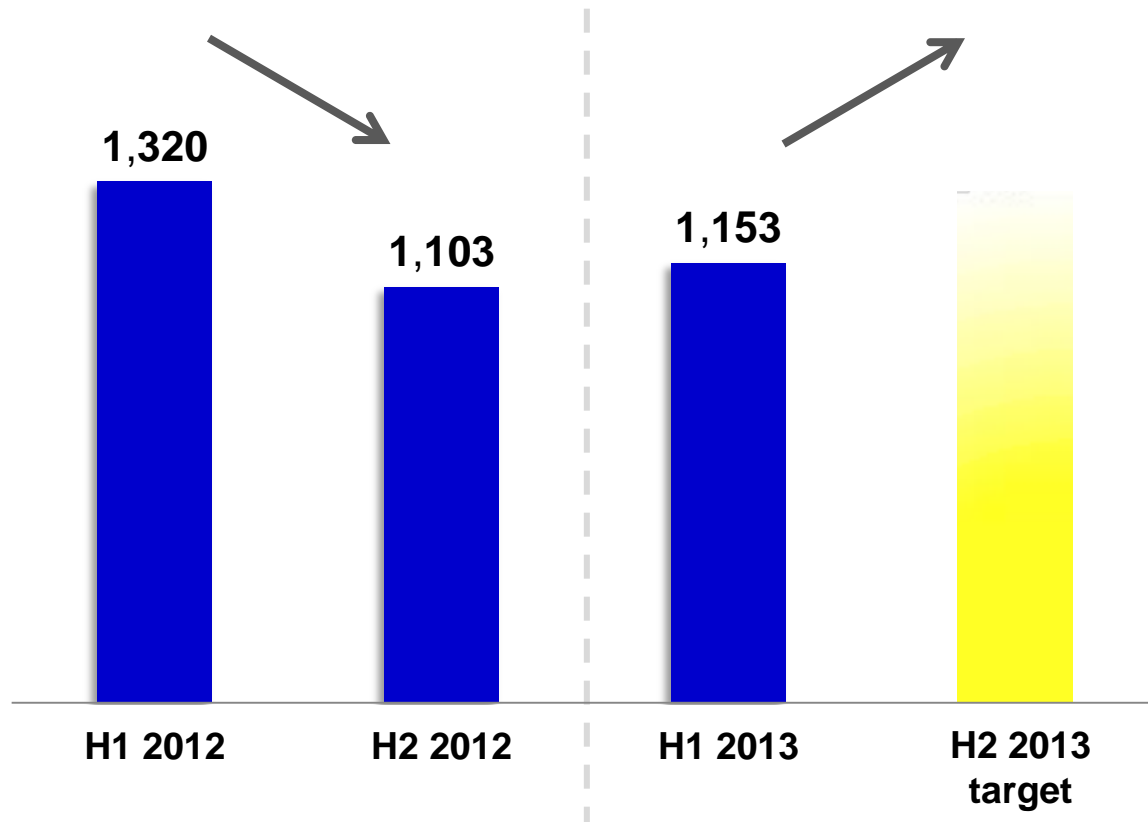
### % change YoY





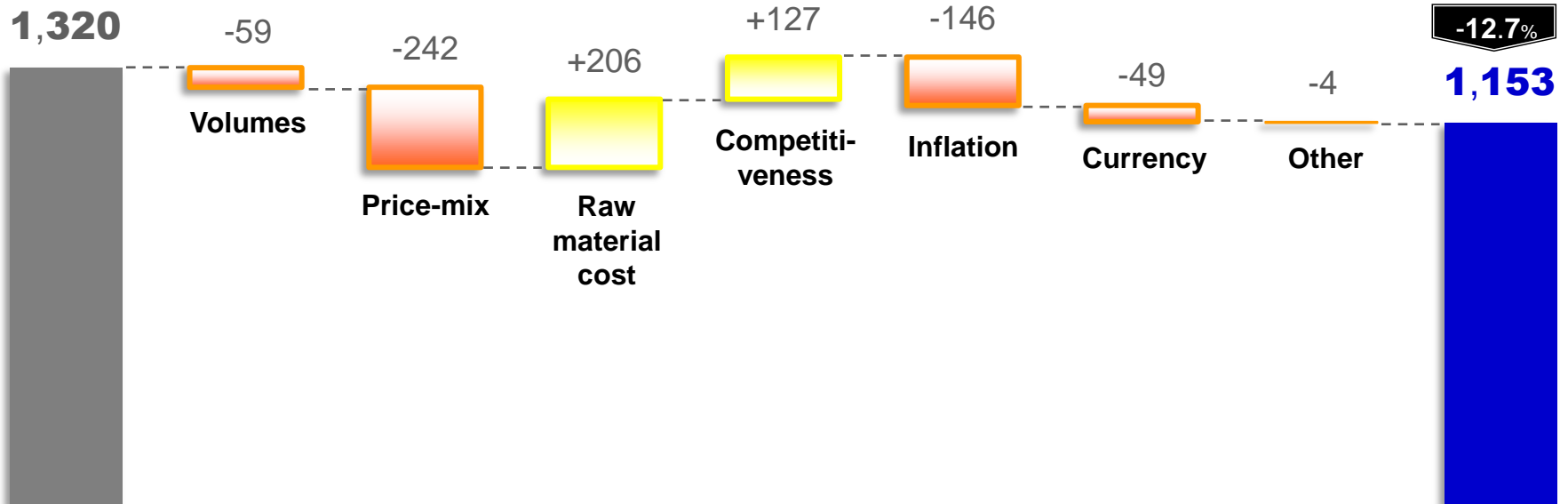
# In 2013, the Half-Year Pattern will Reverse, with a Growing Impact from Lower Raw Materials Costs

Half-year operating income  
(in € millions)



# Operating Income: Margins Managed with a Careful Pricing Policy and Productivity Gains

YoY change  
(in € millions)



-12.7%

1,153

H1 2012

Operating Income  
before NR items

H1 2013

Operating Income  
before NR items



# Positive Free Cash Flow despite the Usual Seasonal Variations

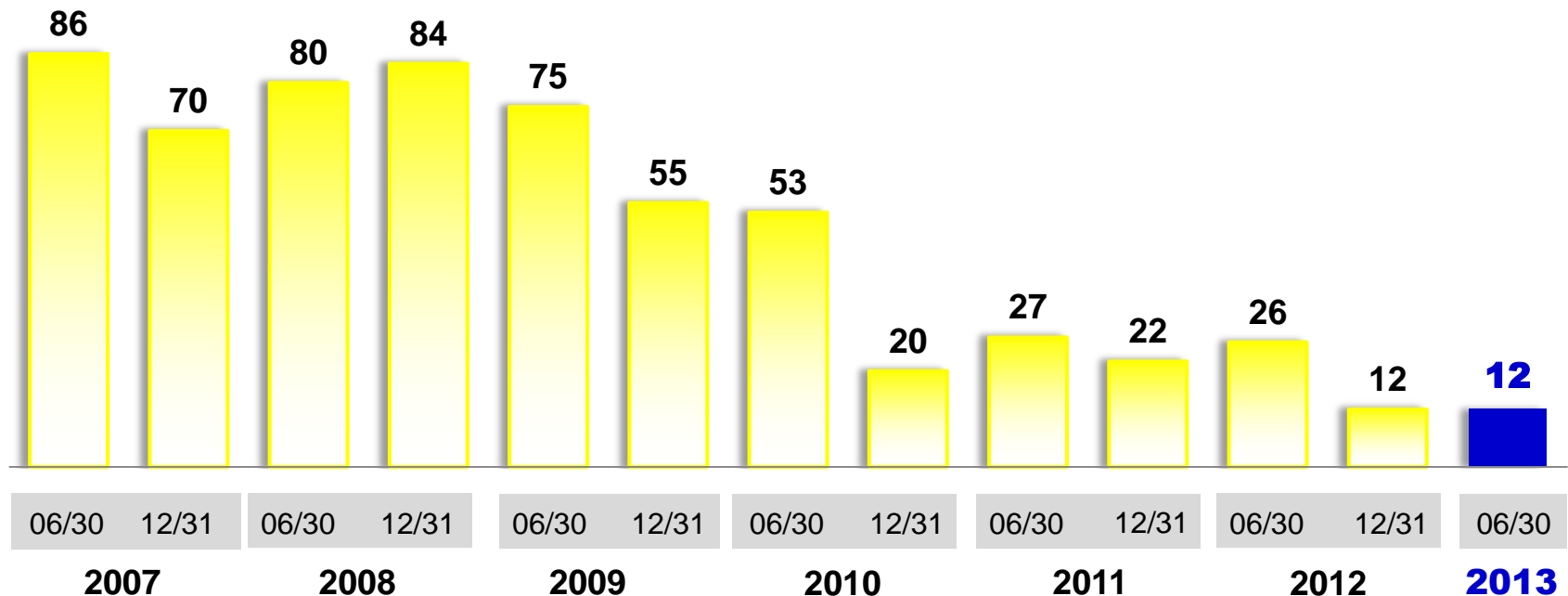
<i>In € millions</i>	H1 2013	H1 2012
<b>EBITDA</b>	<b>1,675</b>	<b>1,823</b>
Change in WCR	(157)	(680)
Change in provisions	(109)	(16)
<b>Cash Flow from Operations</b>	<b>1,409</b>	<b>1,127</b>
Taxes and Interest Paid	(317)	(384)
Routine Capital Expenditure <i>(Maintenance, IS/IT, Dealerships)</i>	(290)	(225)
<b>Available Cash Flow</b>	<b>802</b>	<b>518</b>
Growth Investments	(472)	(435)
Other Cash Flow from Investing Activities	(183)	(76)
<b>Free Cash Flow after Capital Expenditure</b>	<b>147</b>	<b>7</b>



# A Robust Balance Sheet: Favorable Impact of Free Cash Flow Generation and the Decline in Employee Benefit Obligations

## Gearing – Net Debt / Equity

(in %)



