



# **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

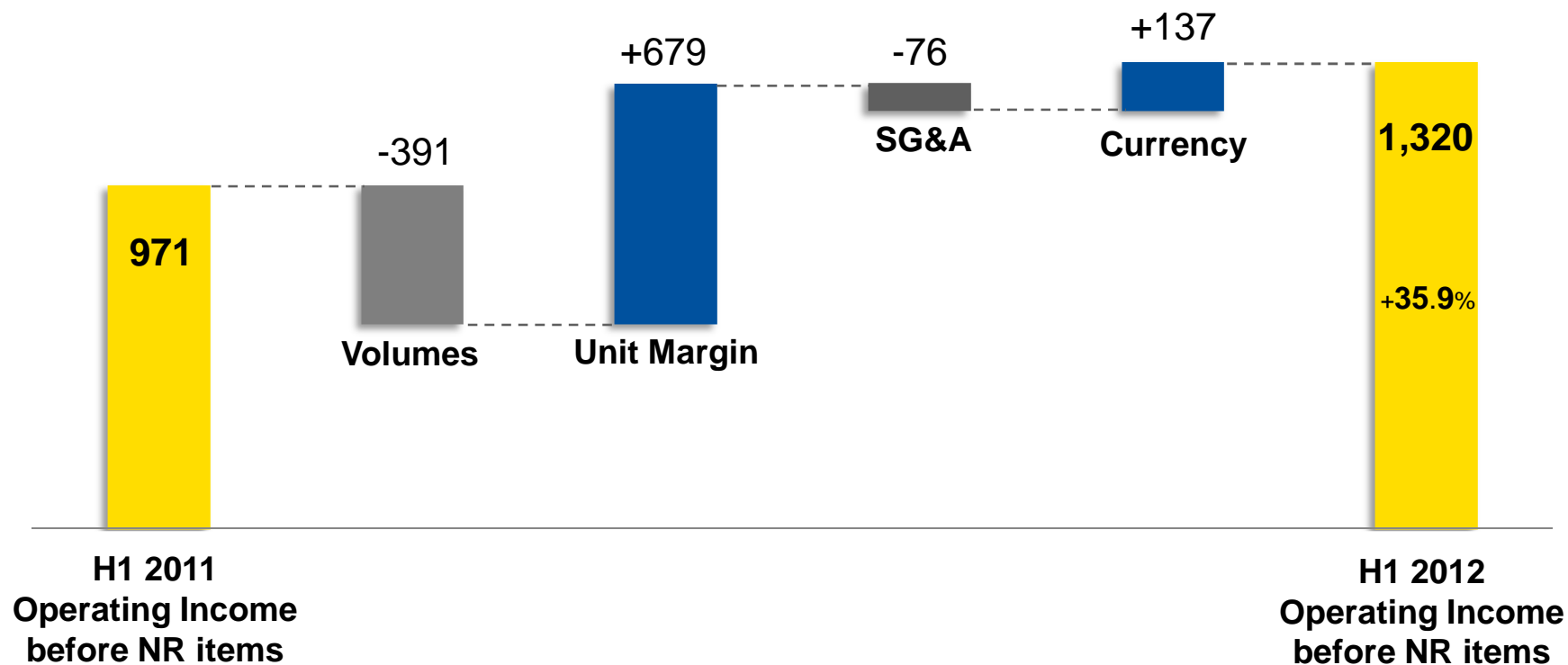




# Growth in Operating Income Led by an Improved Unit Margin

## YoY change

(in € millions)

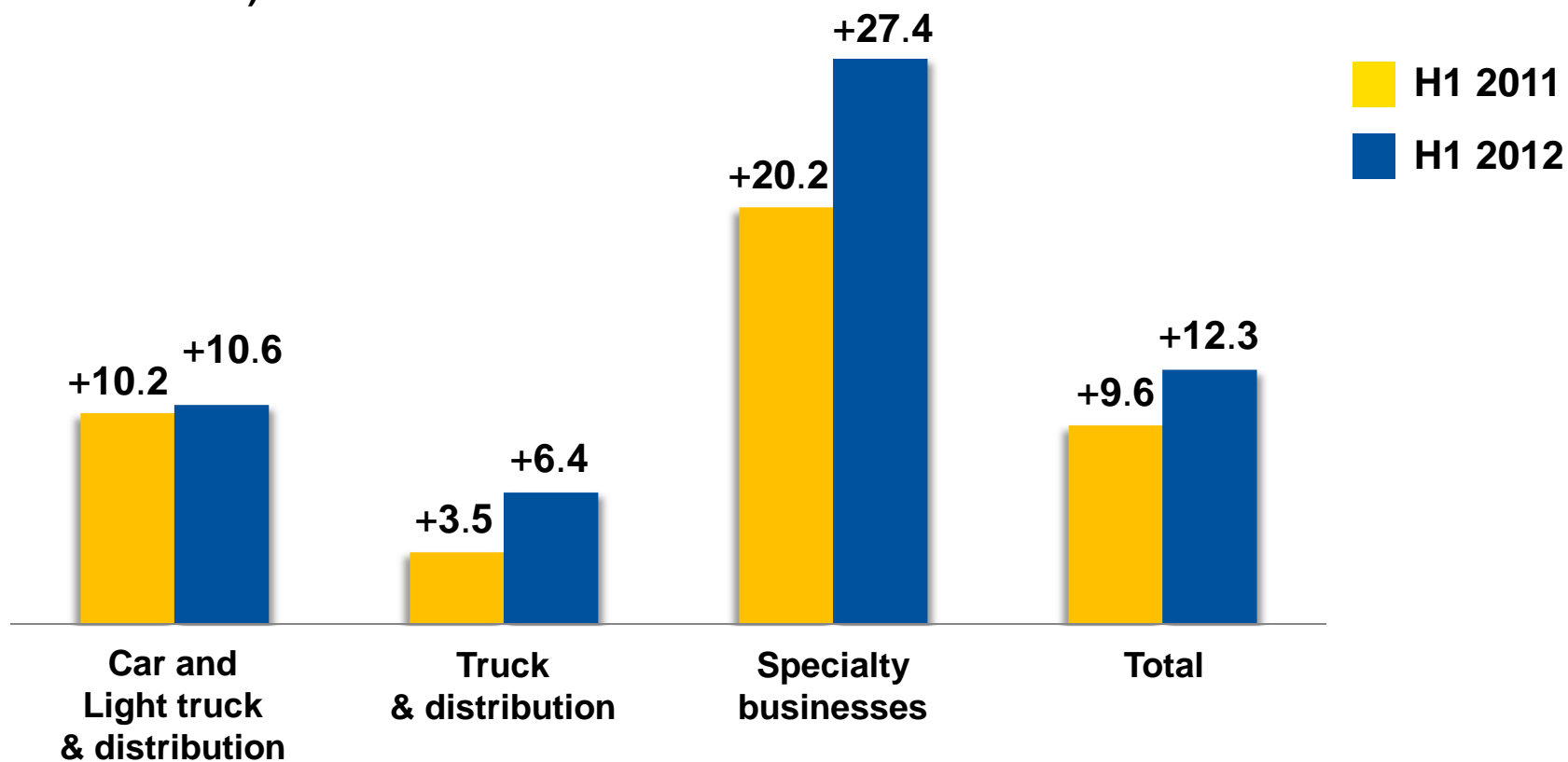




# Operating Margin Up in Every Business

## Operating margin before non-recurring items

(as a % of net sales )





02

## Structurally expanding markets

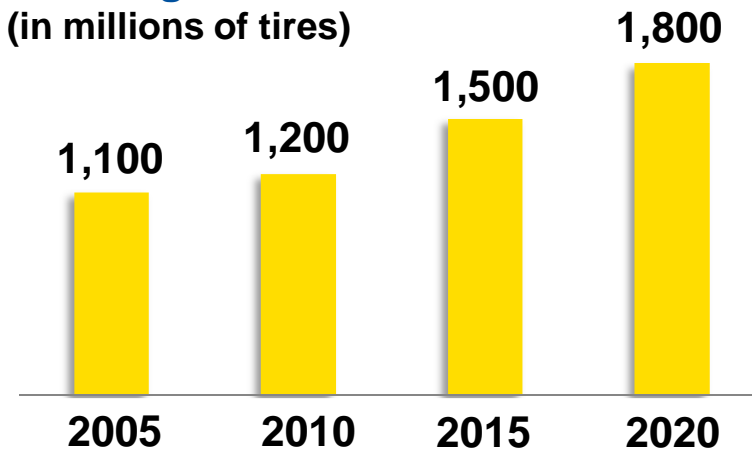




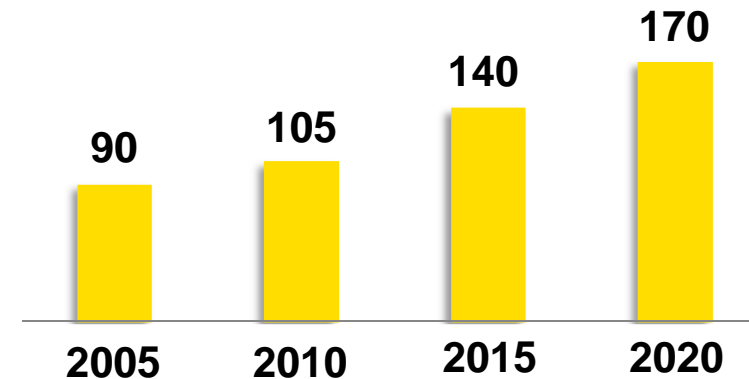


# Tire Markets are Structurally Expanding Over the Mid and Long Terms

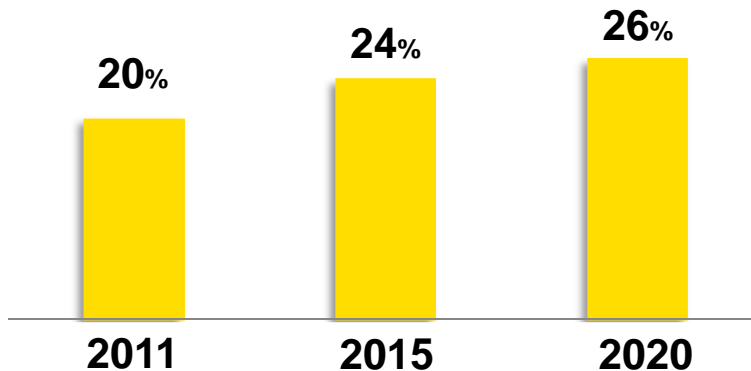
**Car & Light truck tire market**  
(in millions of tires)



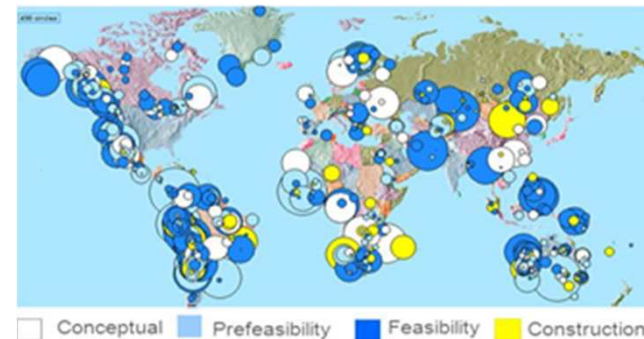
**New radial Truck tire market**  
(in millions of tires)



