



# **EDINBURGH**

## **One-Stop-Shop Cheuvreux**

**December 12, 2012**



# OUTLINE



01

High profitability in first-half 2012

02

Structurally expanding markets

03

Widening our leadership in the premium segment

04

Increasing the contribution of the specialty businesses

05

Strengthening our presence in the growth regions

06

Updated Prospects for 2015





01

# High profitability in first-half 2012





# High Profitability Supported by the Group's Global Strategy

- €1,320m in **operating income before non-recurring items**, up 36% vs. H1 2011, reflecting:
  - *The Group's strategy and competitive advantages*
    - **Global footprint**
    - **High margins in the Specialty businesses**
    - **Premium positioning**
  - *Quality of management*
    - **Favorable combination of a strong price effect and a less negative impact from raw materials costs**
    - **Improved margins in Truck tires**
- **Volumes** down 8.3%, at a time of weak demand in Europe
- **Free cash flow** at breakeven





# Financial Highlights

## 2012 & 2011 figures as reported

In € millions	H1 2012	H1 2011
Net Sales	10,706	10,105
Operating Income before non-recurring items	1,320	971
Operating Margin before non-recurring items	12.3%	9.6%
Net Income	915	667
Investment	660	554
Net Debt-to-Equity Ratio	26%	27%
Free Cash Flow*	7	(634)

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

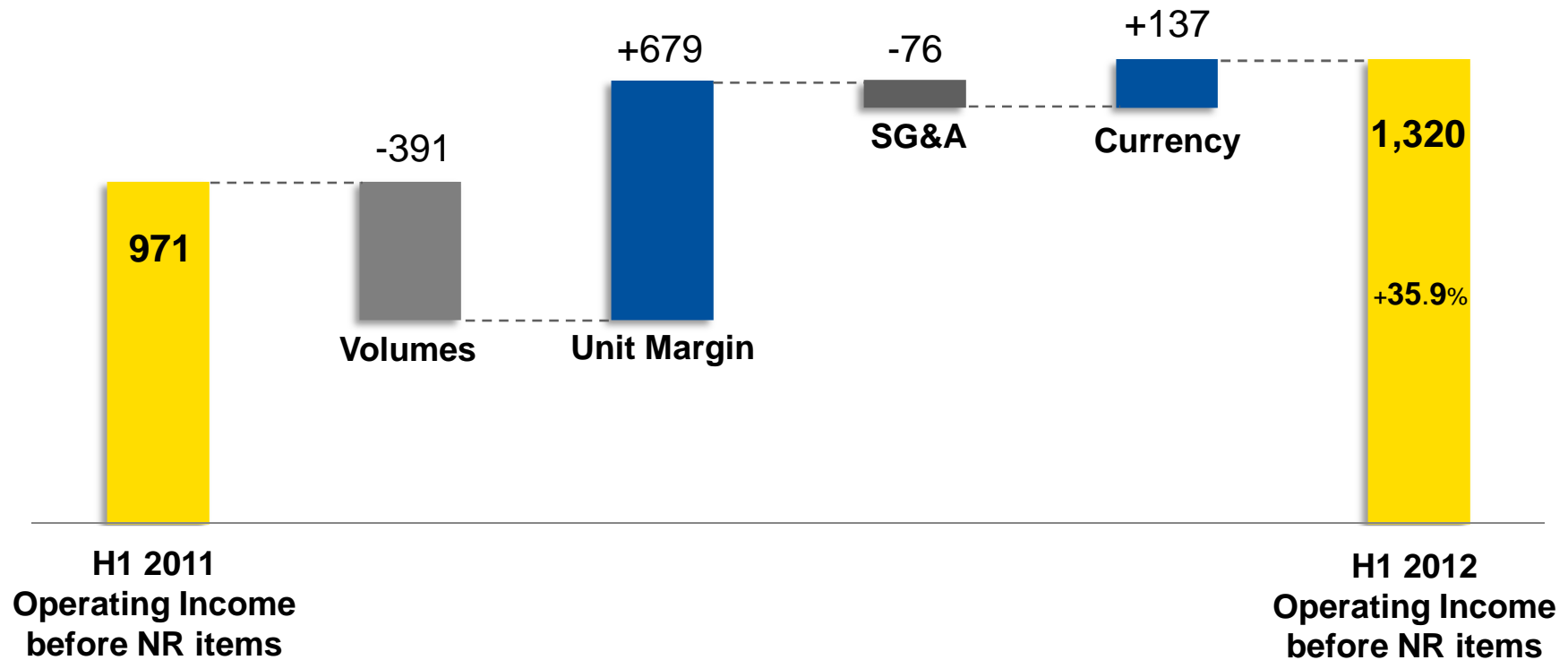




# Growth in Operating Income Led by an Improved Unit Margin

## YoY change

(in € millions)

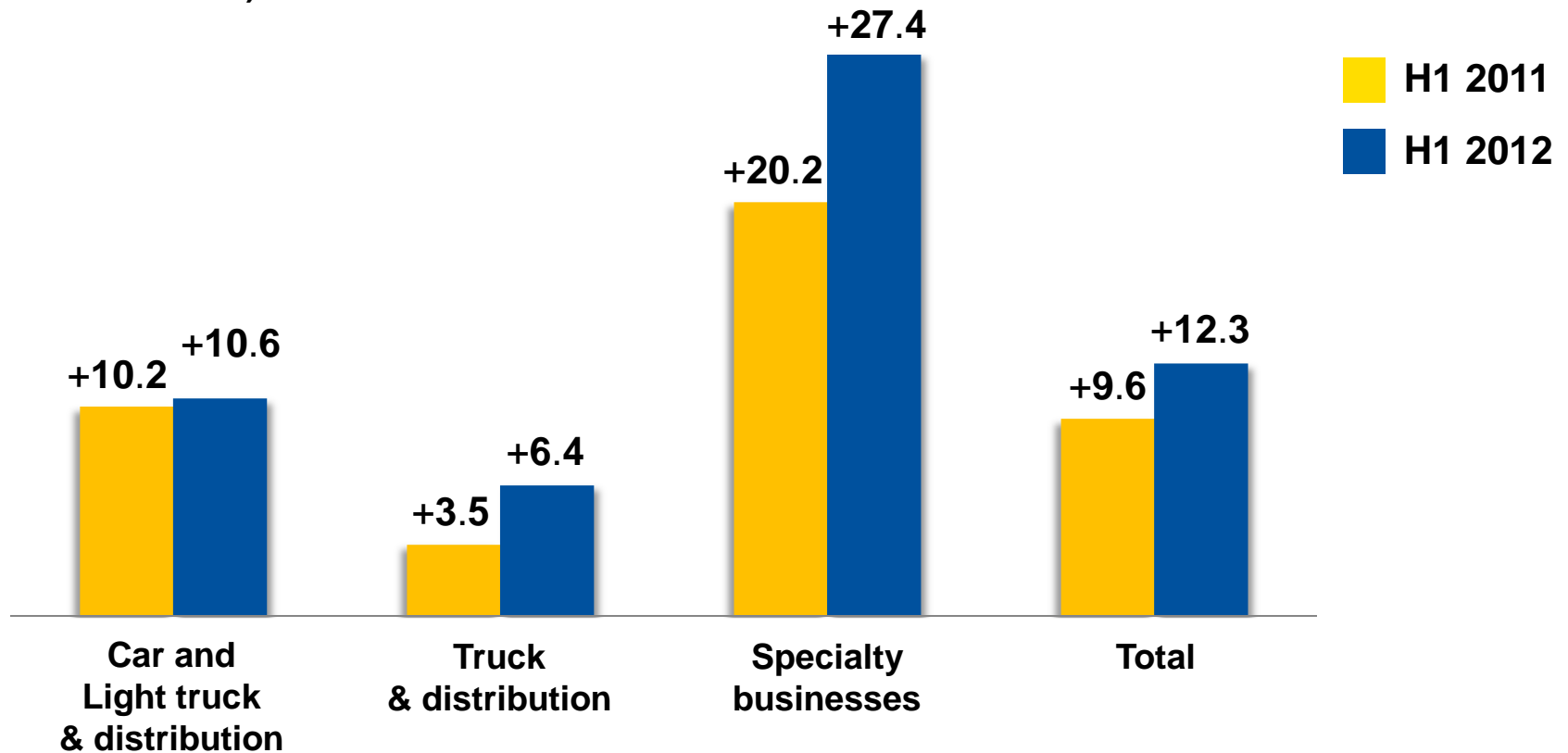




# Operating Margin Up in Every Business

## Operating margin before non-recurring items

(as a % of net sales )





02

# Structurally expanding markets

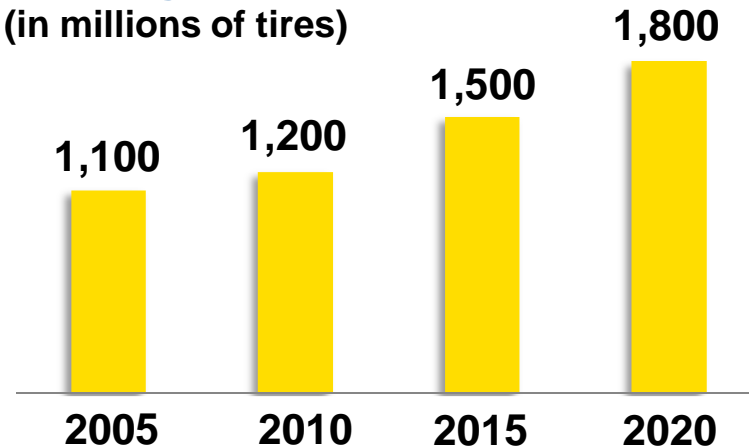




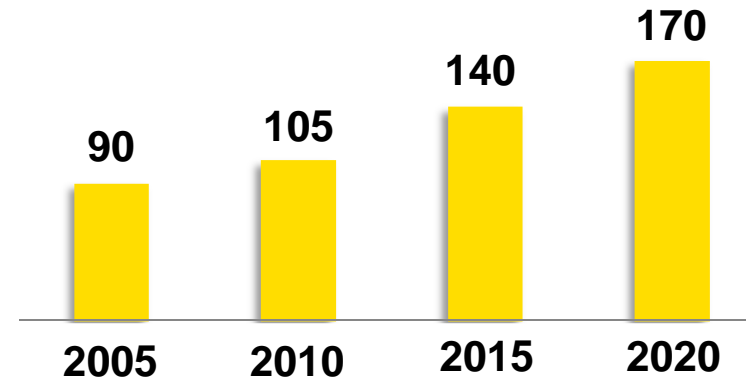


# Tire Markets are Structurally Expanding Over the Mid and Long Terms

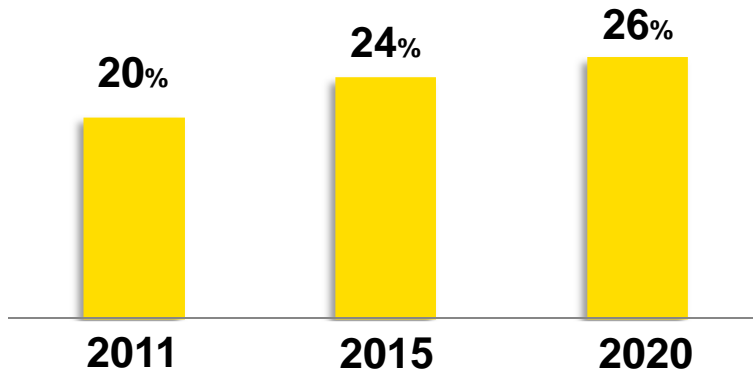
**Car & Light truck tire market**  
(in millions of tires)



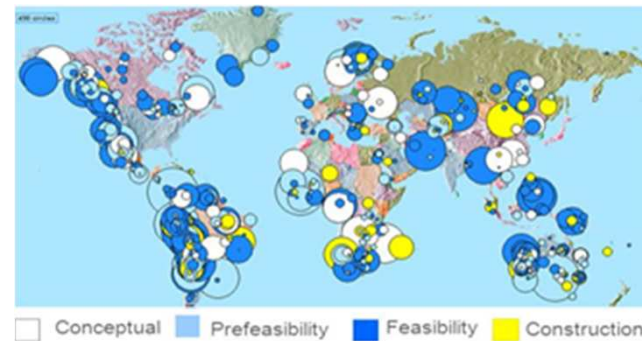
**New radial Truck tire market**  
(in millions of tires)



**% of 17" and over in the total market**



**Mine Greenfield projects (sized by Mt/yr)**



Source: RMG





03

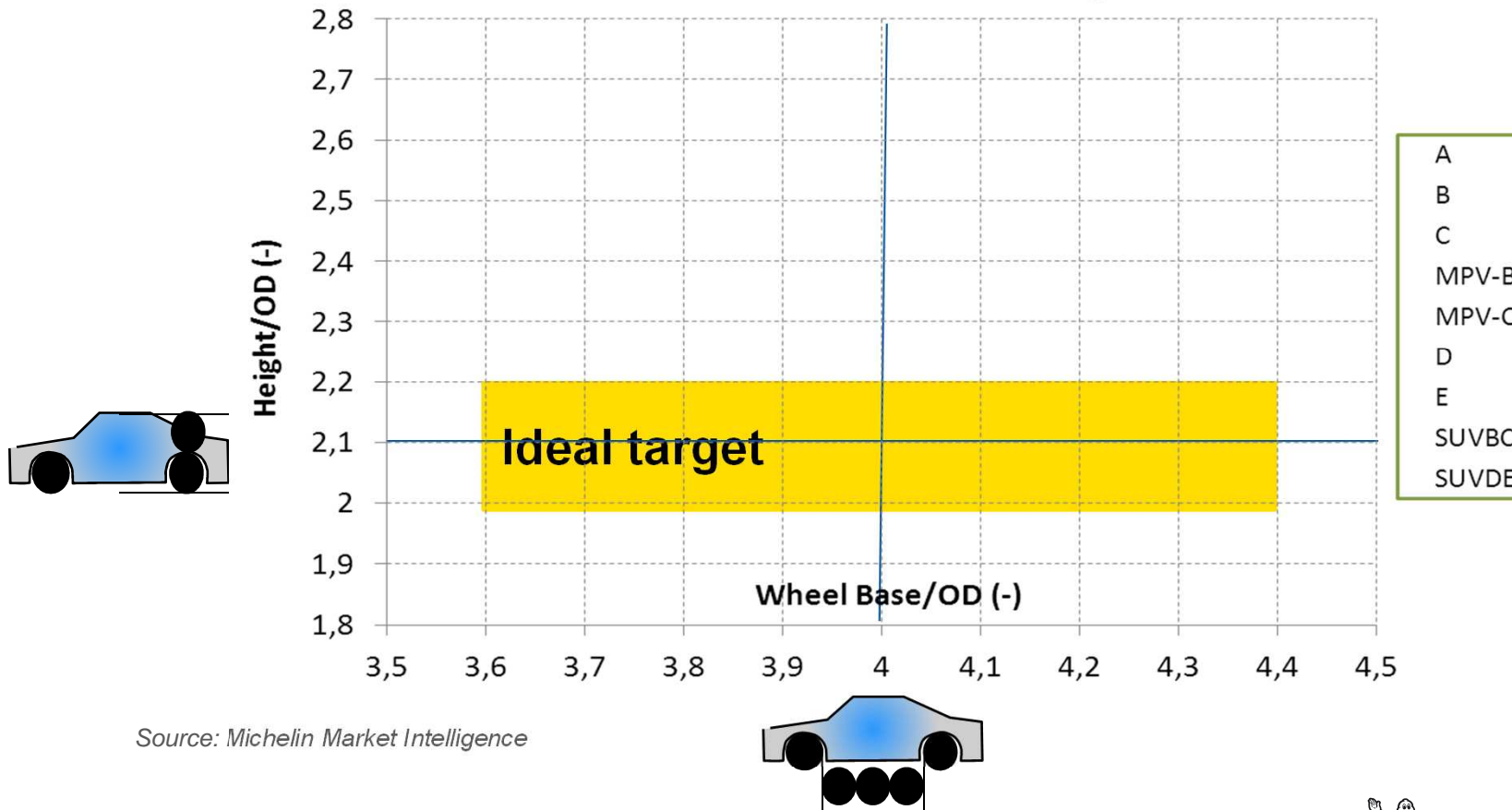
## Widening our leadership in the premium segment





