



# Paris SG Premium Review

**November 29, 2012**

# OUTLINE



**01**

Structurally expanding markets

**02**

Widening our leadership in the premium segment

**03**

Increasing the contribution of the specialty businesses

**04**

Strengthening our presence in the growth regions

**05**

Updated Prospects for 2015





01

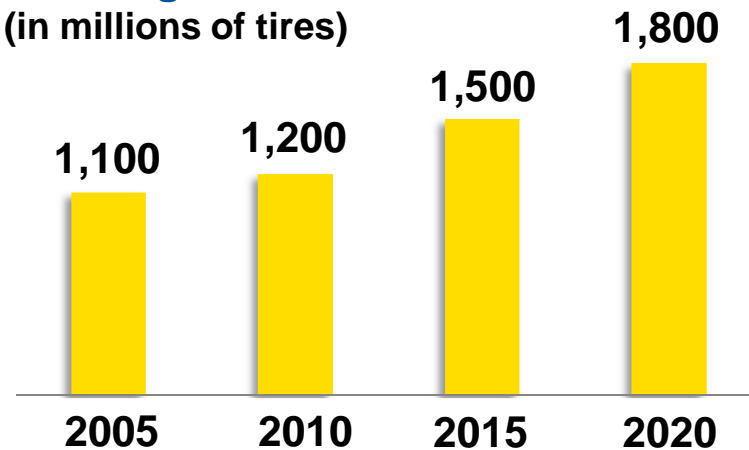
# Structurally expanding markets



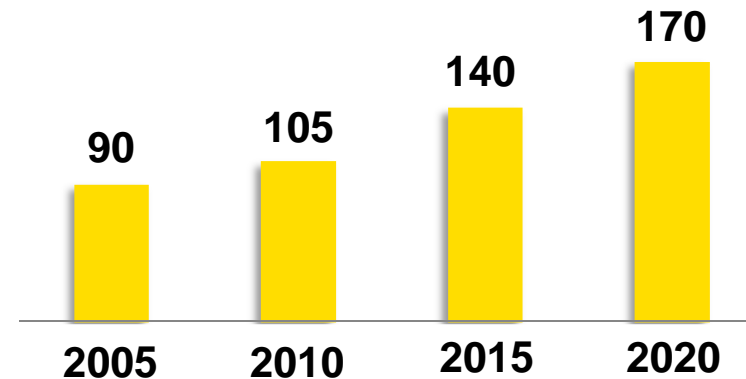


# Tire Markets are Structurally Expanding Over the Mid and Long Terms

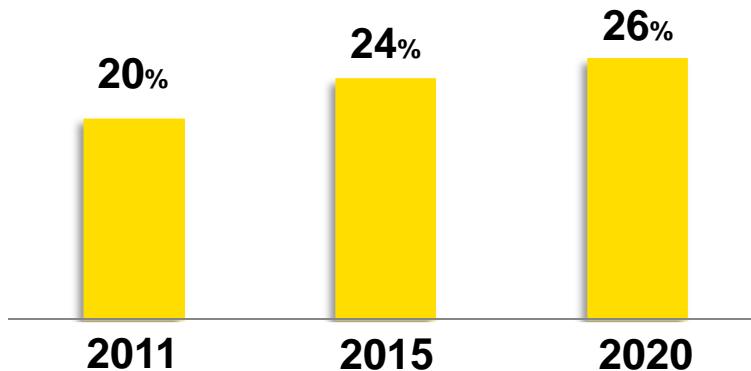
**Car & Light truck tire market**  
(in millions of tires)



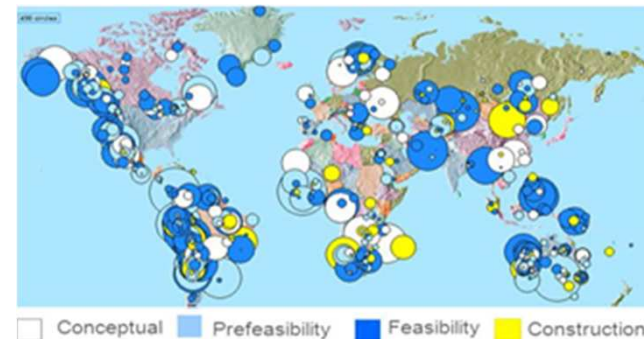
**New radial Truck tire market**  
(in millions of tires)