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



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



Source: RMG





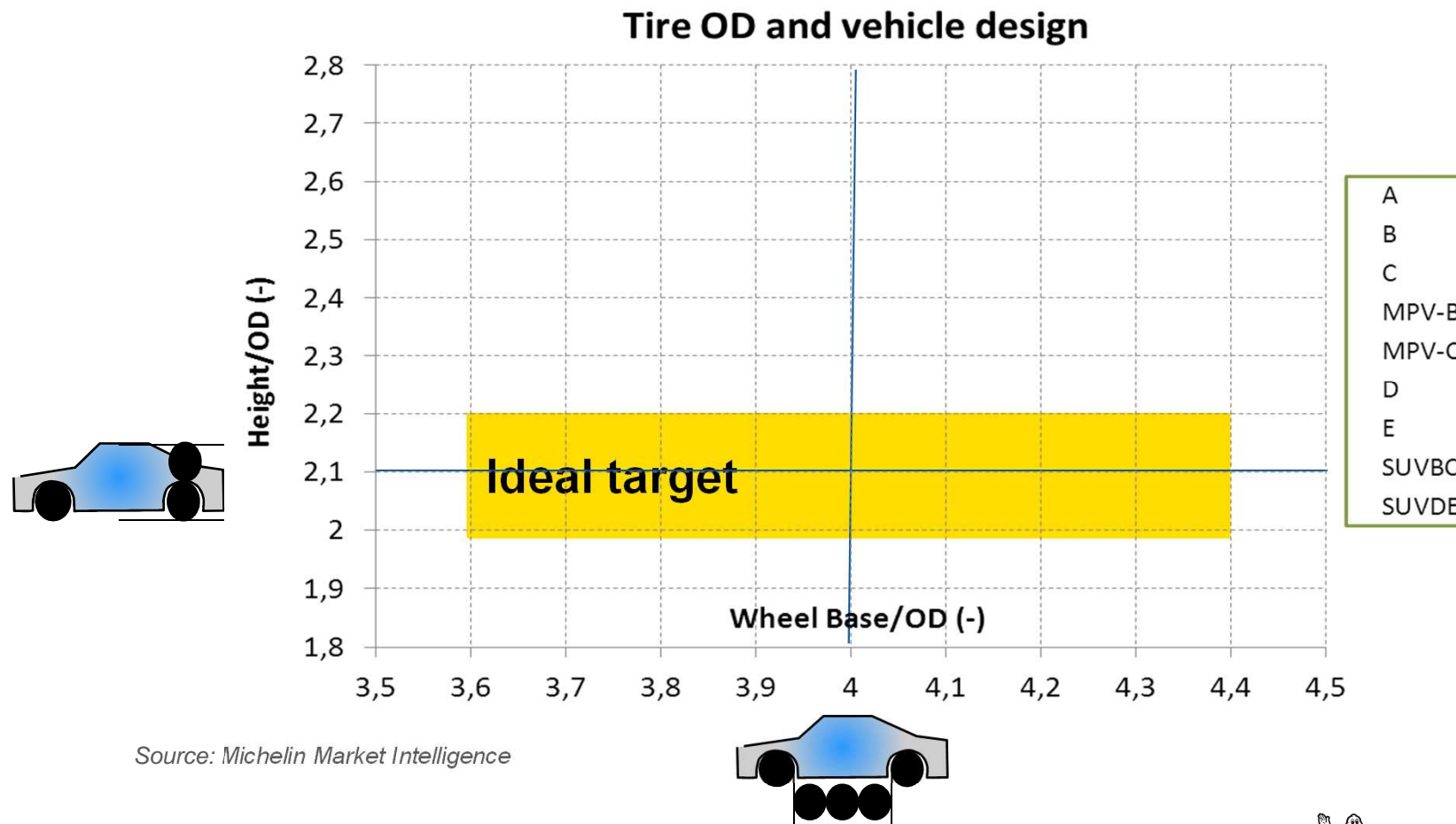
03

## Widening our leadership in the premium segment



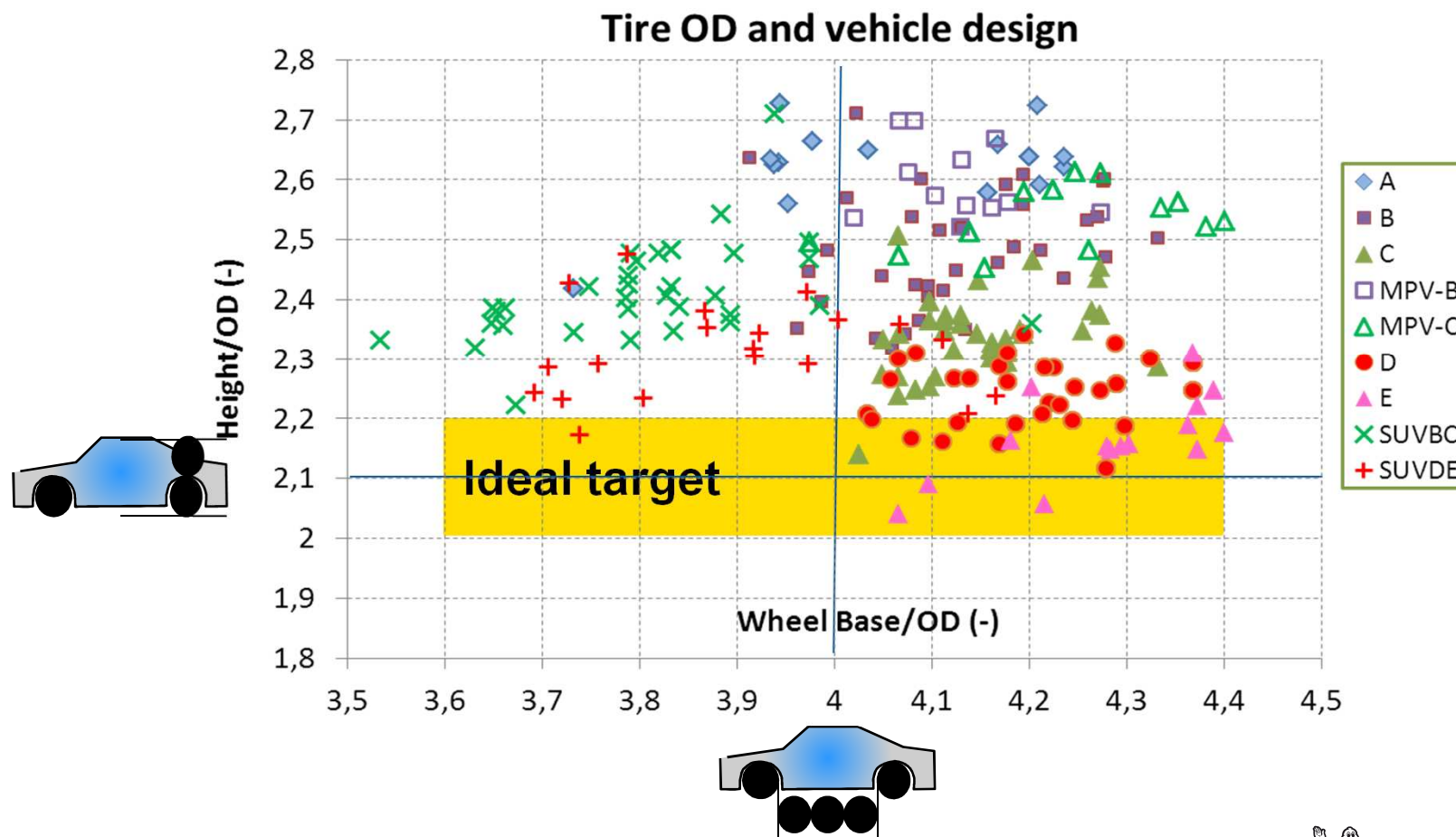


# Car Design Drives Tire Premiumization: the Impact of Aspect Ratios



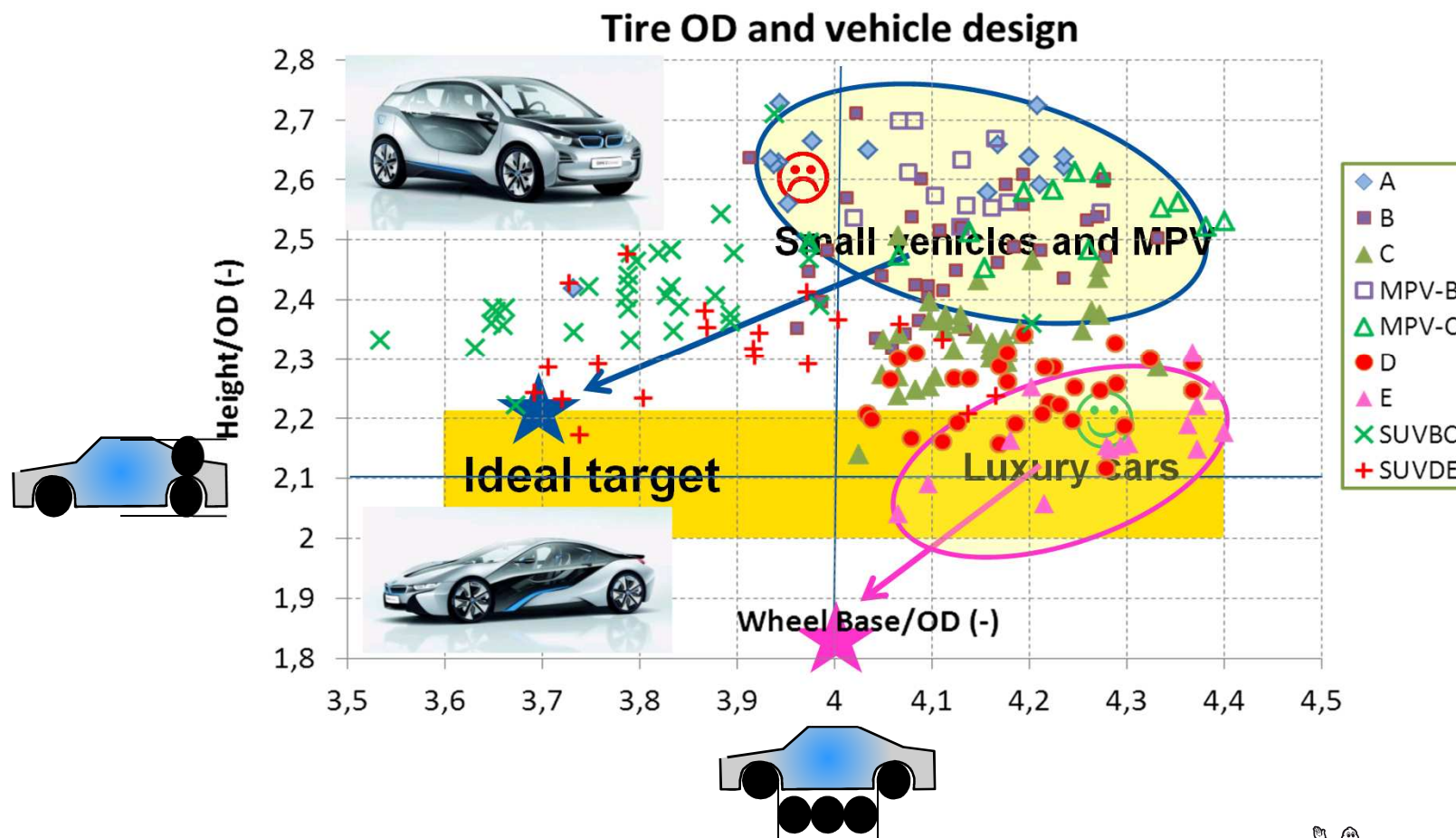


# Car Design Drives Tire Premiumization: Tension between Current & Ideal Design





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

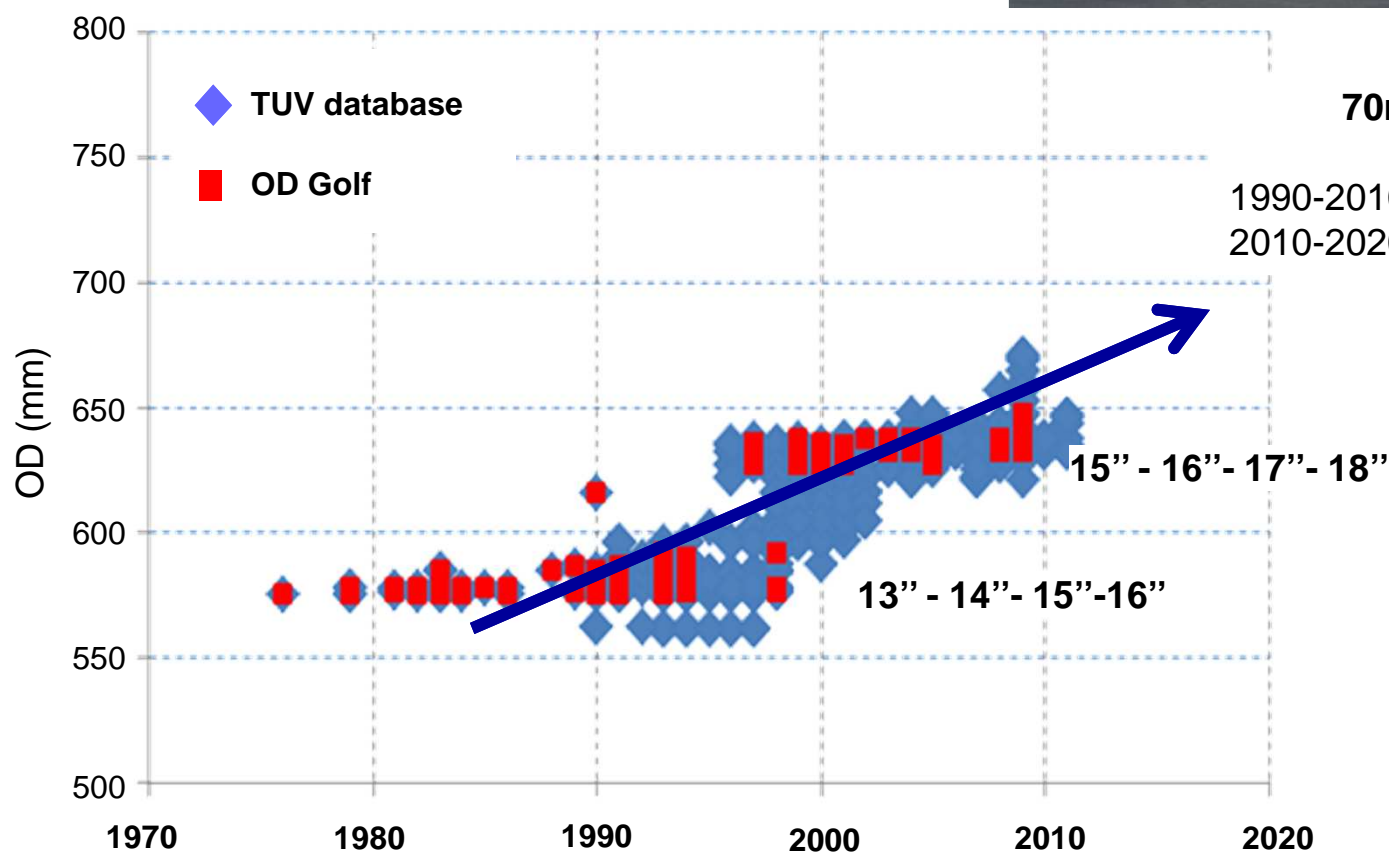






# Bigger Overall Diameter: an Old Trend still Alive

Europe - segment C - OD



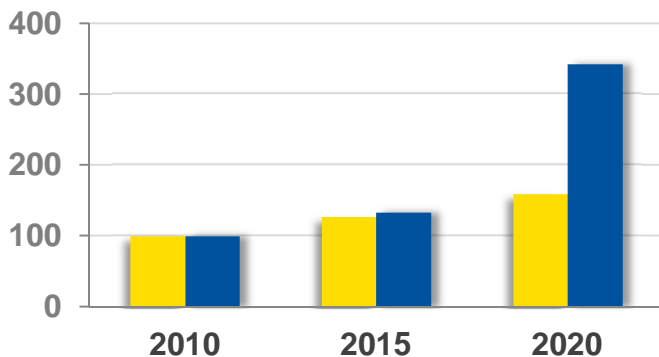
Source: TUV database



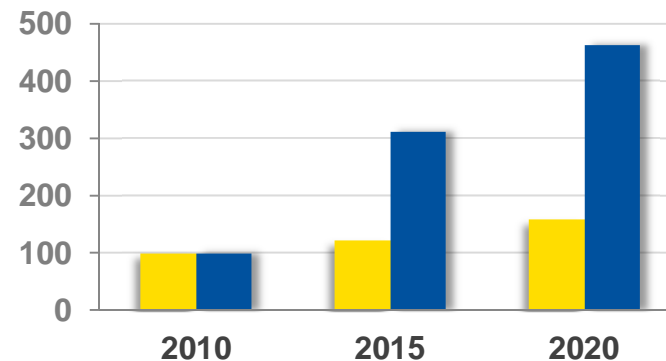


# OE Design and Mix Impact Premium Tire Growth Outpaces the Market

## South America

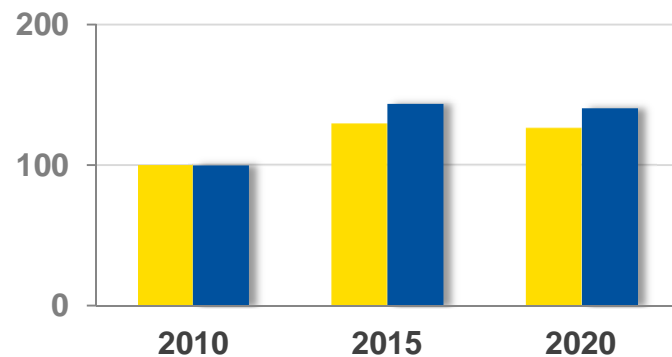


## China

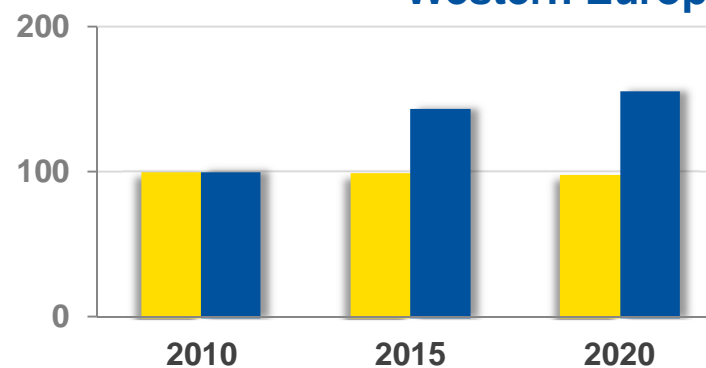