# Car Design Drives Tire Premiumization: the Impact of Aspect Ratios

### Tire OD and vehicle design

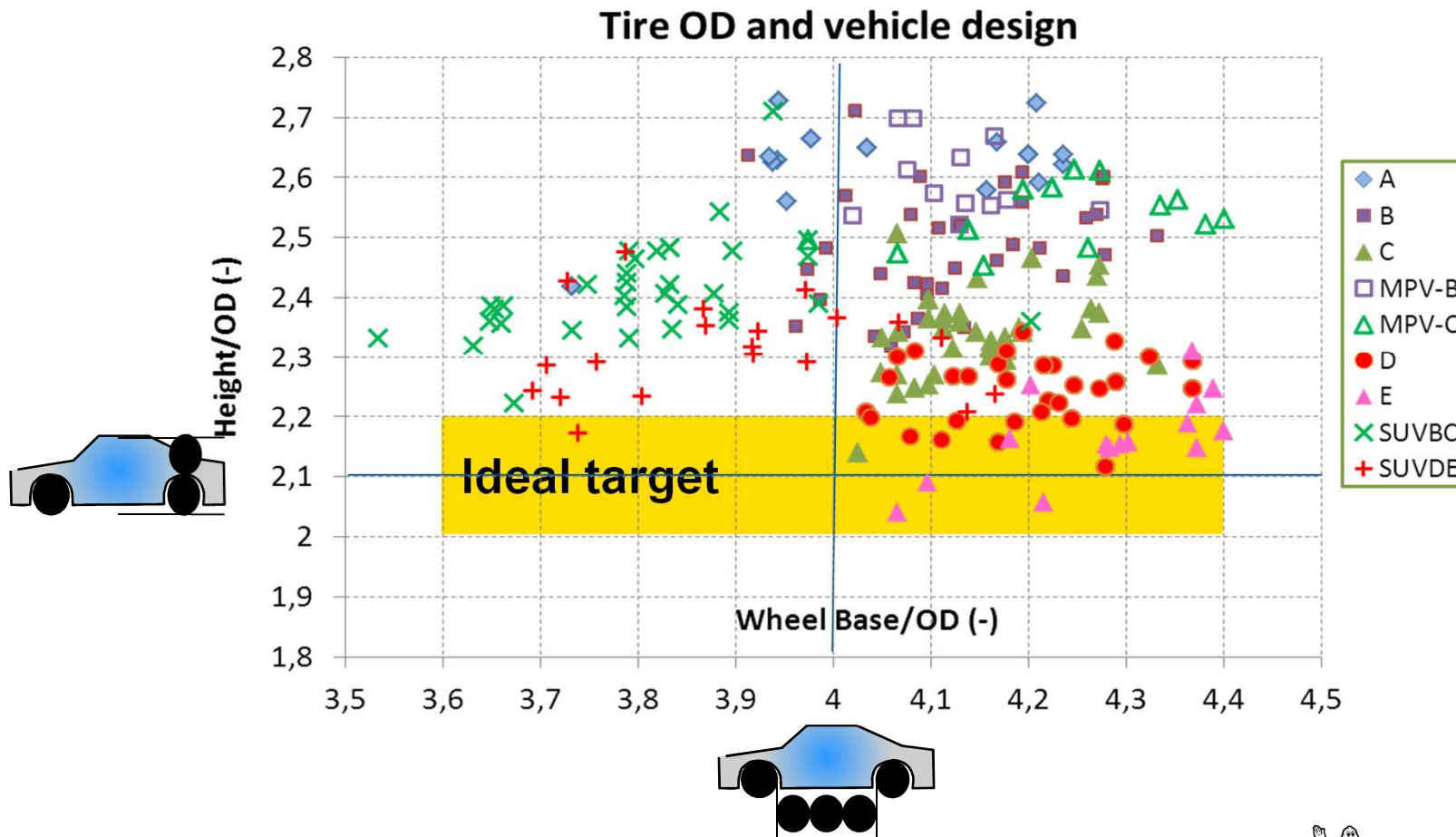


Source: Michelin Market Intelligence



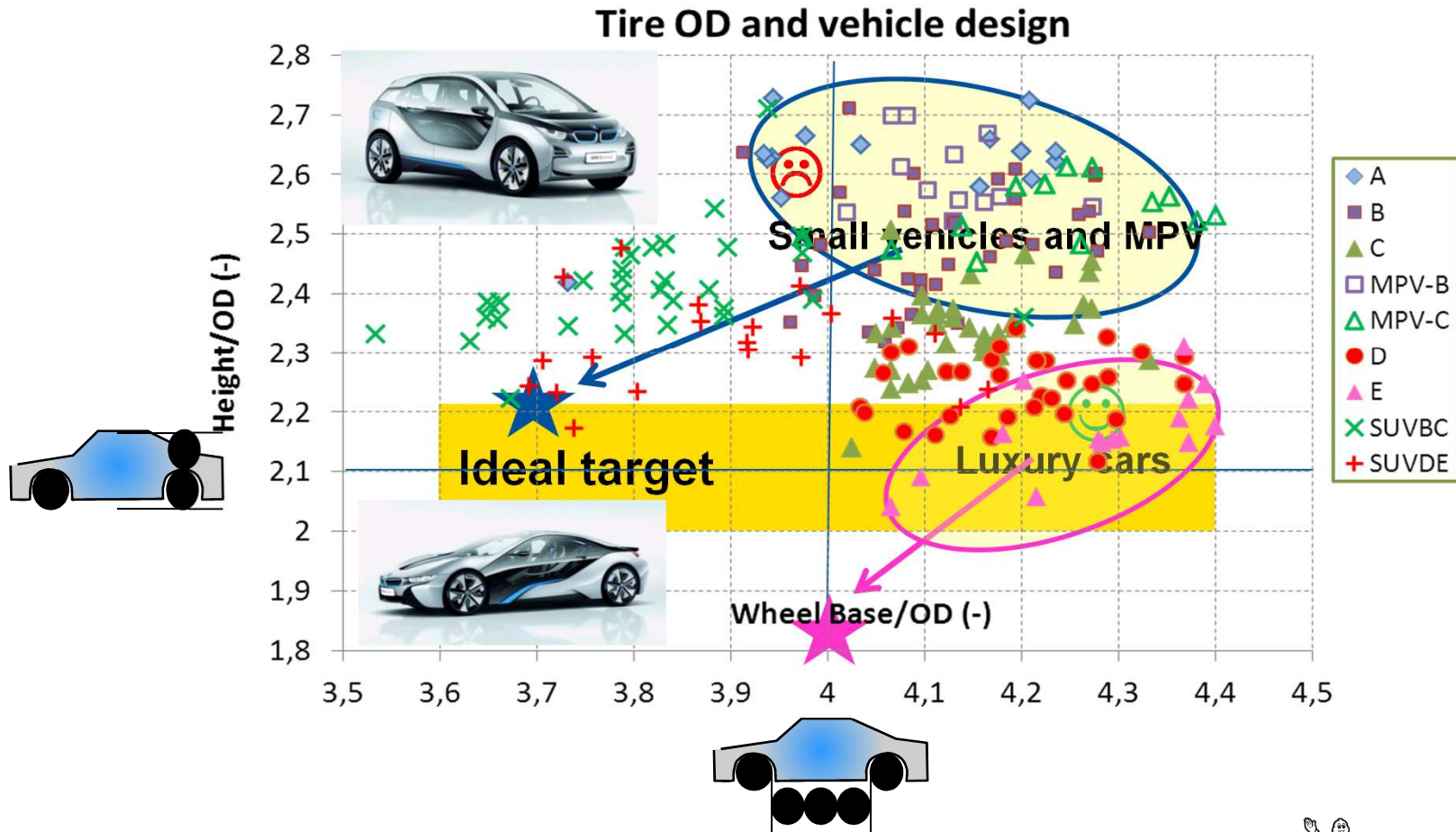


# Car Design Drives Tire Premiumization: Tension between Current & Ideal Design





# Car Design Drives Tire Premiumization: Trend for Bigger Wheel Diameter

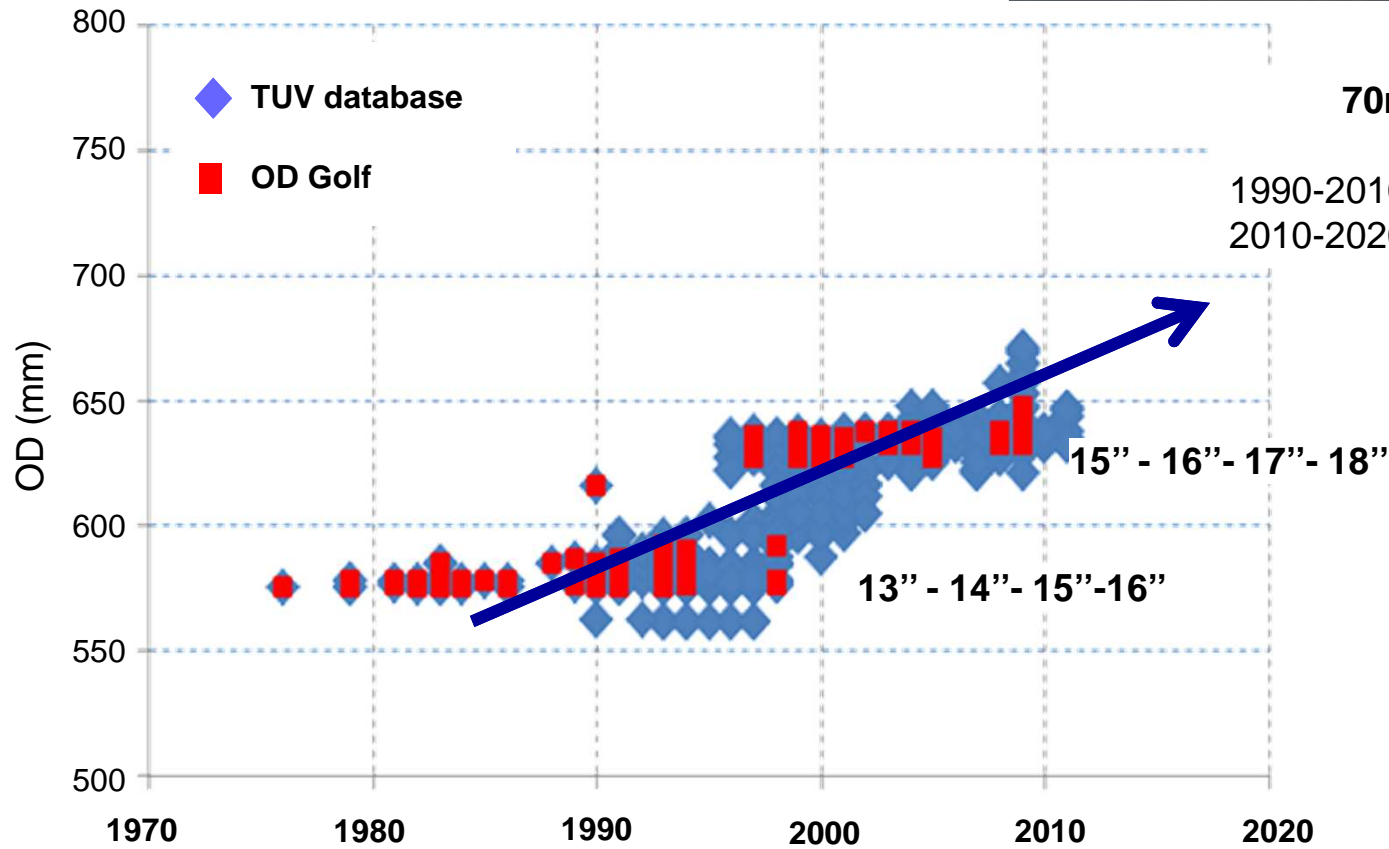






# Bigger Overall Diameter: an Old Trend still Alive

Europe - segment C - OD



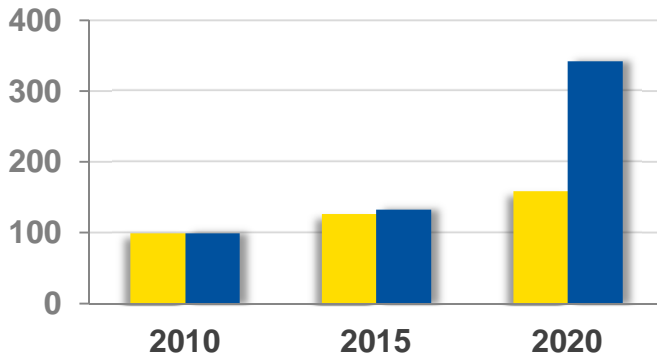
Source: TUV database



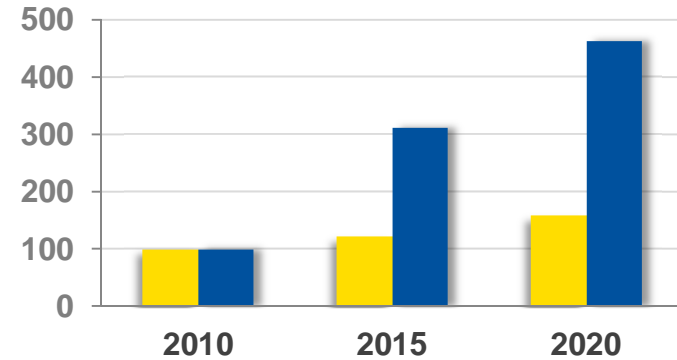


# OE Design and Mix Impact Premium Tire Growth Outpaces the Market

### South America

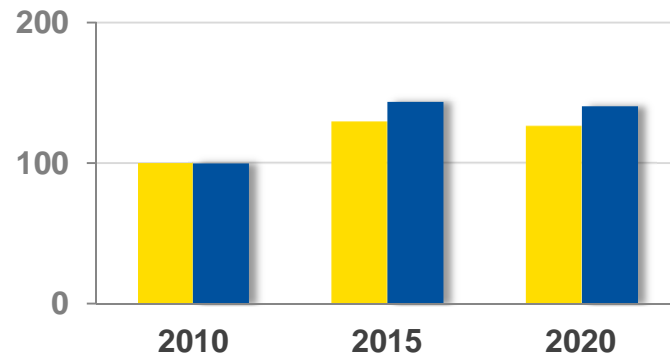


### China

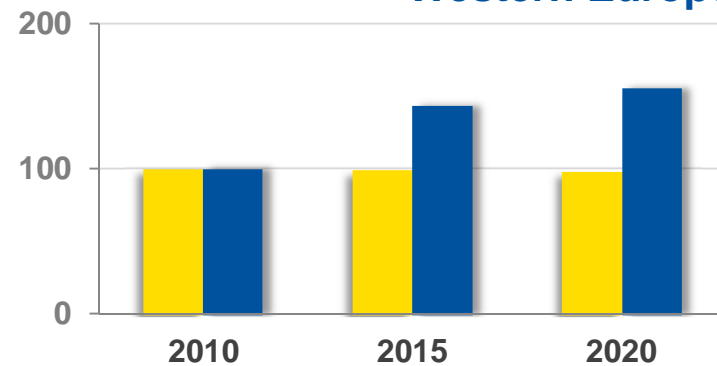


■ 16" & <  
■ 17" & >

### North America



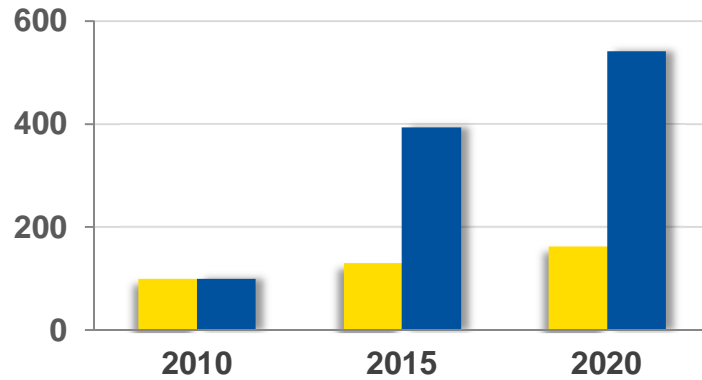
### Western Europe



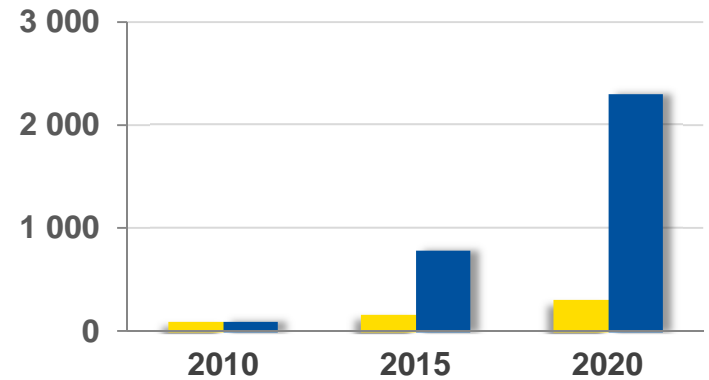


# RT Replicates OE Premium Tire Growth Outpaces the Market

### South America

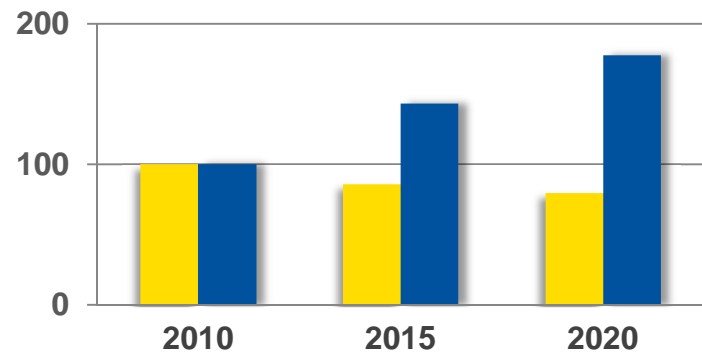