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



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



Source: RMG





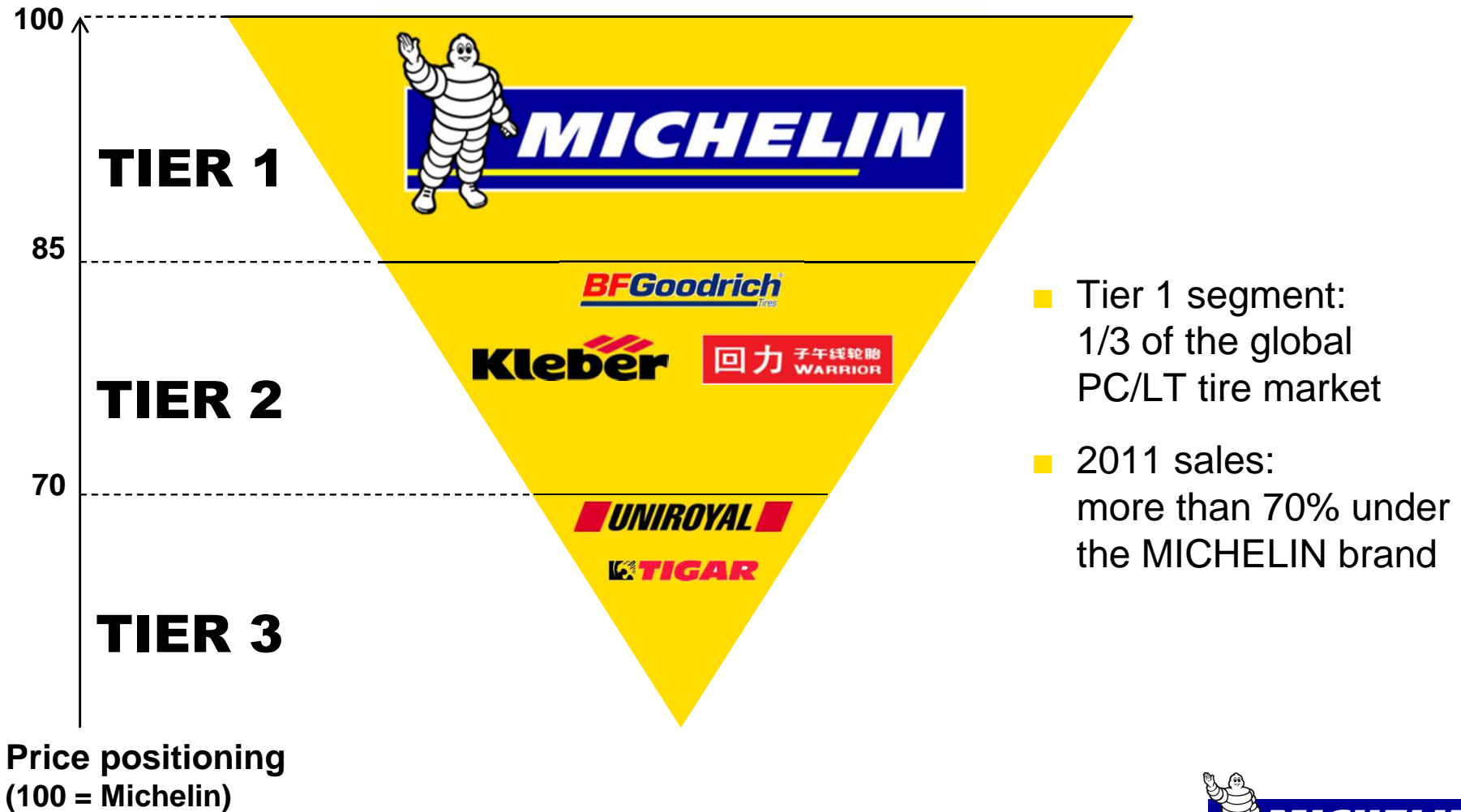
02

## Widening our leadership in the premium segment





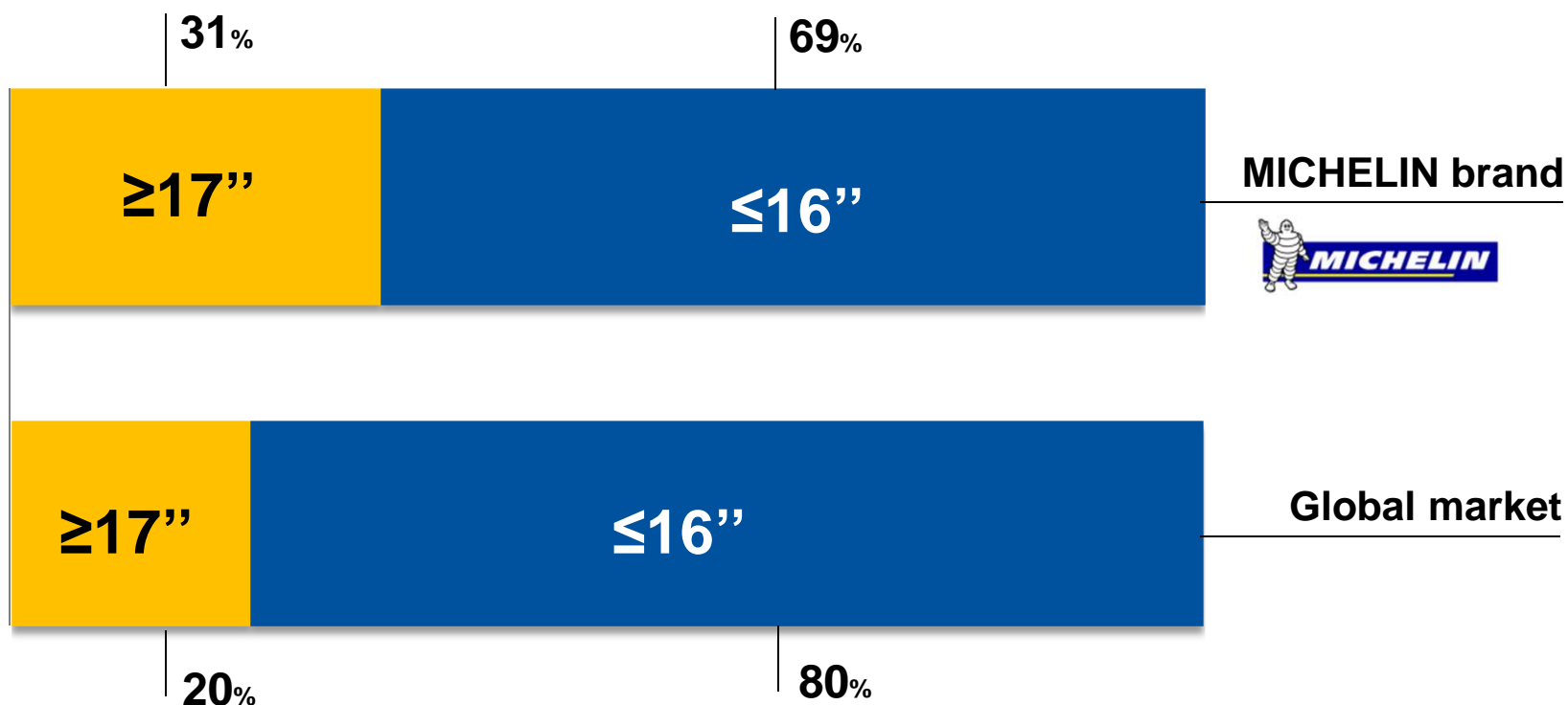
# MICHELIN: a 100% Premium Brand in Every Market





# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

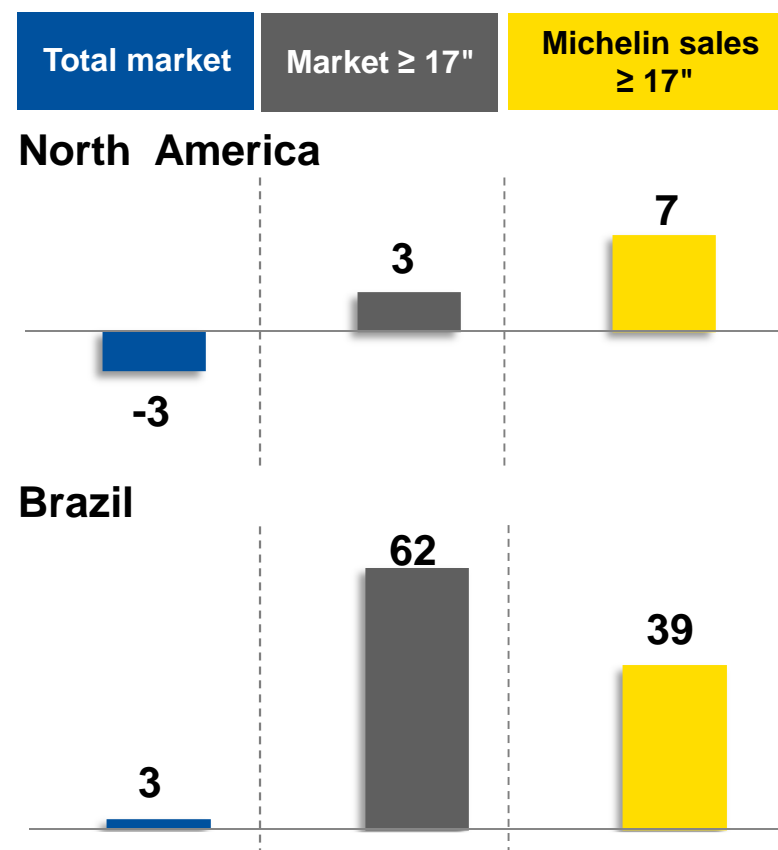
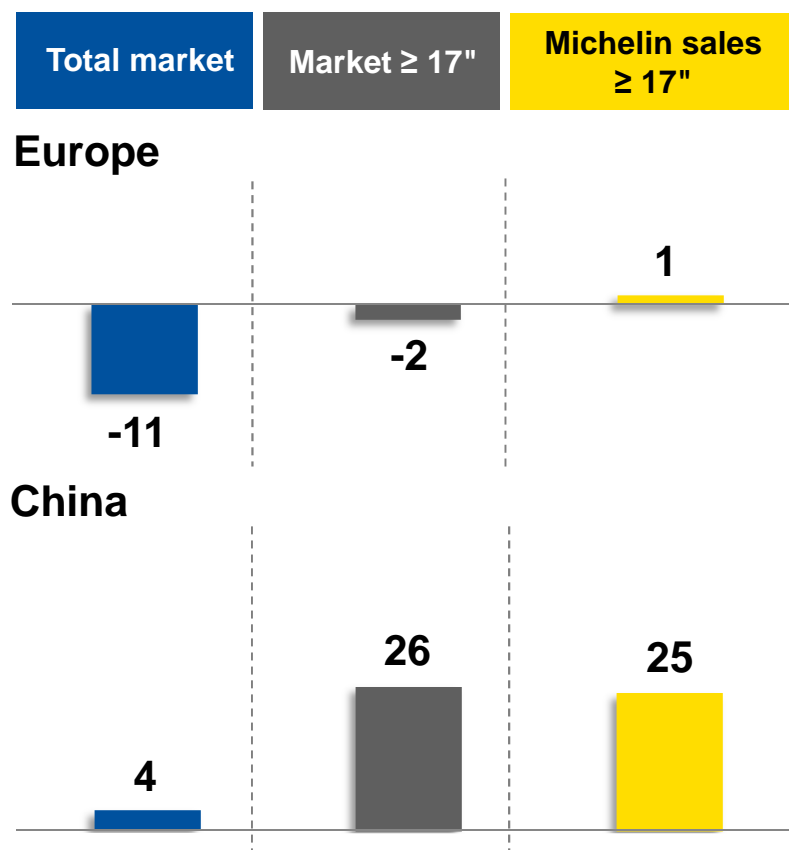
## Share by PC/LT tire seat size