■ 16" & <  
■ 17" & >

## North America



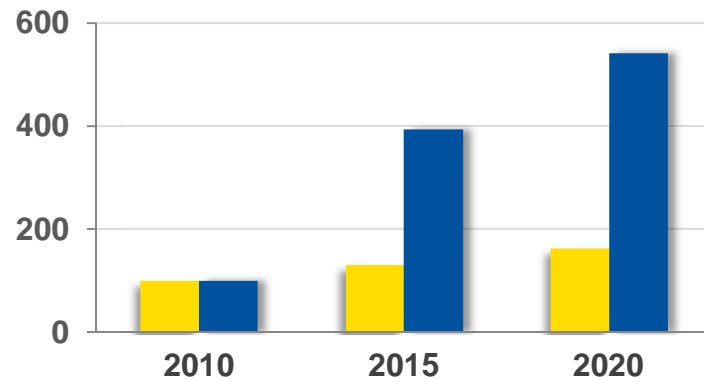
## Western Europe





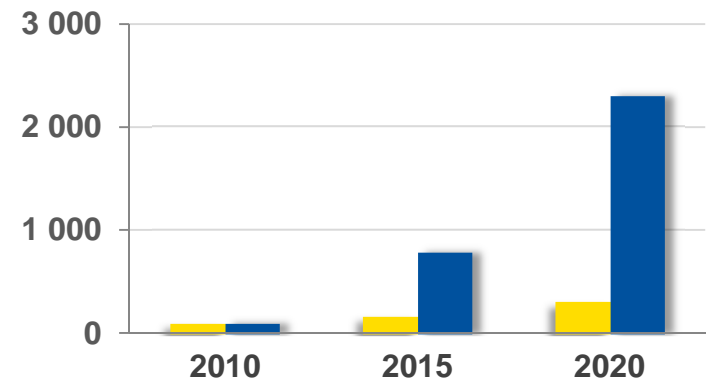
# RT Replicates OE Premium Tire Growth Outpaces the Market

## South America

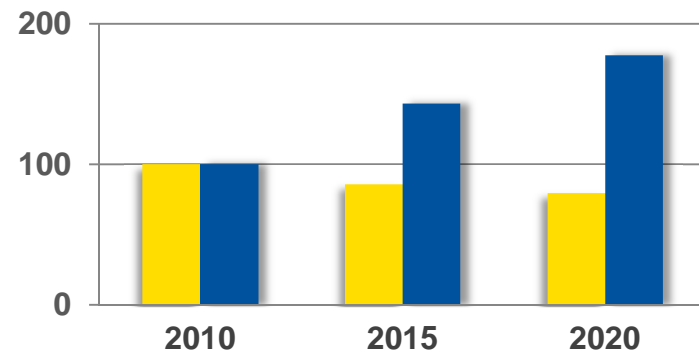


■ 16" & <  
■ 17" & >

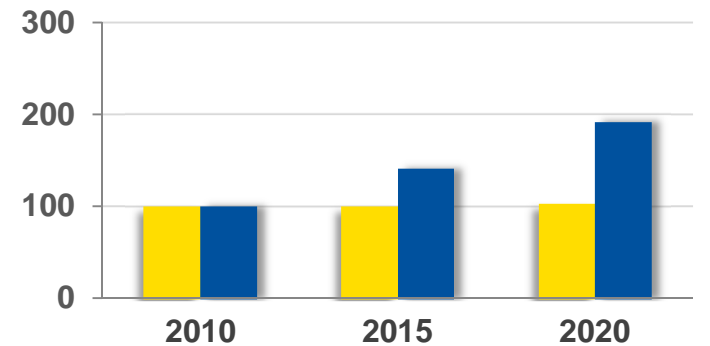
## China



## North America



## Western Europe

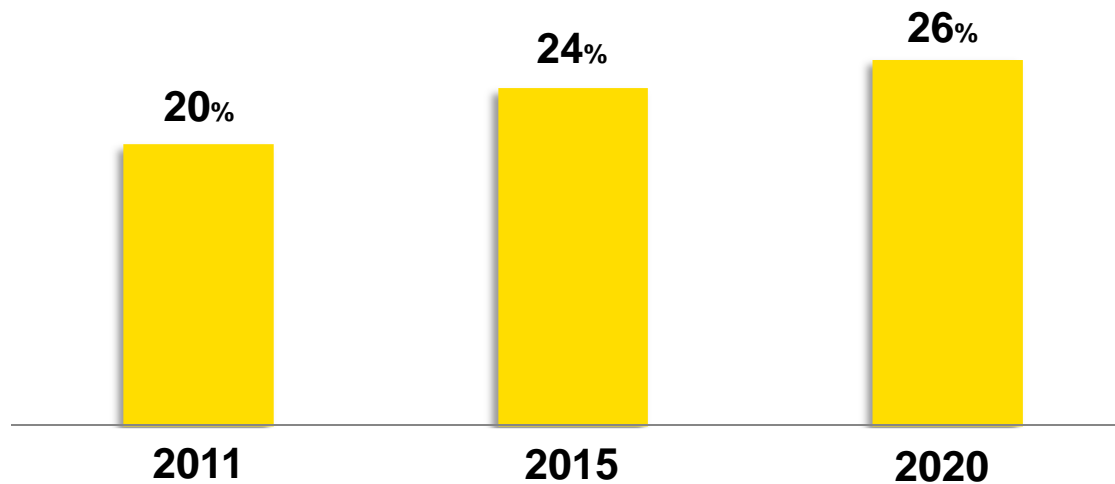






# The Result: Overall Market Mix Evolves towards Bigger Tire Diameters

% of 17" & > in the total market

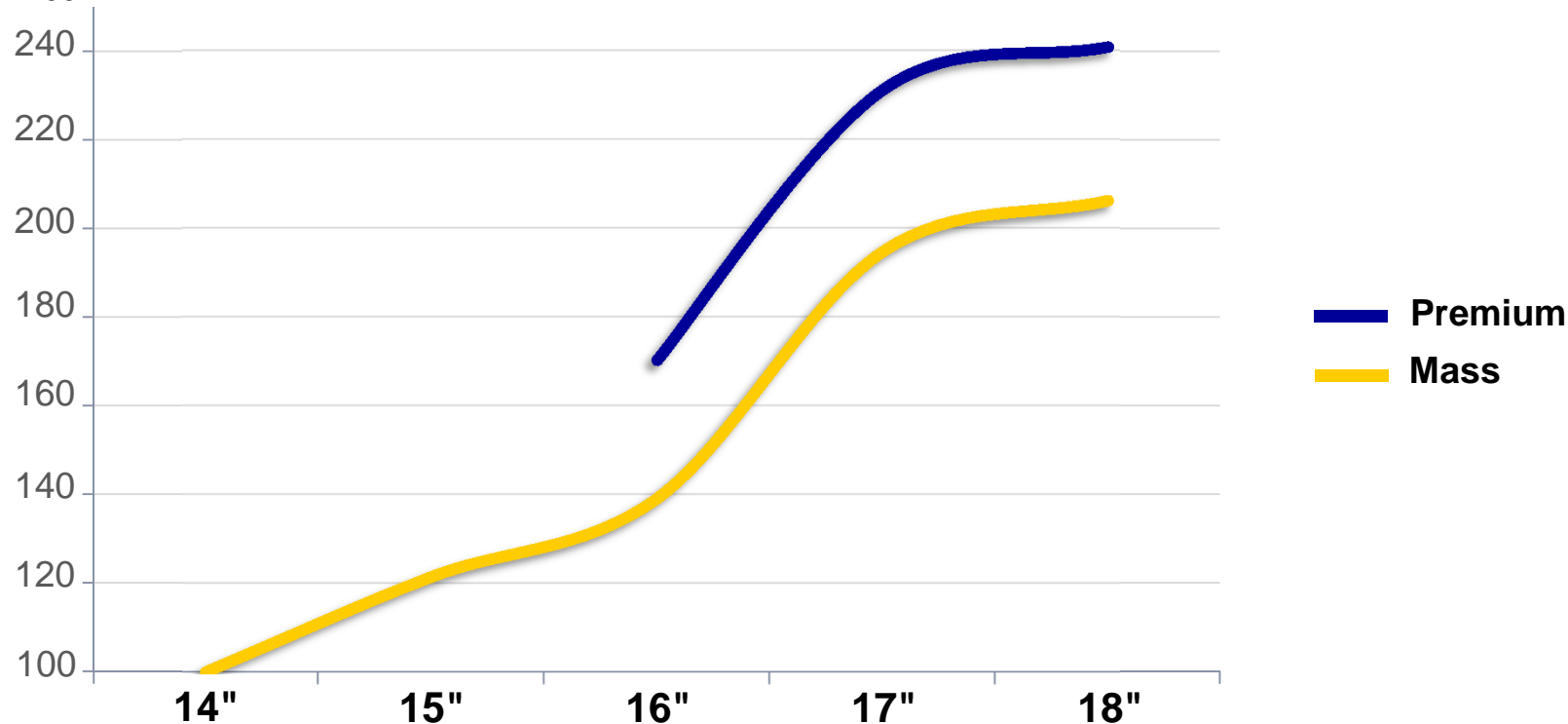




# Consumers are Ready to Premiumize Price Expectations Reflect Market Upgrading

**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"



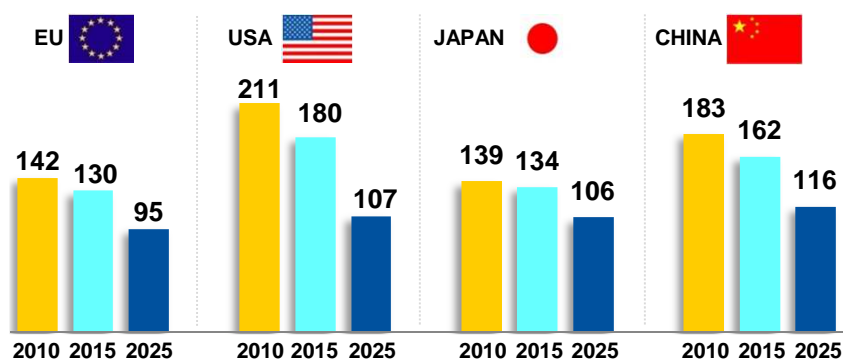
Source: Perceived value Survey Europe G5





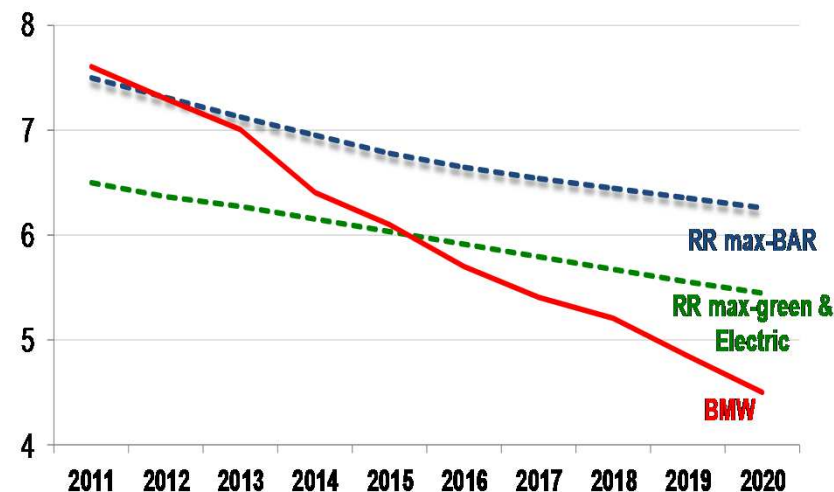
# Emissions Regulations Drive a Valorized Demand for Energy-Saving Tires