### China

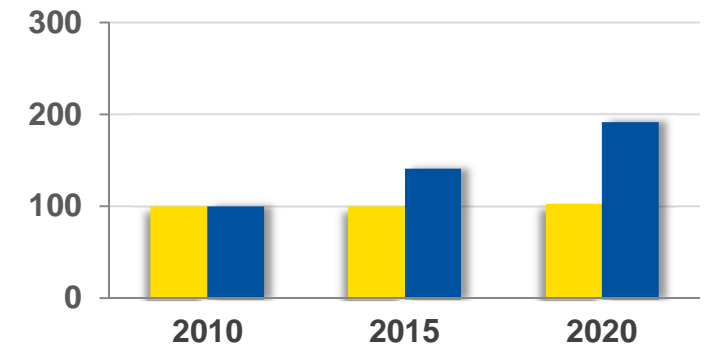


■ 16" & <  
■ 17" & >

### North America



### Western Europe

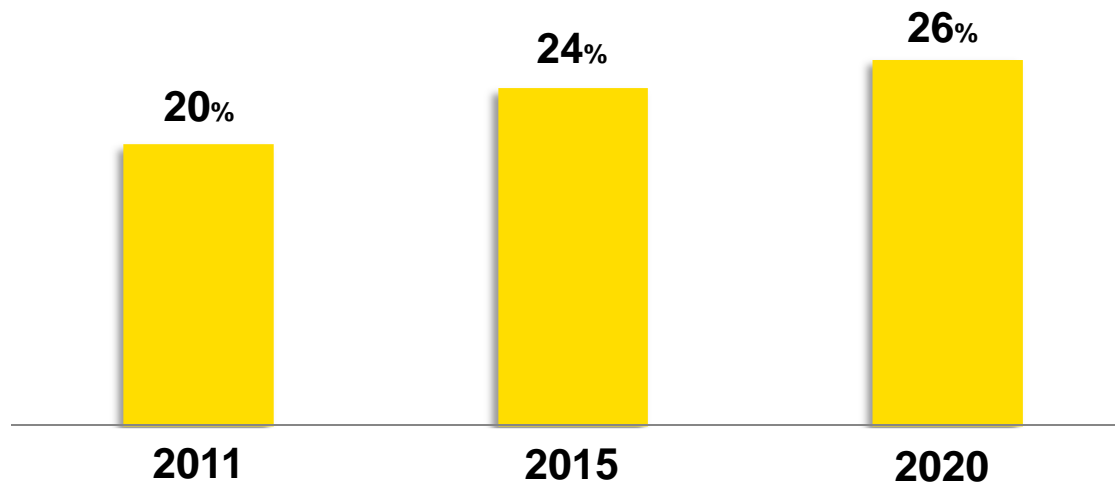






# The Result: Overall Market Mix Evolves towards Bigger Tire Diameters

% of 17" & > in the total market

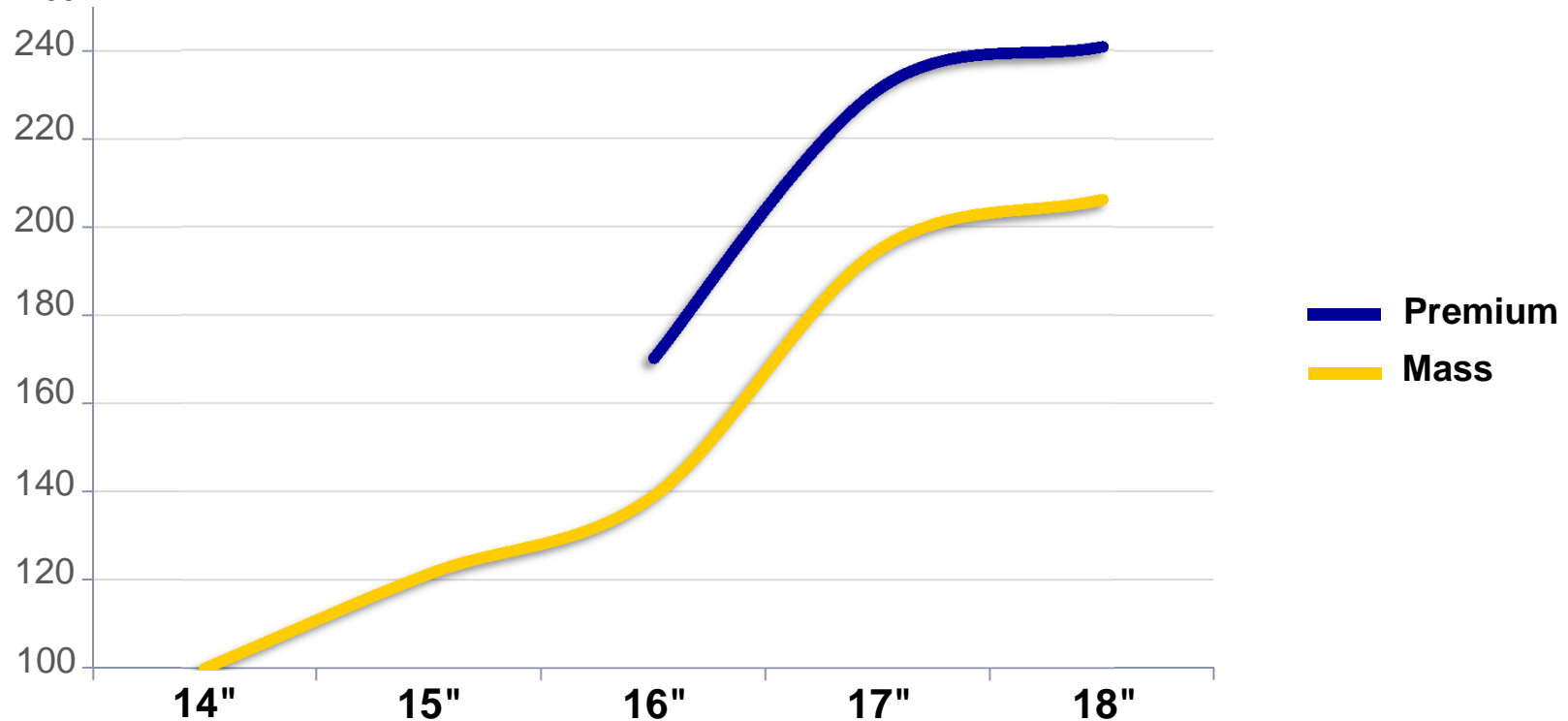




# Consumers are Ready to Premiumize Price Expectations Reflect Market Upgrading

**Question:** On average, what price would you be prepared to pay for a tyre?  
We are talking about the tyre alone, not including fitting, balancing or valve-fitting.

Price expectation  
Index 100 = 14"



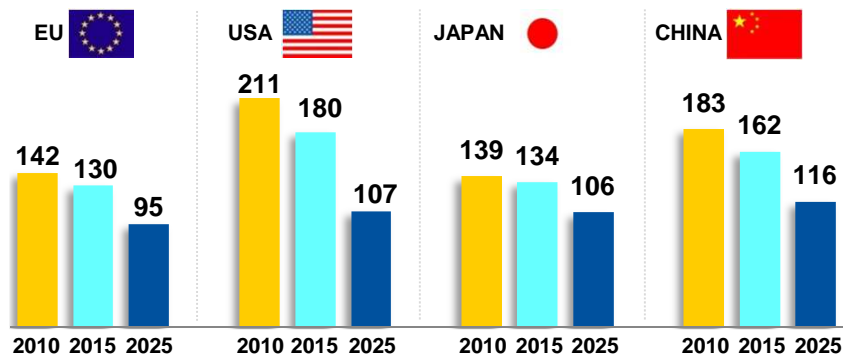
Source: Perceived value Survey Europe G5





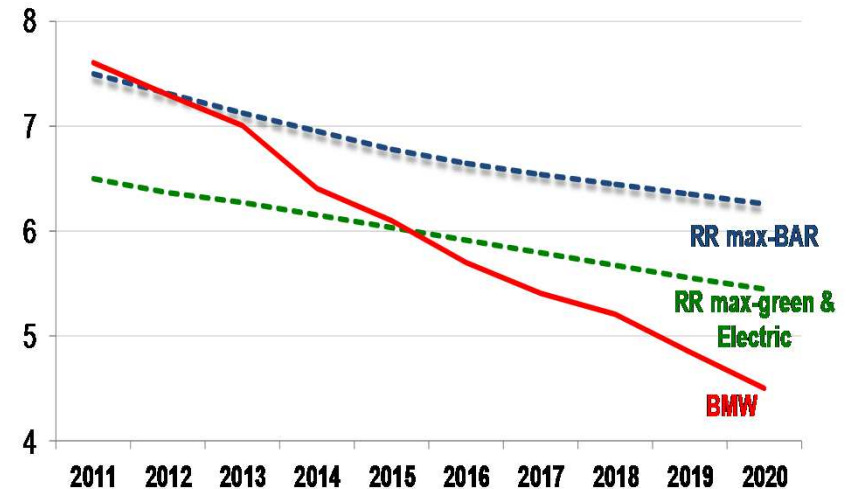
# Emissions Regulations Drive a Valorized Demand for Energy-Saving Tires

## CO<sub>2</sub> fleet emission targets (g(CO<sub>2</sub>)/km)

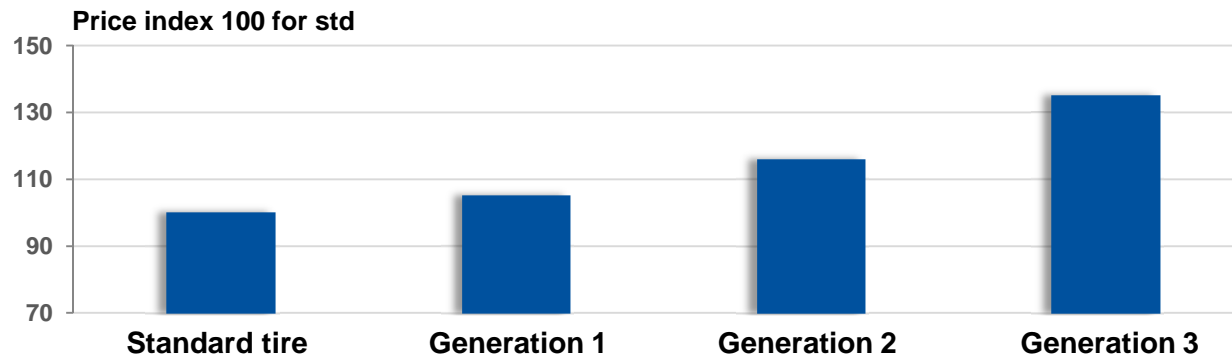


Source: EU Commission, Parliament and Council; EPA, DOT and NHTSA; JAMA; ICCT; Roland Berger