# Premium: Strong Growth Opportunity Seized by Michelin

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



Source: Michelin

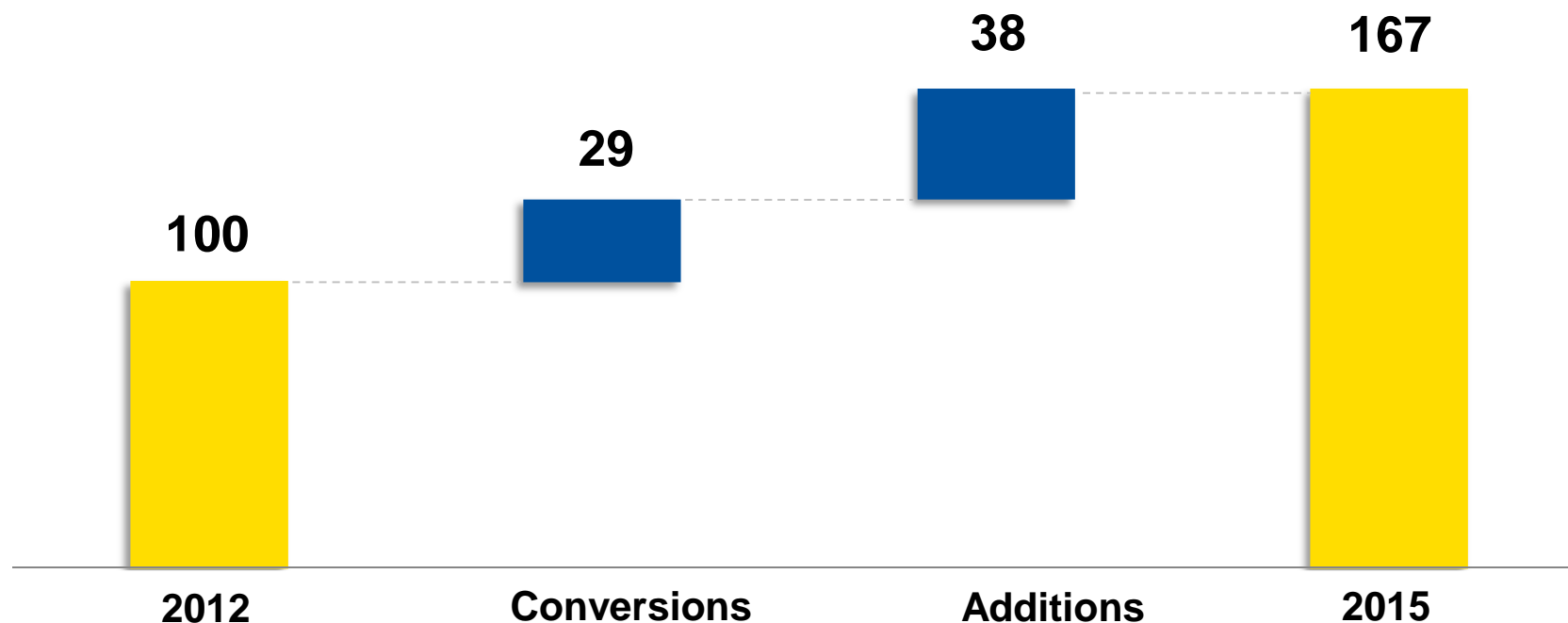






# More Capacity to Keep Up with Growing Demand and Widen our Leadership

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





03










## Increasing the contribution of the specialty businesses





# Michelin is the Market Leader in Every Specialty Tire Business

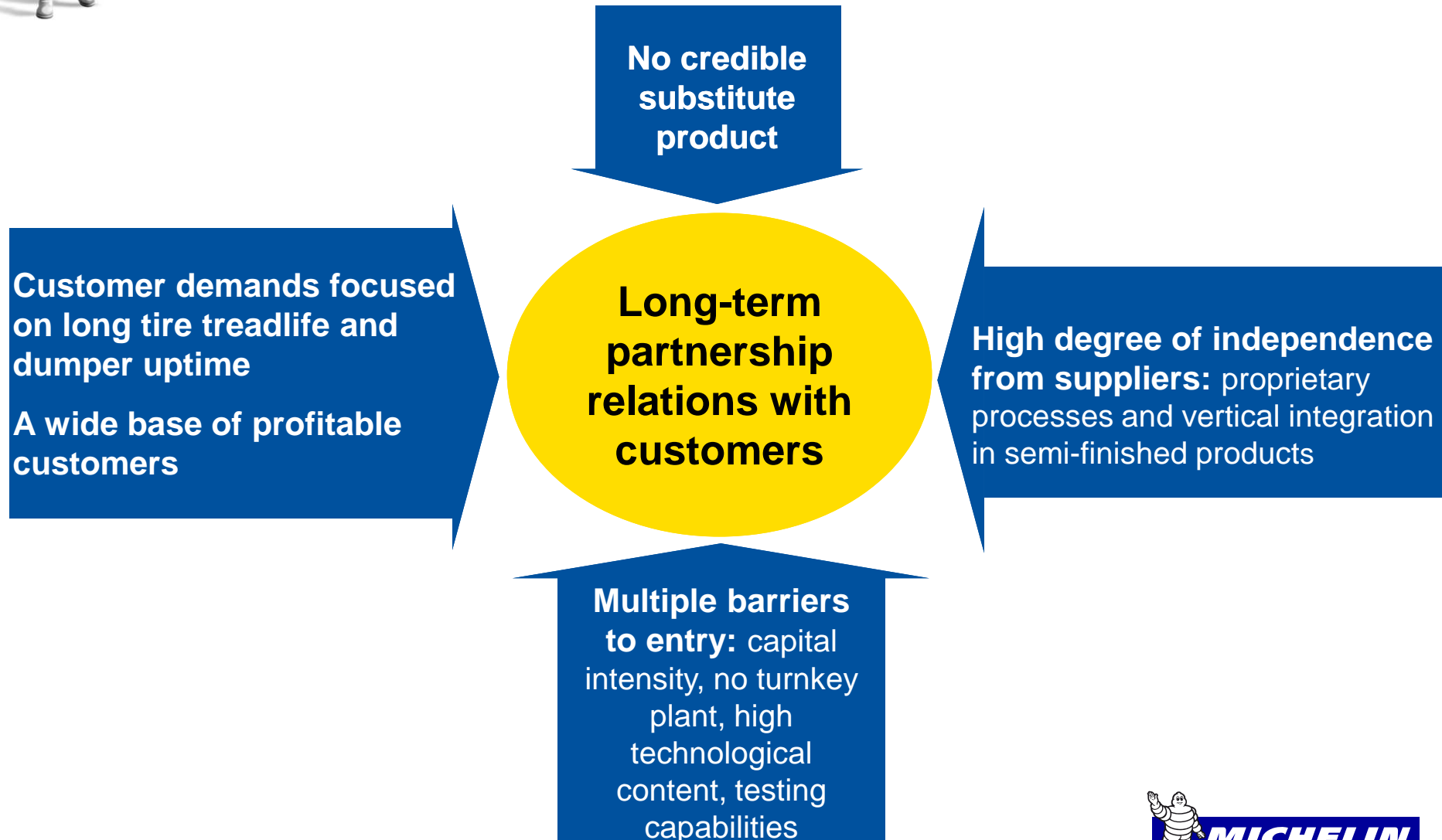
## Market leader

|                     |   |
|---------------------|---|
| <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





04

## Strengthening our presence in the growth regions

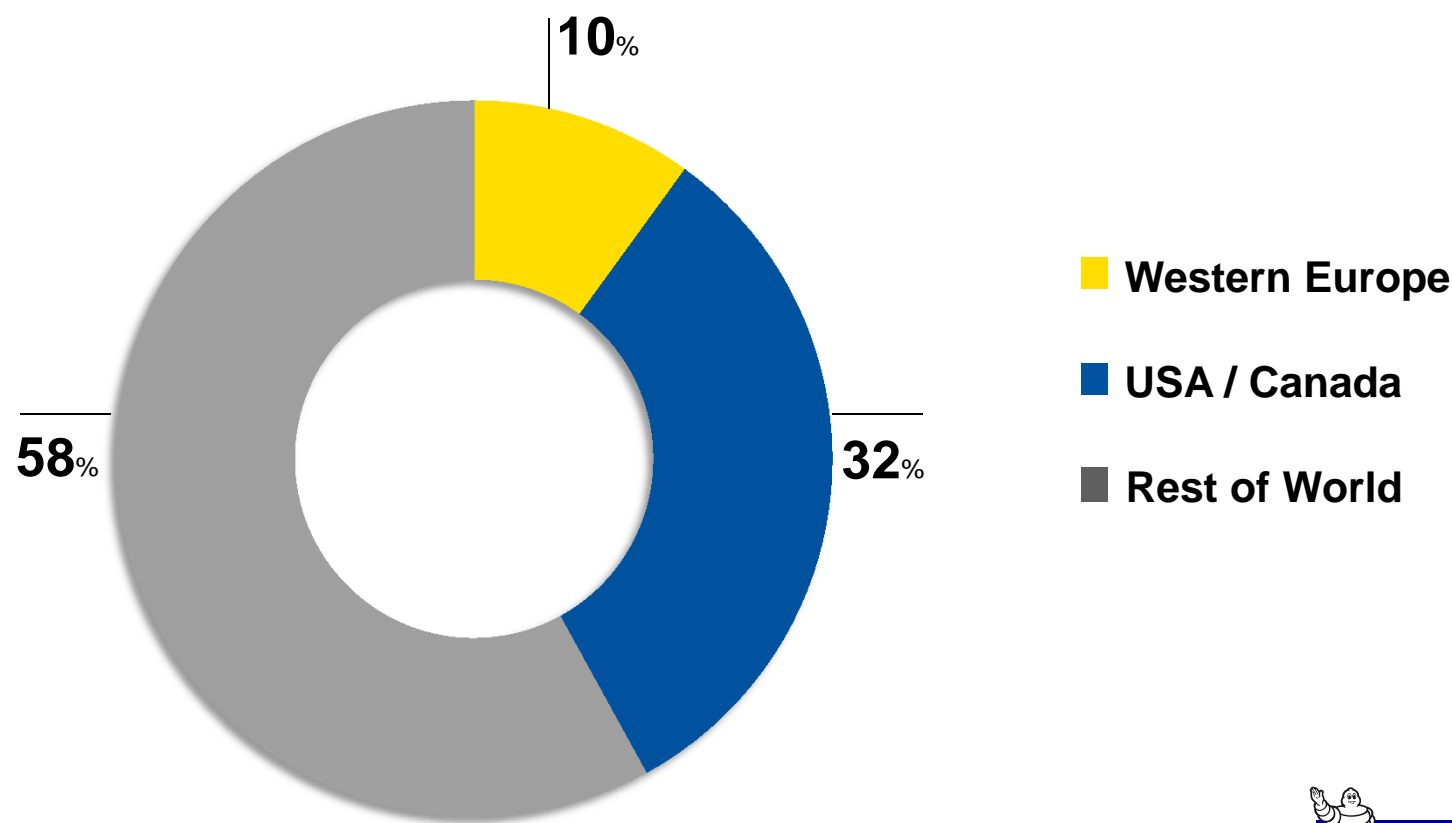




# Investing to Seize Opportunities in New Markets

## 2012-2015 capacity investments by region

(in % of total expenditure in €)





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

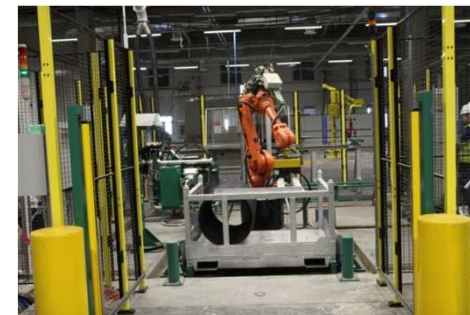


| Brazil project                            | 2012  | 2013   | 2014   | 2015                           | In the end |
|---|-------|--------|--------|--------------------------------|------------|
| Capacity<br>(K Tonnes)                    | 2,000 | 17,000 | 46,000 | 51,000                         |            |
| Capex including<br>upstream costs<br>(€m) | 188   | 71     | 7      | 0<br>Total by end<br>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                      |
|---|------|--------|--------|---------------------------------|---------------------------|
| 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<br>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*