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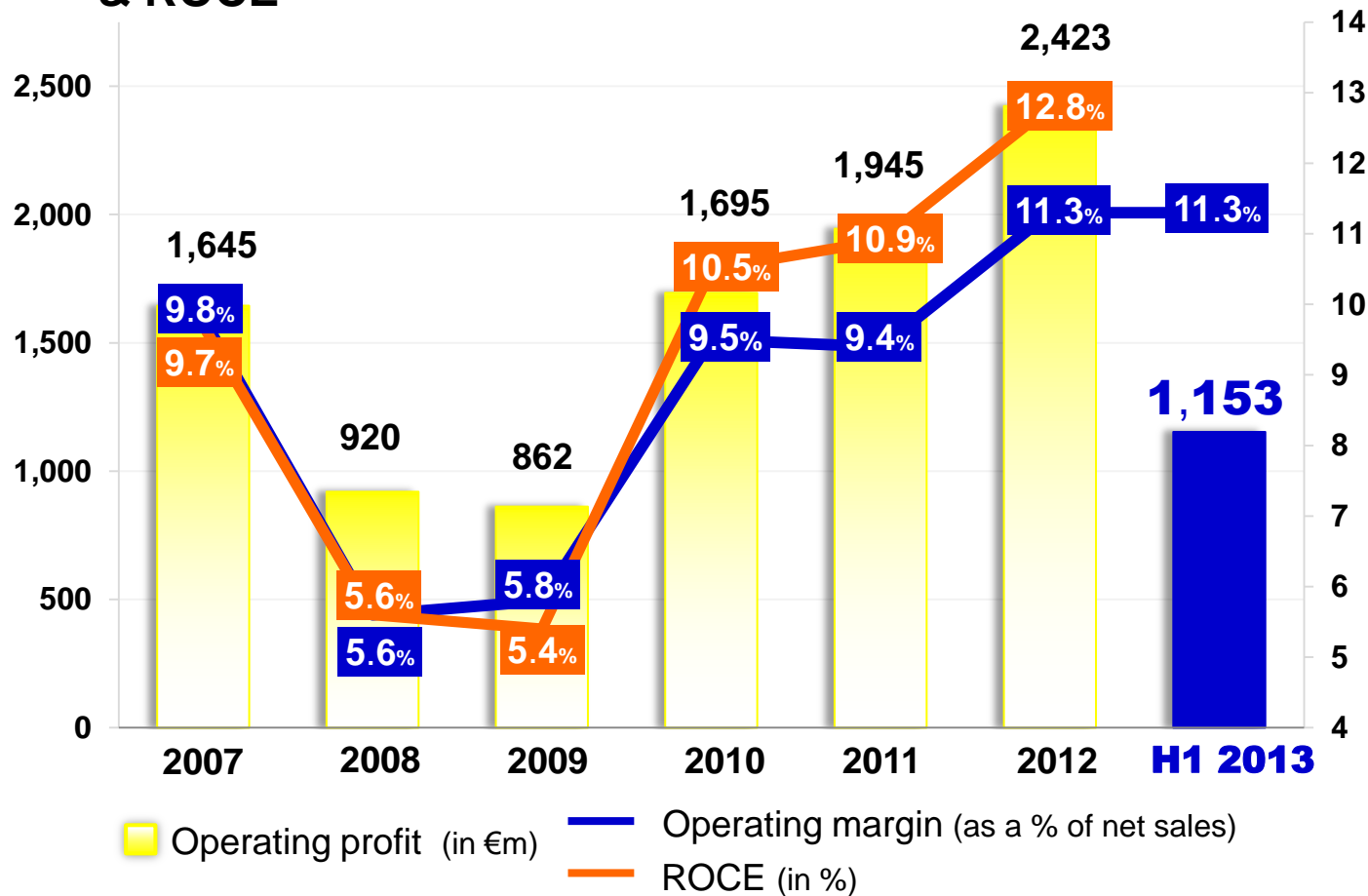


## BUSINESS PERFORMANCE OBJECTIVES



# Group Key Figures: Lever Group's Strengths to Enhance Profitable Growth and Reach a Leaner Cost Structure

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

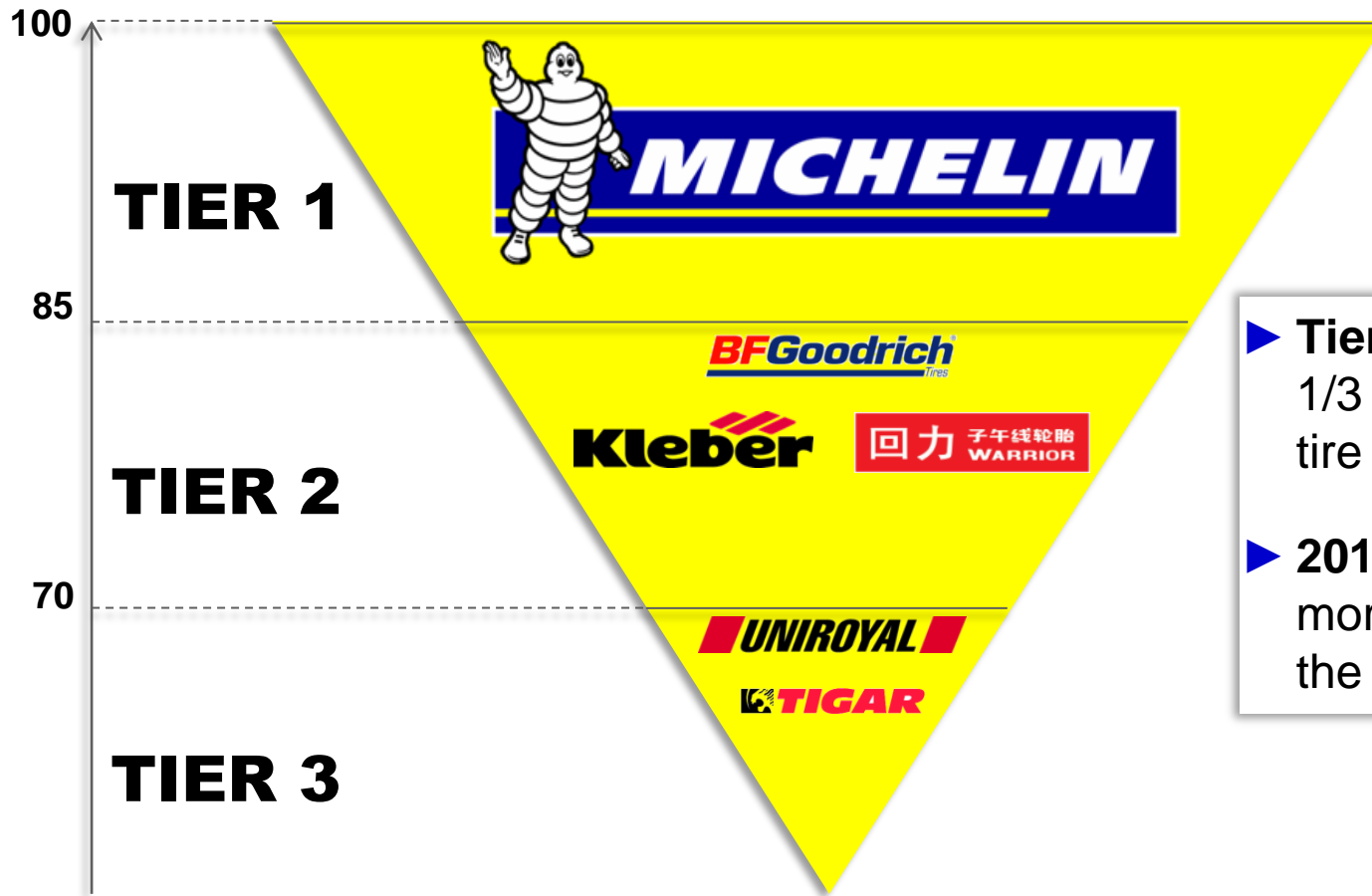


2015 Op. profit target  
**€2,900m**

2015 annual ROCE target  
above **10%**



# MICHELIN: a 100% Premium Brand in Every Market

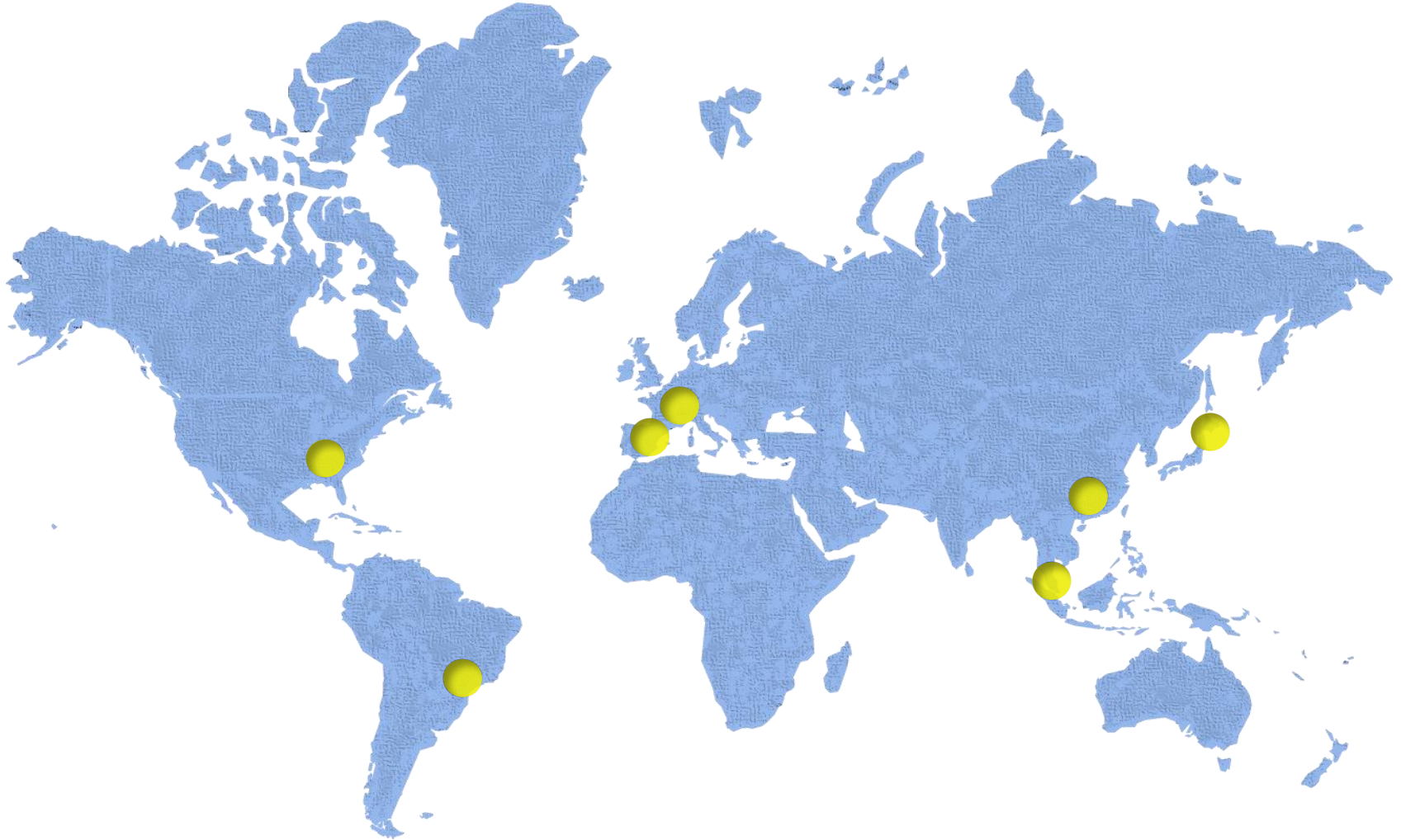


- ▶ **Tier 1 segment:**  
1/3 of the global PC/LT tire market
- ▶ **2011 sales:**  
more than 70% under the MICHELIN brand

