



# CONFERENCE EQUIPEMENTIERS AUTOMOBILE KEPLER

**June 6, 2012**



# OUTLINE



01

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**Q1 Net Sales:  
Impact of the 2011 Pricing Policy**

02

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**Markets as at April 2012:  
Mixed but Still Down Overall**

03

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**Michelin's Competitive advantages**

04

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**Outlook**





01

# Q1 Net Sales: Impact of the 2011 Pricing Policy





## Q1 Volumes Confirm the Seasonal Trends Expected in 2012

- **Markets down overall, with a contrast between:**
  - *Passenger car & light truck and truck tires, where demand weakened as expected, especially in truck tires and in Europe*
  - *Specialty businesses, which remain buoyant*
  
- **Sales volumes particularly impacted by:**
  - *A high basis of comparison with first-quarter 2011, when volumes were boosted by sales ahead of price increases, for which Michelin was the forerunner*
  
- **Sharp improvement in the price-mix:**
  - *Impact of 2011 price hikes and raw materials indexing clauses*
  - *Positive mix*

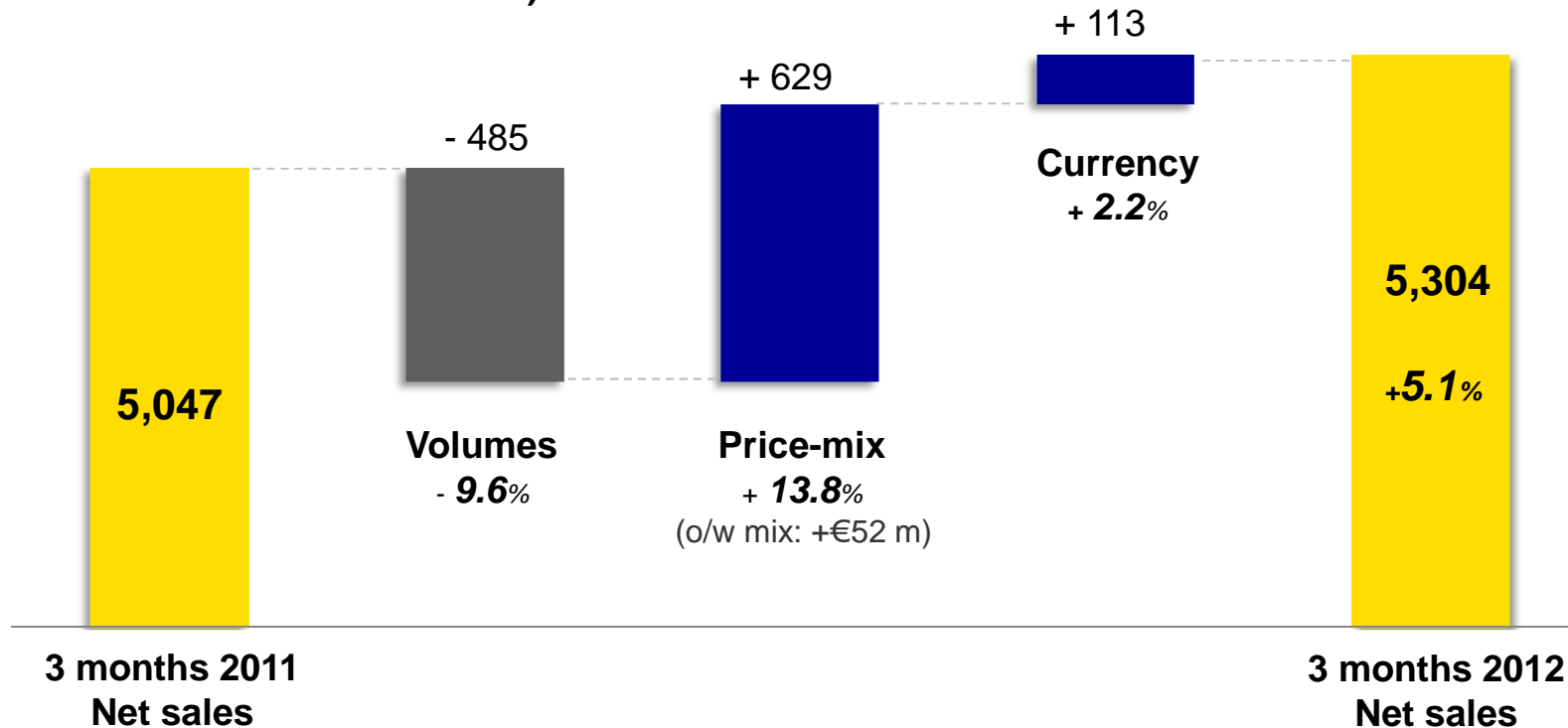




# Growth in Net Sales with the Price Mix Amply Offsetting the Decline in Volumes

## YoY change

(in € millions and % of net sales)