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





05

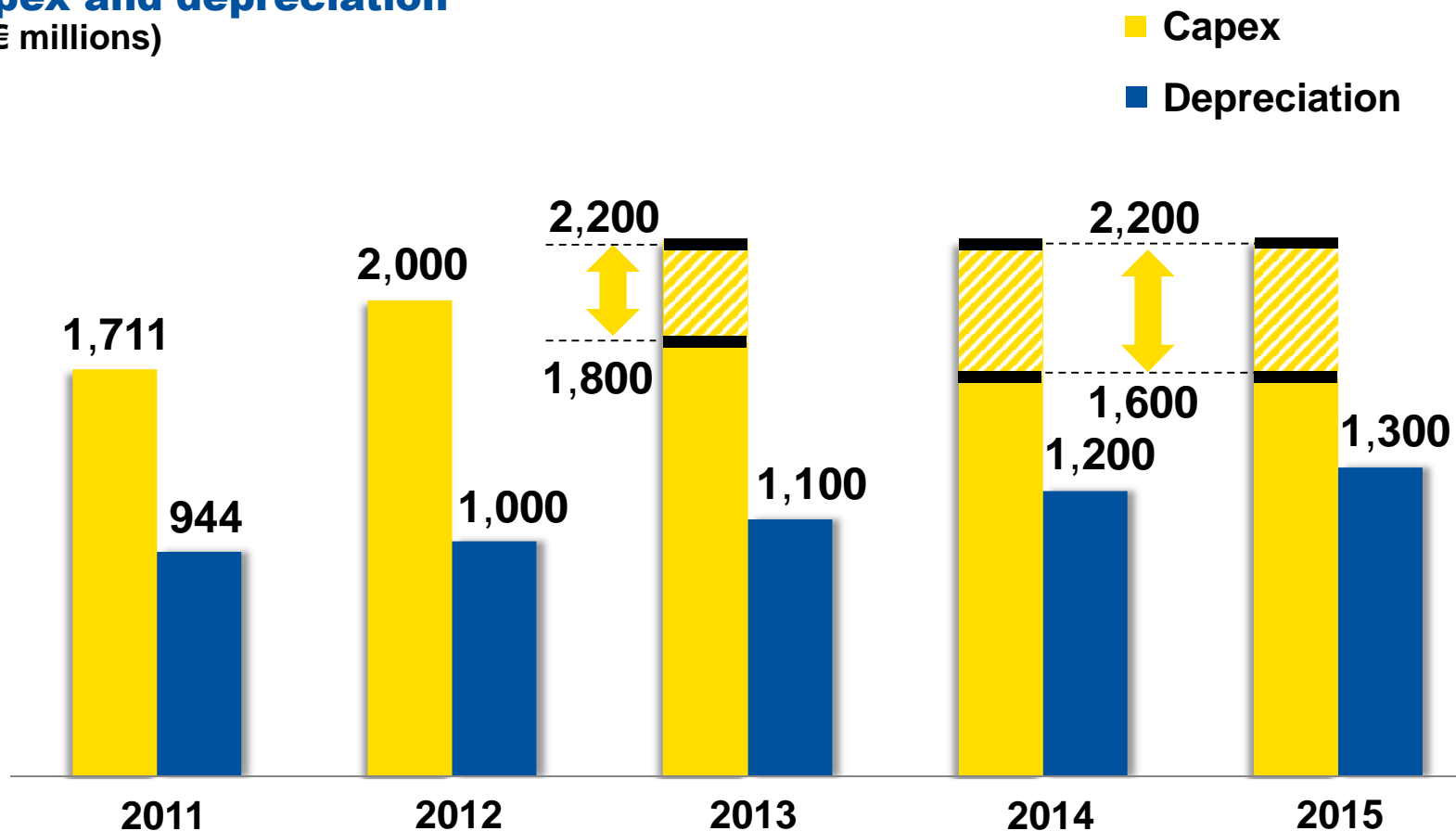
# Updated Prospects for 2015





# Investing to Enhance our Competitive Strengths and Drive New Growth

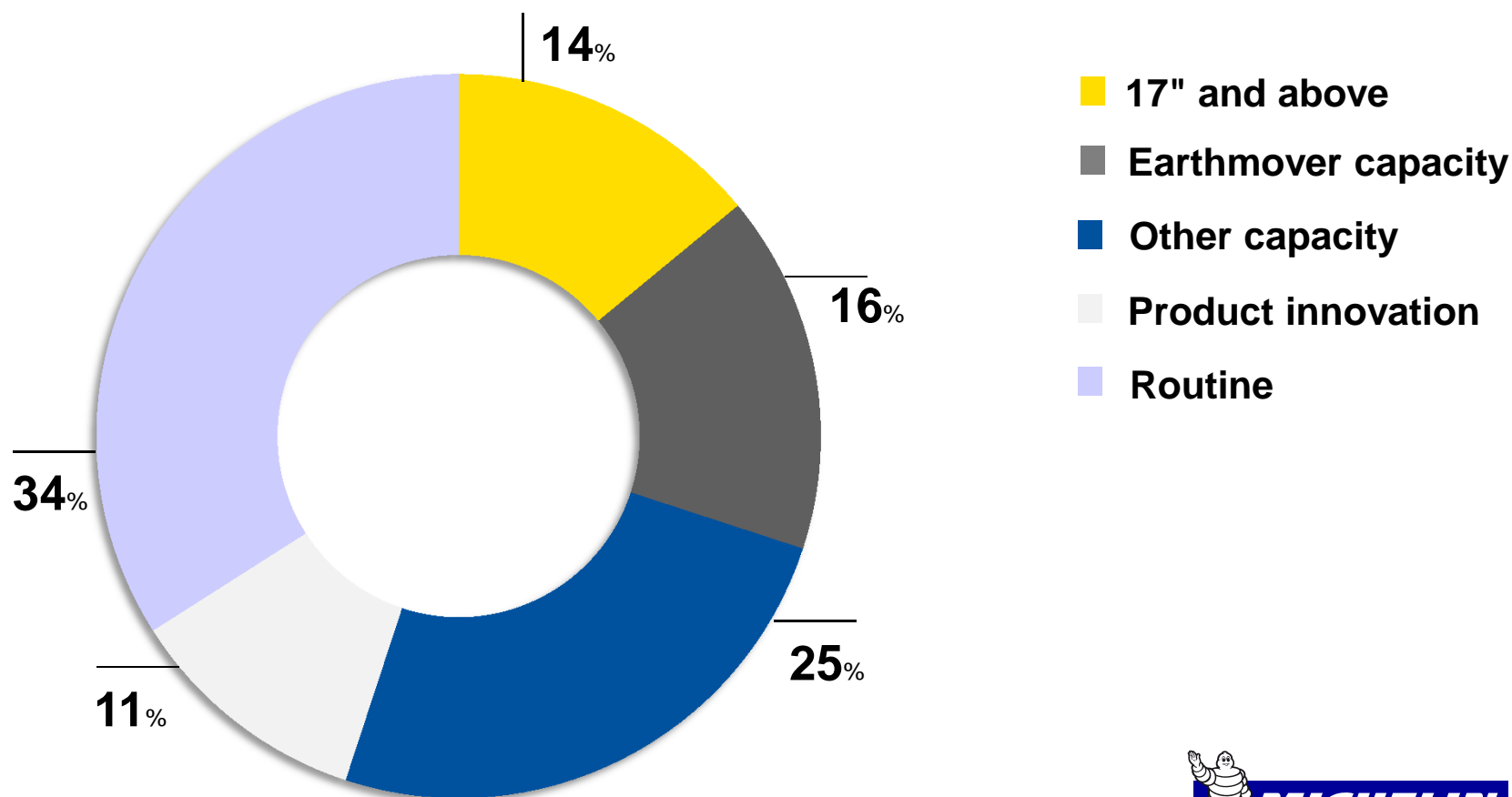
## Capex and depreciation (in € millions)





# 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**





# Key Takeaways

- Confidence in the strategy
- Capex focused on our competitive strengths and on Michelin Total Performance
- Ability to effectively steer the business in line with the prevailing market environment
- Focus on ROCE & generating free cash flow

**Michelin, a unique profile in the auto & tire business with key differentiating factors:**

- Strongest global brand name
- Global footprint
- Technology leader
- Very robust Specialty tire business





# Appendix



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# 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<br>before non-recurring items | 1,320   | 971     |
| Operating Margin<br>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

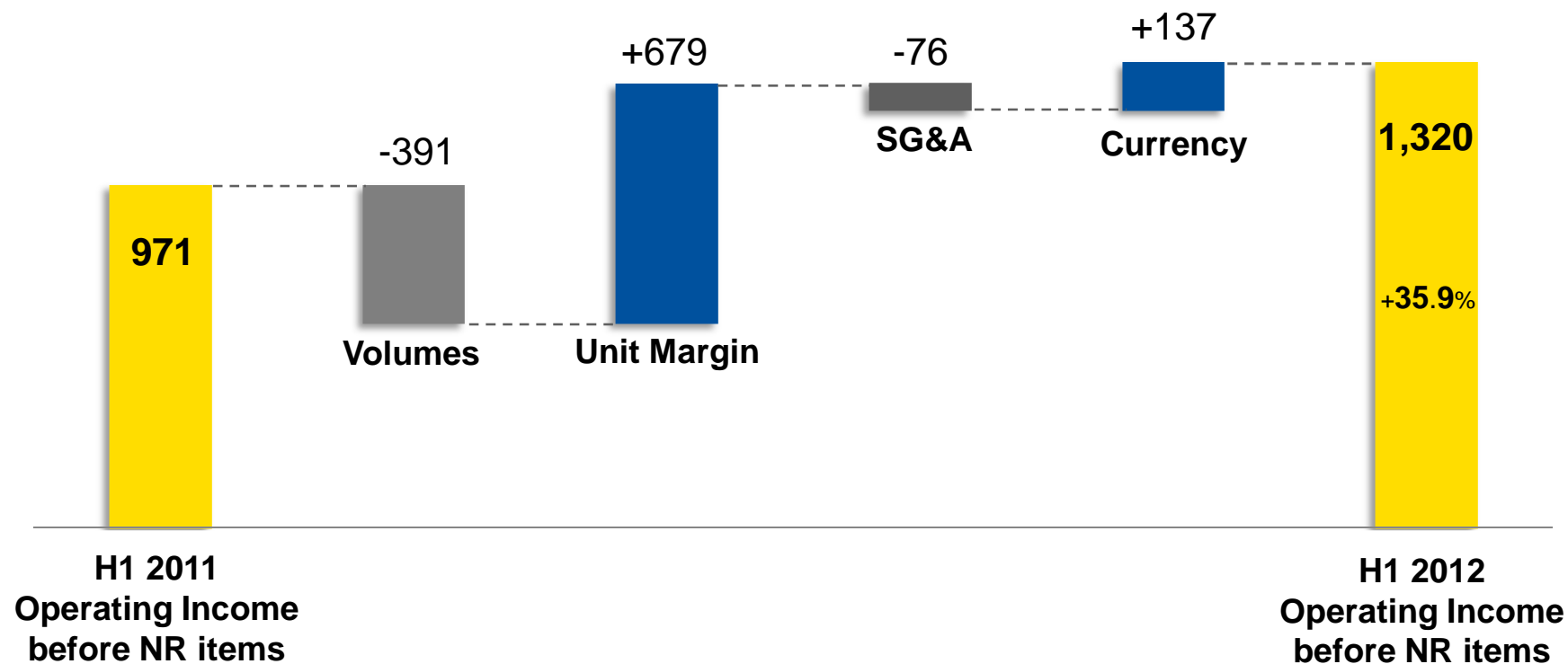




# Growth in Operating Income Led by an Improved Unit Margin

## YoY change

(in € millions)