Price positioning  
(100 = Michelin)



# Research & Development Centers around the World





# Upgrade Projects at the Global R&D Center in Clermont-Ferrand



**URBALAD**



# Investing in Indonesia to Insource the Technology and Retain Value Added

## ► The Indonesian project

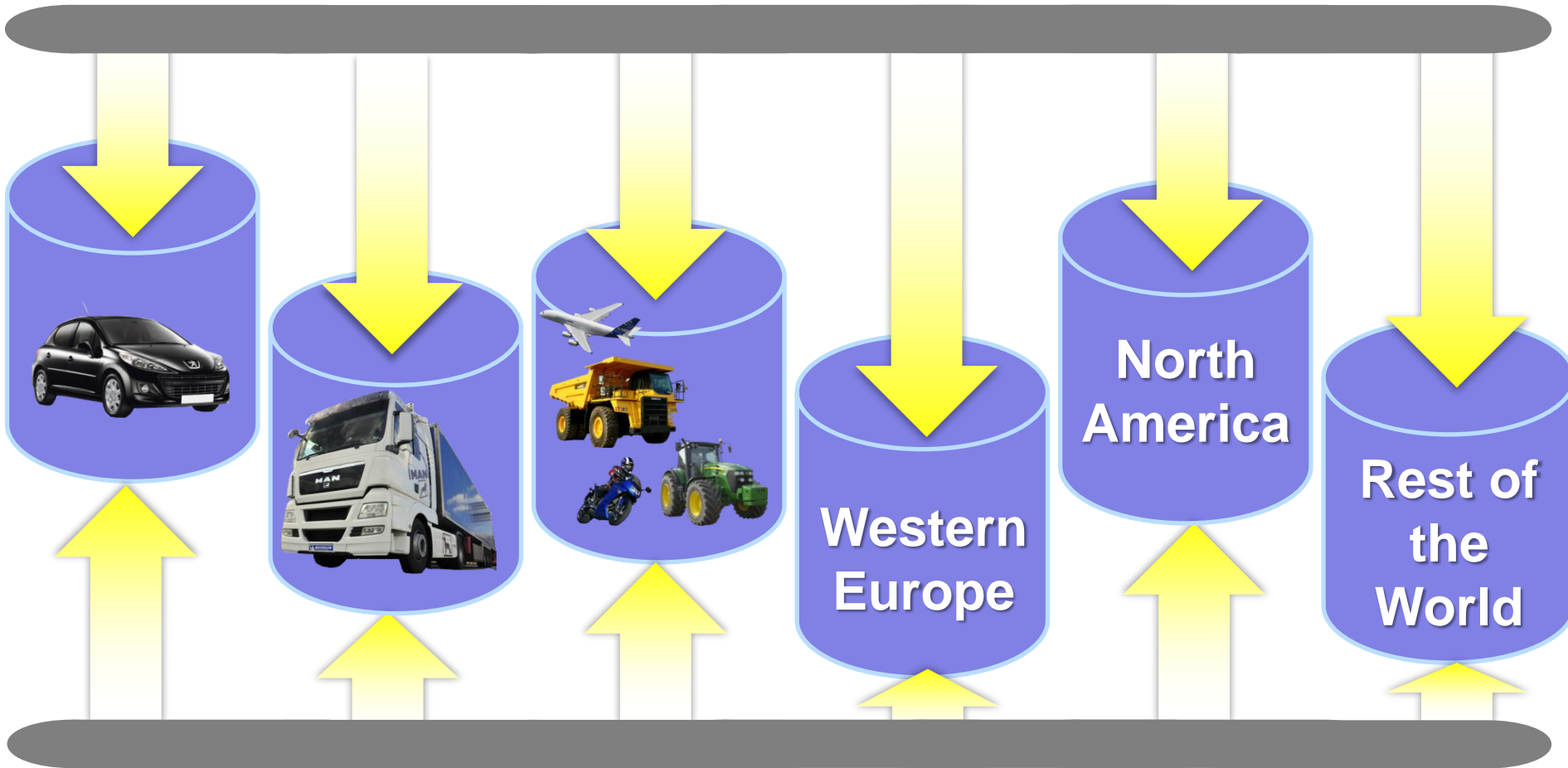
- Synthetic rubber plant scheduled to come on stream in 2017
- Joint venture with Petrokimia Butadiene Indonesia
- Total investment: \$435m
  - Michelin contribution: 55%

## ► Strategic vision for vertical integration

- Secure supply
- Maintain and protect the technology
- Retain the value added
- Costs



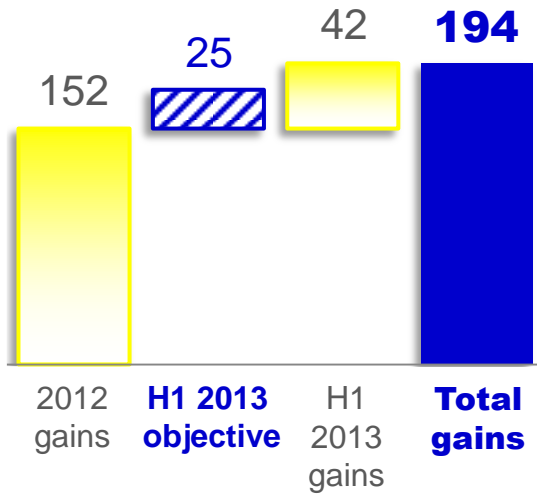
# A Natural Hedging through Balanced Geographic Exposure and Business Portfolio



# Competitiveness Plan: €127m in Gains in 2013, Held Back by Weak Volumes



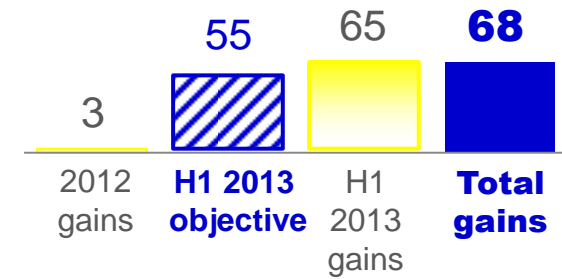
## SG&A



## Materials



## Manufacturing – Transport



# Capital Programs Being Deployed on Schedule to Capture Growth

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

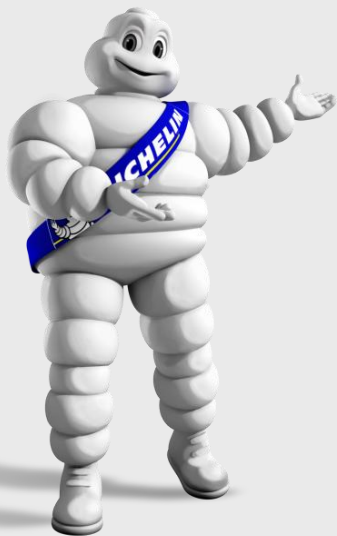


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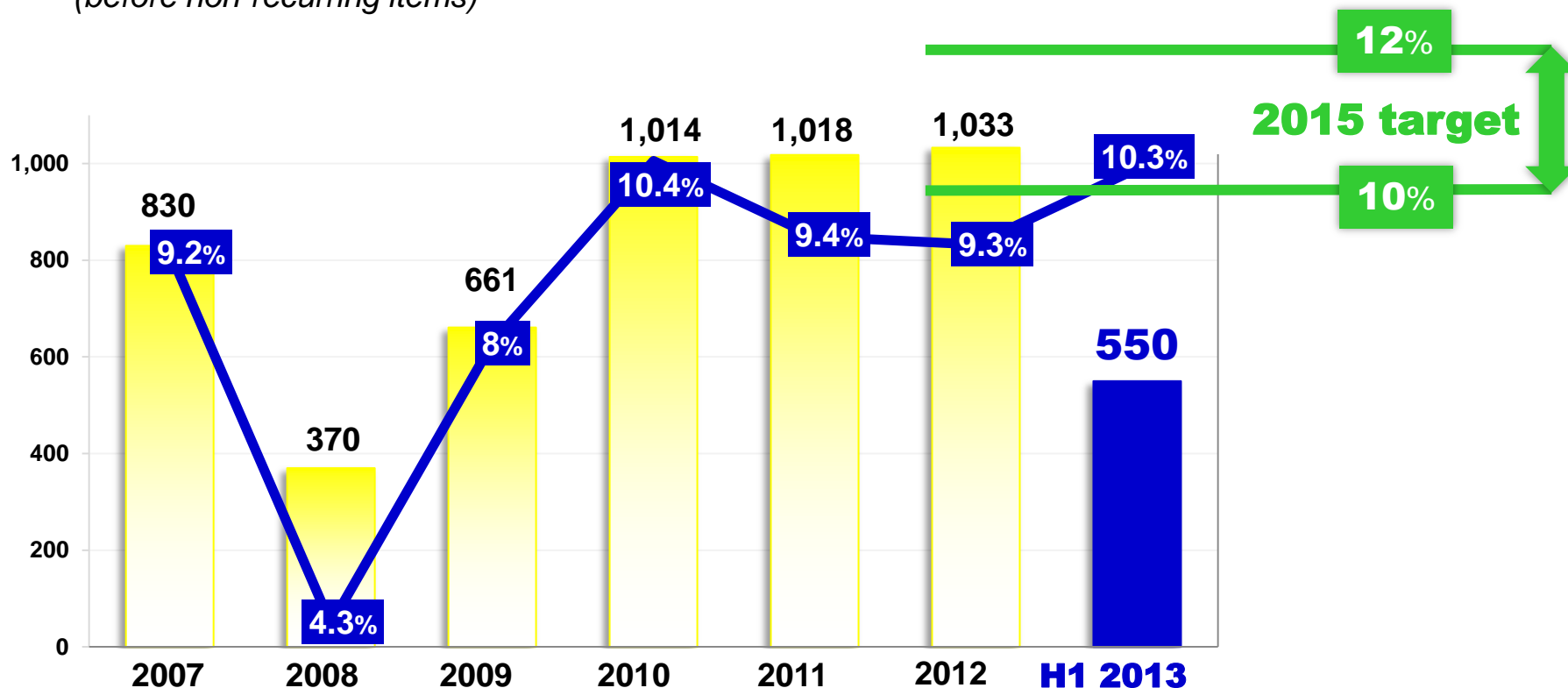
## BUSINESS PERFORMANCE OBJECTIVES BY REPORTING SEGMENT