02

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# Markets as at April 2012: Mixed but Still Down Overall

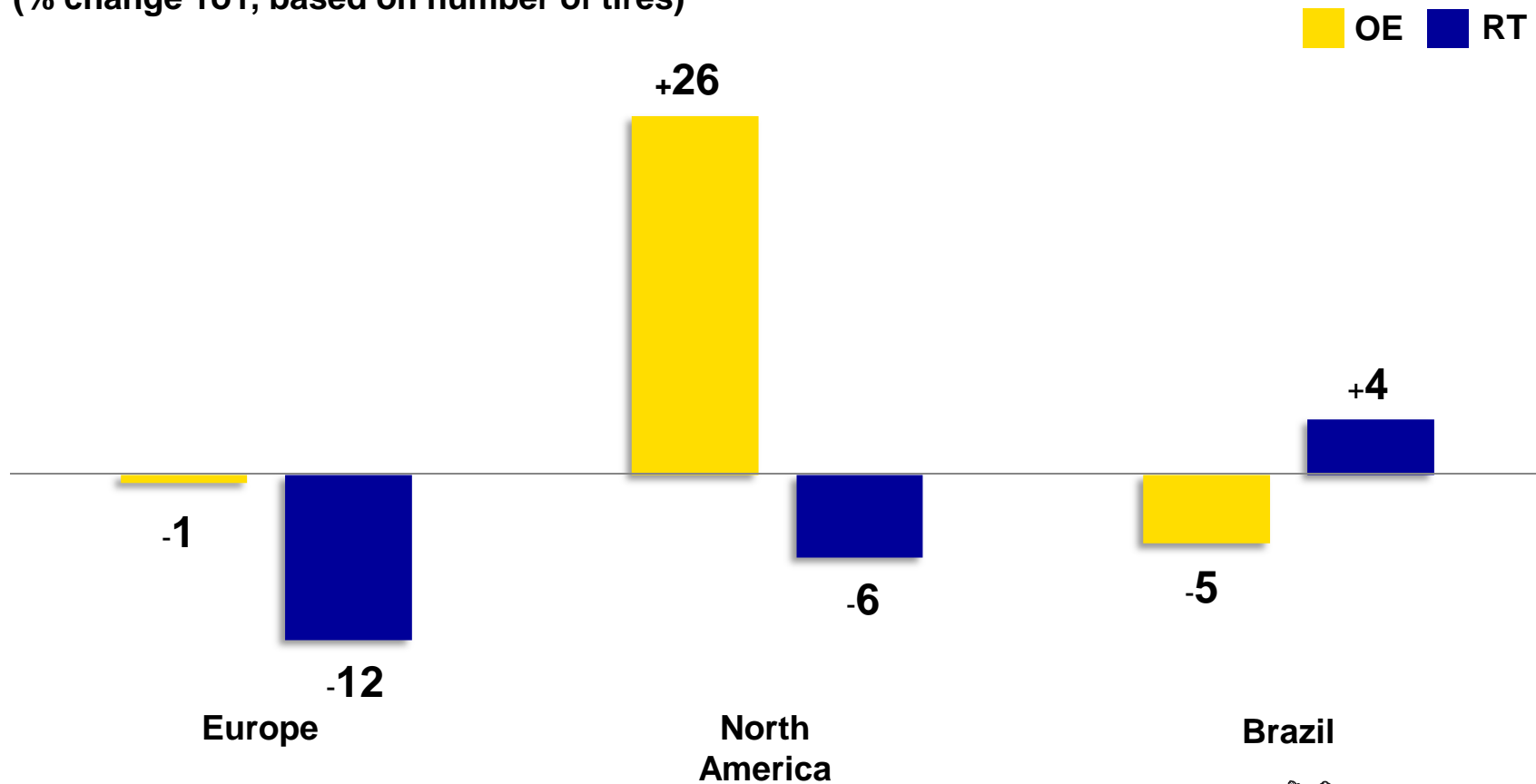




# PCLT: RT Sales Dampened by Inventory in Q1 2012 Drawdowns Compared with Buildup in Q1-2011

## Markets at April 30, 2012

(% change YoY, based on number of tires)