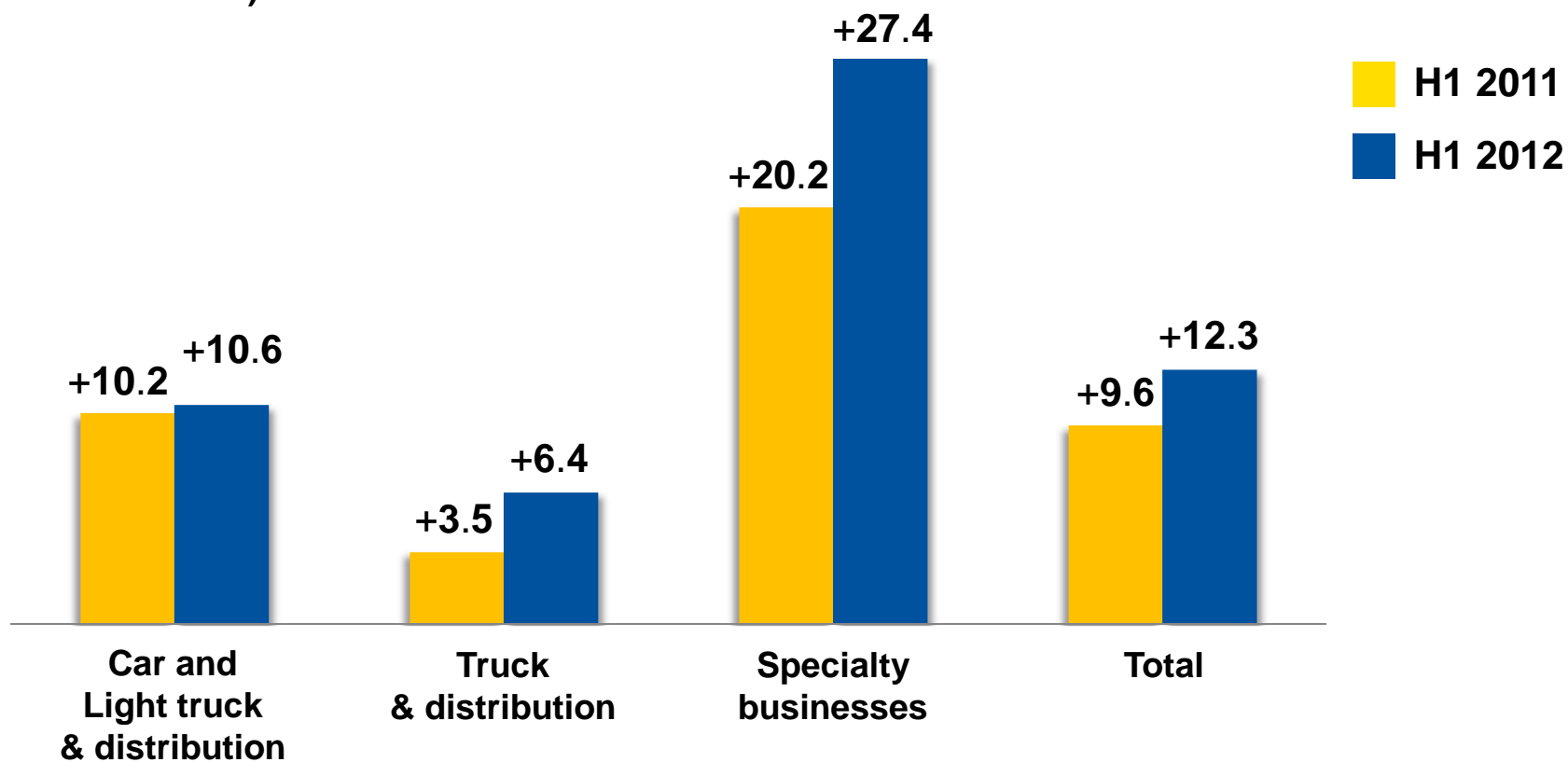




# Operating Margin Up in Every Business

## Operating margin before non-recurring items

(as a % of net sales )