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

## Operating profit and margin

(before non-recurring items)

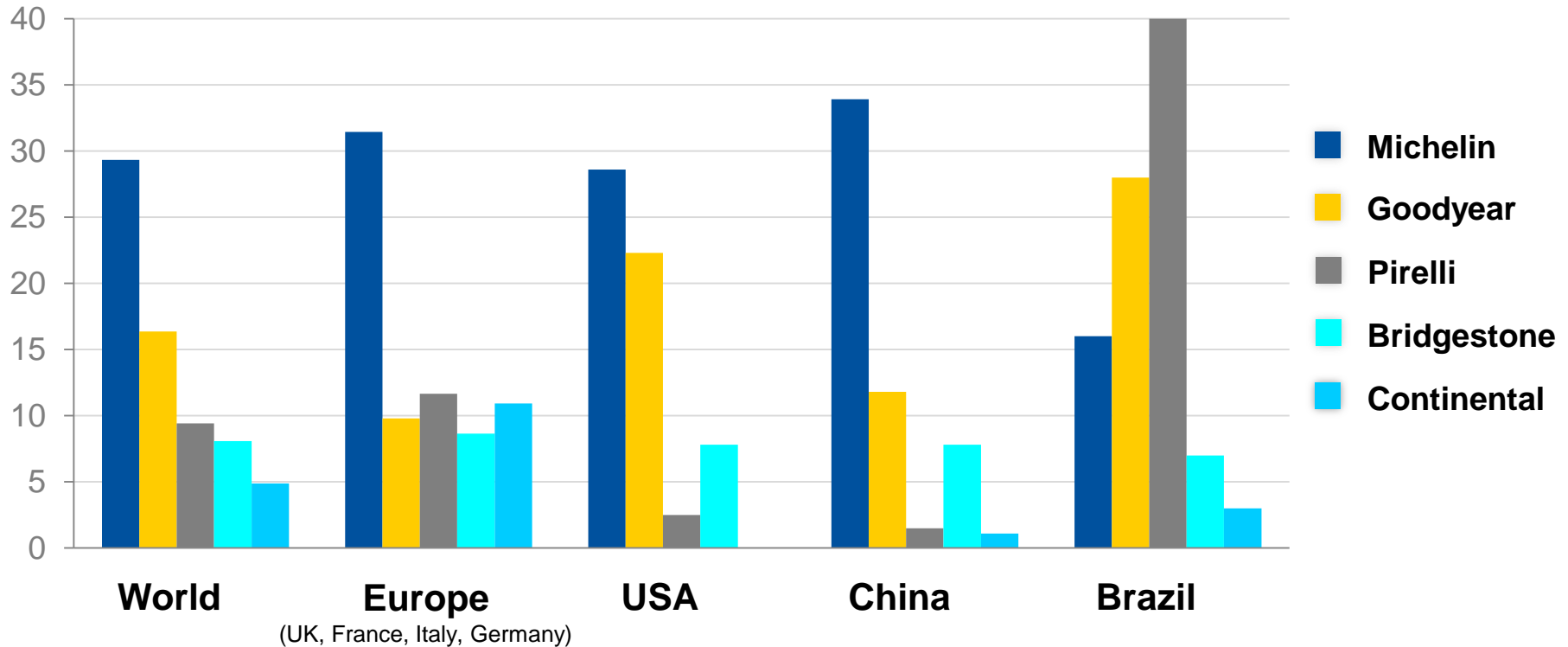


■ Operating profit (in €m) 
 — Operating margin (as a % of net sales)



# Michelin brand: Strong Preference in Mature and New Markets

The Brand Preferred by Premium Consumers



Source: Brand Health Research, Nielsen





# Sustained Introduction of Innovative Premium Products

- ▶ 57% of 2012's Technical Homologations on 17'+
- ▶ Successful co-development with the most demanding vehicle manufacturers :
  - Example with the new Pilot Sport Cup 2:



*is the only tire certified for use on the new Porsche 918 Spyder*



*exclusively equips the new Ferrari 458 Speciale*



*on the Mercedes-Benz SLS AMG Coupé Black Series*



# Labelling: Strong Positioning of Michelin with all "A" Grade in Wet Braking



17/18" – PC Summer Top 10 of most recent range of each size




	F	E	C	B	A	
Wet braking						
				1	3	A
			2	5	11	B
				10	15	C
			1	12	3	E
				3		F
						G
						Rolling resistance

Tier 1 competitors : **A B C D**



# Latest *Motor Sport* Test by Rezulteo on a 18' Sport Tire Dimension

- ▶ *Michelin Pilot Sport 3* tire is ahead of all major competitors.
- ▶ According to *MotorSport*, MICHELIN tires are the most homogenous, showing effective management of the production process.

	Final Ranking 	Homogeneity (average weight variances)	
		In Grammes	Index
<b>YOKOHAMA</b>	1	11	157
	<b>2</b>	<b>7</b>	<b>100</b>
<b>GOODYEAR</b>	3	81	1,157
<b>HANKOOK</b>	4	74	1,057
<b>VREDESTEIN</b>	5	42	600
<b>BRIDGESTONE</b>	6	20	286
<b>PIRELLI</b>	7	91	1,300
<b>CONTINENTAL</b>	8	20	286
<b>TOYO</b>	9	22	314
<b>NEXEN</b>	10	18	257

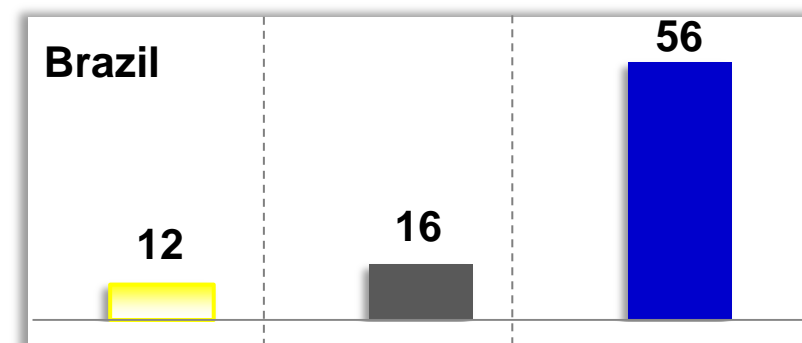
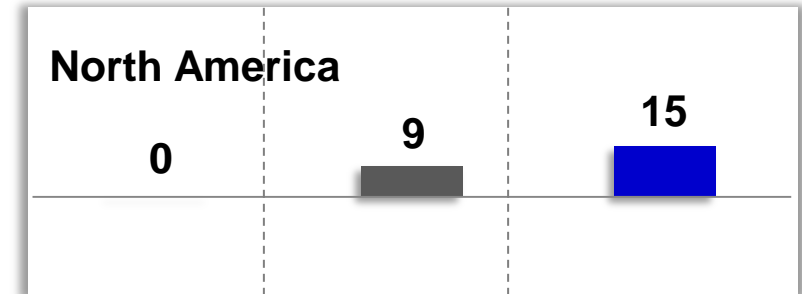
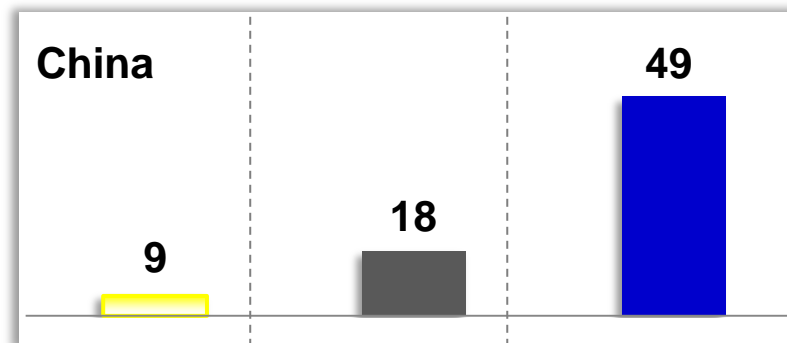
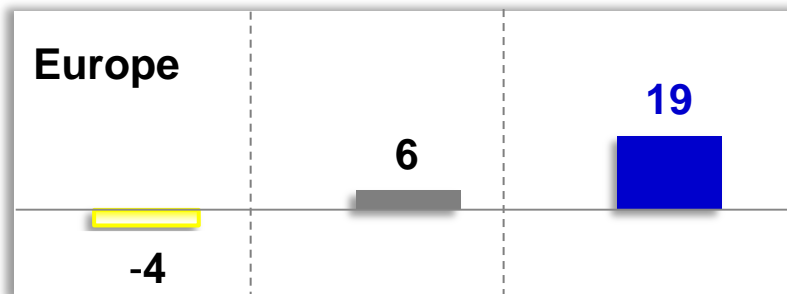
Dimension tested: 235/40 R18 95Y