## Rolling resistance demanded by premium OE's



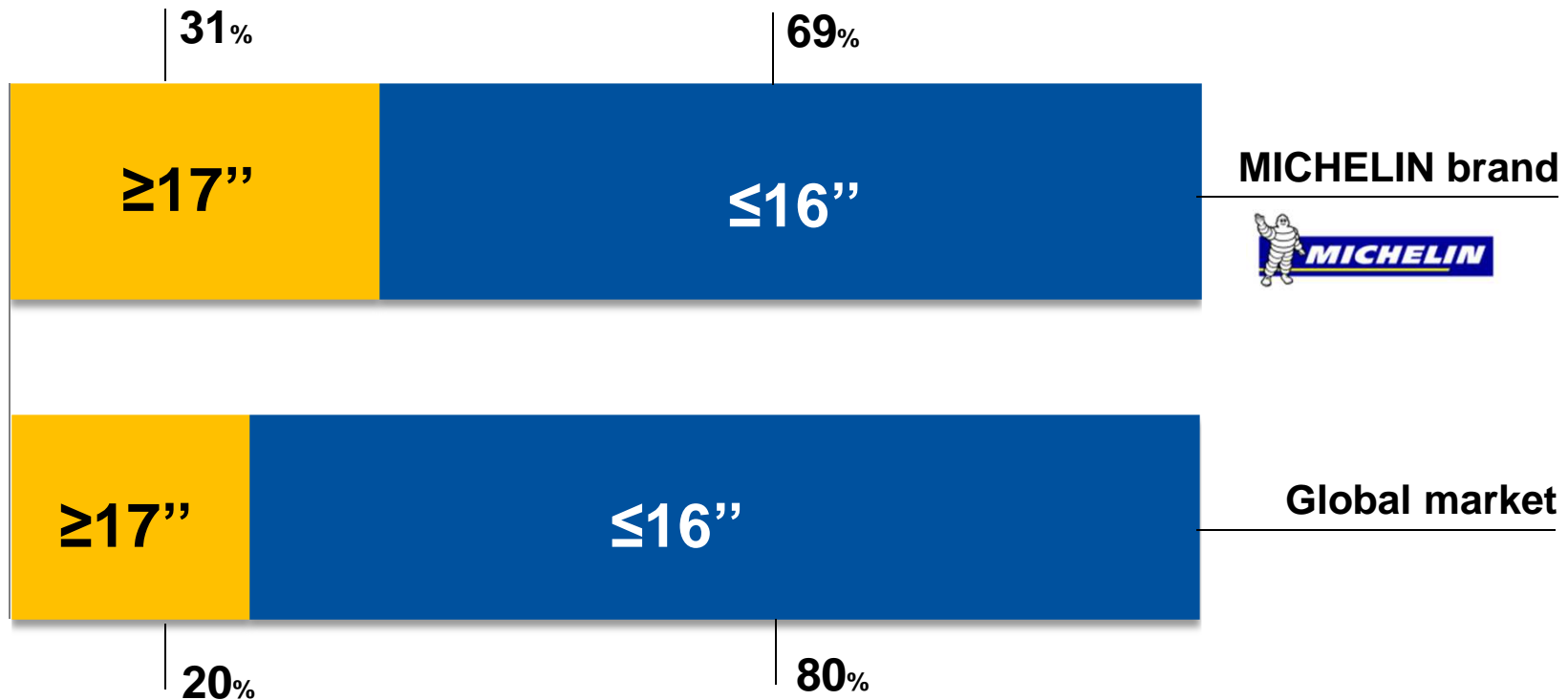
## OE Valorization of Michelin new low RR technologies





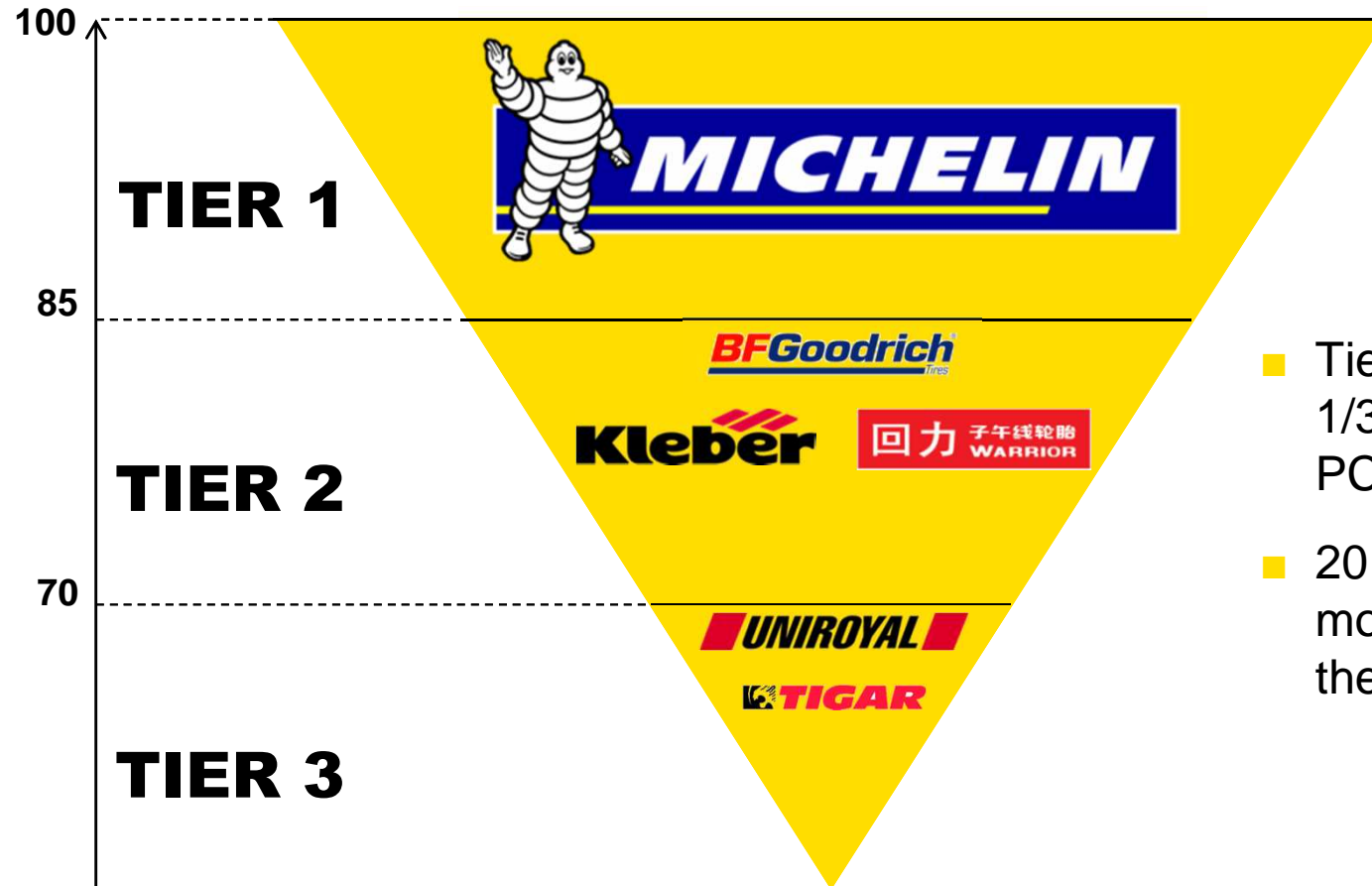
# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

## Share by PC/LT tire seat size





# MICHELIN: a 100% Premium Brand in Every Market



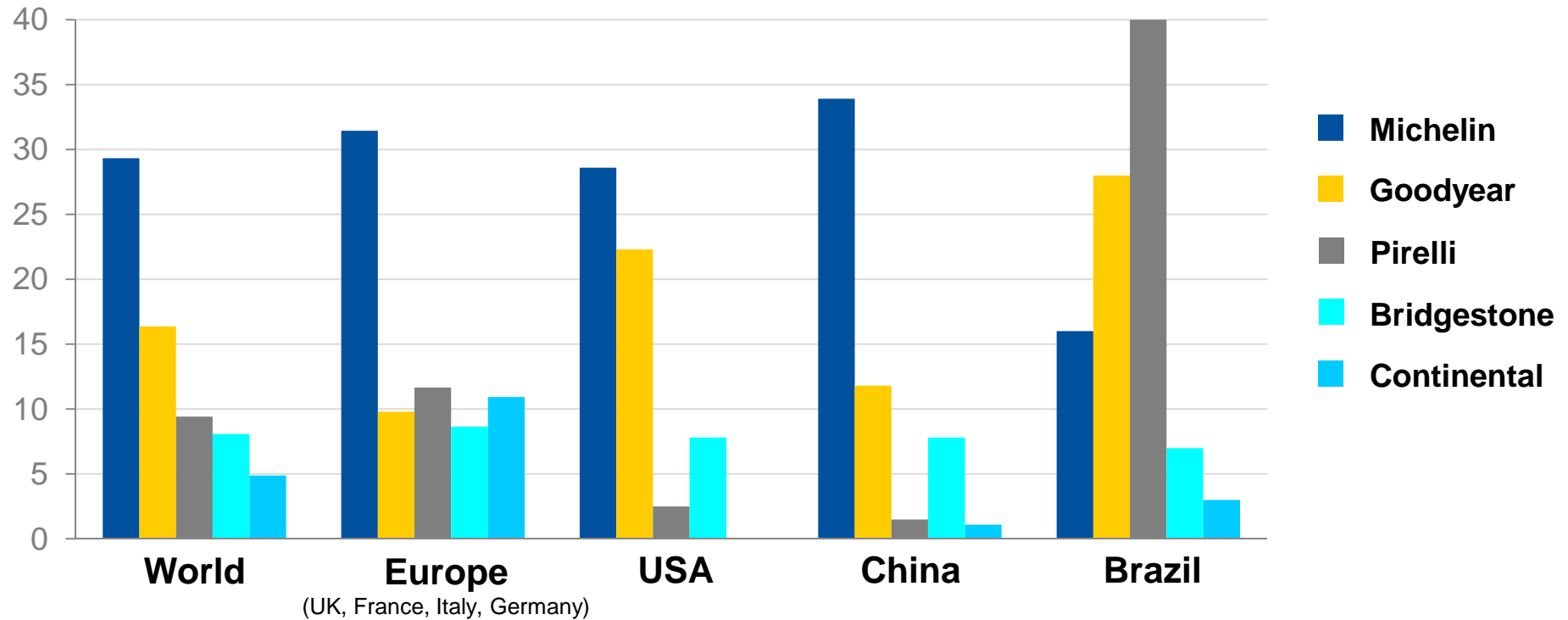
Price positioning  
(100 = Michelin)

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





# The Brand Preferred by Premium Consumers with Strong Equity across Key Geographies



Source: 2011 Results Brand Health Research, TNS, Lieberman and Nielsen





# The Leading Premium Retailer Network to Capture Emerging Premium Consumers: China Example

Distribution networks – number of points of sale in 2011, Michelin in 2012

	PREMIUM (Durable)	PREMIUM (Advocate)	TRANSACTIONAL	TOTAL
<b>Michelin</b>	<b>T+</b> (Tyreplus) <b>MTC</b> (Michelin Tyre Service Center) <b>MBA</b> (Michelin Business Acceleration) <b>1,711</b>	<b>MCR</b> (Michelin Certified Retailer) <b>2,323</b>	<b>MSD</b> (Michelin Selected Dealer) <b>2,535</b>	<b>6,569</b>
<b>Goodyear</b>	<b>Flagship</b> <b>110</b>	<b>Service Center</b> <b>800</b>	<b>Image Shop</b> <b>700</b>	<b>1,610</b>
<b>Bridgestone</b>	<b>WOC</b> (Wing Of Car) <b>235</b>	<b>BTS</b> (Bridgestone Tyre Shops) <b>BTS+</b> (Bridgestone Tyre Shops Plus) <b>836</b>	<b>BOSS</b> <b>3,575</b>	<b>4,646</b>
<b>Continental</b>	<b>Best Drive</b> <b>30</b>	<b>CCS</b> <b>450</b>	<b>CAR</b> <b>900</b>	<b>1,380</b>
<b>Hankook</b>	<b>T-Station</b> <b>64</b>	<b>Tire Town</b> <b>525</b>	<b>Image Shop</b> <b>1,434</b>	<b>2,023</b>

Source: Internet information, Press reviews & sales force survey





# Michelin Retail Franchise Ambition: from 2,000 Points of Sale Today to 5,000 by 2017

**TYREPLUS Franchise**

**1,385 ▶ 3,540**

**EUROMASTER Franchise**

**628 ▶ 1,700**



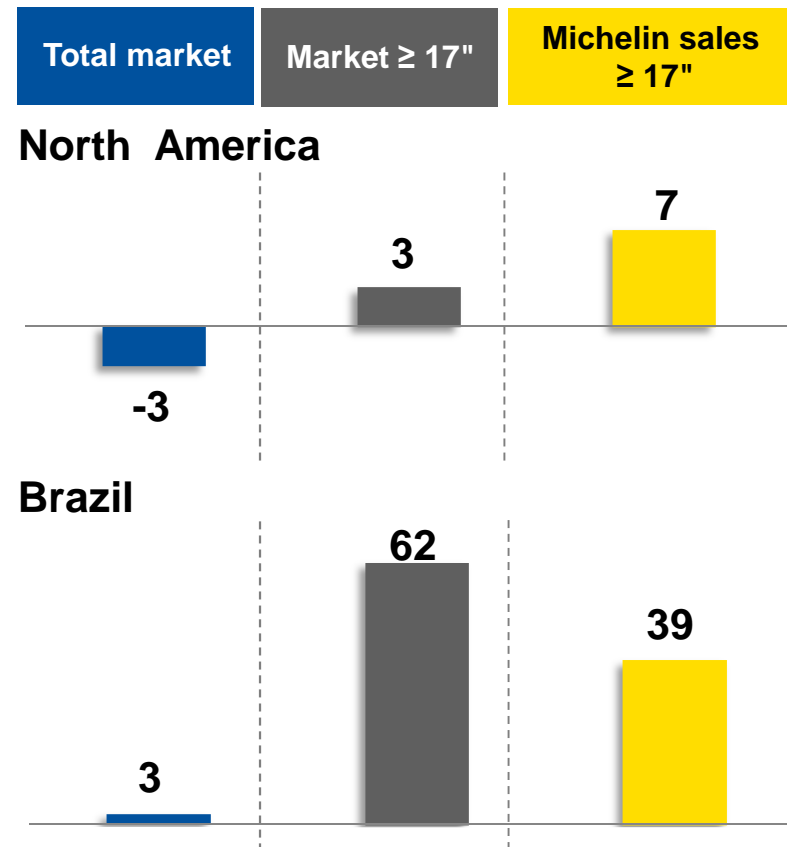
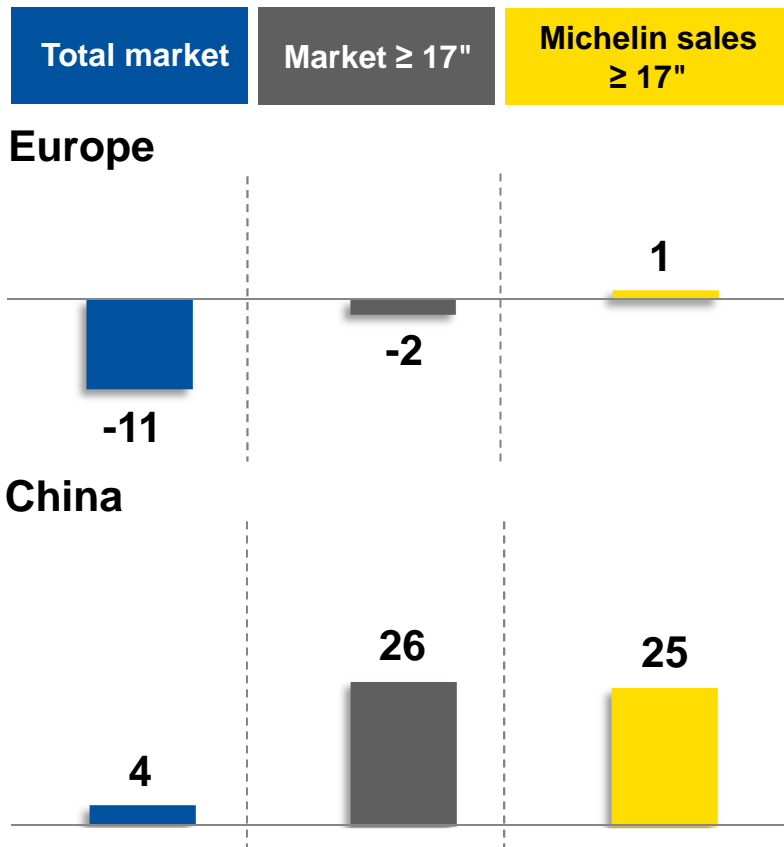