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

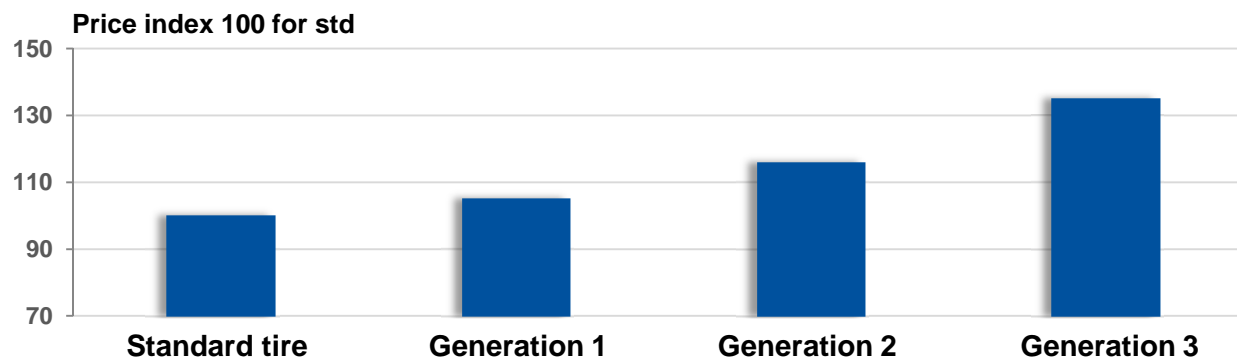


Source: EU Commission, Parliament and Council; EPA, DOT and NHTSA; JAMA; ICCT; Roland Berger

## Rolling resistance demanded by premium OE's



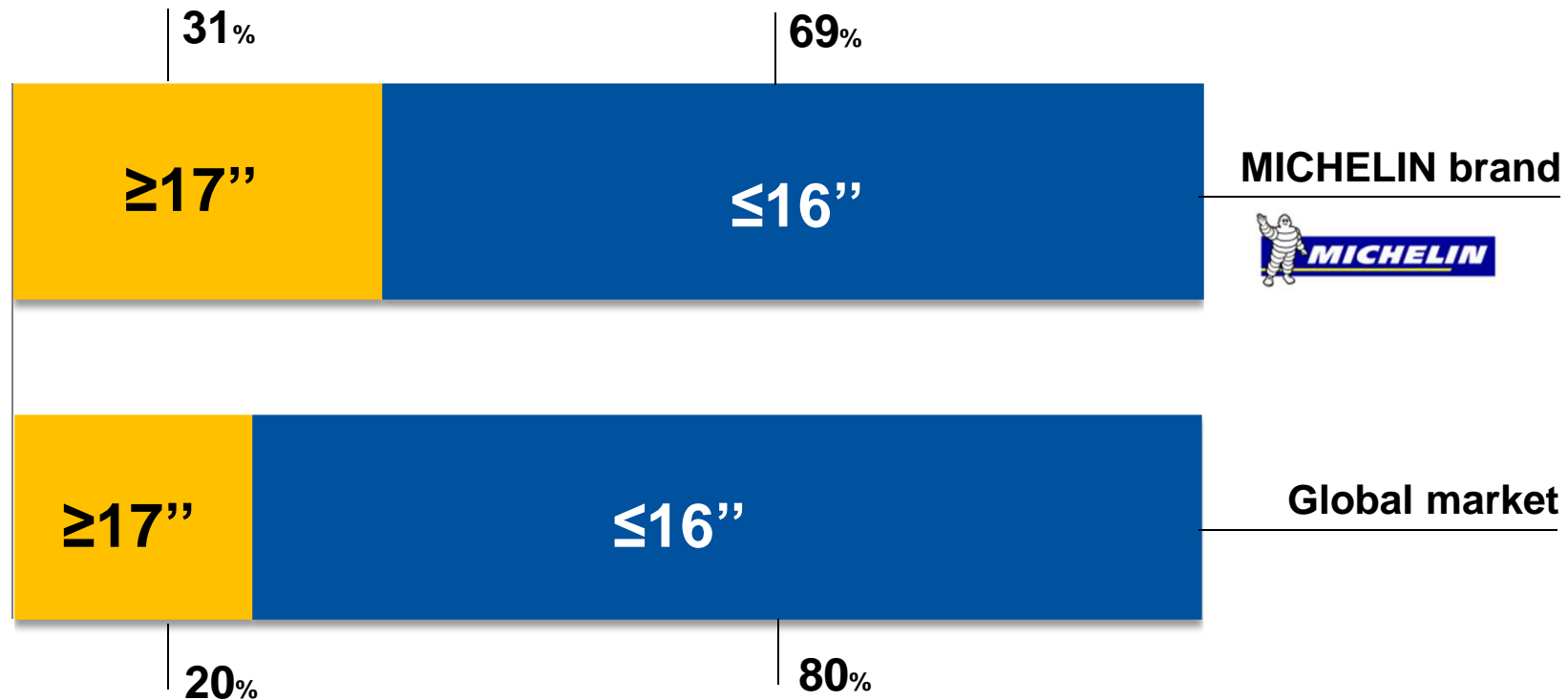
## OE Valorization of Michelin new low RR technologies





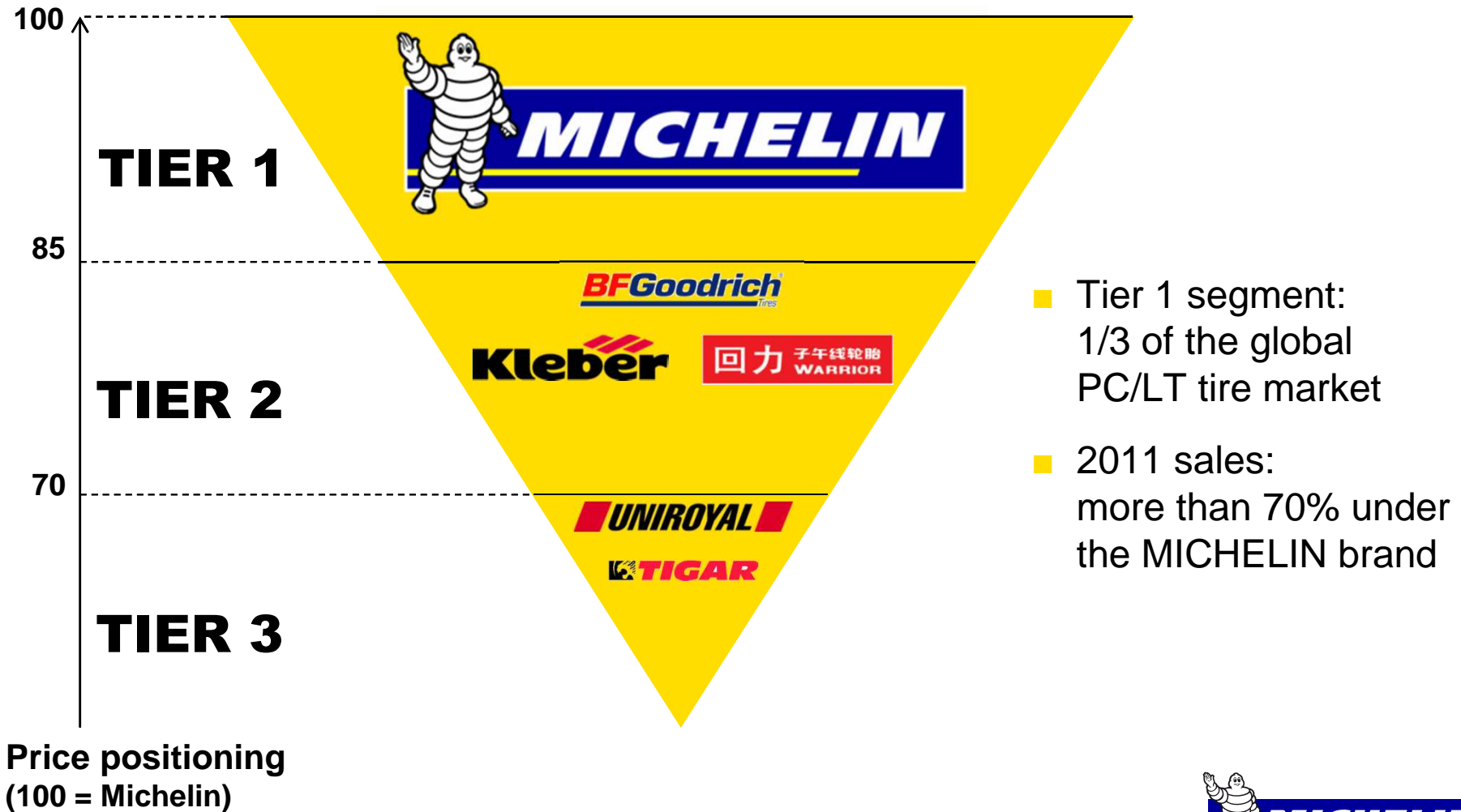
# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