# 17'+ Premium Segment: a Major Growth and Mix Opportunity Being Seized by Michelin

## Growth in the replacement Car & Light truck market

(H1 2013 vs. H1 2012 in %)



Source: Michelin



# A Vast Network of Franchised Dealers:

2,000 Points of Sale Today to 5,000 by 2017



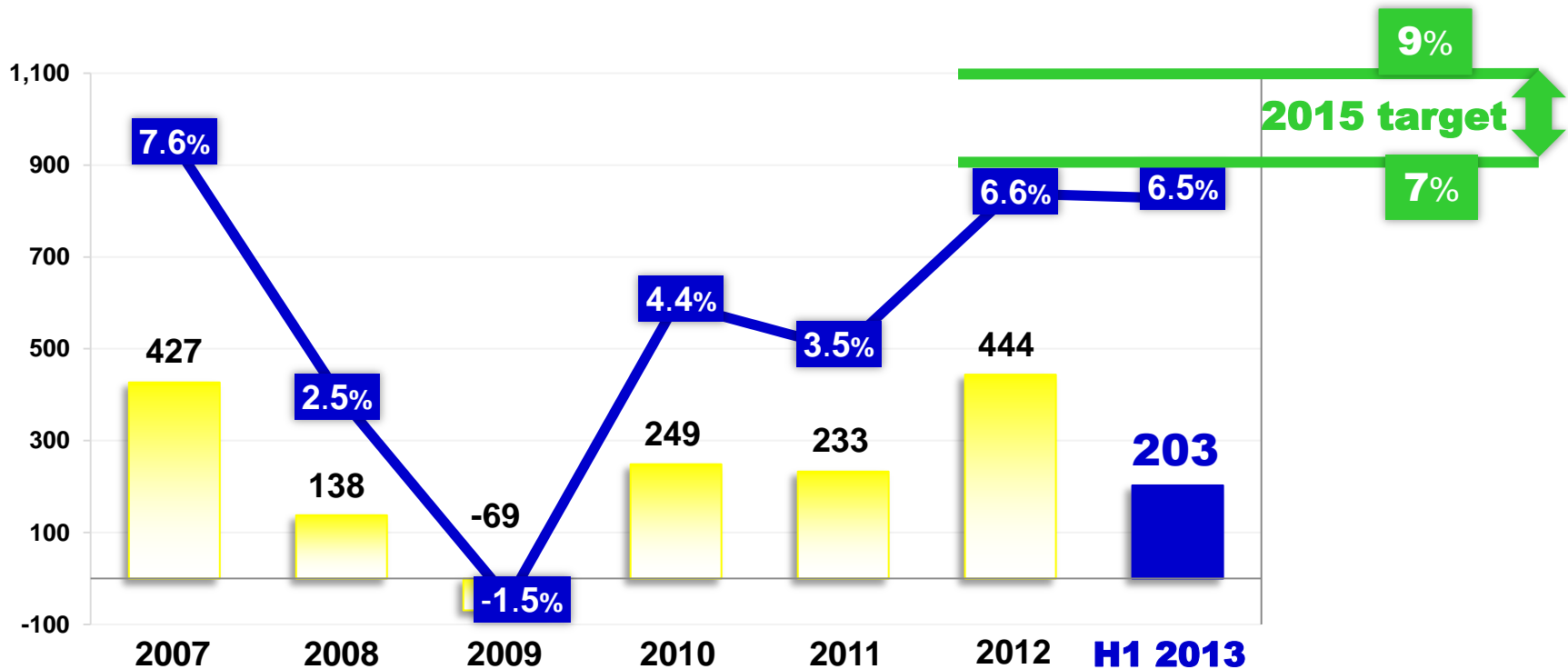
# Premium Dealer Experience

Tyre Plus dealers in India and in China



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

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



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



# Product Plan and Services Associated: 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

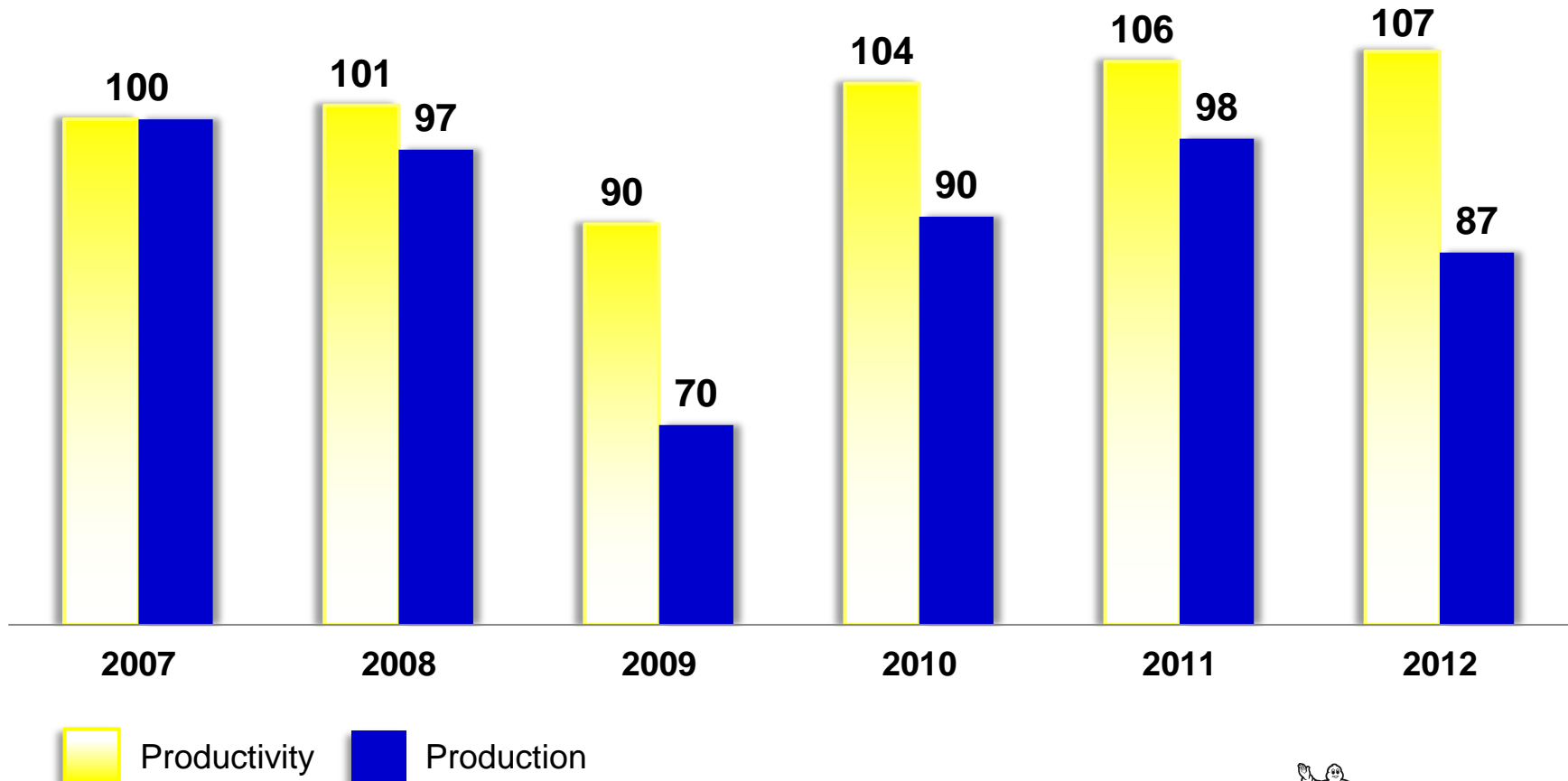




# Enhanced Industrial Competitiveness More than Offsetting Volume Weakness

## Truck Productivity and Production indexes

(in base 100)



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

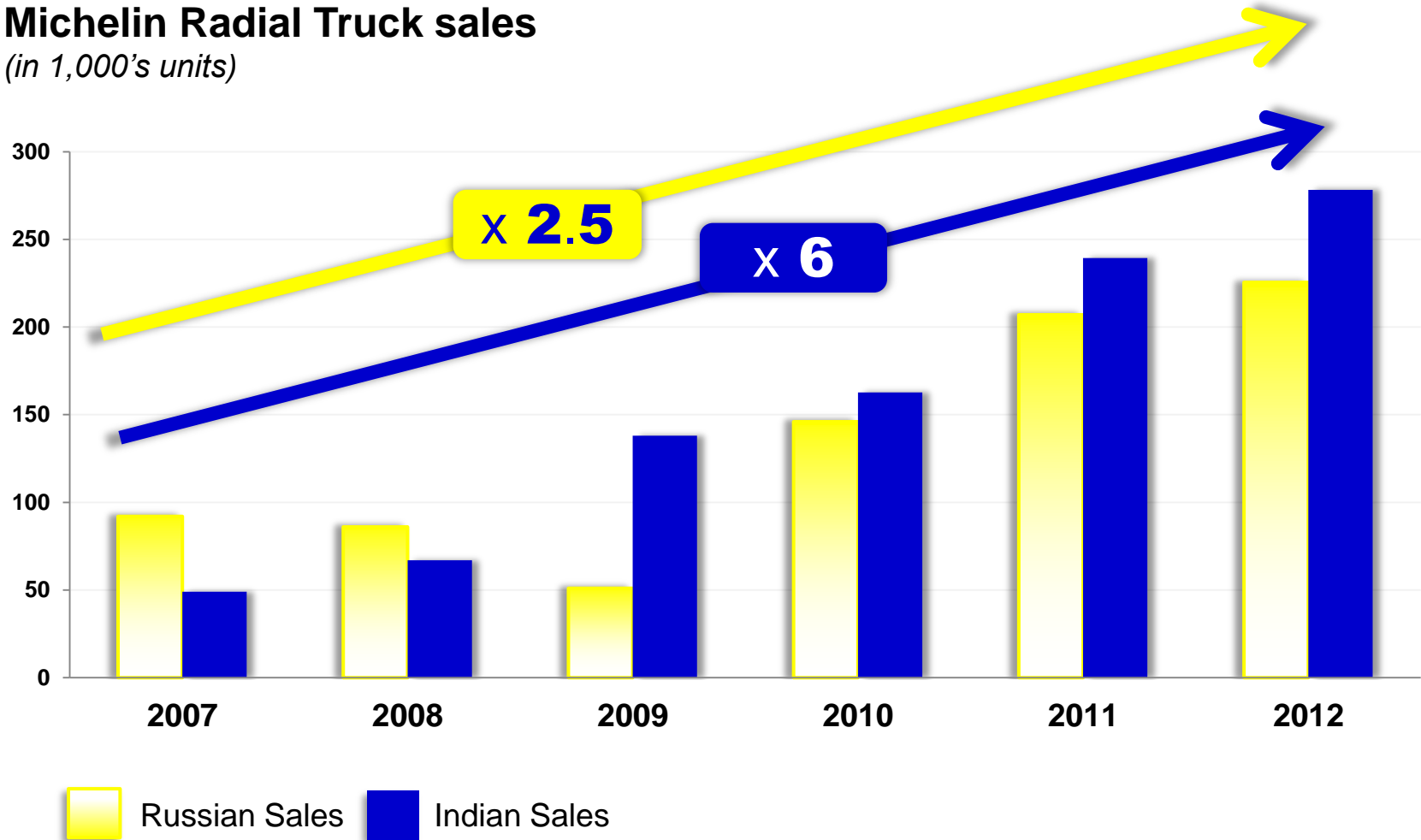
- ▶ Development of a highly competitive Truck tire production center in La Roche-sur-Yon, doubling output from 800,000 to 1.6 million units a year by 2019
- ▶ Closure project of Truck tire facilities in France, Algeria and Colombia