# 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*



# 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**

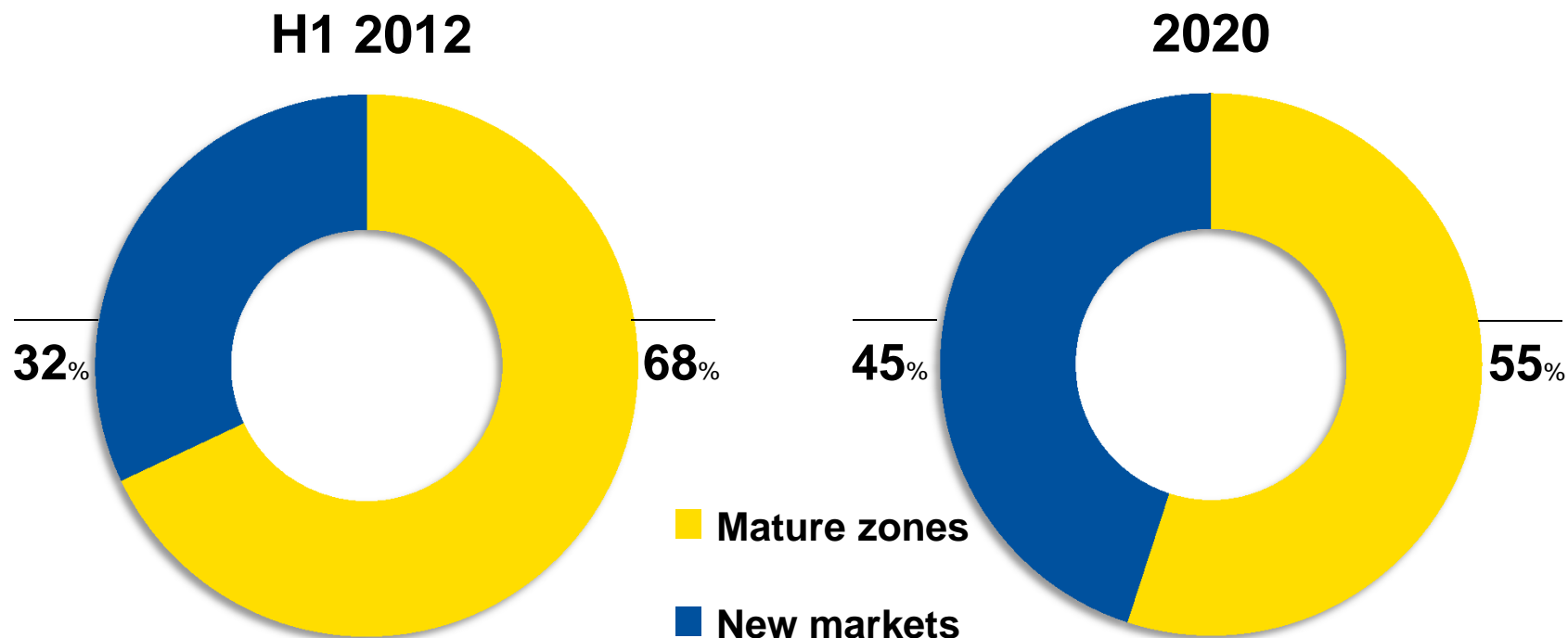




# A Balanced Global Presence, Increasingly Oriented Towards the New Markets

## H1 2012 net sales by region

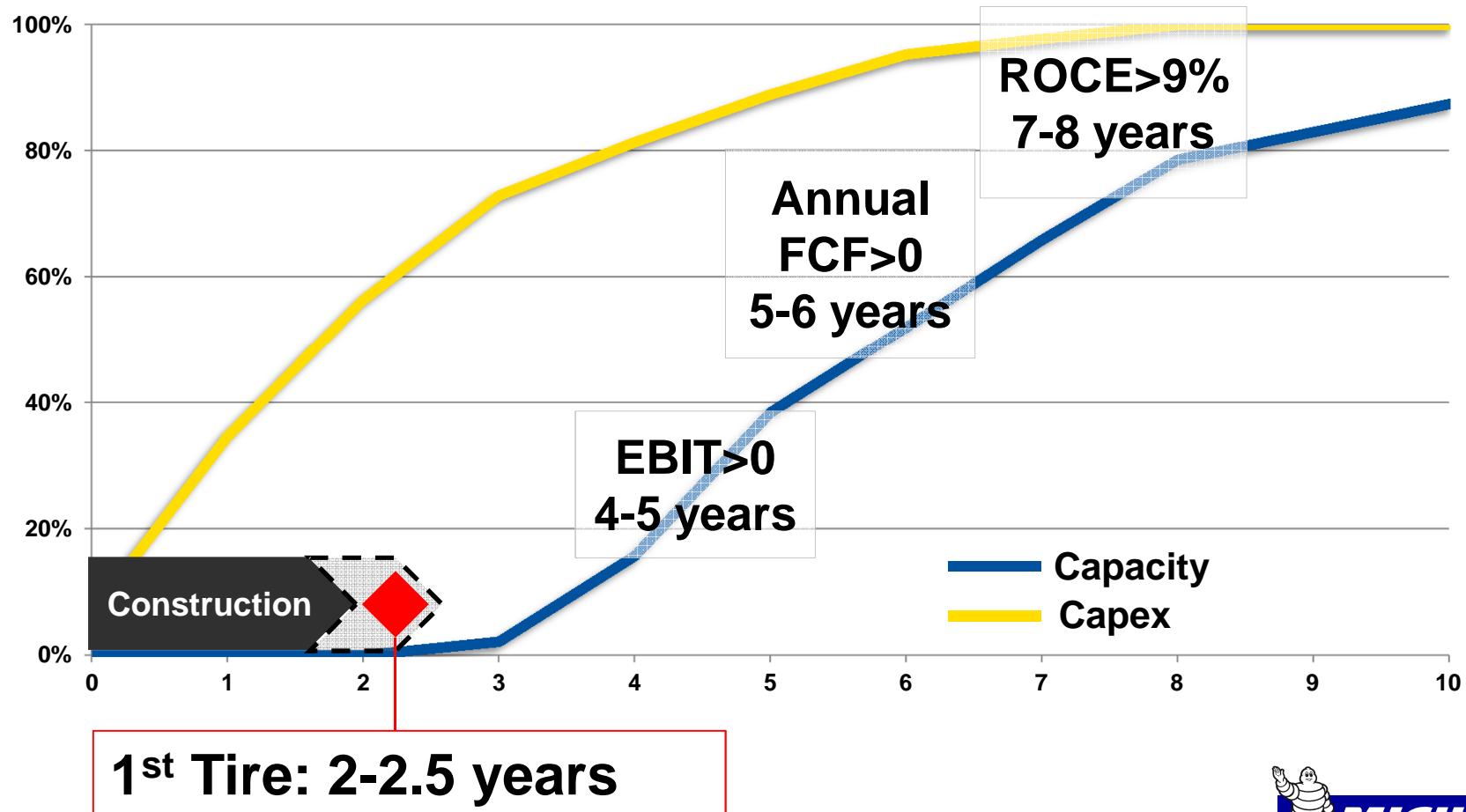
(% of total net sales in €)





# Towards a profitable growth

## Return on a 200 KT greenfield project

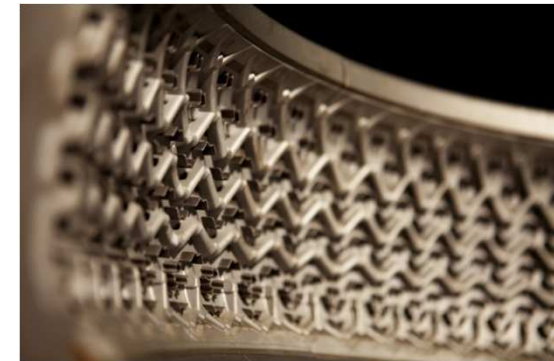
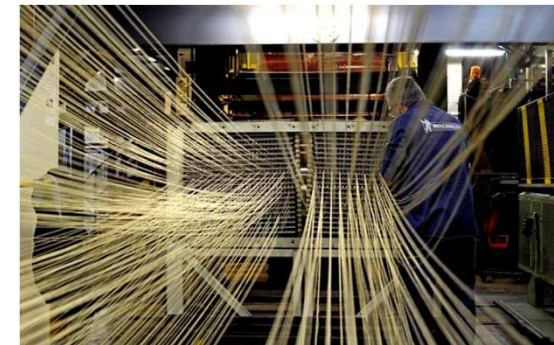




# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ■ 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

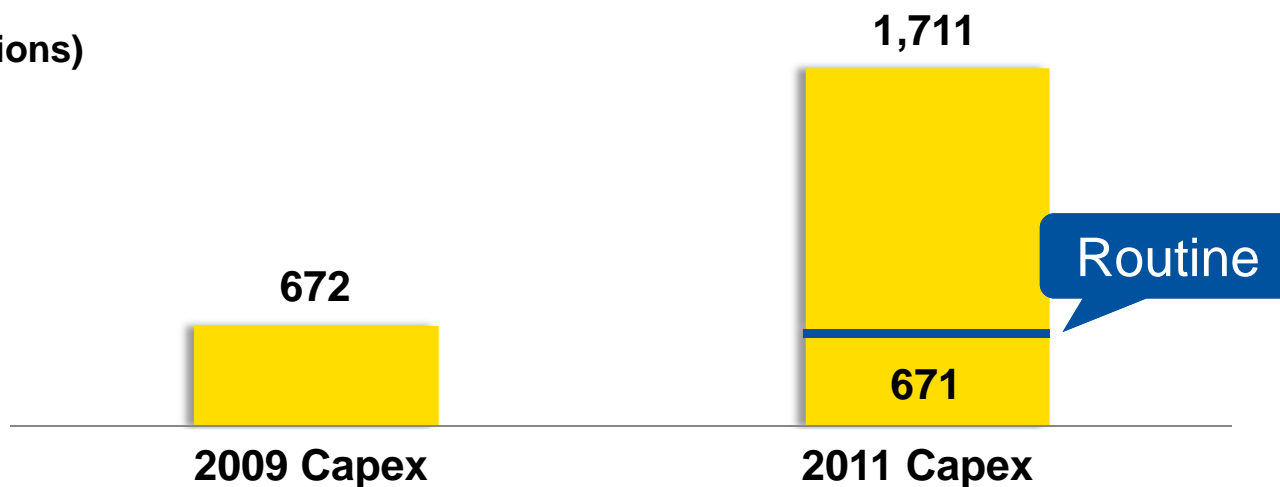




# Demonstrated Ability to Manage Capex

- Routine capex = ~ €700m/€750m
- Sustained careful management of growth capex according to market outlook
  - *2009 demonstrated this capability*