## Share by PC/LT tire seat size



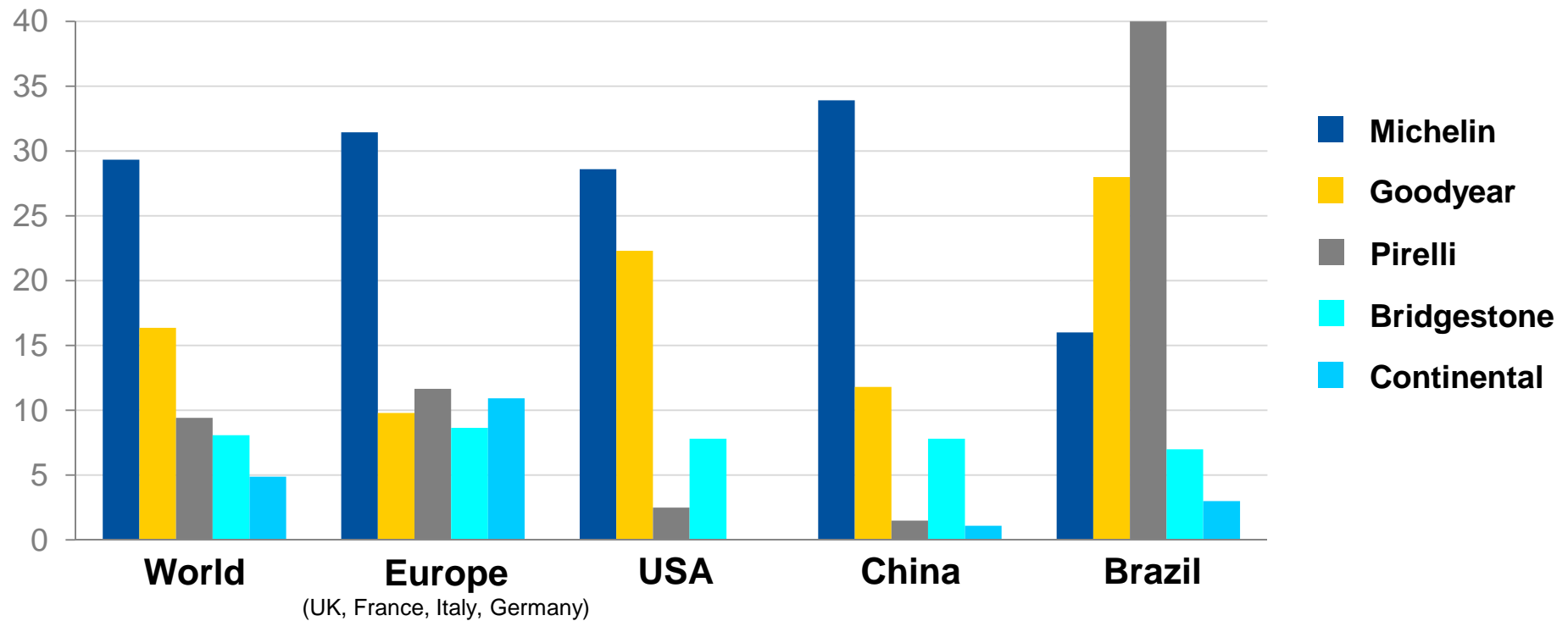


# MICHELIN: a 100% Premium Brand in Every Market





## 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**

North America

**TYREPLUS**  
**50 ► 120**

South America

**TYREPLUS**  
**3 Pilot ► 500**

**EUROMASTER**  
Tyres need Experts

Africa  
India  
Middle-East

**TYREPLUS**  
**100 ► 400**

Eastern Europe

**TYREPLUS**  
**173 ► 220**

China

**TYREPLUS**  
**840 ► 1,700**

ASEAN

**TYREPLUS**  
**219 ► 600**



**MICHELIN**

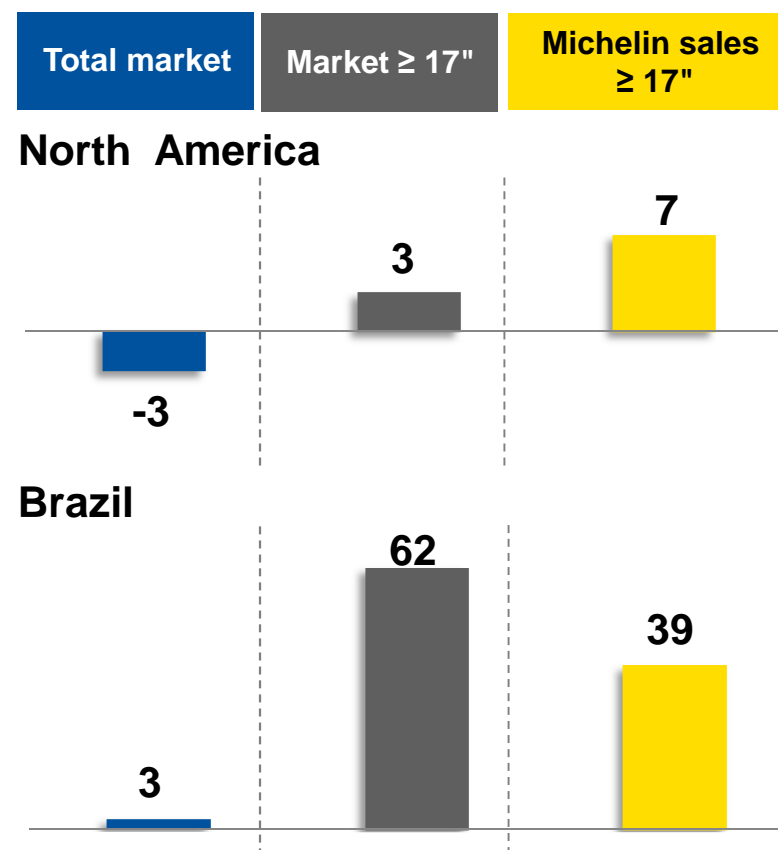
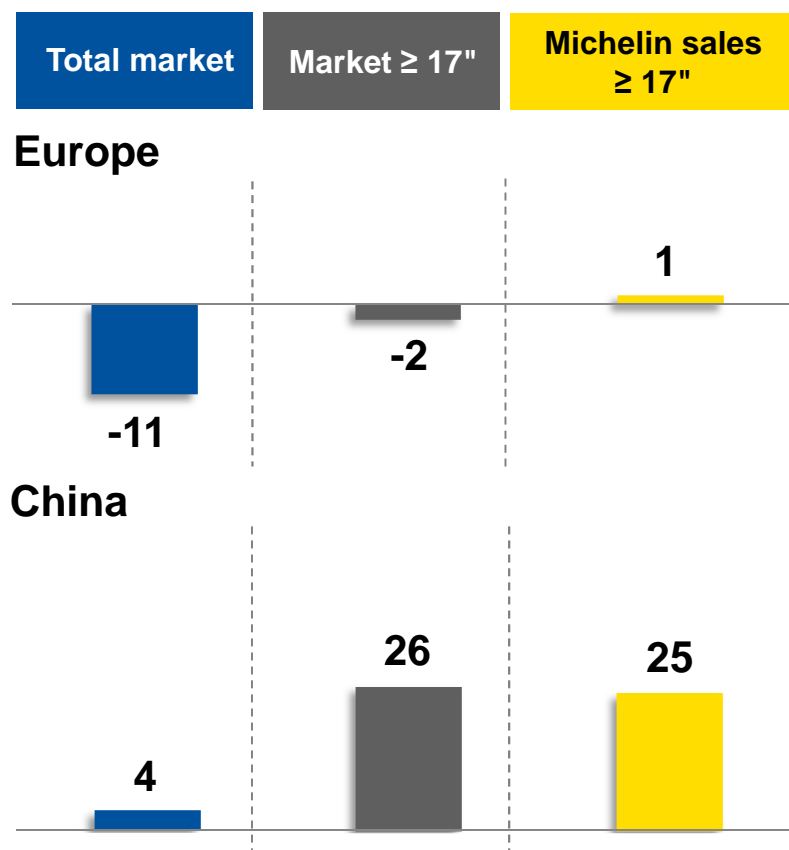
*A better way forward*





# Premium: Strong Growth Opportunity Seized by Michelin

## Growth in the replacement Car & Light truck market ( H1 2012 vs. H1 2011 in %)



Source: Michelin

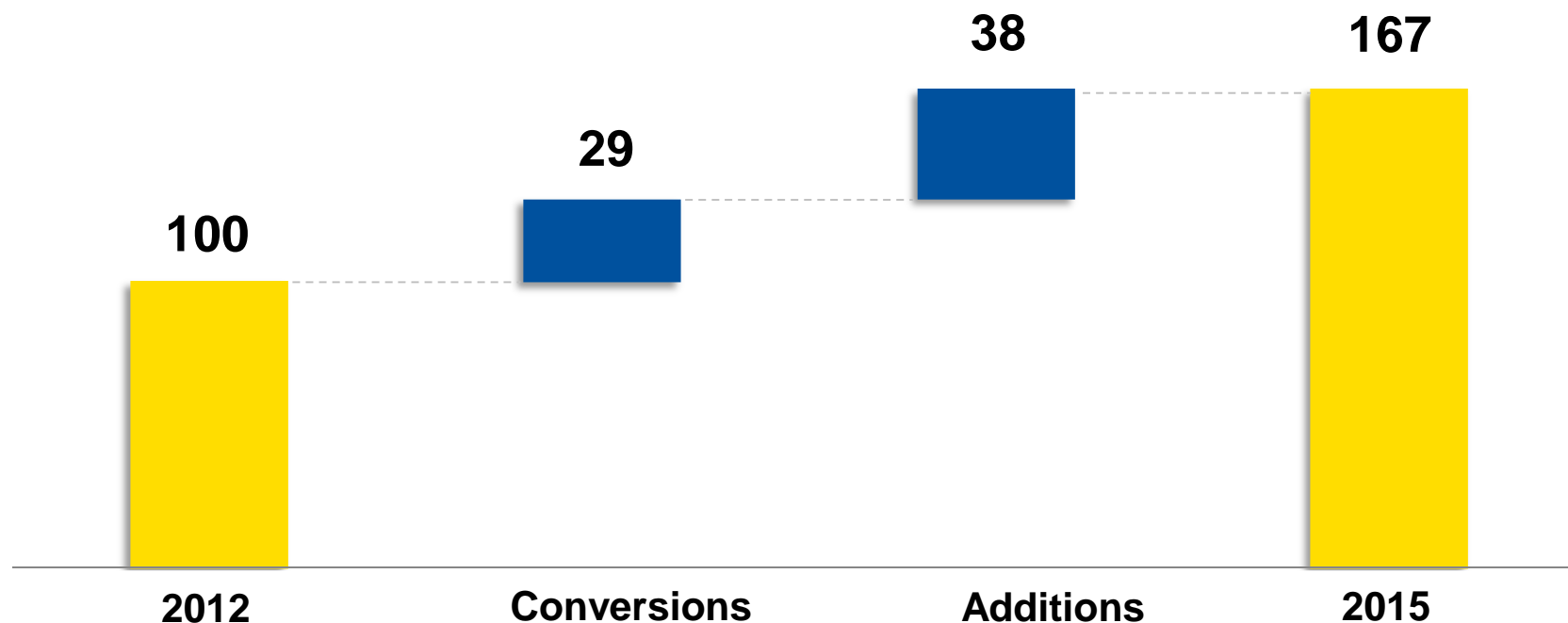




# More Capacity to Keep Up with Growing Demand and Widen our Leadership

## 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

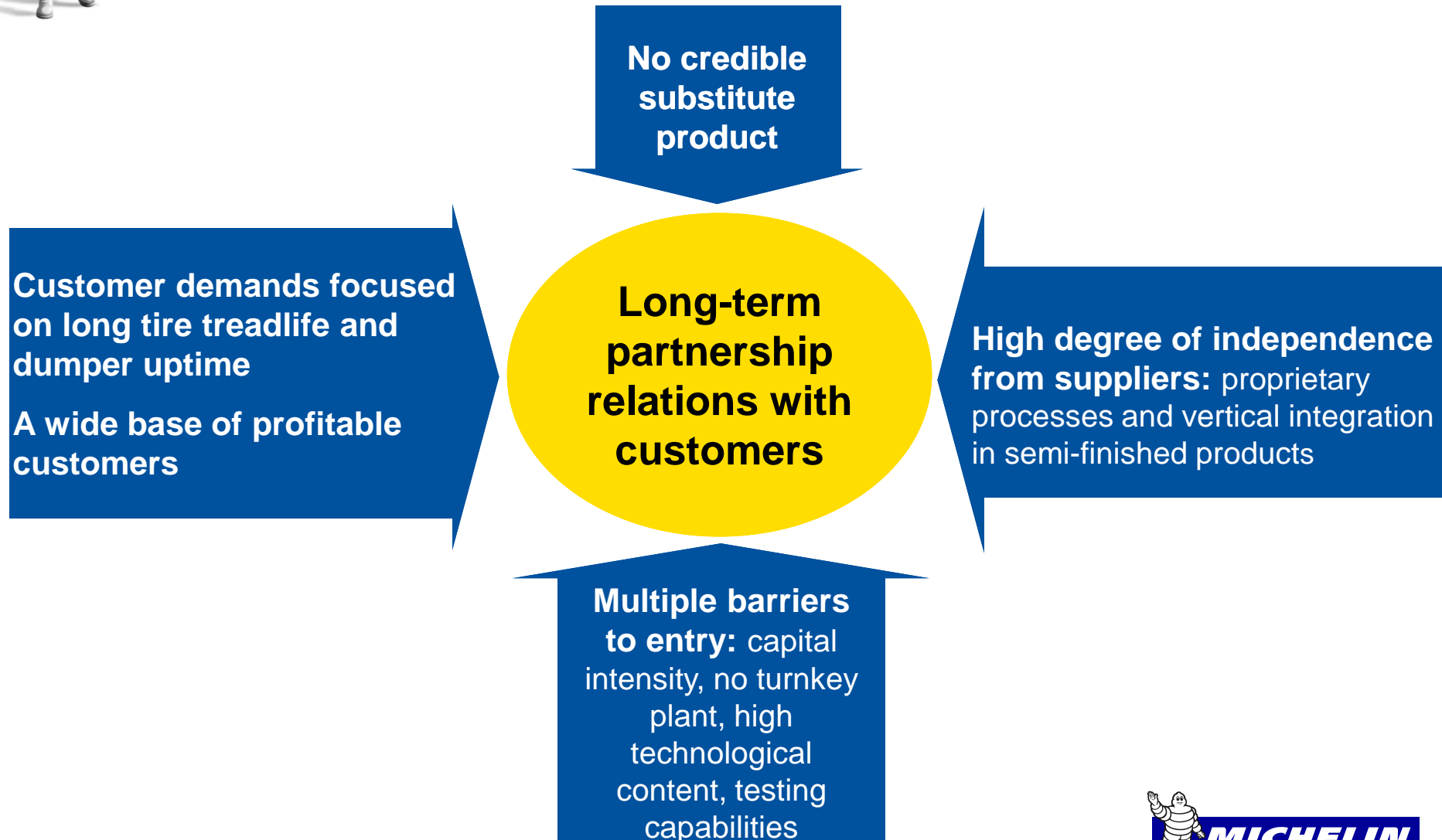
## Market leader

<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> <b>Kleber</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



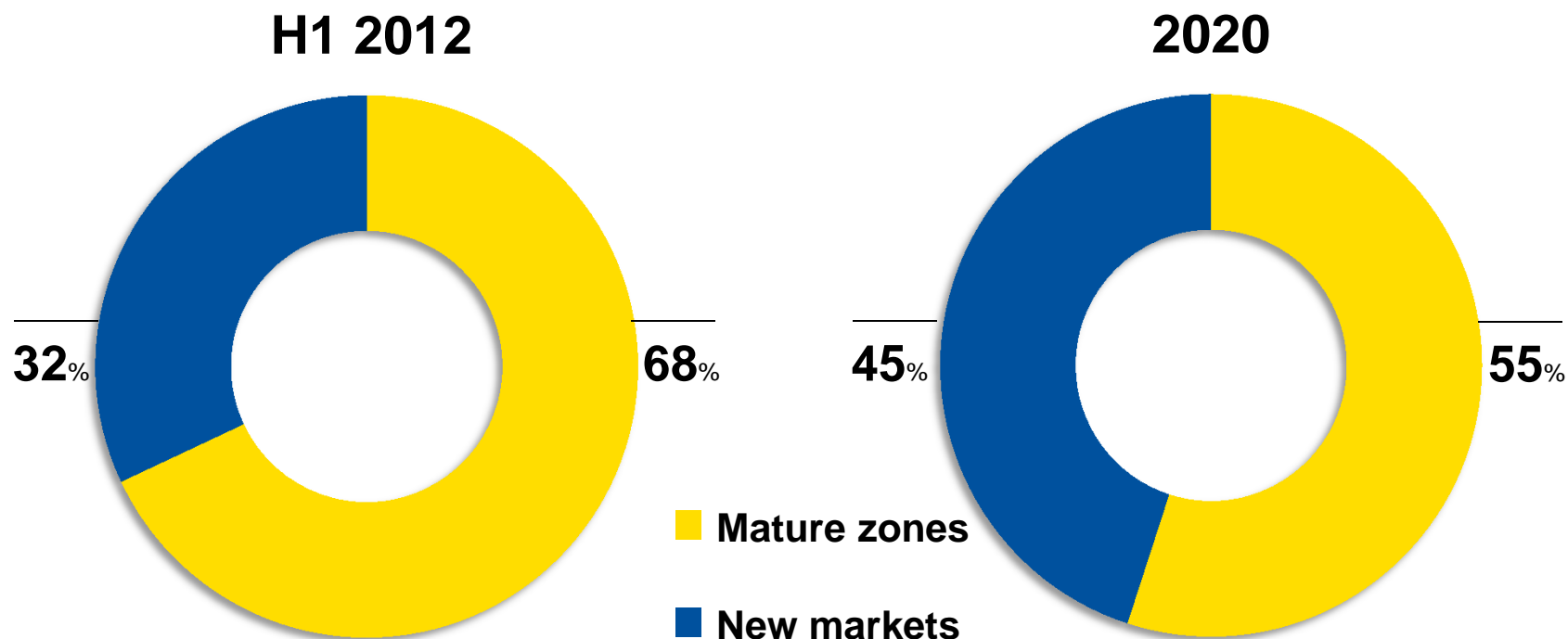




# A Balanced Global Presence, Increasingly Oriented Towards the New Markets

## H1 2012 net sales by region

(% of total net sales in €)