# Premium: Strong Growth Opportunity Seized by Michelin

## Growth in the replacement Car & Light truck market

( H1 2012 vs. H1 2011 in %)



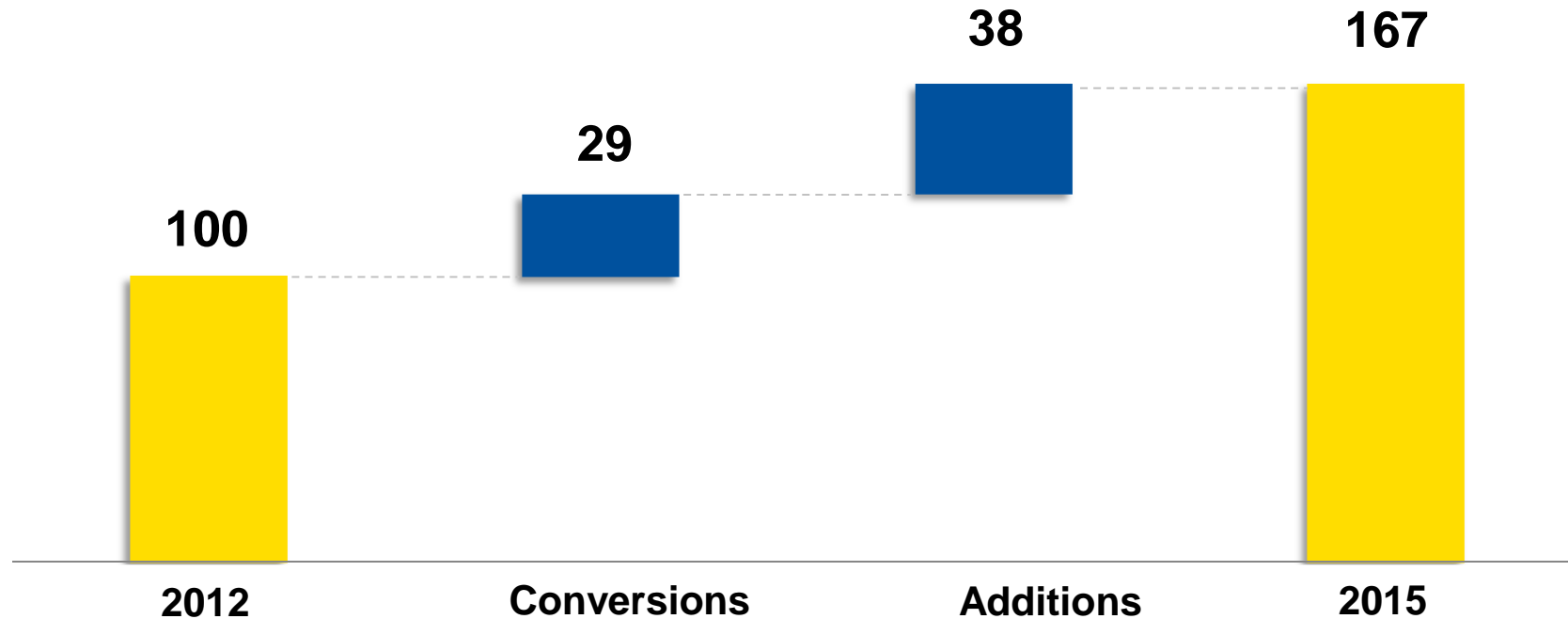
Source: Michelin





# More Capacity to Keep Up with Growing Demand and Widen our Leadership

**Group 17" & above capacity**  
(base 100 in millions of tires, all brands)





04











# Increasing the contribution of the specialty businesses





# Michelin is the Market Leader in Every Specialty Tire Business

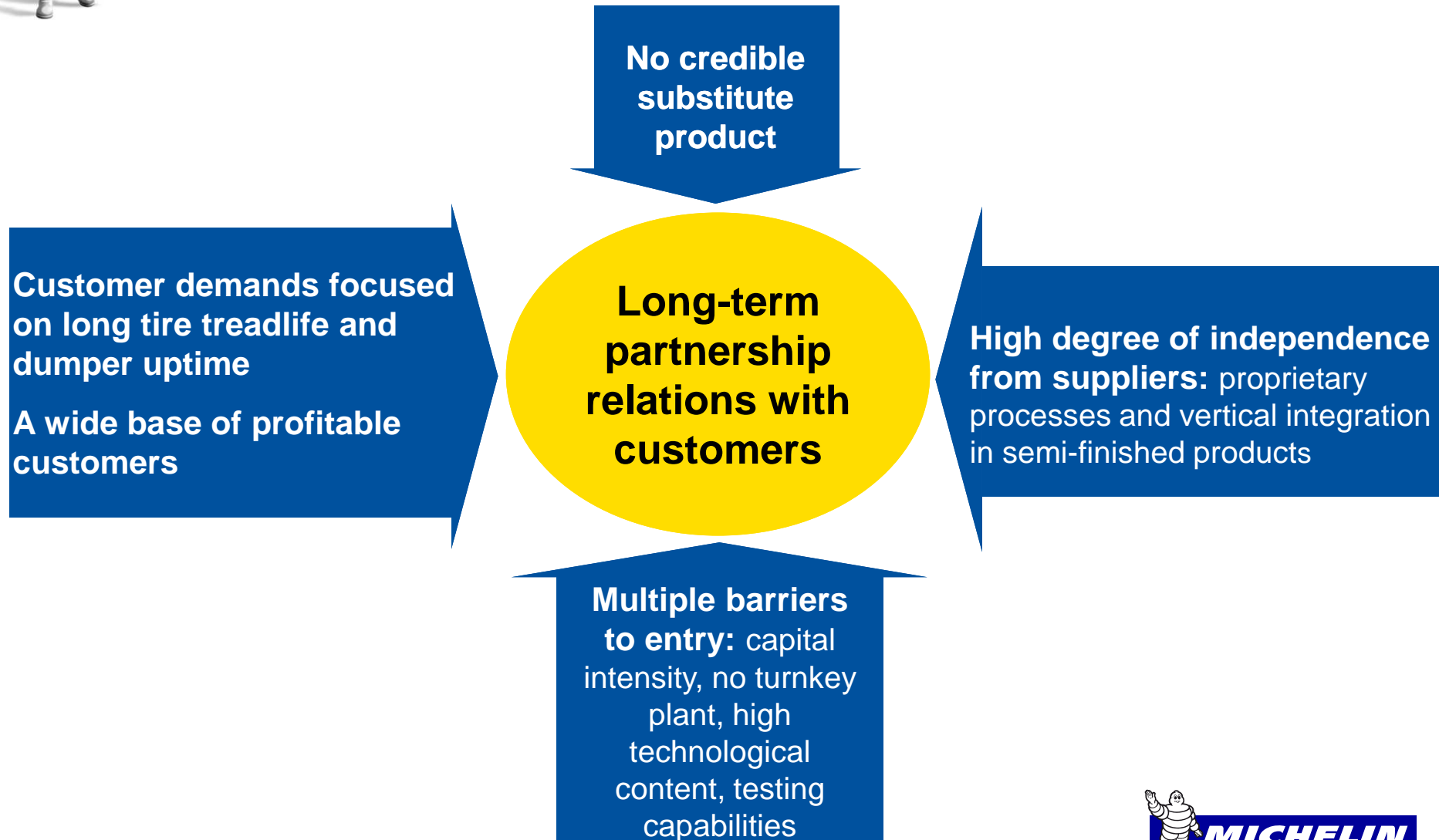
## Market leader

<b>Earthmover</b>	 <b>MICHELIN</b> in radials
Mines	 <b>MICHELIN</b> (co-leader)
Original Equipment	 <b>MICHELIN</b> (co-leader)
Infrastructure	 <b>MICHELIN</b>
<b>Agricultural</b>	 <b>MICHELIN</b> in Europe
Original Equipment	 <b>MICHELIN</b> in Europe
Replacement	 <b>MICHELIN</b>  in Europe
<b>Two-Wheel</b>	 <b>MICHELIN</b> (co-leader) in mature markets
<b>Aircraft</b>	 <b>MICHELIN</b>





# Mining Business: Favorable, Enduring Market Structure





# Mining Business: Favorable Growth and Profitability Outlook

- **Clear visibility thanks to multi-year contracts:**

- **Sales trends:**

*sustained growth in mining markets*

- **Margin trends:**

*long-term contracts with raw materials indexing clauses*

- **Favorable customer mix**





# Investing to Enhance our Competitive Advantage

## ■ Faster investment in Earthmover Tires

- *Capital projects of giant tires (57" & 63") in the United States: \$750 million*
  - Anderson: new plant, first tire in late 2013
  - Lexington: fifth and final phase of the extension
- *Indian project to be finalized*

**Higher capital intensity  
with a HIGHER ROI**





05

## Strengthening our presence in the growth regions



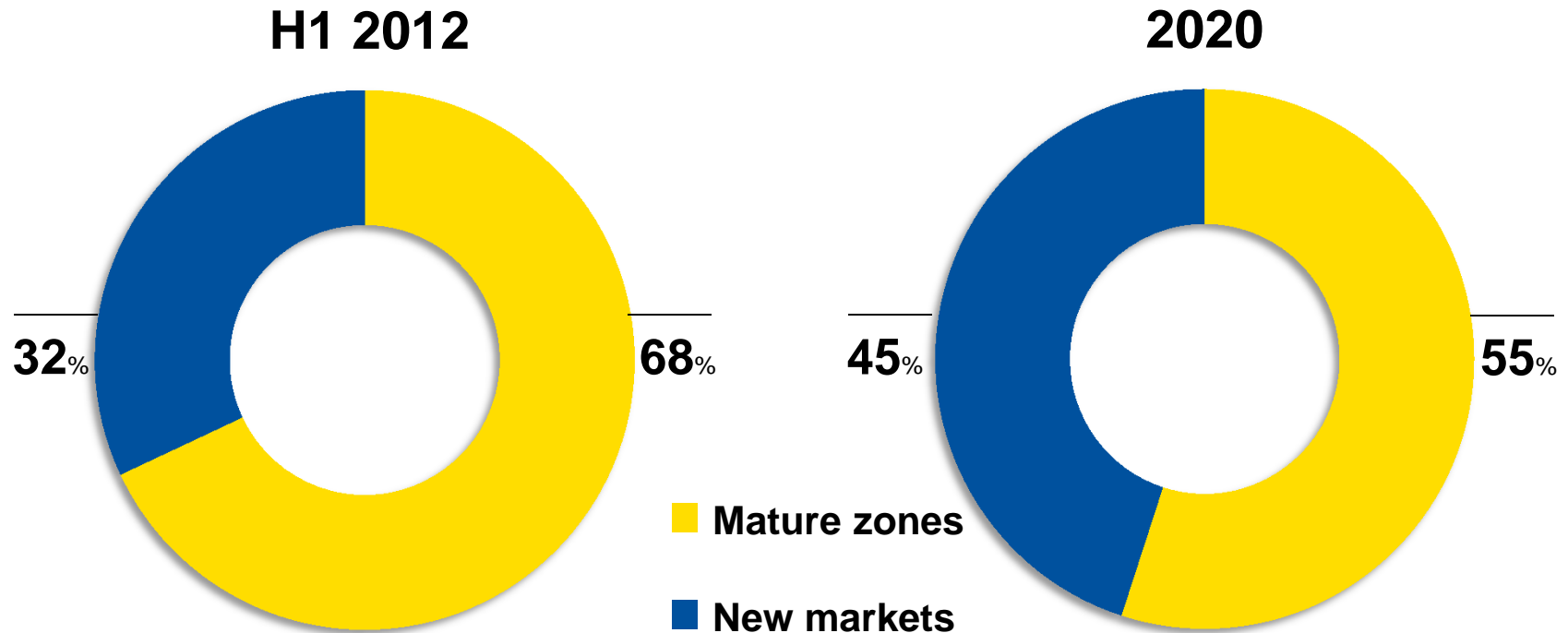




# A Balanced Global Presence, Increasingly Oriented Towards the New Markets

## H1 2012 net sales by region

(% of total net sales in €)