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



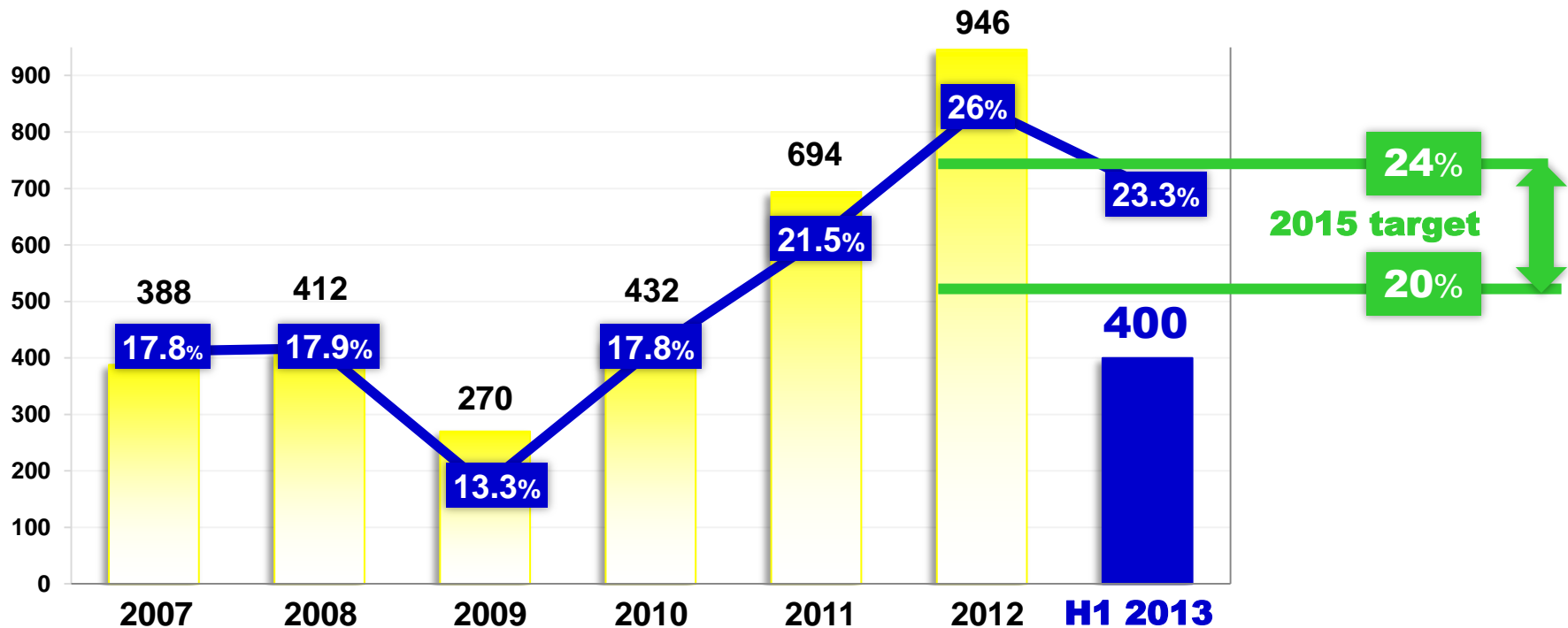
# Grow Sales in Emerging Countries such as India and Russia

**Michelin Radial Truck sales**  
(in 1,000's units)



# 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)



# Sustained Introduction of Innovative Products



**X-SUPER TERRAIN + Tire**



**All 2-wheels tire ranges renewed in 2 years**



**X-STRADDLE 2:  
+30 % productivity**



**XDR 2: up to +20 %  
productivity**



**Michelin at the Paris Air Show:  
Four Innovative Tires**



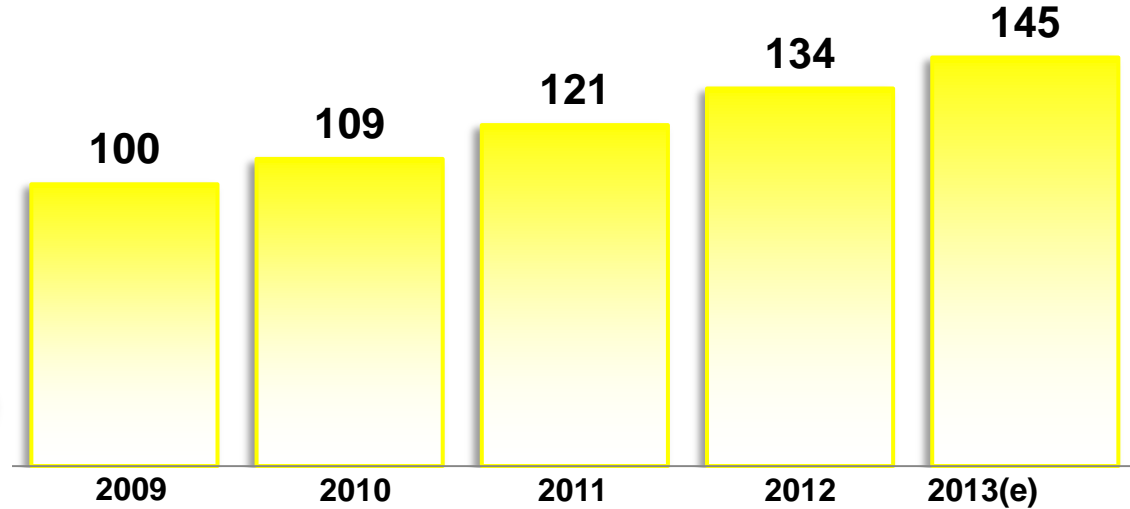
**MICHELIN AxioBib IF 850/75 R42:  
loading capacity of 9,5 tonnes at  
low pressure**



# Mining Markets still Growing

## Mining Markets

(base 100 in 2009, in number of tires)



Source: Michelin



# Mining Business: Favorable, Enduring Market Structure

Customer demands 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



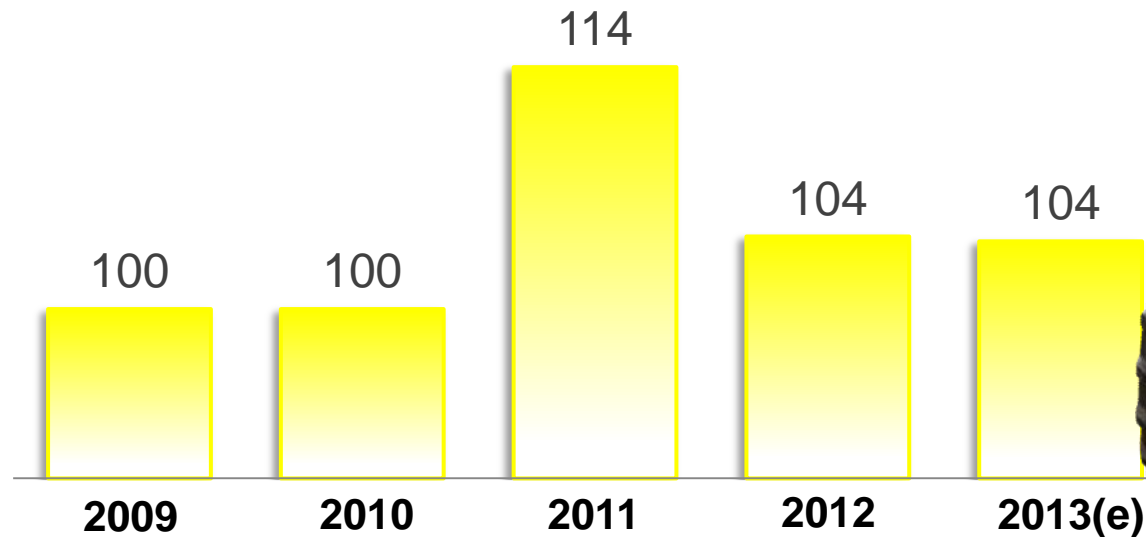
**Long-term partnership relations with customers**



# Agricultural Tire Demand Leveling off in Mature Markets

## Agricultural Markets

(base 100 in 2009, in number of OE & RT tires)