**Capex**  
(in € millions)





# **Net Sales at September 30, 2012**

# 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



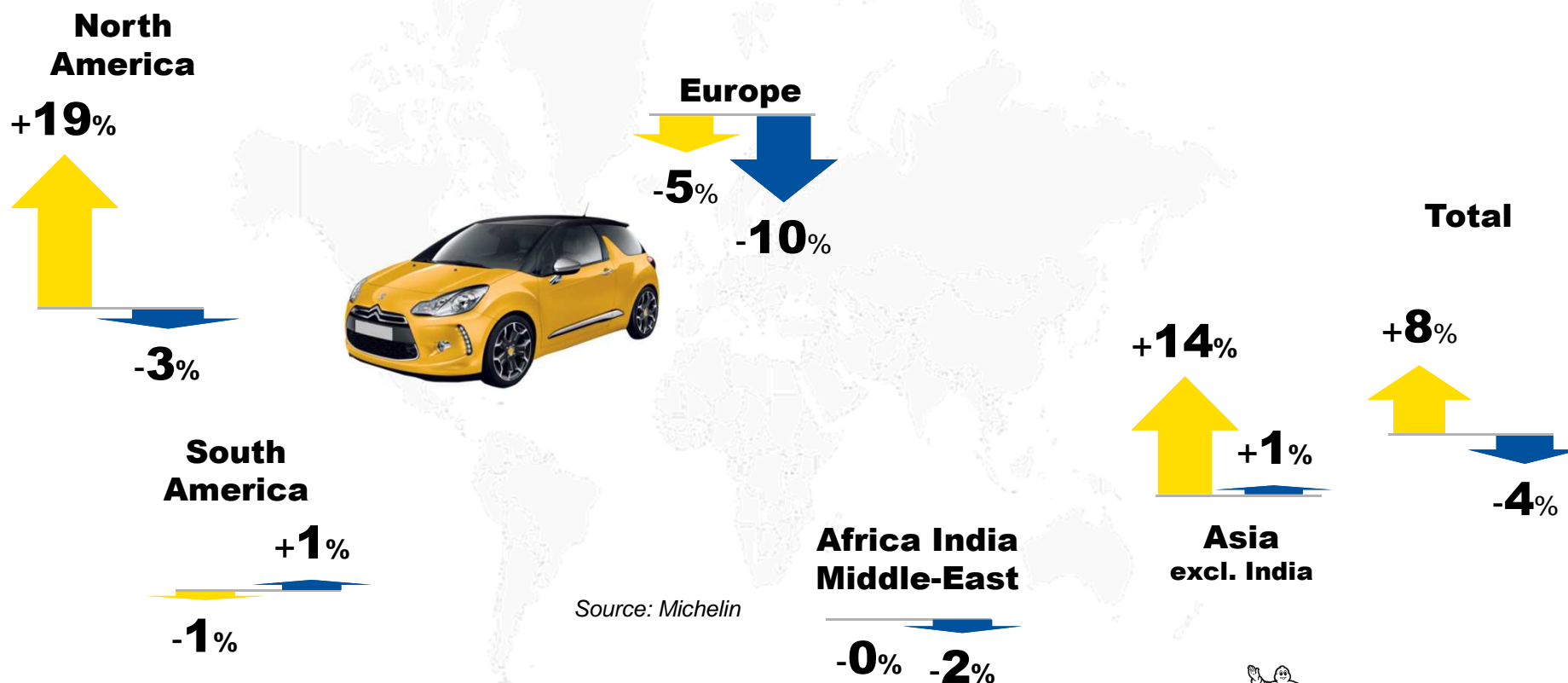


# Passenger car and light truck tires: unfavorable economic environment, especially in Europe

## 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



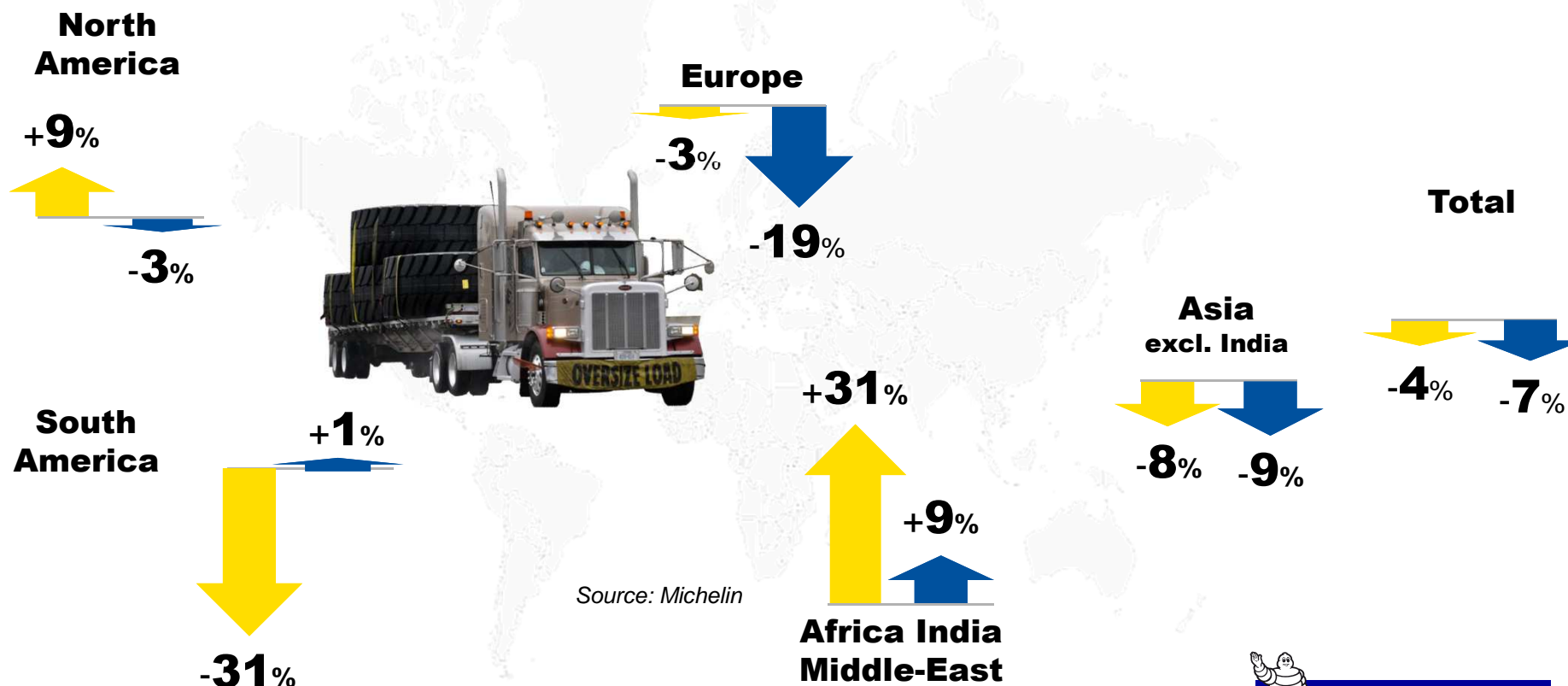


# Truck tires: unfavorable economic environment, especially in Europe

## 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

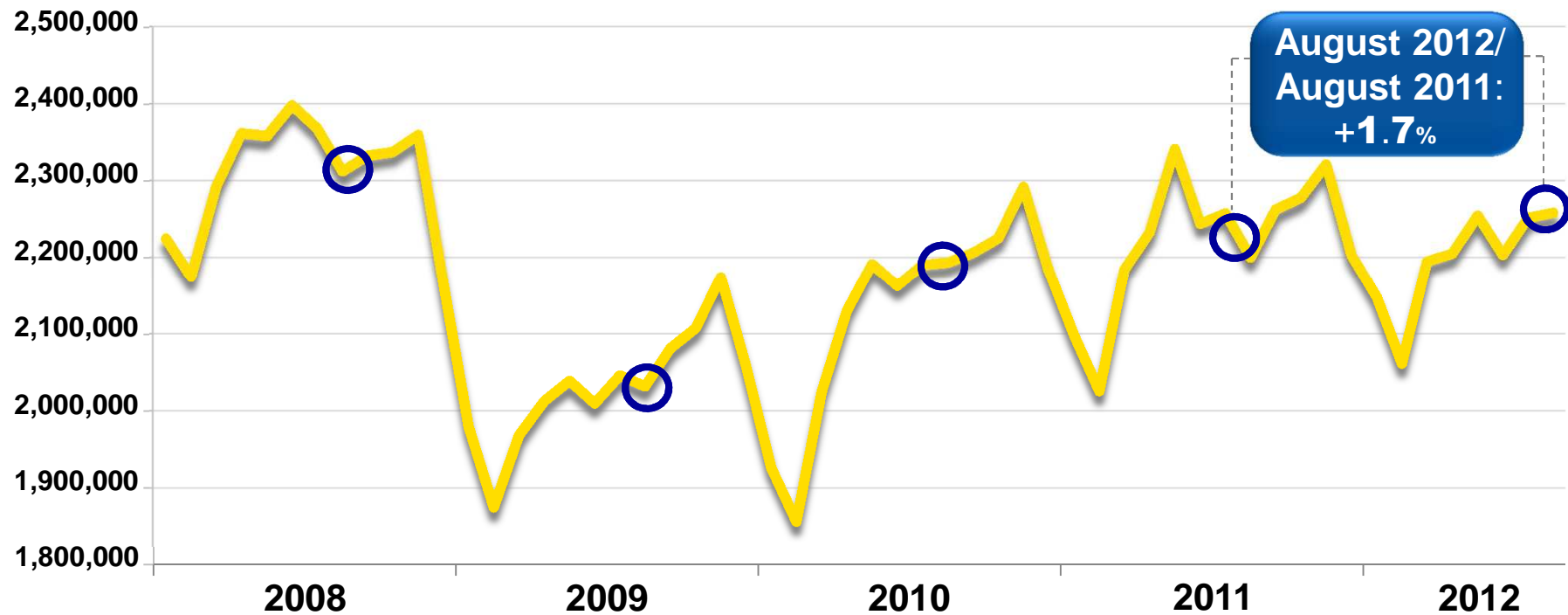




# German freight still lagging 2008 levels

## German freight (rolling 3 months)

(Freight kilometers driven in Germany, in thousands)