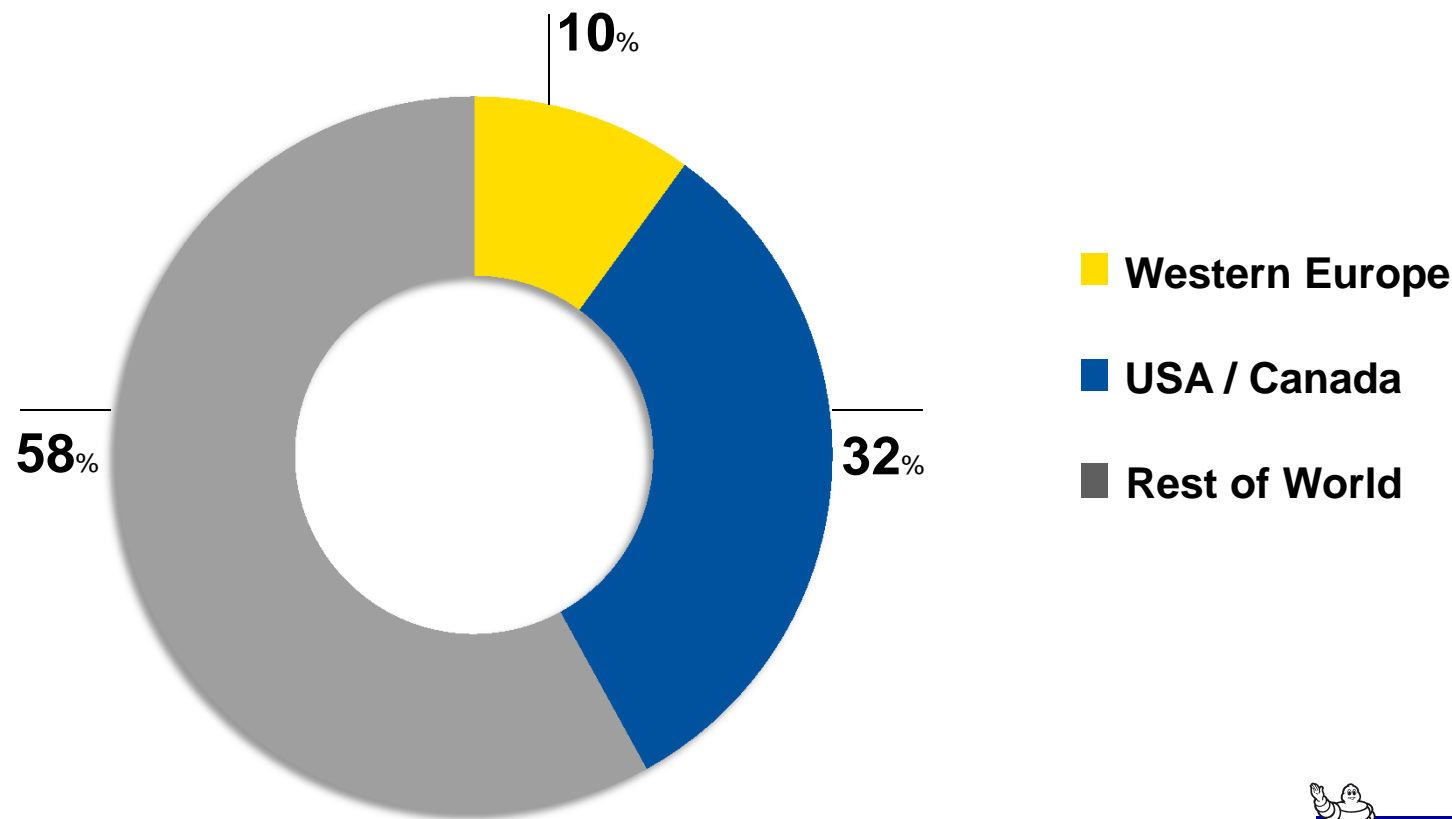




# Investing to Seize Opportunities in New Markets

## 2012-2015 capacity investments by region

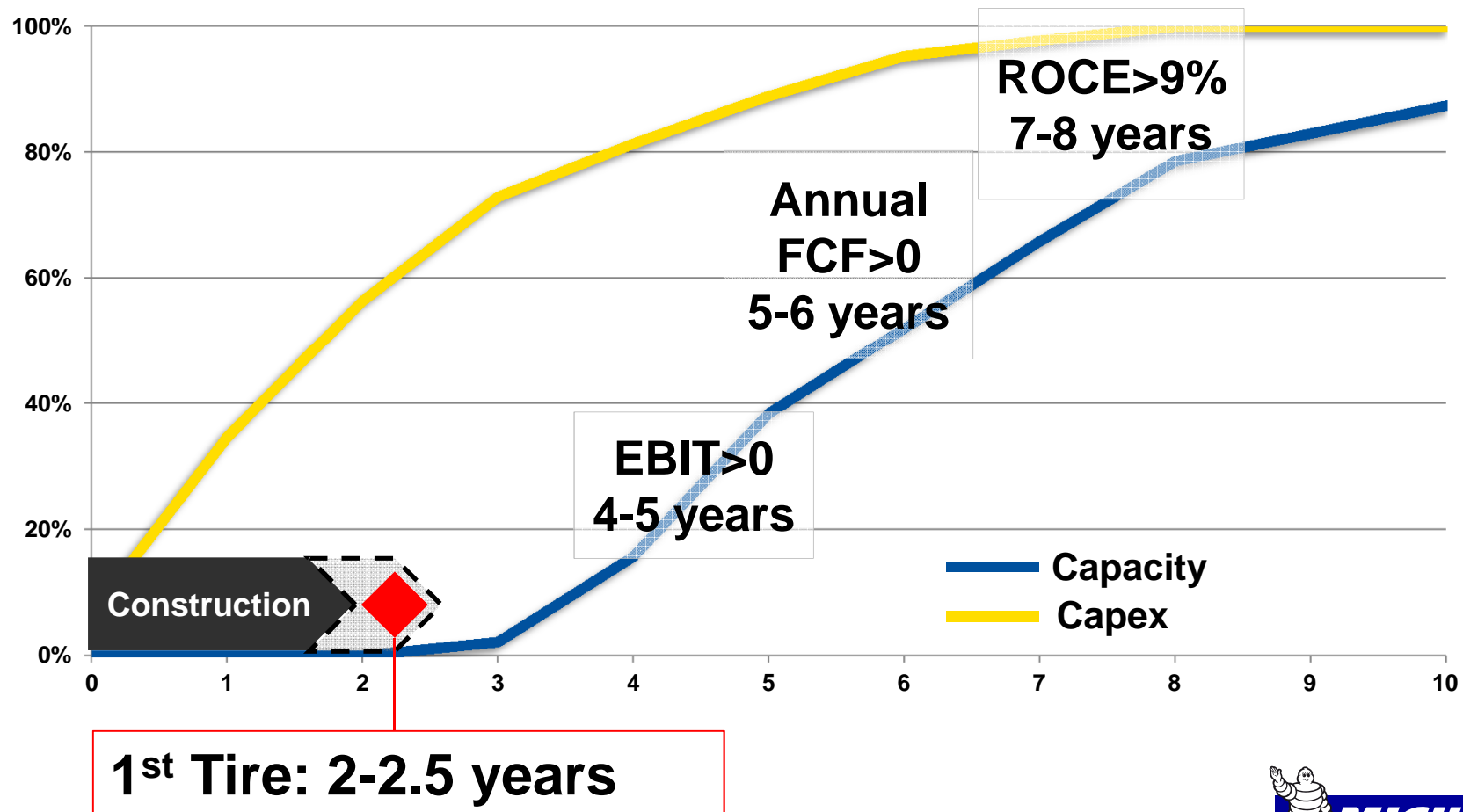
(in % of total expenditure in €)





# Towards a profitable growth

## Return on a 200 KT greenfield project





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

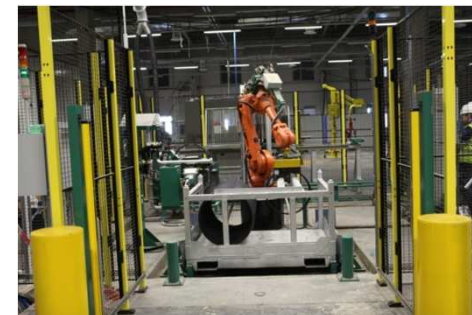


Brazil project	2012	2013	2014	2015	In the end
<b>Capacity</b> (K Tonnes)	2,000	17,000	46,000	51,000	
<b>Capex including upstream costs</b> (€m)	188	71	7	0 Total by end 2015: 480	
<b>ROCE</b>					> 12%





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



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

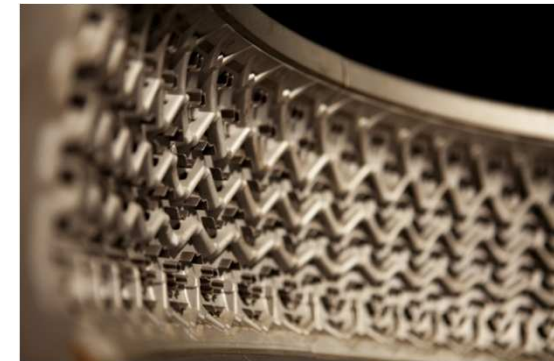
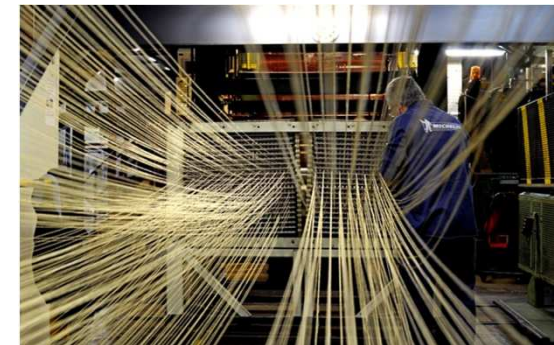




# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ■ 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