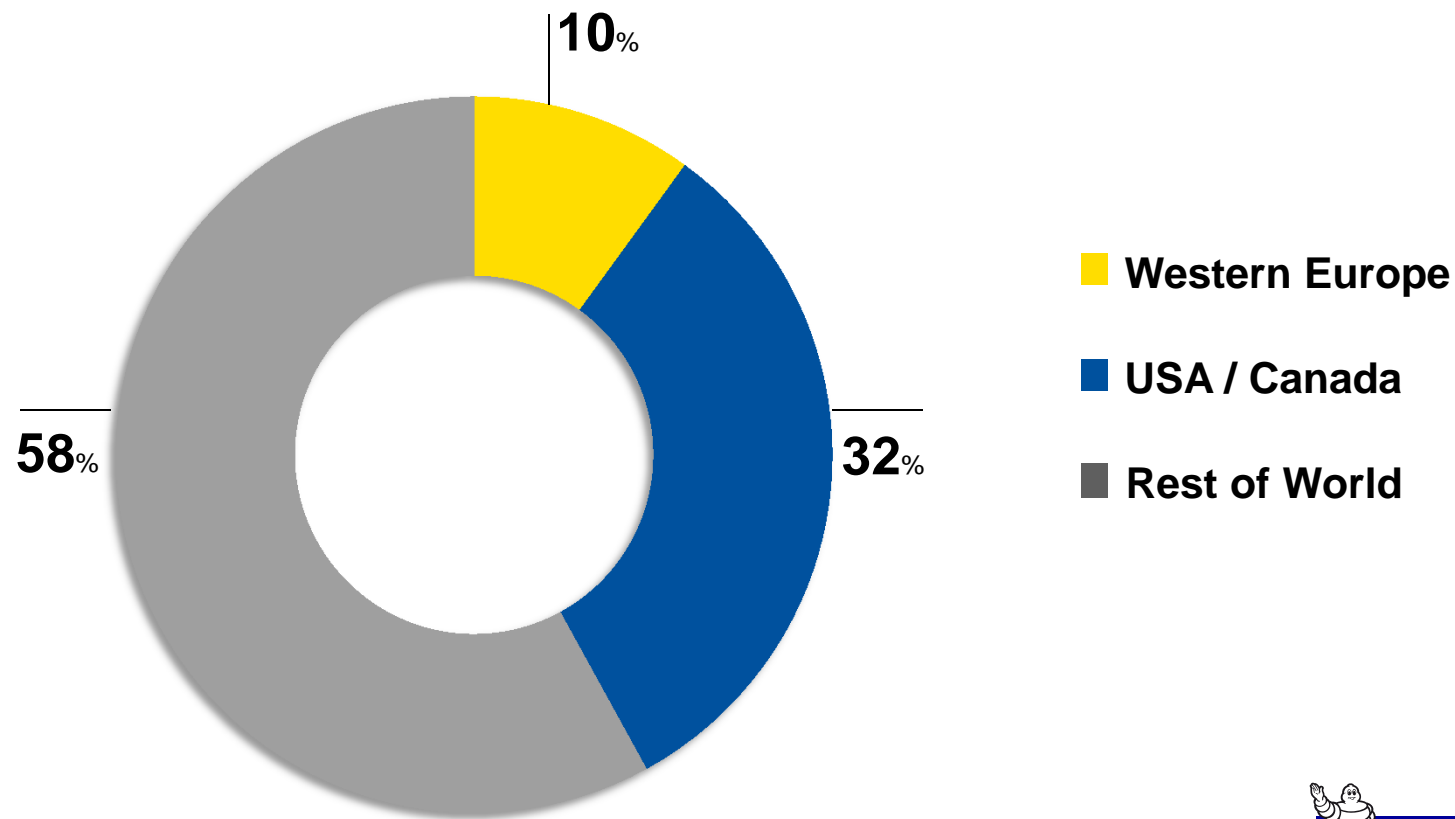




# Investing to Seize Opportunities in New Markets

## 2012-2015 capacity investments by region

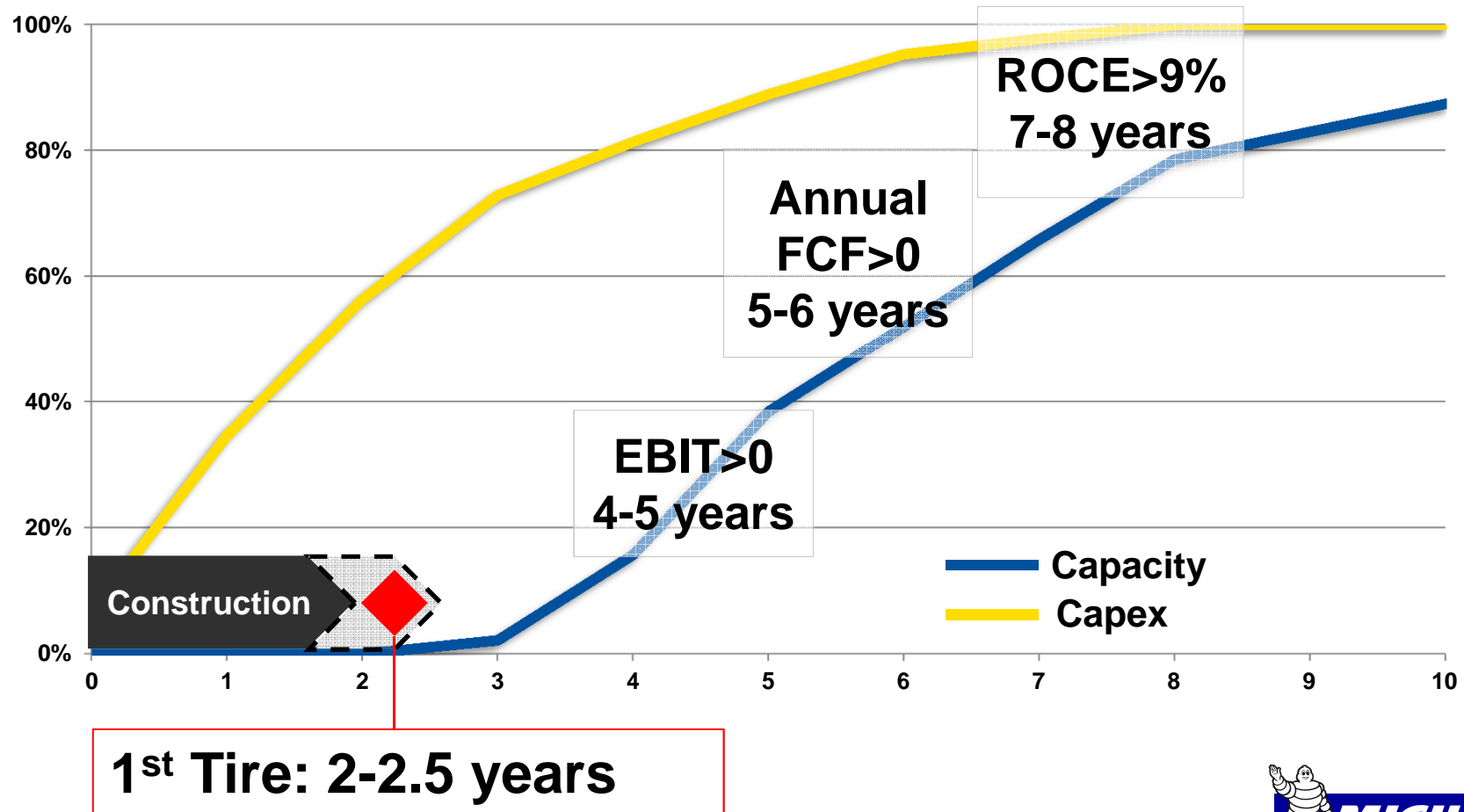
(in % of total expenditure in €)





# Towards a profitable growth

## Return on a 200 KT greenfield project





# Brazil: a New Car & Light Truck Plant Already Up and Running



Brazil project	2012	2013	2014	2015	In the end
Capacity (K Tonnes)	2,000	17,000	46,000	51,000	
Capex including upstream costs (€m)	188	71	7	0 Total by end 2015: 480	
ROCE					> 12%





# China: an Ambitious Car & Light Truck and Truck Project, On-Time and On-Budget



China (Shenyang 2)	2012	2013	2014	2015	2018
<b>Car &amp; Light truck and Truck capacity (K Tonnes)</b>	0	25,000	64,000	105,000	210,000
<b>Capex including upstream costs (€m)</b>	270	210	185	85 Total by end-2015 : 1,100	Total project cost: 1,200
<b>ROCE</b>					>12%





# Truck Tire Plant in India Now Under Construction



- First truck tire expected end of H1 2013
- Capacity will eventually reach 100,000 tonnes
- Total capex: €560m





# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ■ Support growth:

- *Mixing facilities*
- *Cable capacity*
- *Elastomer capacity*

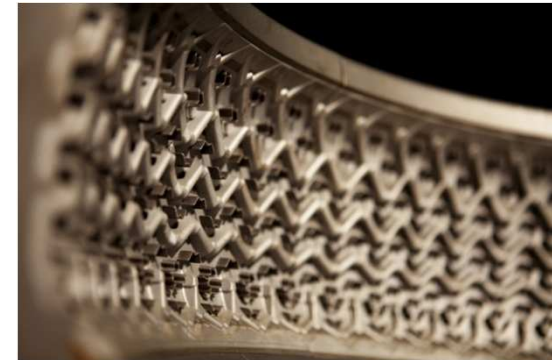
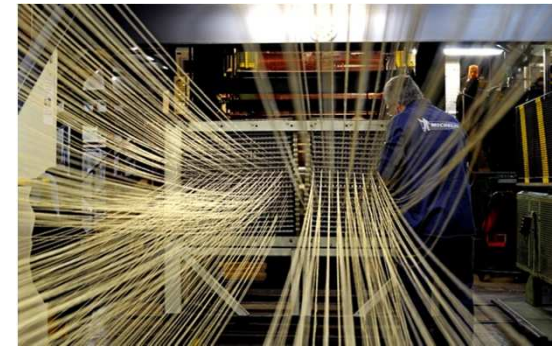




# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ■ Improve Michelin Total Performance: ~€150m per year

- *Materials = primary innovation vector*
- *New synthetic rubber grades*
  - Improve the balance of performance
  - Optimize process productivity
- *Metals:*
  - Improve the endurance of Truck and Earthmover tire casings
- *Molds:*
  - Manufacture complex-design tread



## ■ 2012-2015 capex : €500m to €550m per year







# Upstream Vertical Integration: a Key Driver of the Premium Strategy

## ■ Make or buy criteria

- *Maximize innovation-driven value for the Group & enhance the Group's expertise and technological leadership*
  - **Synthetic rubbers (~35% internally sourced)**
  - **Truck and Earthmover tire cables (~70% internally sourced)**
- *Secure procurement*
  - **By controlling the competitiveness of internal costs vs. prices offered by our major suppliers**
- *Secure ROI*
  - **Tire performance enabled by vertical integration is a key lever for Michelin tire value**