Source: Michelin

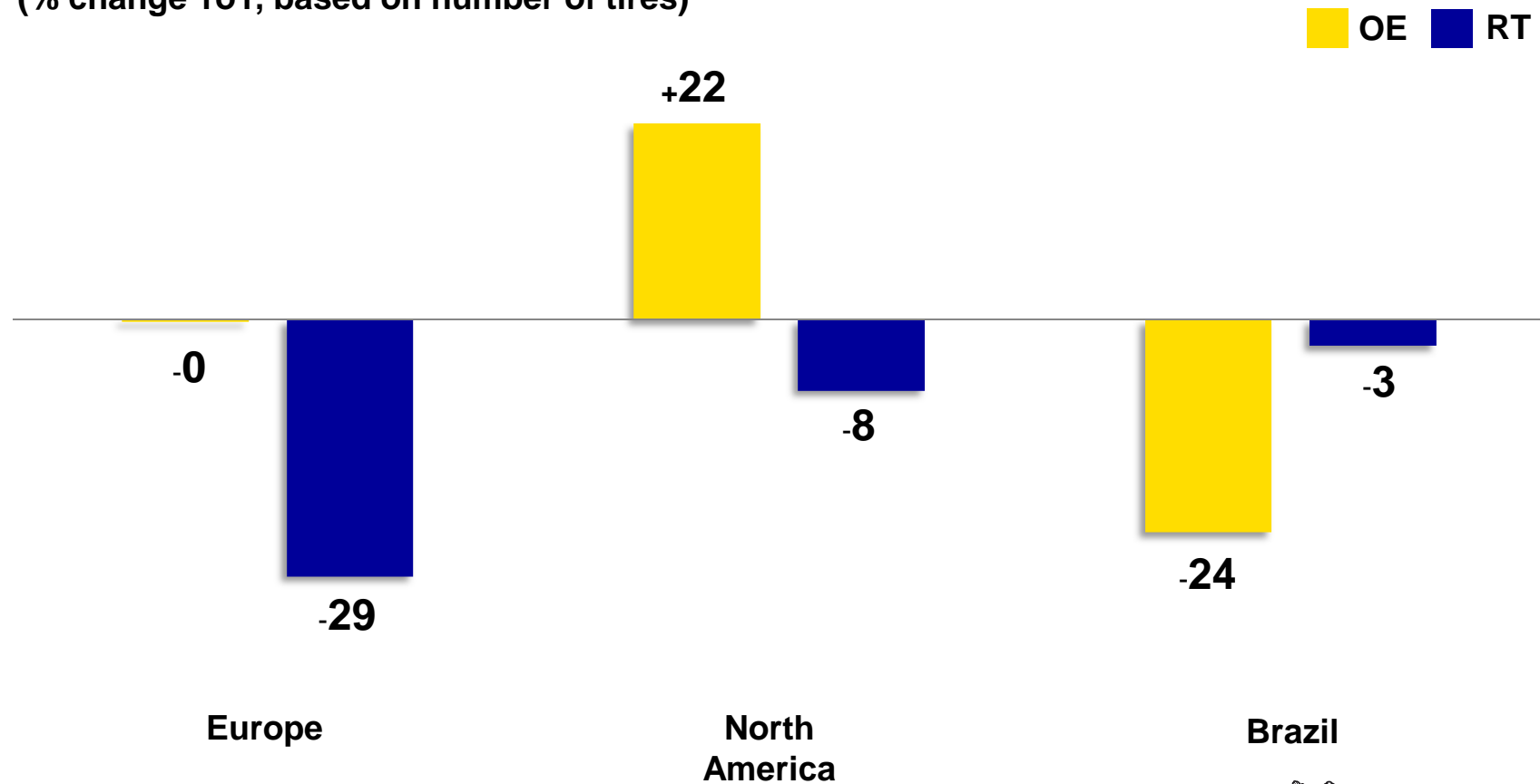




# Truck Tires: Steep Fall-Off in Europe

## Markets at April 30, 2012

(% change YoY, based on number of tires)