Source: Michelin



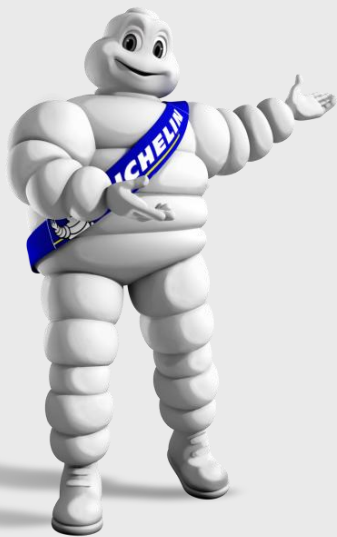


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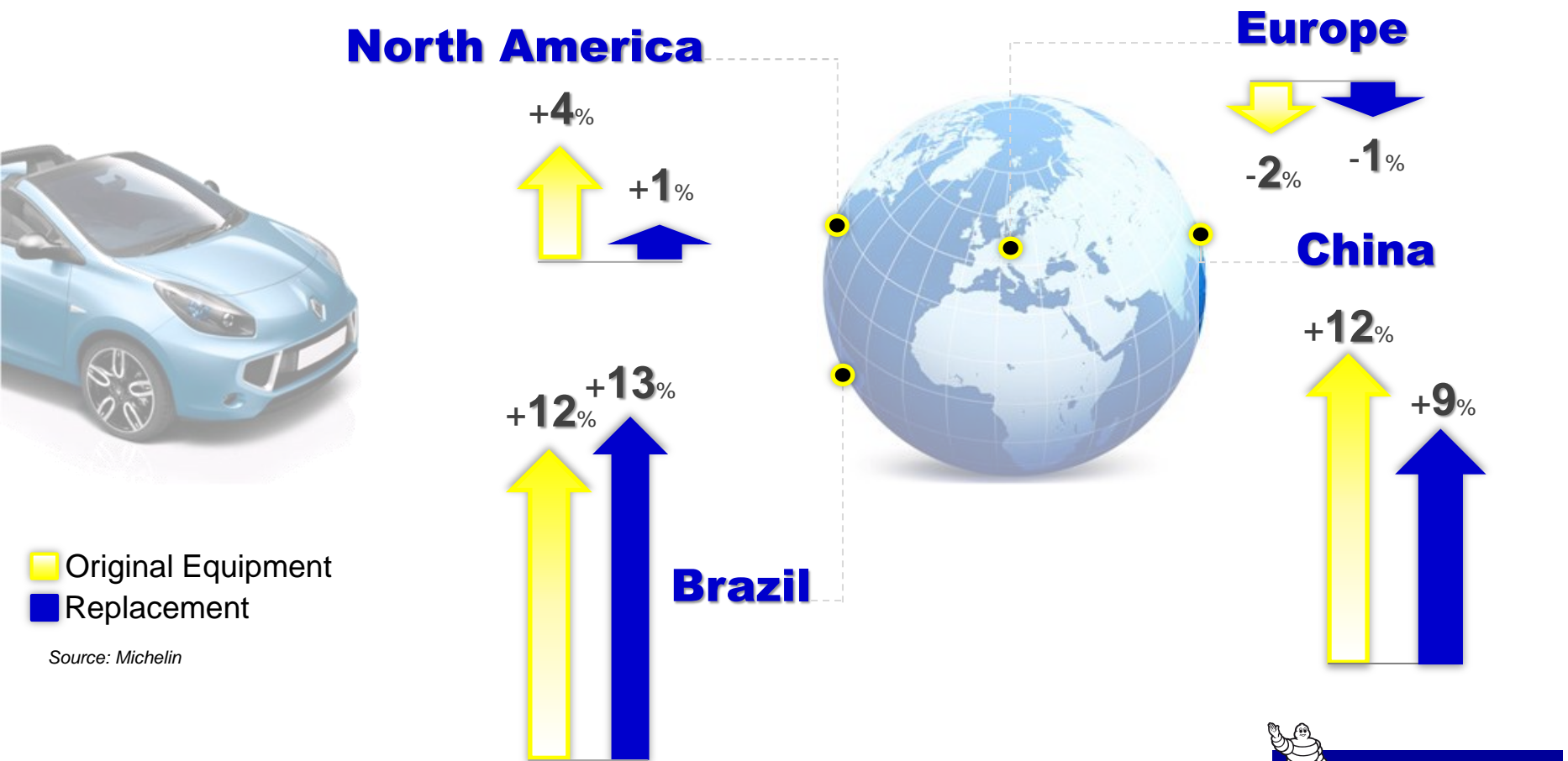
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## 2013 MARKETS & OUTLOOK

# Car & Light Truck: Markets in Line with Q2 Trends

## Markets at July 31<sup>st</sup>, 2013

(% change YoY, based on number of tires)



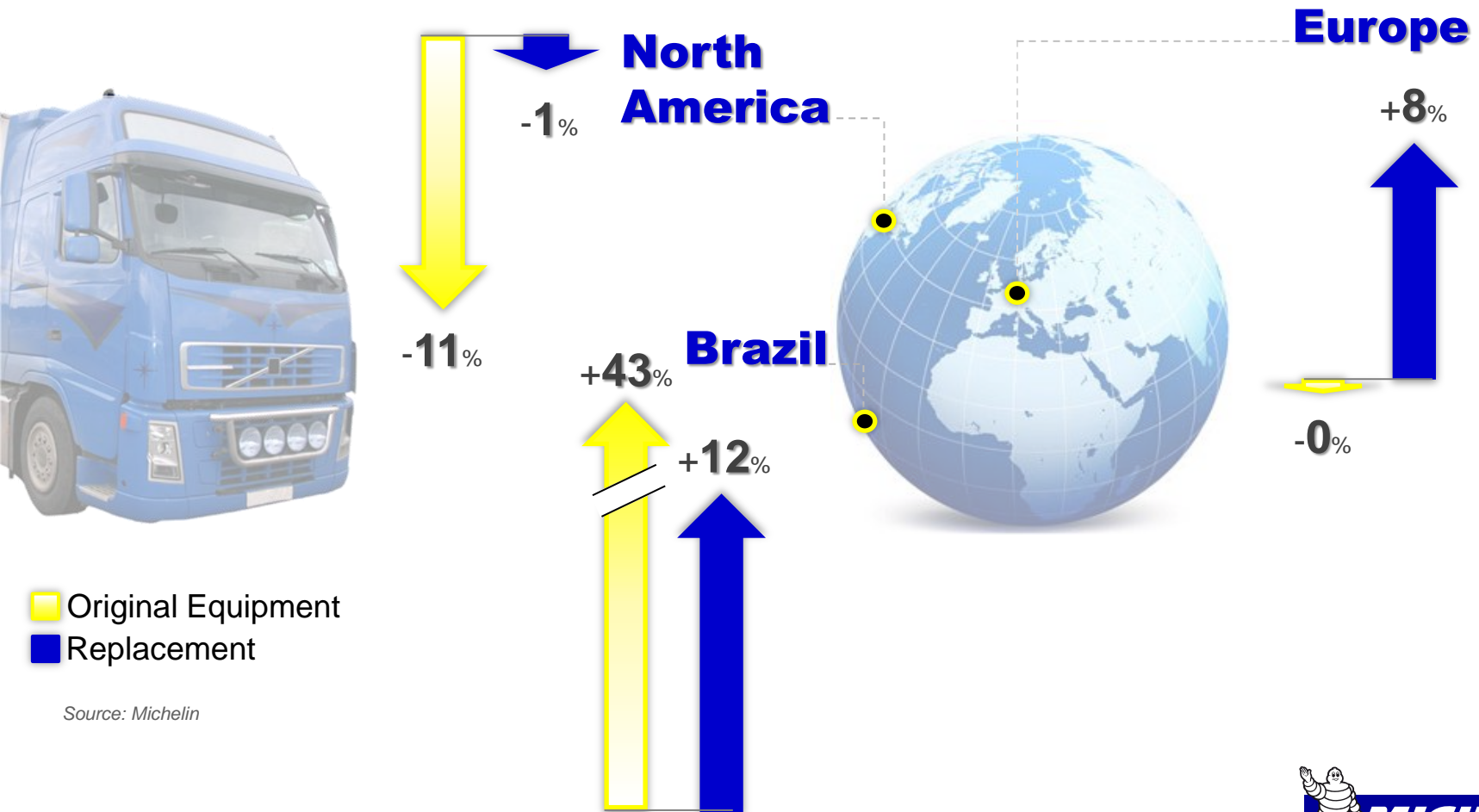
Source: Michelin



# Truck: Recovery in European Replacement Market in Line with Q2 Figures

## Radial Markets at July 31<sup>st</sup>, 2013

(% change YoY, based on number of tires)



Source: Michelin



# 2013 Markets in Line with the Original Scenario

## Europe



## North America



## New Markets



## Mining Markets



# 2013 Guidance Confirmed

## ▶ Stable operating income before non-recurring items

**Confirmed**

### ■ Stable volumes

### ■ Margin management: combined price-mix/raw materials impact still positive

- Unfavorable price-mix, mainly due to the raw-materials indexation clauses and strategic price repositionings
- Favorable impact from raw materials, of around €350m in H2

## ▶ Positive FCF

**Confirmed**

### ■ Around €2bn in capex

## ▶ > 10% ROCE

**Confirmed**



# Key Takeaways

- ▶ **First-half 2013: business performance in line with objectives**
  - **Generation of FCF despite the usual seasonal variations**
  - **Upturn in demand in the second quarter**
  - **Margins managed with a careful pricing policy**
  - **Mining tire business still expanding**
- ▶ **Strategy moving forward as scheduled**
  - **Robust profitability**
  - **Efficient competitiveness plan**
  - **Capital programs being deployed on schedule**