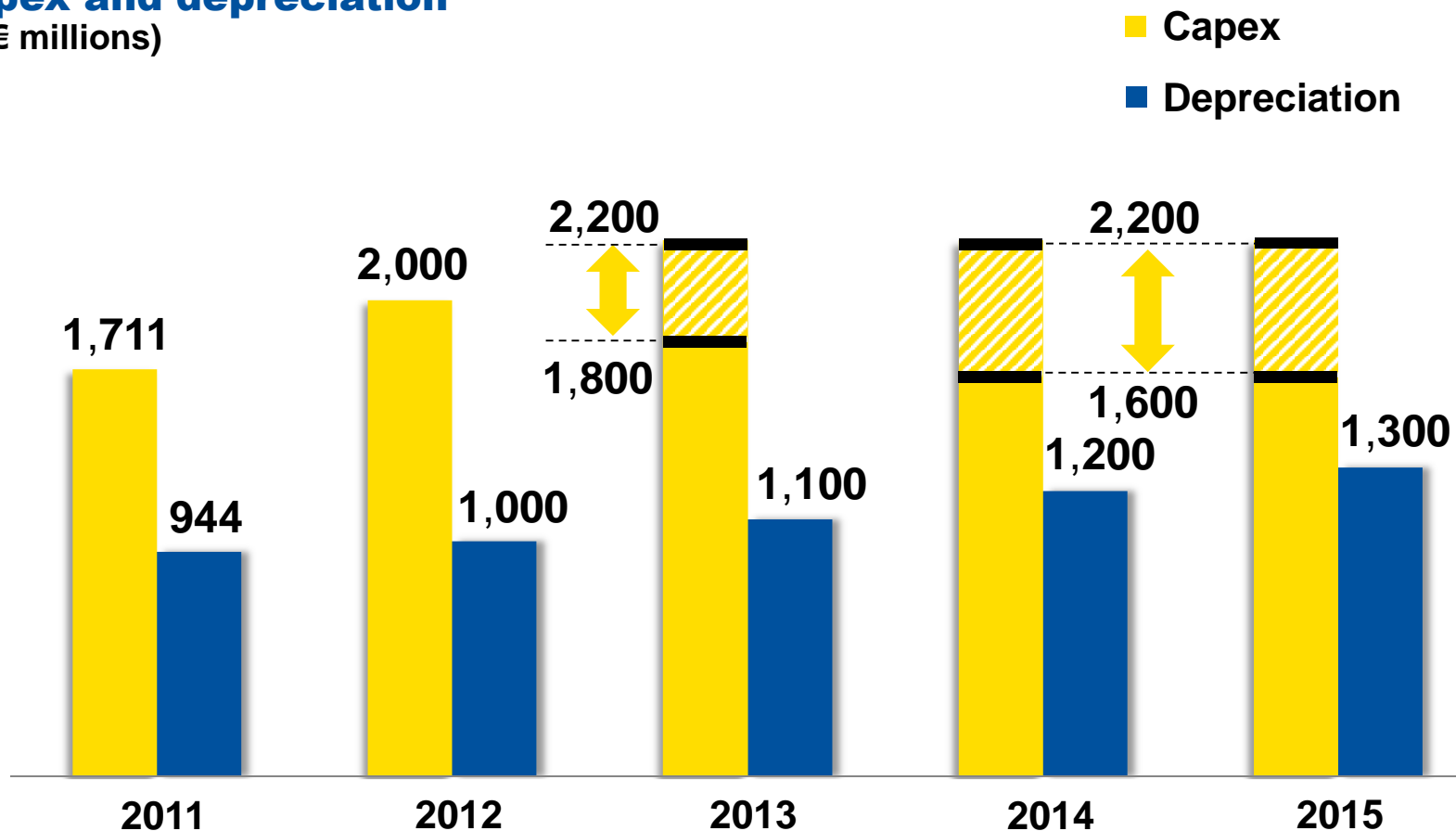
# Updated Prospects for 2015





# Investing to Enhance our Competitive Strengths and Drive New Growth

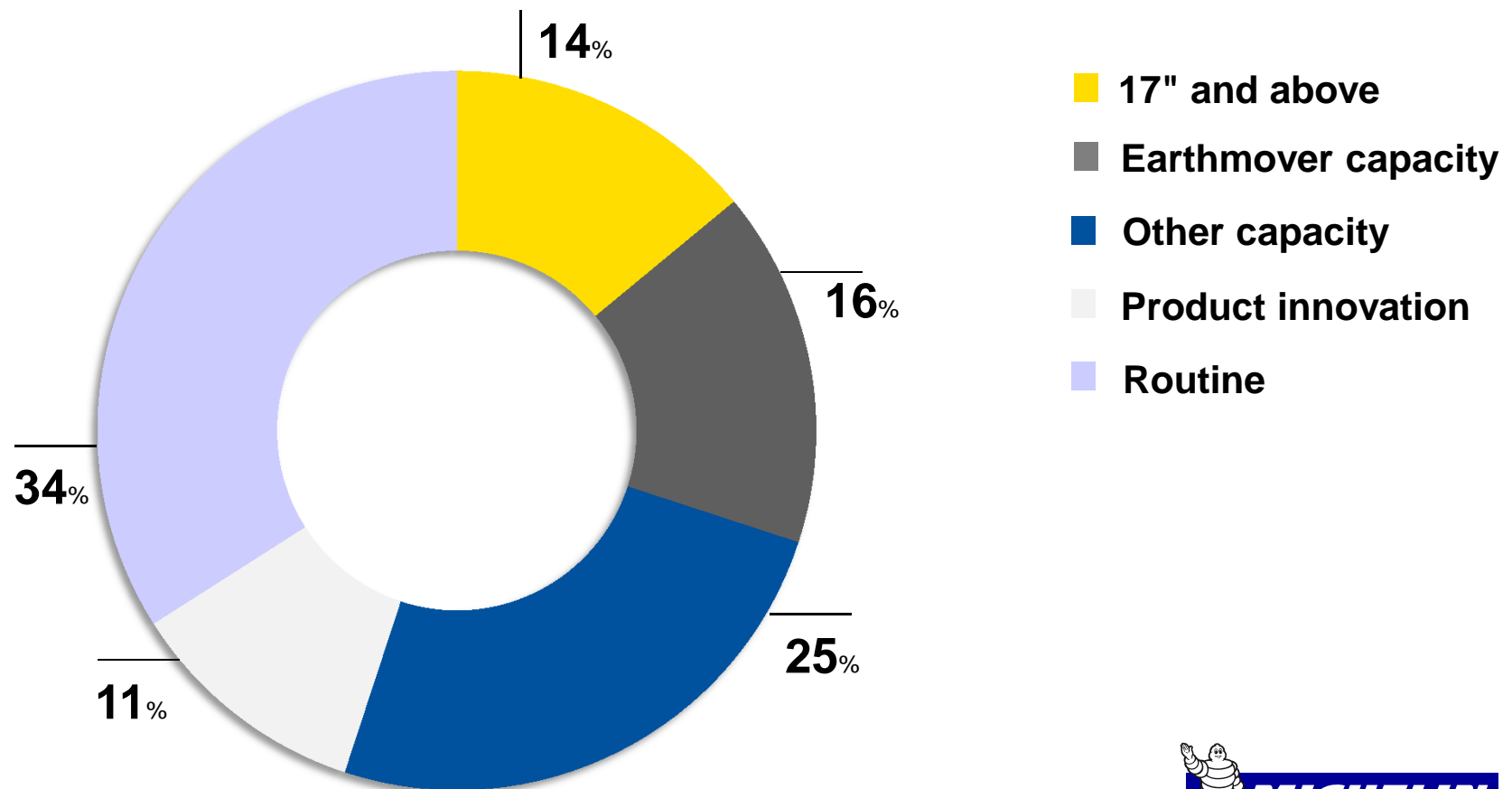
## Capex and depreciation (in € millions)





# 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



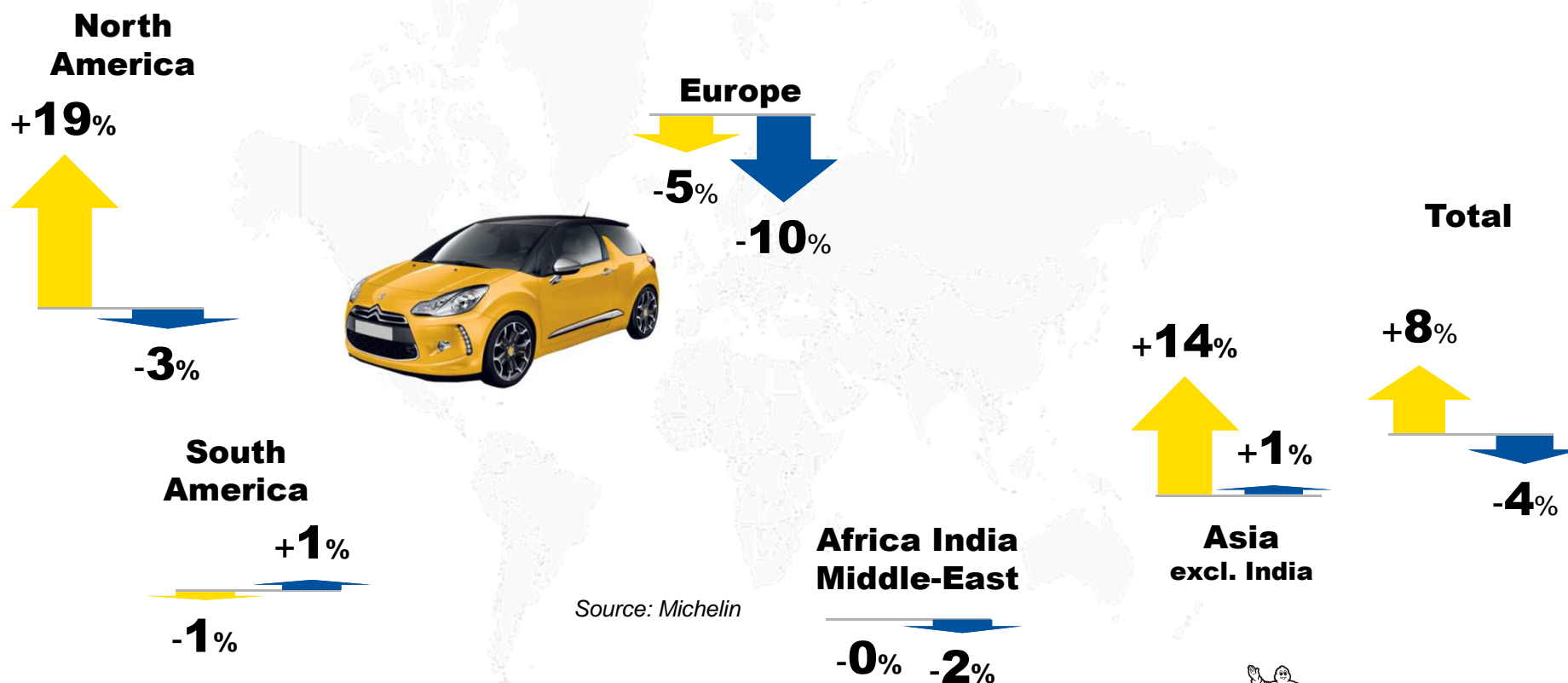


# Passenger car and light truck tires: unfavorable economic environment, especially in Europe

## Markets at September 30, 2012

(% change YoY, based on number of tires)

Original equipment  
Replacement



Source: Michelin





# 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



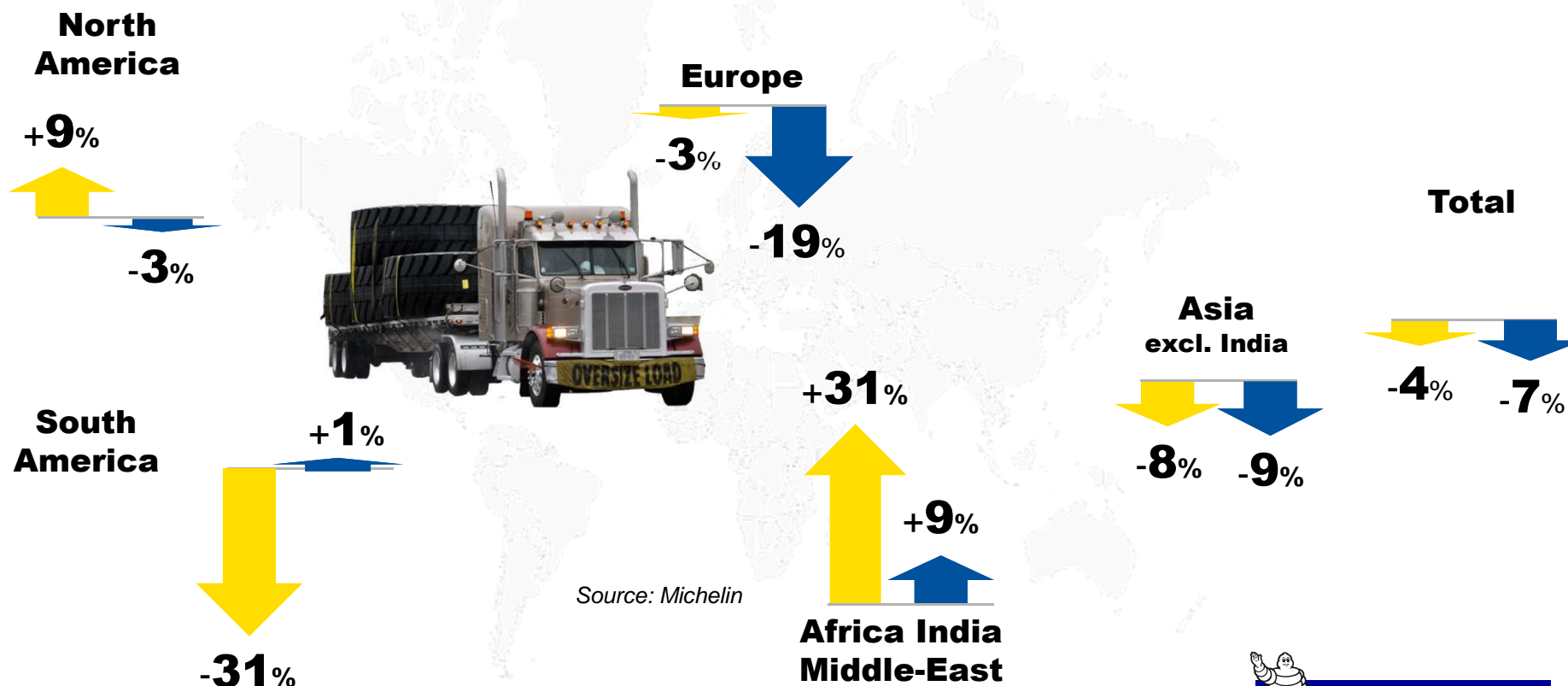


# Truck tires: unfavorable economic environment, especially in Europe

## 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

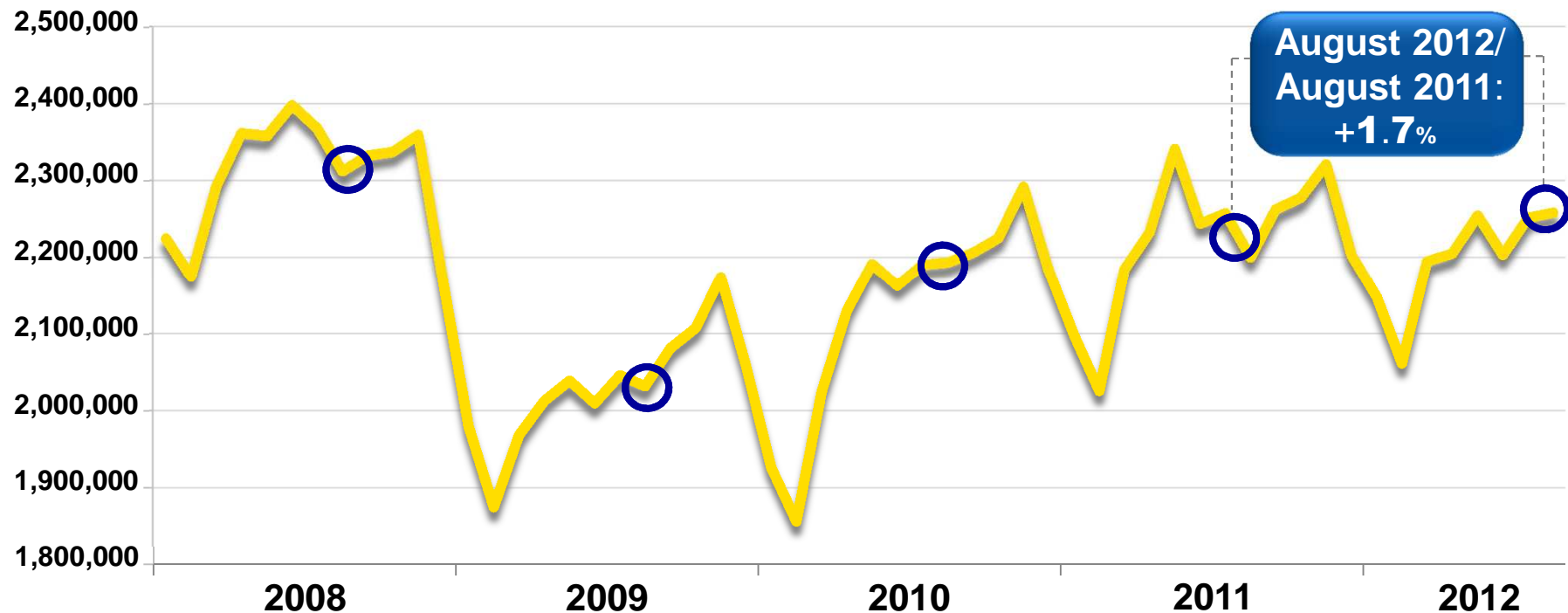




# German freight still lagging 2008 levels

## German freight (rolling 3 months)

(Freight kilometers driven in Germany, in thousands)