Source: Michelin



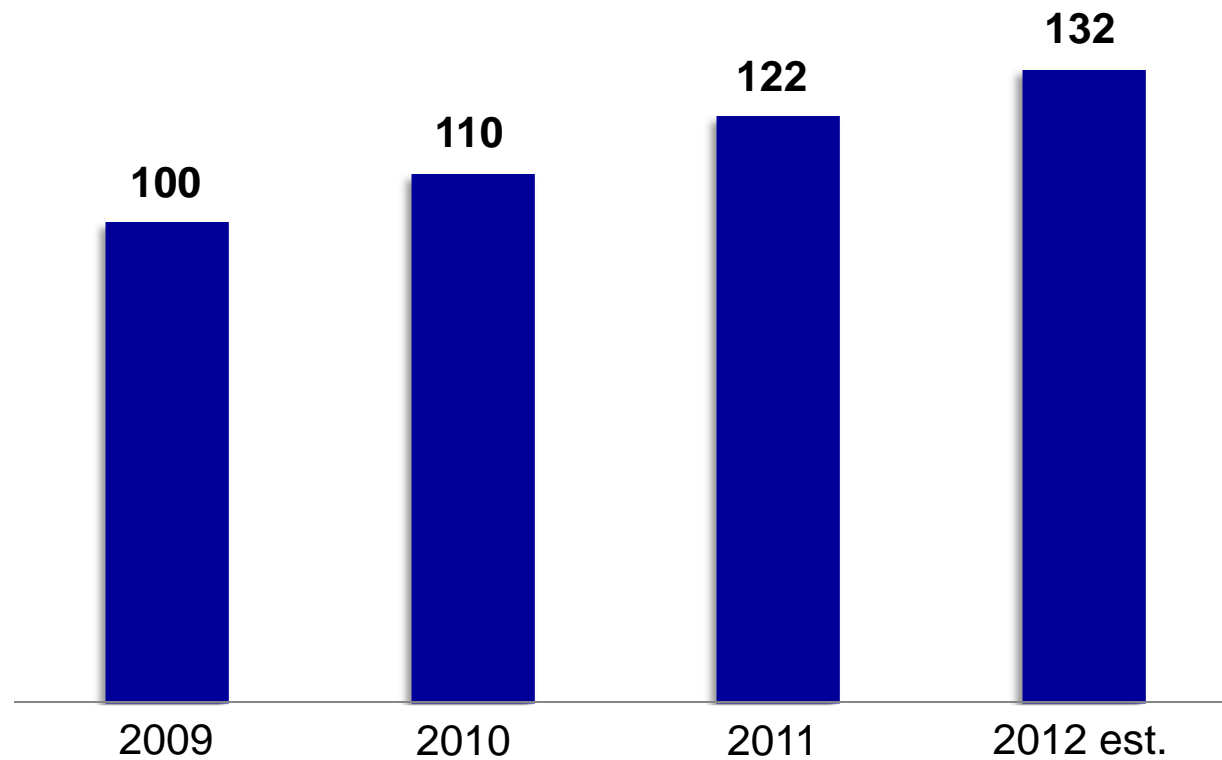




# Specialty Businesses: Sustained Growth

## Mining Tire Market

(In tonnes, base 100 = 2009)



Source: Michelin





03

# Michelin's Competitive Advantages





# Two Core Competitive Advantages

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## Specialty Businesses

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## Leadership in the Premium Segment



# Michelin is the Market Leader in Every Specialty Tire Business

Business	Leading tiremakers	Market leader
Earthmover		in radials
Mines	Bridgestone	(co-leader)
OE	Bridgestone	(co-leader)
Infrastructure	Bridgestone, Goodyear Yokohama, Chinese	
Agricultural		in Europe
OE	Firestone	in Europe
RT	 Firestone, Titan / Goodyear, Trelleborg, BKT	 in Europe
Two-Wheel Mature markets	Pirelli/Metzeler, Bridgestone, Dunlop	(co-leader)
Aircraft	Goodyear, Bridgestone , Dunlop	





# Earthmover Tires: Clear Sales Growth and Margin Visibility

- Technological barriers to entry
- Multi-year contracts offer clear visibility for:
  - *Sales trends: sustained growth in mining markets*
  - *Margin trends: long term contracts with raw materials indexation clauses*
- Steadily increasing capacity, keeping pace with demand
  - *Adding marginal capacity*
  - *Earthmover tire facility at the Indian plant*
  - *New plant in South Carolina*