**2013 guidance confirmed**

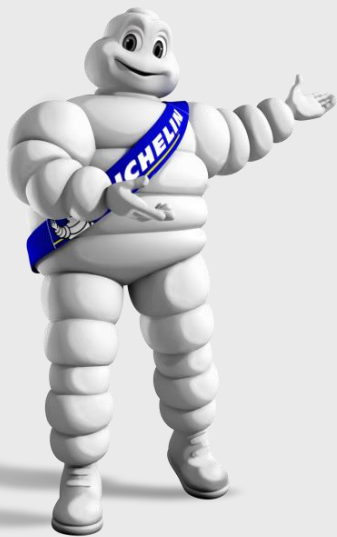


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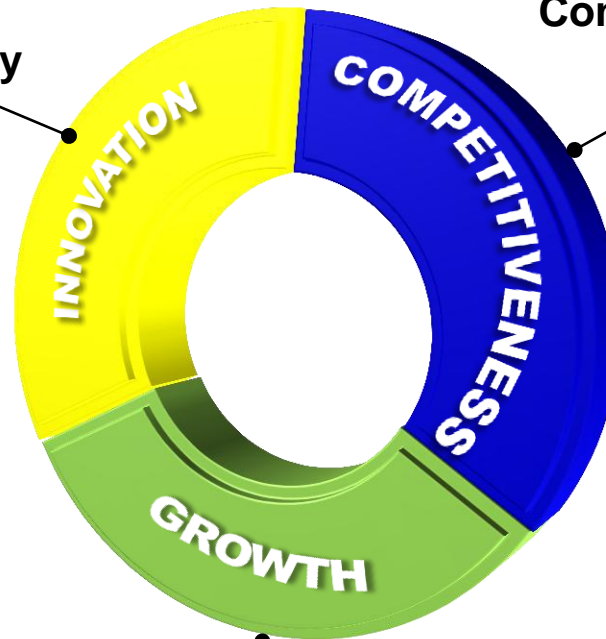


## APPENDICES

# The Three Strategic Pillars

**1** Innovate to drive differentiation and loyalty

Continuously become more competitive **2**

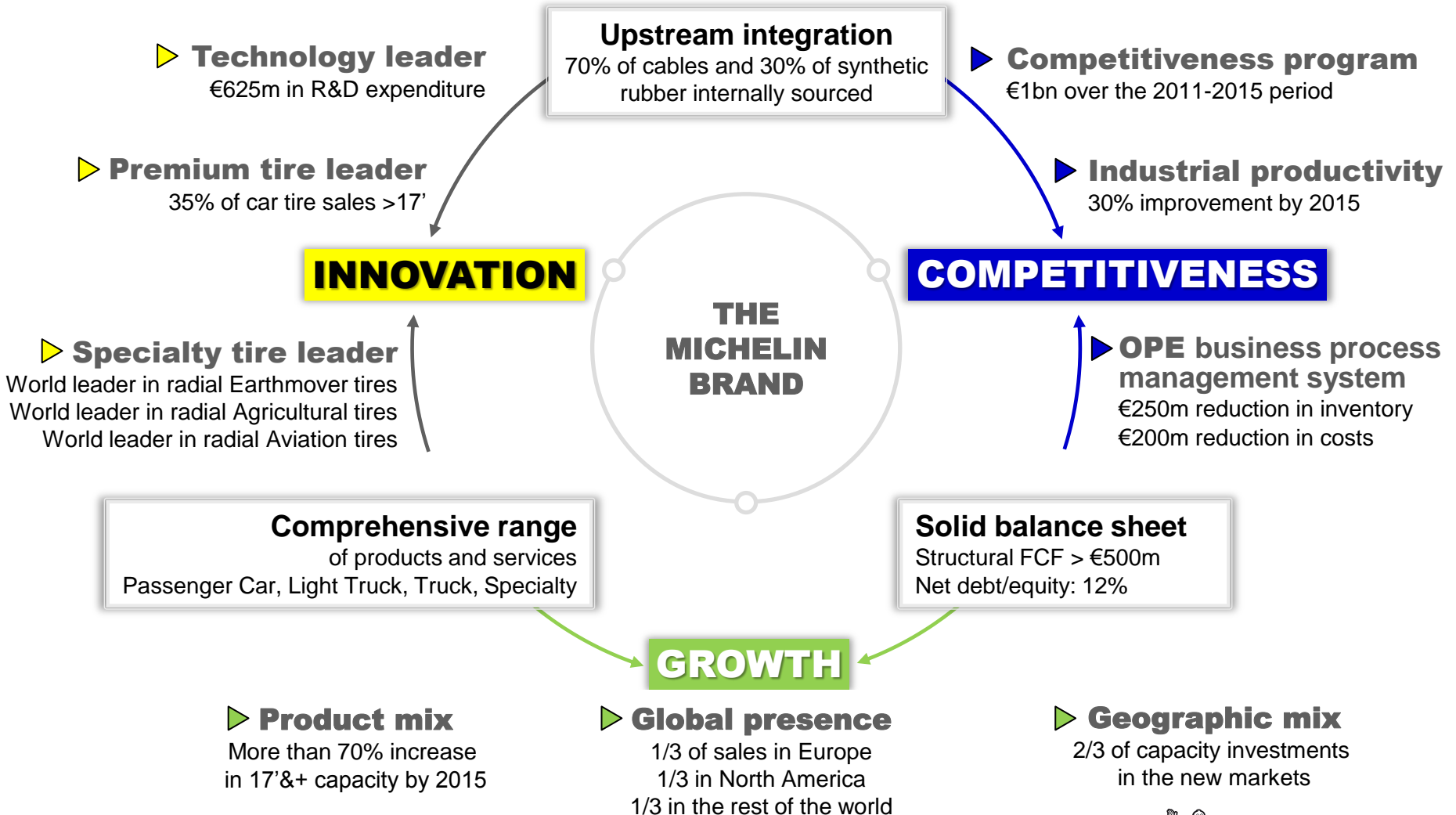


**3** Drive faster growth





# A Strategy Built on Solid Competitive Strengths



# Impact on the H1 2012 Income Statement of the Change in Accounting for Employee Benefits (IAS19)

<i>In € millions</i>	H1 2012 Reported	Accounting change	H1 2012 adjusted for IAS19
Net Sales	10,706	-	10,706
Operating Income <i>before non-recurring items</i>	1,320	+ 28	1,348
<b>Operating Income</b>	<b>1,417</b>	<b>+ 28</b>	<b>1,445</b>
Interest Costs <sup>(1)</sup>	(88)	- 87	(175)
<b>Income before Taxes</b>	<b>1,329</b>	<b>- 59</b>	<b>1,270</b>
Income Tax	(414)	+ 20	(394)
<b>Net Income</b>	<b>915</b>	<b>- 39</b>	<b>876</b>

<sup>(1)</sup> Including associates



# Impact on the H1 2012 Balance Sheet of the Change in Accounting for Employee Benefits (IAS19)

<i>In € millions</i>	H1 2012 reported	Accounting change	H1 2012 adjusted for IAS19
<b>Non-current assets</b>	<b>10,779</b>	<b>- 27</b>	<b>10,752</b>
of which deferred tax assets	1,413	- 27	1,386
<b>Current assets</b>	<b>10,287</b>	<b>-</b>	<b>10,287</b>
<b>Total assets</b>	<b>21,066</b>	<b>- 27</b>	<b>21,039</b>

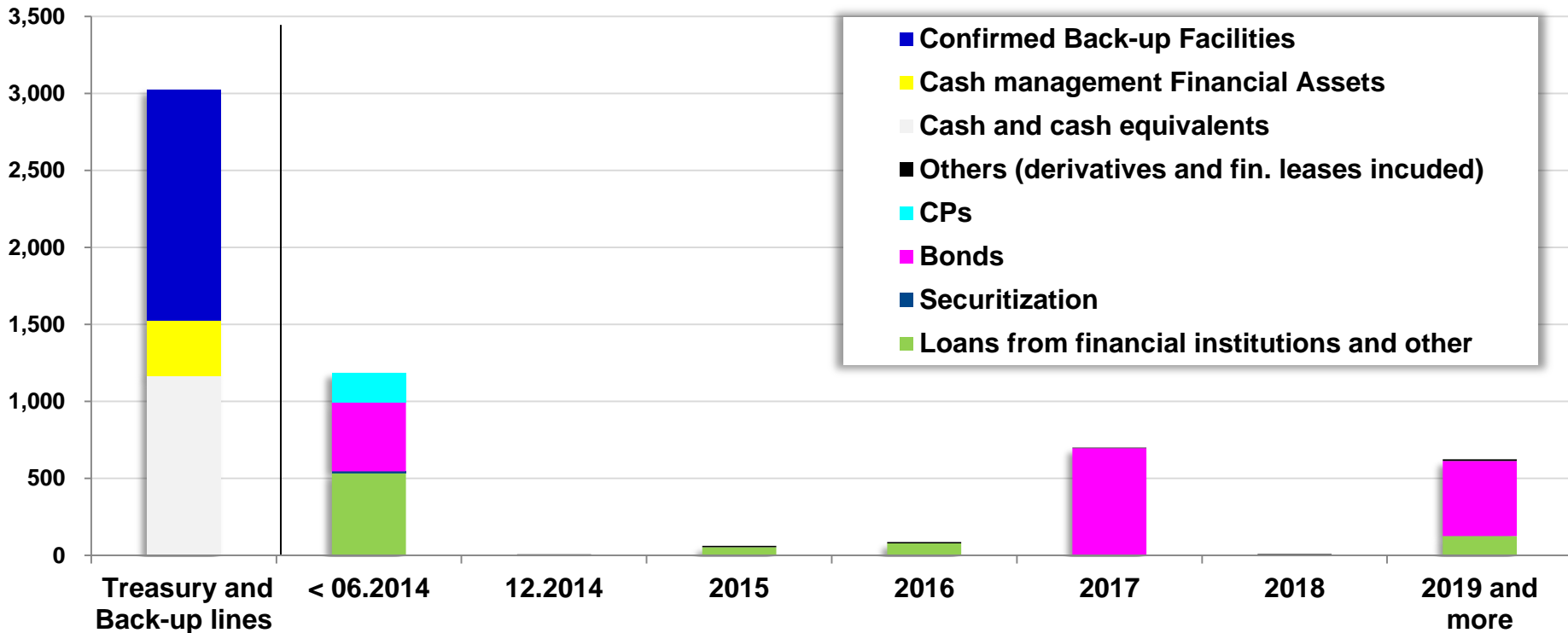
<b>Equity</b>	<b>8,502</b>	<b>+ 42</b>	<b>8,544</b>
<b>Non-current liabilities</b>	<b>7,598</b>	<b>- 69</b>	<b>7,529</b>
of which employee benefit obligations	4,180	- 69	4,111
<b>Current liabilities</b>	<b>4,966</b>	<b>-</b>	<b>4,966</b>
<b>Total Equity and Liabilities</b>	<b>21,066</b>	<b>- 27</b>	<b>21,039</b>



# A Robust Cash Position

## Debt maturities at June 30, 2013

(Nominal value, in € millions)



# Contacts

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