06

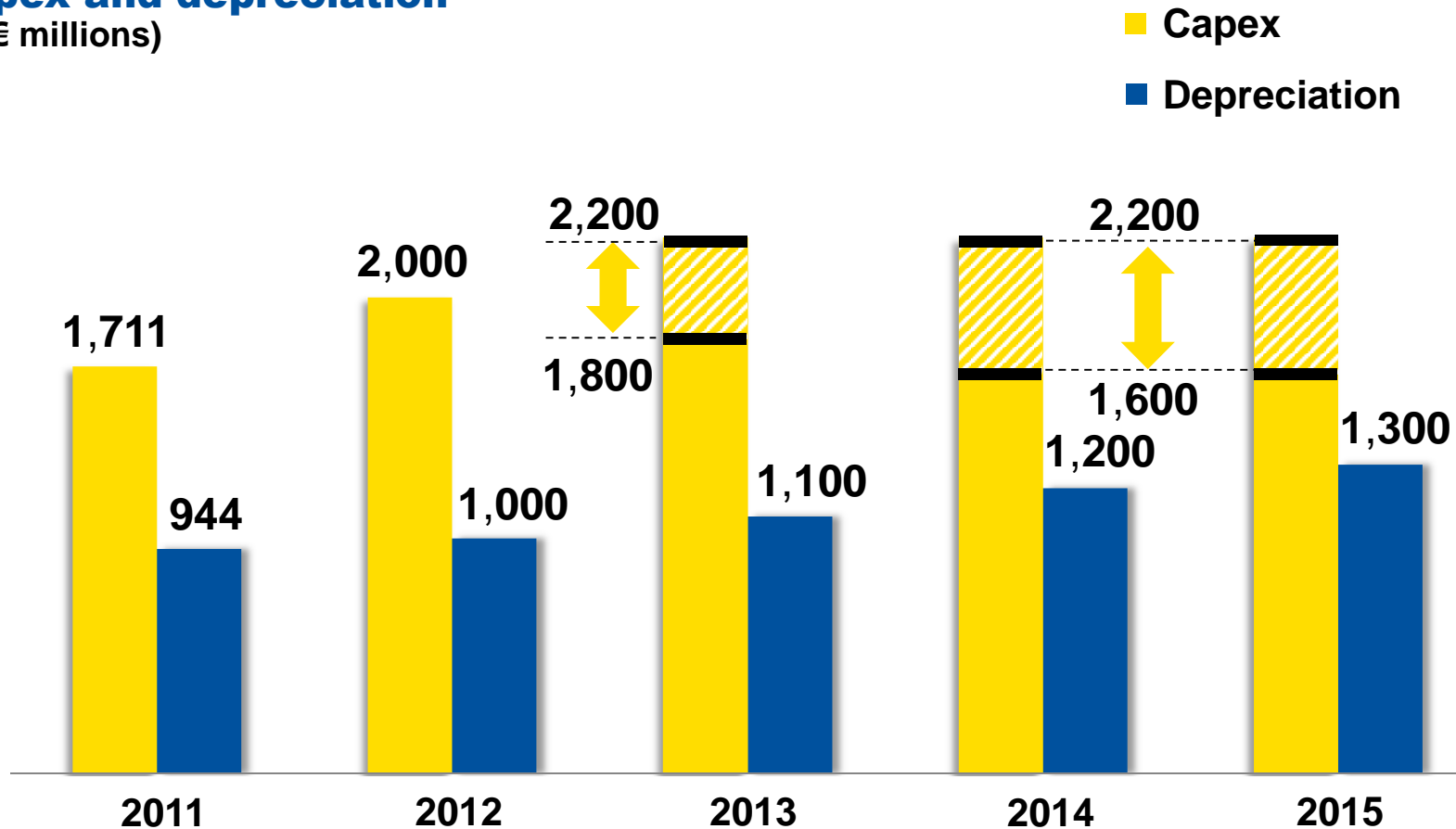
# Updated Prospects for 2015





# Investing to Enhance our Competitive Strengths and Drive New Growth

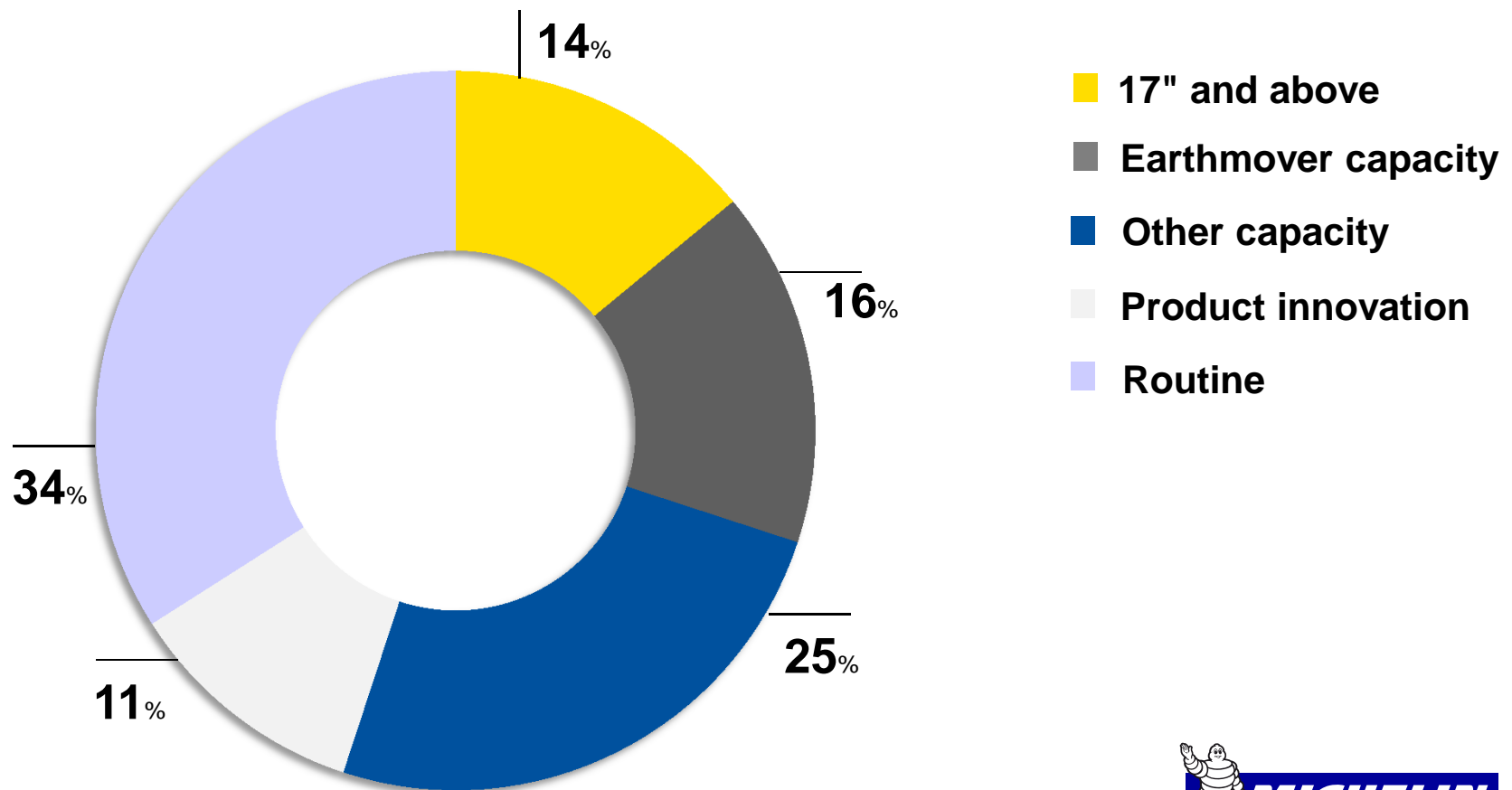
**Capex and depreciation**  
(in € millions)





# Innovation and Growth are Driving the 2012-2015 Capacity Capex Program

**2012 – 2015 capital projects by type**  
(in € millions)





# 2015: Assumptions

## ■ Market environment:

- *Markets growing by 4 to 5% a year, after a year of transition in 2013*
- *Raw materials prices tracking market growth*
- *No sudden sharp spike in raw materials prices*

## ■ Michelin volumes:

- *Growth in line with the market*
- *Faster, sustained improvement in the mix*
- *Higher growth in specialty segments*





## 2015 outlook

Based on the previous slide assumptions:

- **2015 Operating Income before non-recurring items: around €2.9bn**
- **Normalized Segment performance:**
  - *Car & Light truck operating margin before NR items: 10% - 12%*
  - *Truck operating margin before NR items: 7% - 9%*
  - *Specialty operating margin before NR items: 20% - 24%*
- **2013-2015 capex: €1.6bn - €2.2bn per year**
- **Positive free cash flow every year**
- **ROCE > 10% each year**





# Appendix - Net Sales at September 30, 2012

**October 22, 2012**



# Net sales up 5.9% to €16.1 billion

## ■ Markets

- *Unfavorable economic environment, especially in Europe*

## ■ Volumes

- *Down 6.7%, in line with expectations*
- *Volumes stable quarter on quarter since the end of 2011*

## ■ Price mix

- *Up 8.2%, still positive despite contractual adjustments in the Earthmover segment*





# OUTLINE



01

Weak demand, particularly in mature markets

02

Net sales in line with expectations

03

Reporting segments:  
still favorable price mix

04

2012 guidance





01

# Weak demand, particularly in mature markets

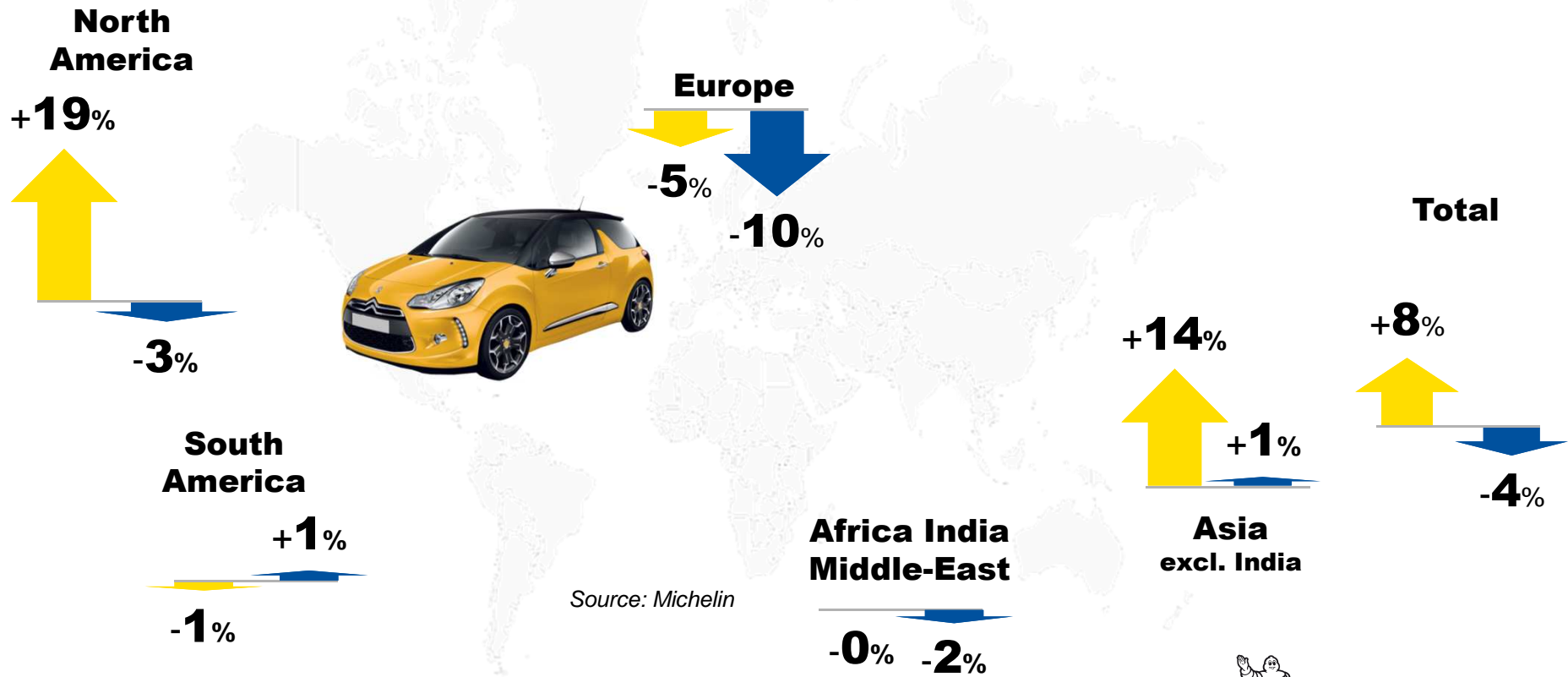




# Passenger car and light truck tires: unfavorable economic environment, especially in Europe

**Markets at September 30, 2012**  
(% change YoY, based on number of tires)

Original equipment  
 Replacement





# Passenger car and light truck tires markets

## Markets at October 31, 2012 (% change YoY, based on number of tires)

### October 2012 / 2011

Market	Europe*	North America	Brazil
Original Equipment	▼ -3%	▲ +16%	▲ +21%
Replacement	▼ -6%	▲ +6%	▲ +7%

### YTD (from January to October 2012)

Market	Europe*	North America	Brazil
Original Equipment	▼ -4%	▲ +18%	▼ -1%
Replacement	▼ -9%	▼ -2%	▲ +2%

\* Russia and Turkey included

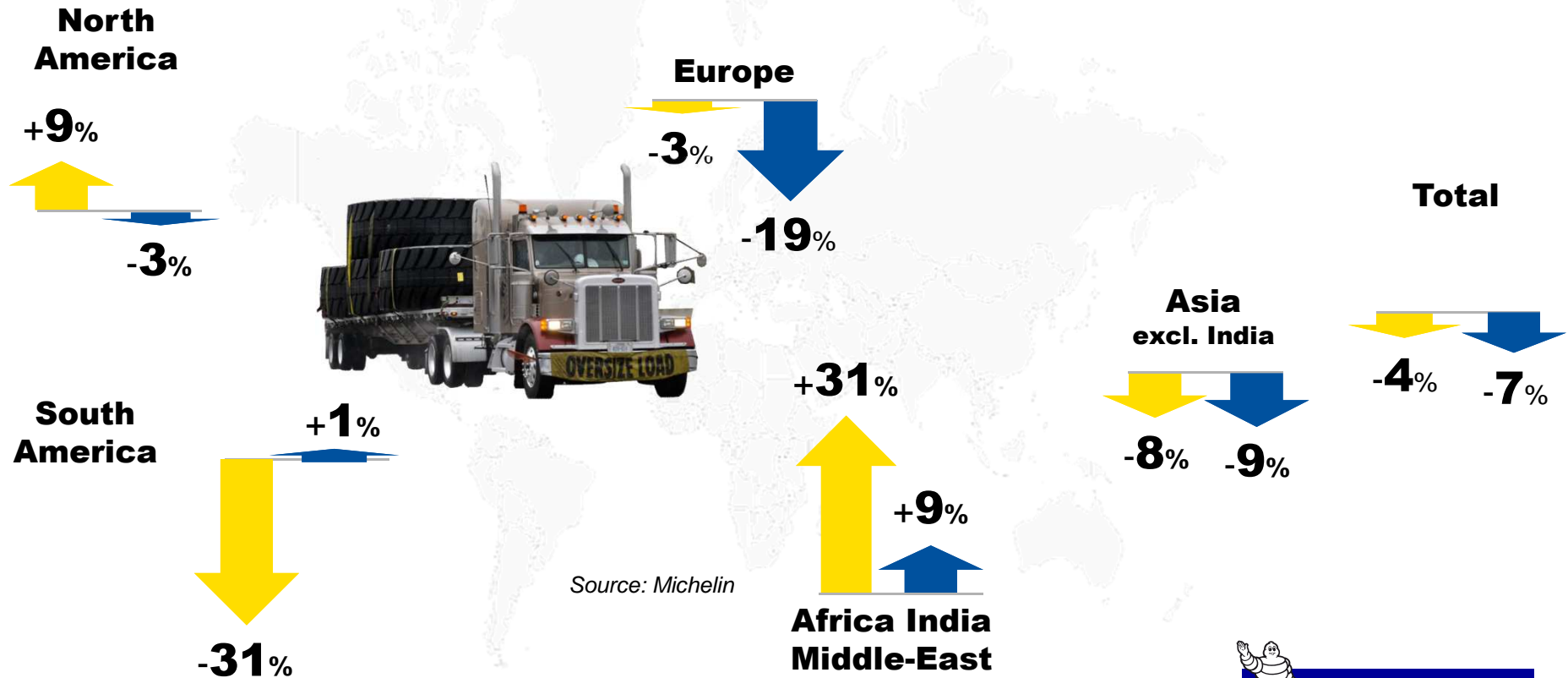




# Truck tires: unfavorable economic environment, especially in Europe

## Radial markets at September 30, 2012 (% change YoY, based on number of tires)

- Original equipment
- Replacement



Source: Michelin





# Truck tires markets

## Markets at October 31, 2012

(% change YoY, based on number of tires)

### October 2012 / 2011

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▲ +1%	▼ -14%	▼ -30%
Replacement	▲ +4%	▲ +6%	▲ +2%

### YTD (from January to October 2012)

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▼ -2%	▲ +6%	▼ -33%
Replacement	▼ -16%	▼ -2%	▼ -3%

\* Russia and Turkey included

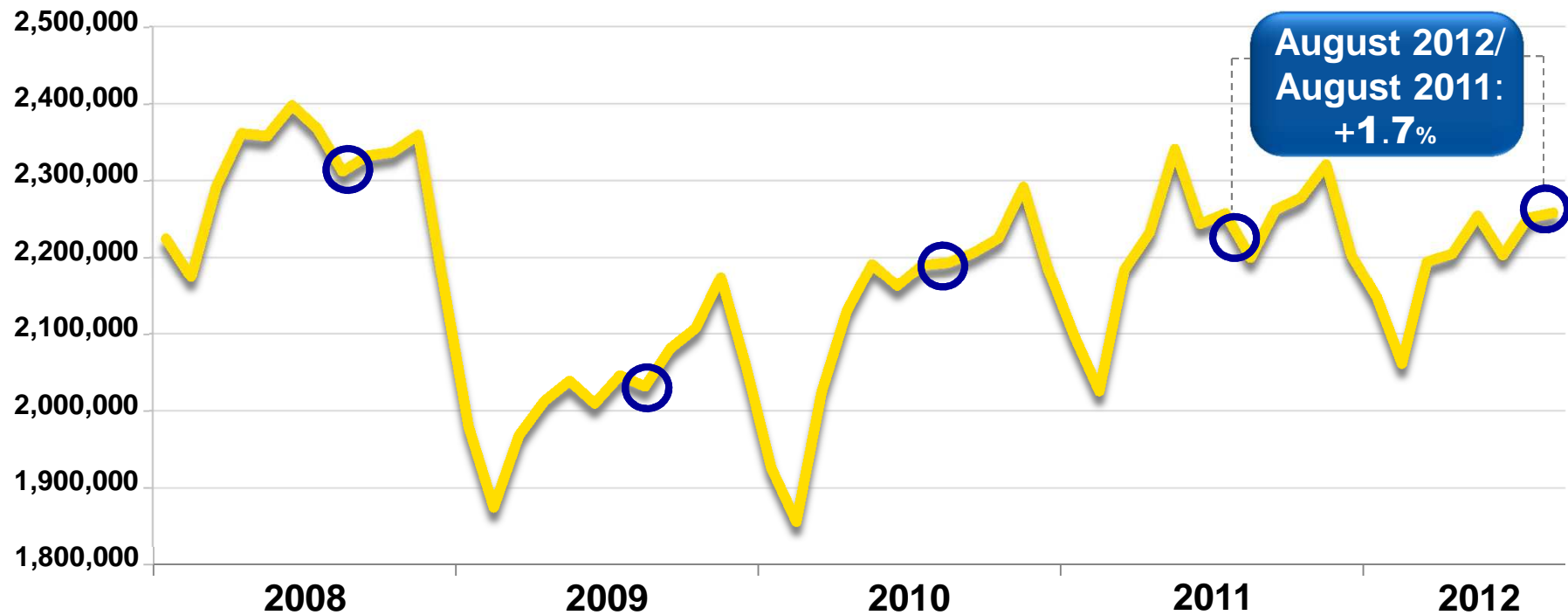




# German freight still lagging 2008 levels

## German freight (rolling 3 months)

(Freight kilometers driven in Germany, in thousands)