Source: Bundesamt für Güterverkehr

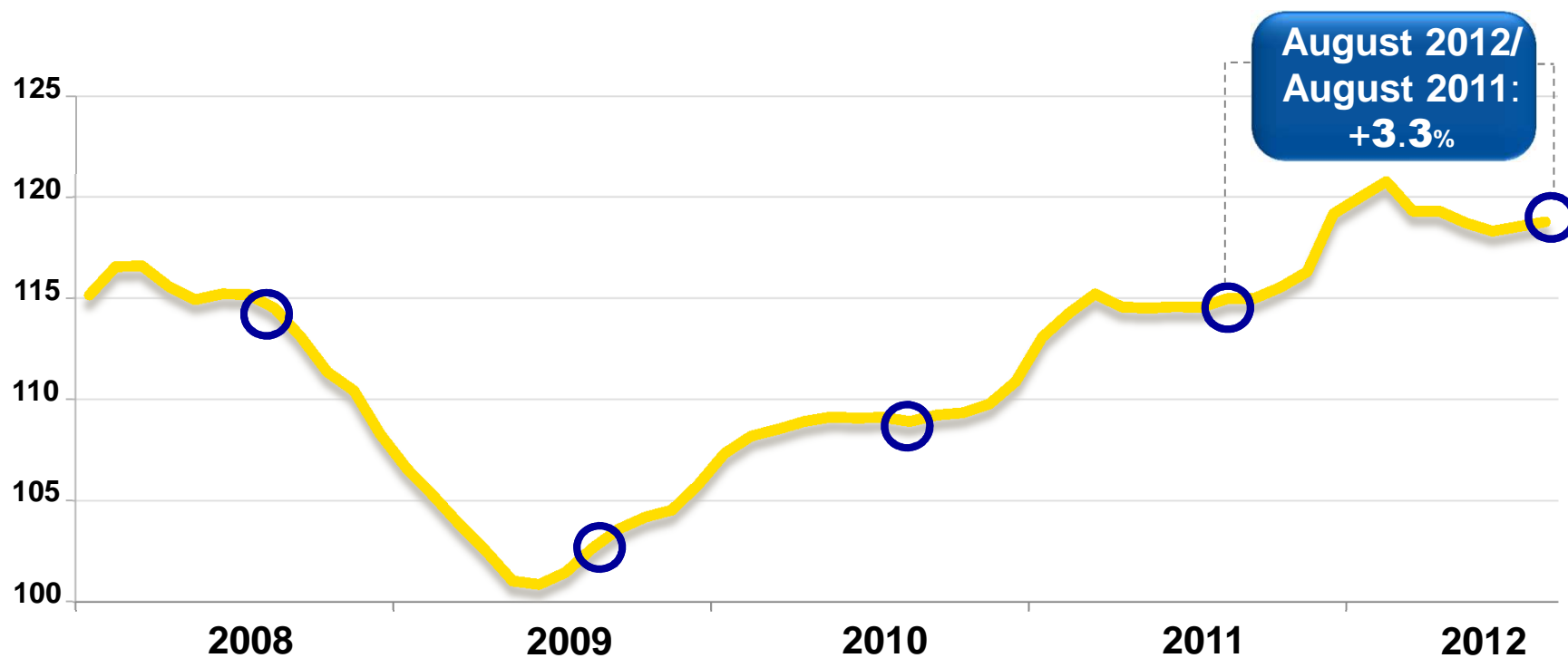




# US freight outpacing 2011 and 2010

## US freight (rolling 3 months)

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



Source: ATA Truck Tonnage Index

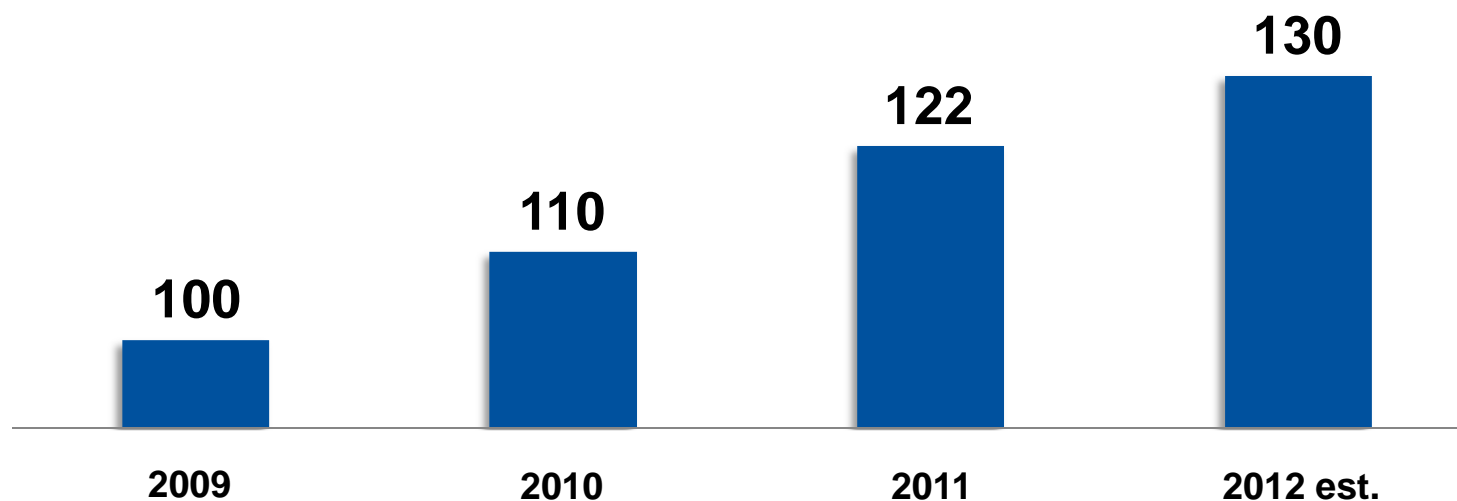




# Specialty tires: robust mining demand

## Mining tire market

(In tonnes, base 100 in 2009)



Source: Michelin







02

## Net sales in line with expectations

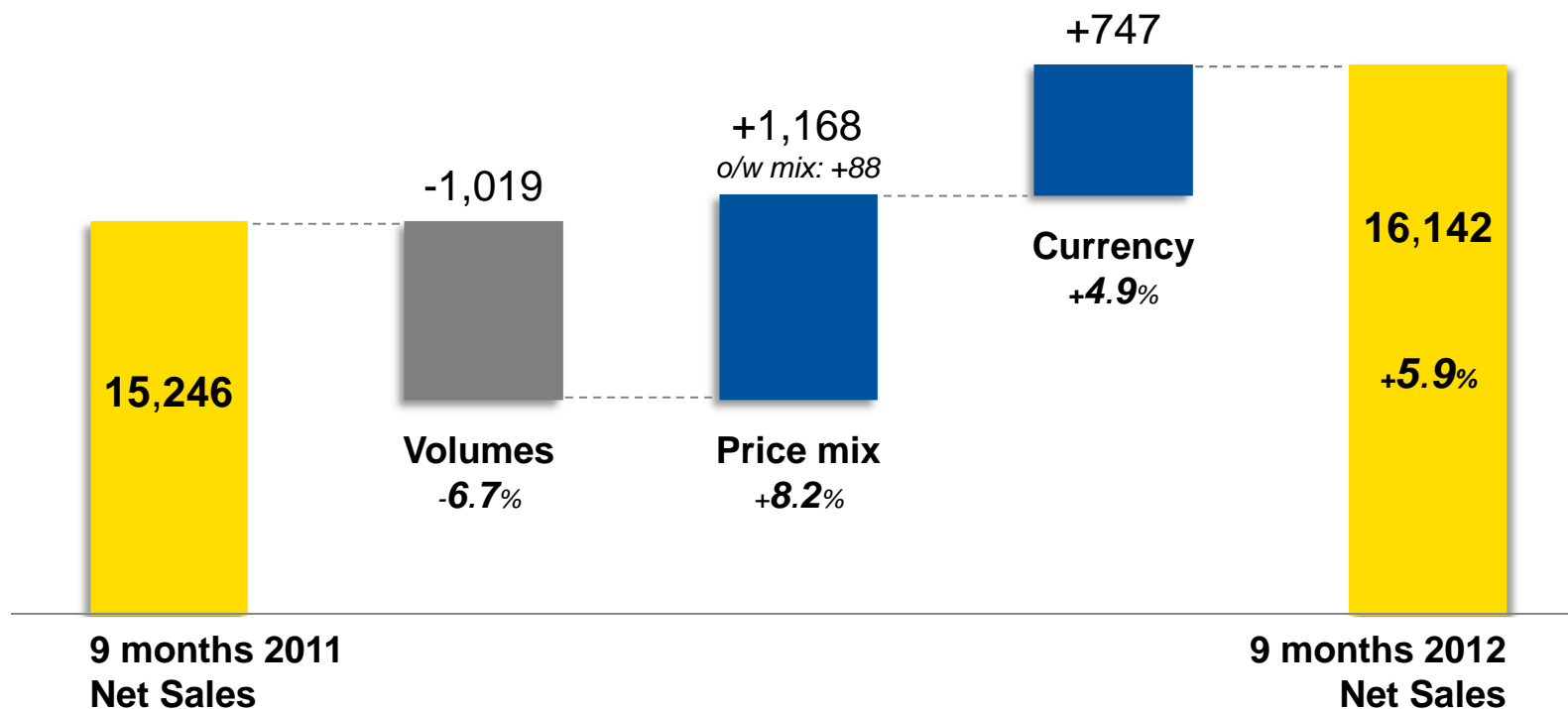




# Growth in net sales led by sustained favorable price mix

## YoY Change

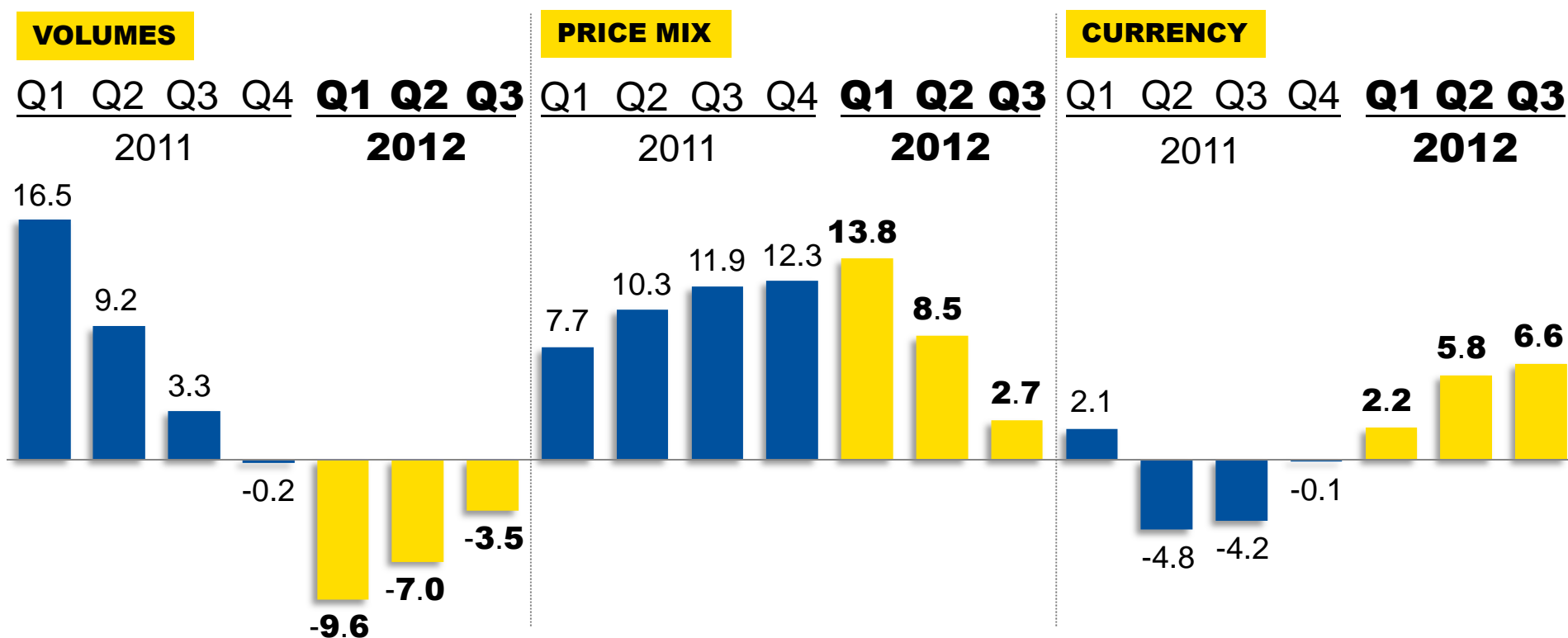
(in € Millions and as a % of Net Sales)





# 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<br>2012 | 9 months<br>2011 | % Change     |
|------------------|------------------|------------------|--------------|
| <b>Net sales</b> | <b>8,298</b>     | 7,916            | <b>+4.8%</b> |
| 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<br>2012 | 9 months<br>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<br>2012 | 9 months<br>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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## Investor Relations

**Valérie Magloire  
Alban de Saint Martin**

**+33 (0) 1 78 76 45 36**

**27, cours de l'île Seguin  
92100 Boulogne-Billancourt - France**

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





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