Source: Bundesamt für Güterverkehr

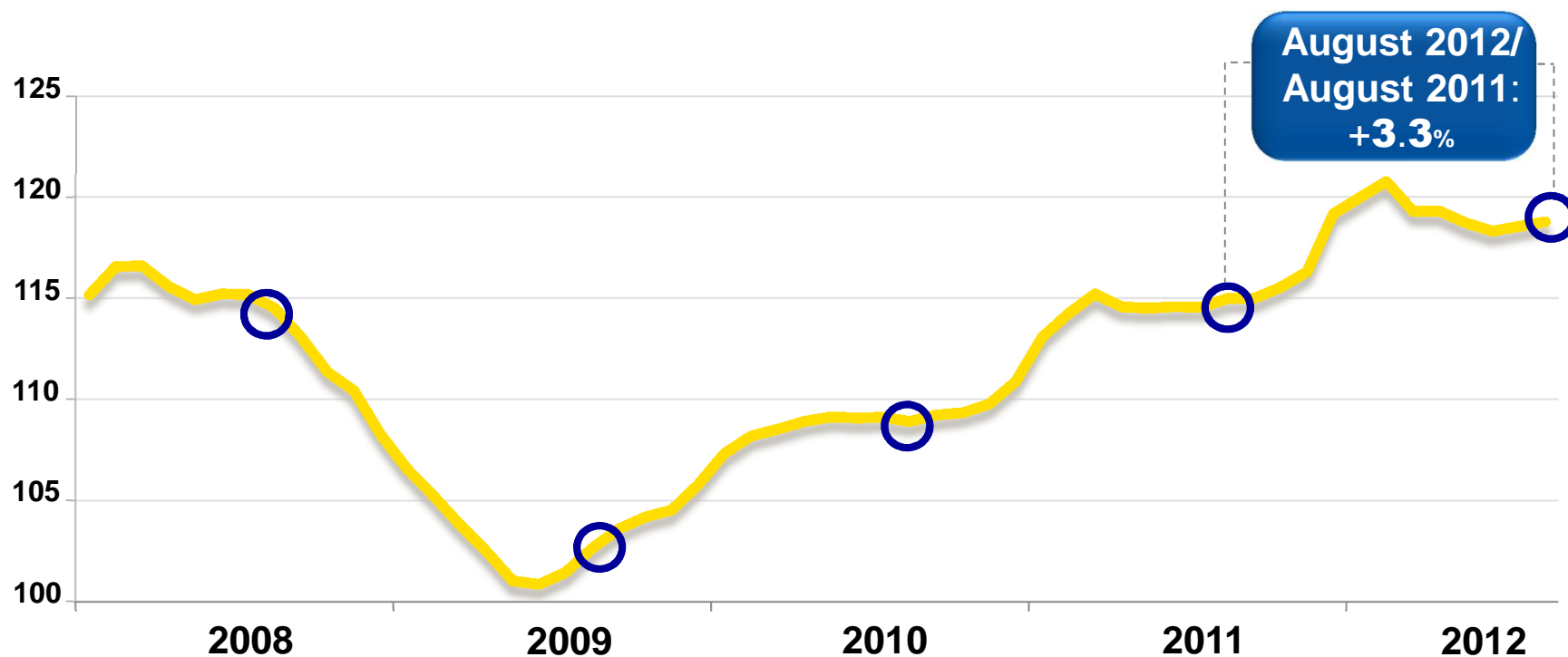




# US freight outpacing 2011 and 2010

## US freight (rolling 3 months)

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



Source: ATA Truck Tonnage Index



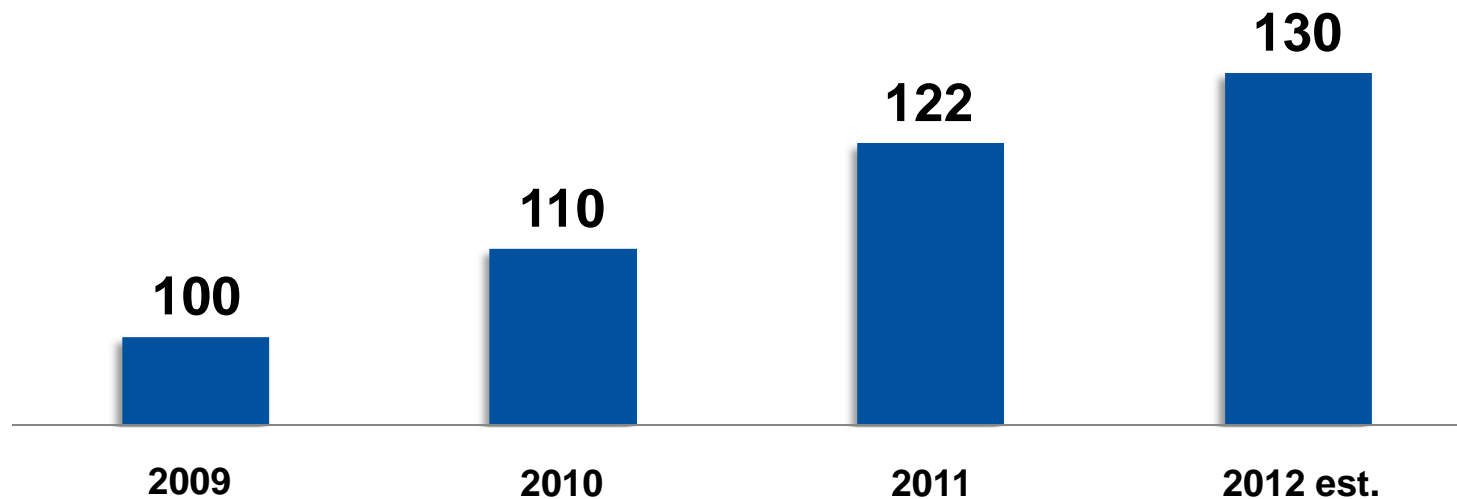




# Specialty tires: robust mining demand

## Mining tire market

(In tonnes, base 100 in 2009)



Source: Michelin





02

## Net sales in line with expectations

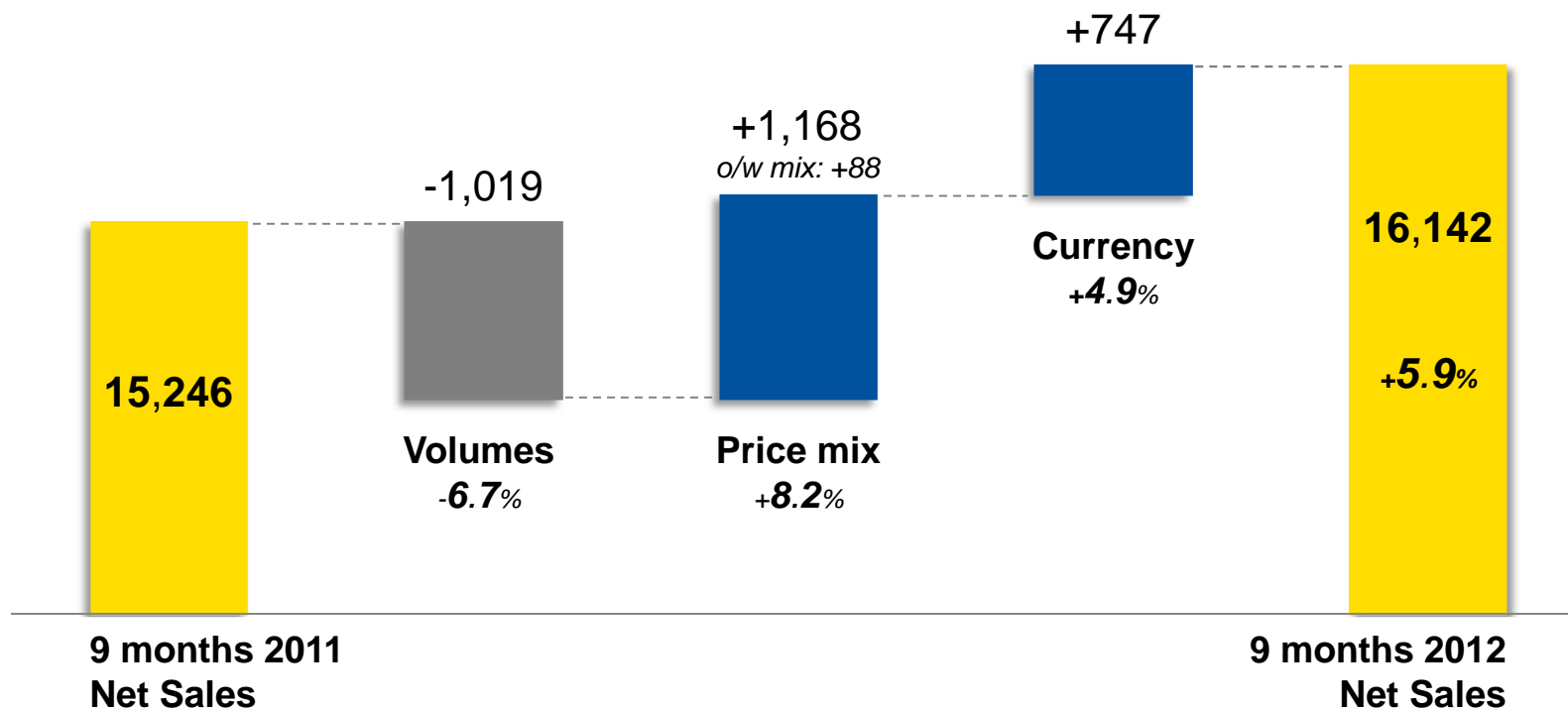




# Growth in net sales led by sustained favorable price mix

## YoY Change

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

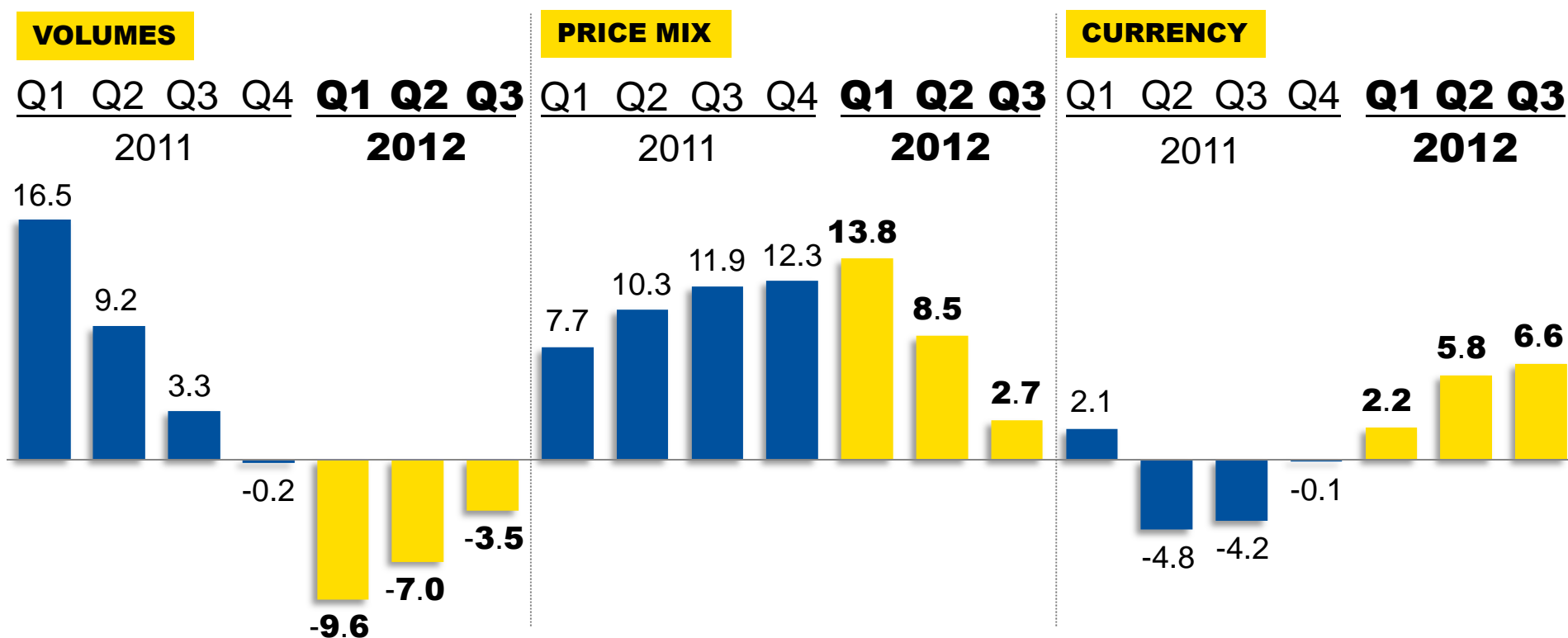




# Volumes: weak demand and prior-year comparatives

## 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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