Source: Bundesamt für Güterverkehr

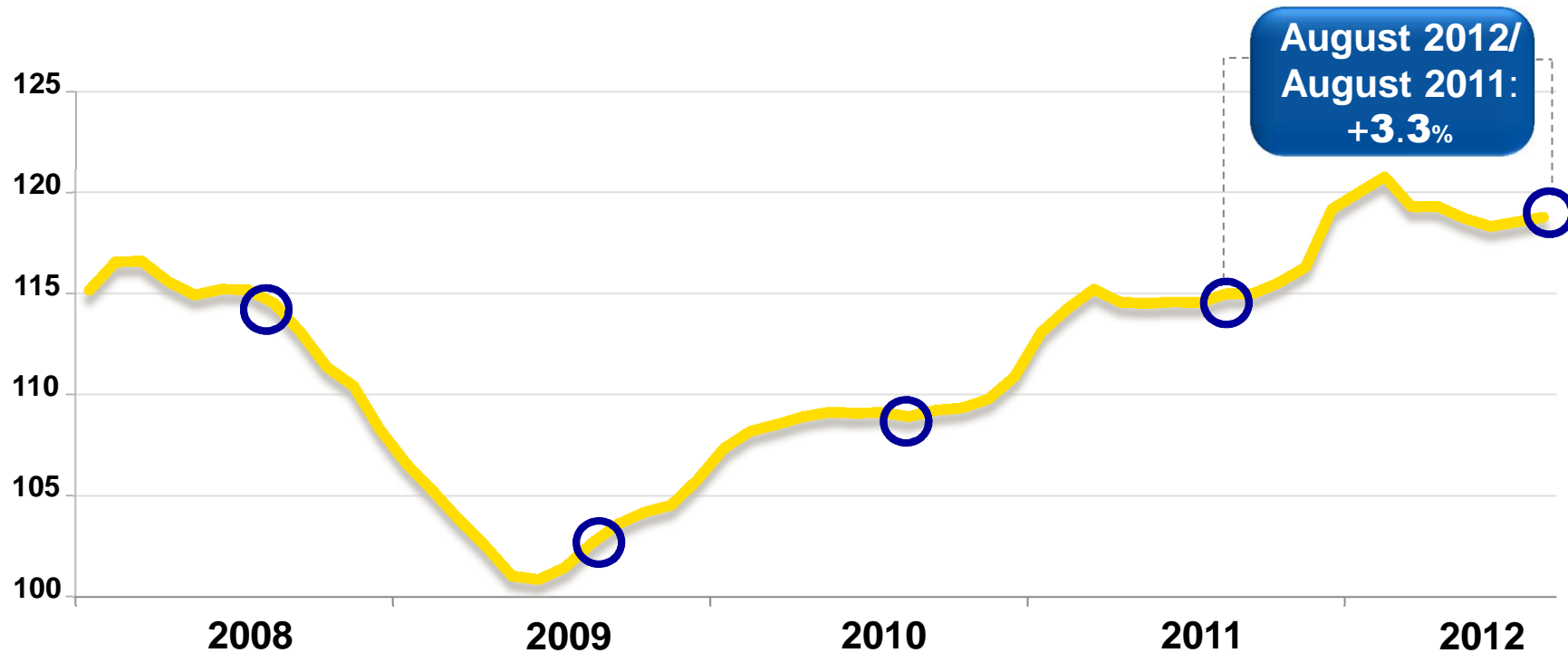




# US freight outpacing 2011 and 2010

## US freight (rolling 3 months)

(Freight tonnage in the United States - Base 100 in 2000)



Source: ATA Truck Tonnage Index



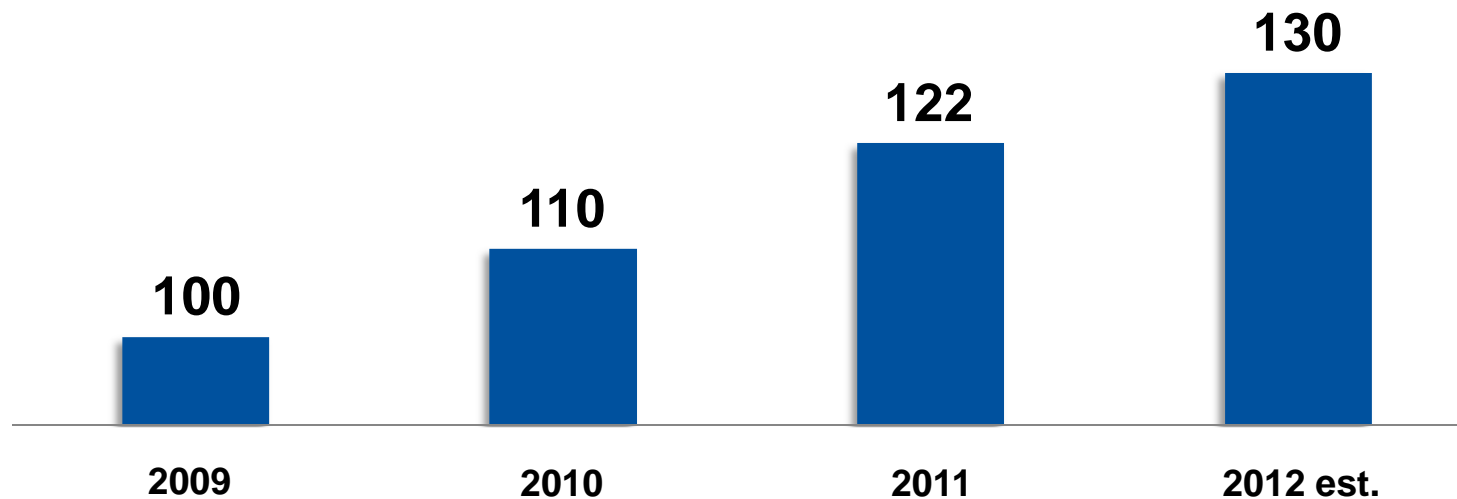




# Specialty tires: robust mining demand

## Mining tire market

(In tonnes, base 100 in 2009)



Source: Michelin





02

## Net sales in line with expectations

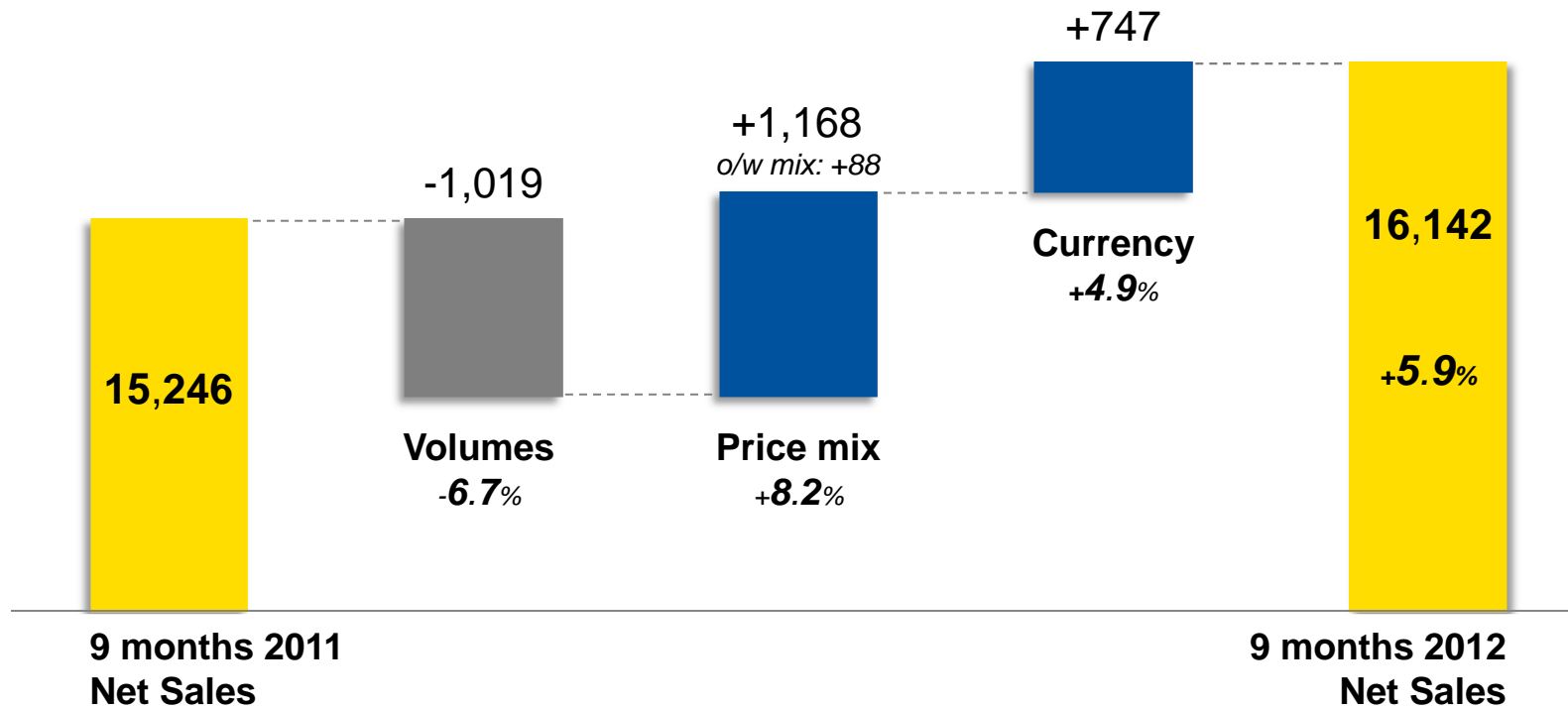




# Growth in net sales led by sustained favorable price mix

## YoY Change

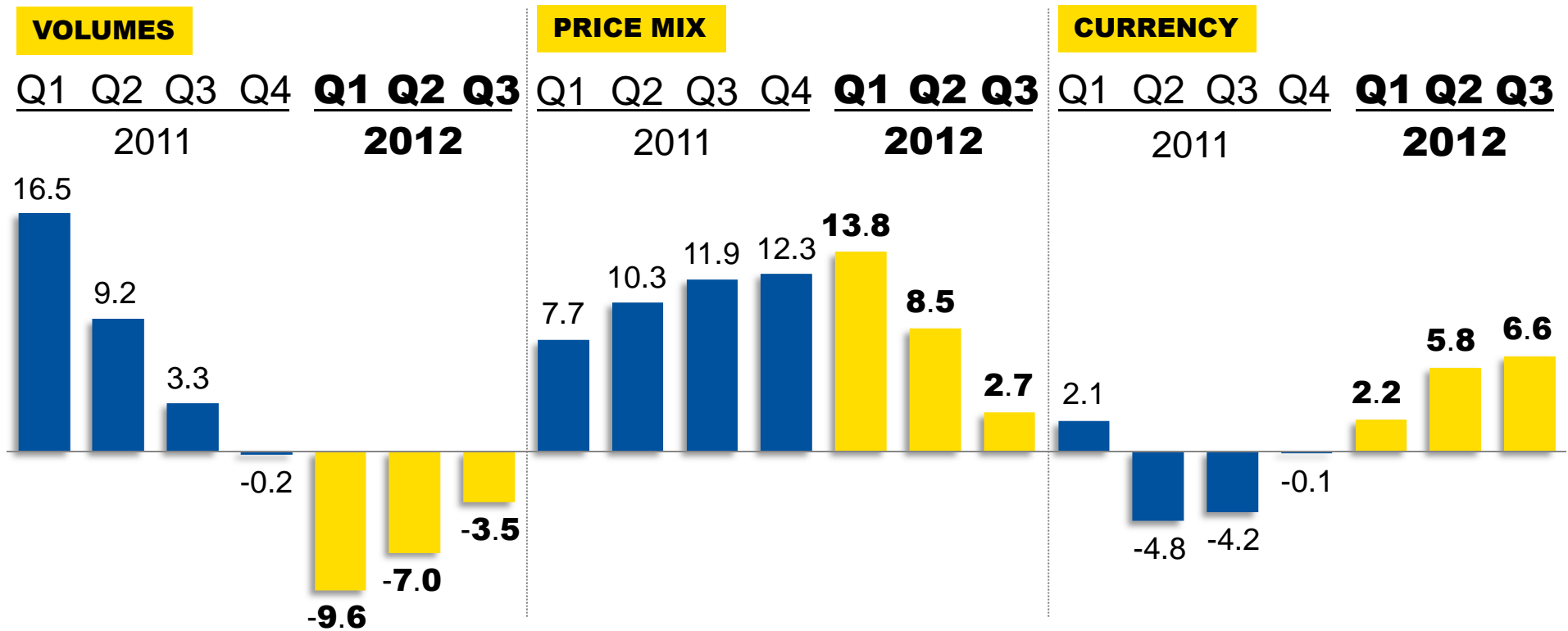
(in € Millions and as a % of Net Sales)





# Volumes: weak demand and prior-year comparatives Price mix: still positive despite contractual adjustments in the Earthmover segment

## YoY Change (in %)





03

## Reporting segments: still favorable price mix





# Passenger car and light truck tires and related distribution: price effect and performance of the MICHELIN brand

## Passenger Car and Light Truck



In € millions	9 months 2012	9 months 2011	% Change
Net sales	8,298	7,916	+4.8%
Volume change	-5.6%		

- OE market expanding, replacement markets more mixed
- Volumes down 5.6% versus a 6.4% decline as of June 30, reflecting:
  - *Stable tonnages sold since end-2011*
  - *Now more favorable bases of comparison*
- Winter market: performance in line with Group objectives in a market expected to decline





# Truck tires and related distribution: net sales up thanks to the price and mix effects

## Truck



In € millions	9 months 2012	9 months 2011	% Change
Net sales	5,044	4,995	+1.0%
Volume change	-12.4%		

- Markets still difficult
- Volumes steadily trending slightly upwards quarter after quarter since end-2011
- Strong focus on unit margins
- Sustained strategic commitment to improving profitability in the Truck tire business





# Specialty businesses: sustained strong growth in mining tires

## Specialty businesses



In € millions	9 months 2012	9 months 2011	% Change
Net sales	2,800	2,335	+19.9%
Volume change	+4.8%		

### ■ Contrasted markets

#### ● *Earthmover:*

- Sustained strong growth in mining tires
- More challenging market environments in OE and infrastructure

#### ● *Agricultural:*

- Slowing demand despite high farm commodity prices

### ■ Ytd price and mix effects still favorable after the July 1 contractual adjustments

### ■ Positive currency effect







04

# 2012 Guidance





## 2012 guidance confirmed

- **Clear increase in operating income before non-recurring items**
  - *Raw materials tailwind in H2 between €200m and €300m*
- **Positive free cash flow after capital expenditure increased to around €400m to €500m, before the impact of the Pais building**
  - *Around €2,000m in capex*
- **Slight decline in volumes**
  - *Still uncertain economic environment, especially in Europe*
  - *Annual tonnages down around 5%*





# Contacts

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