# Two Core Competitive Advantages

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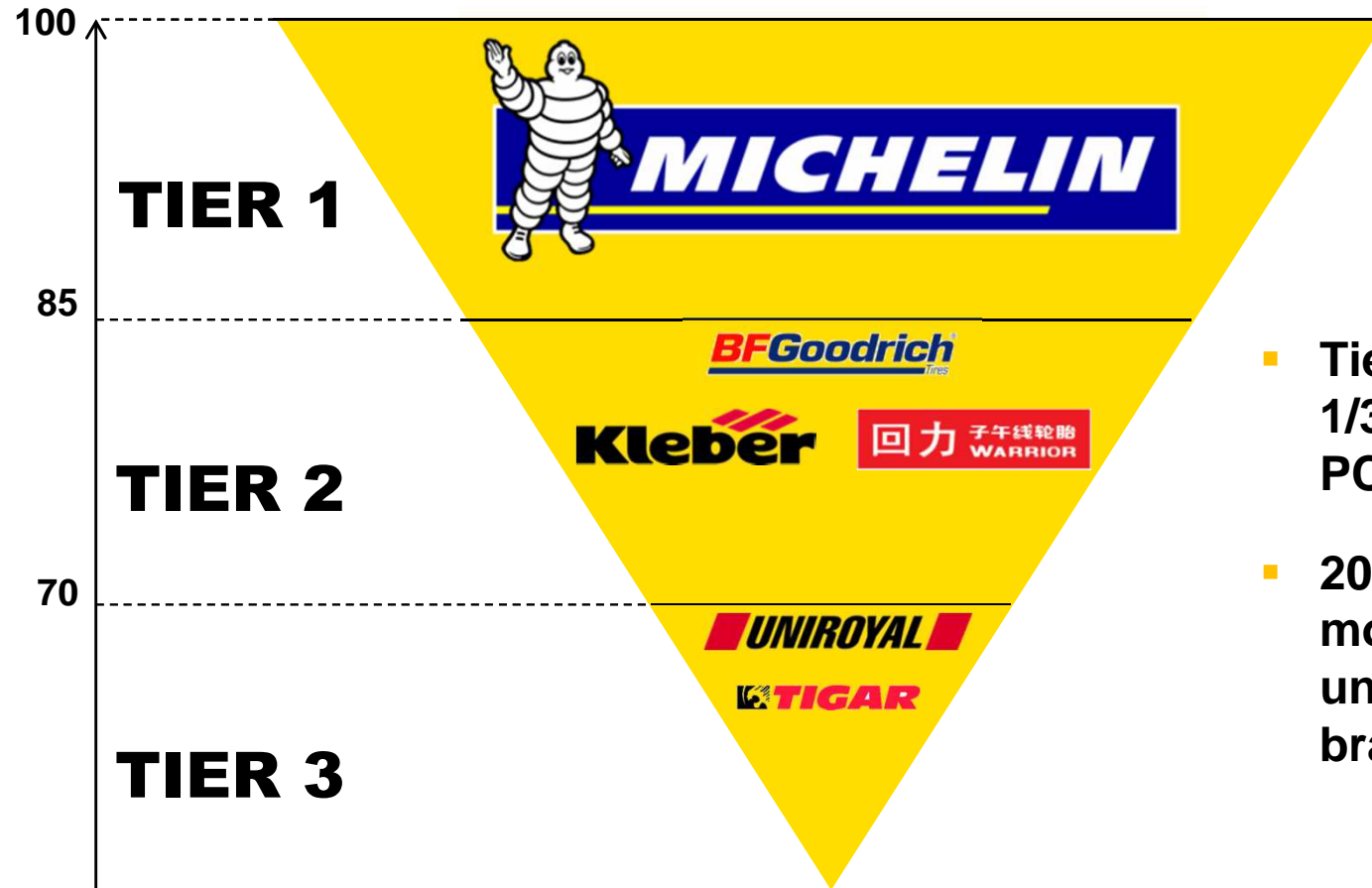
Specialty Businesses

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Leadership in the Premium Segment



# MICHELIN: a 100% Premium Brand in Every Market



Price positioning  
(100 = Michelin)

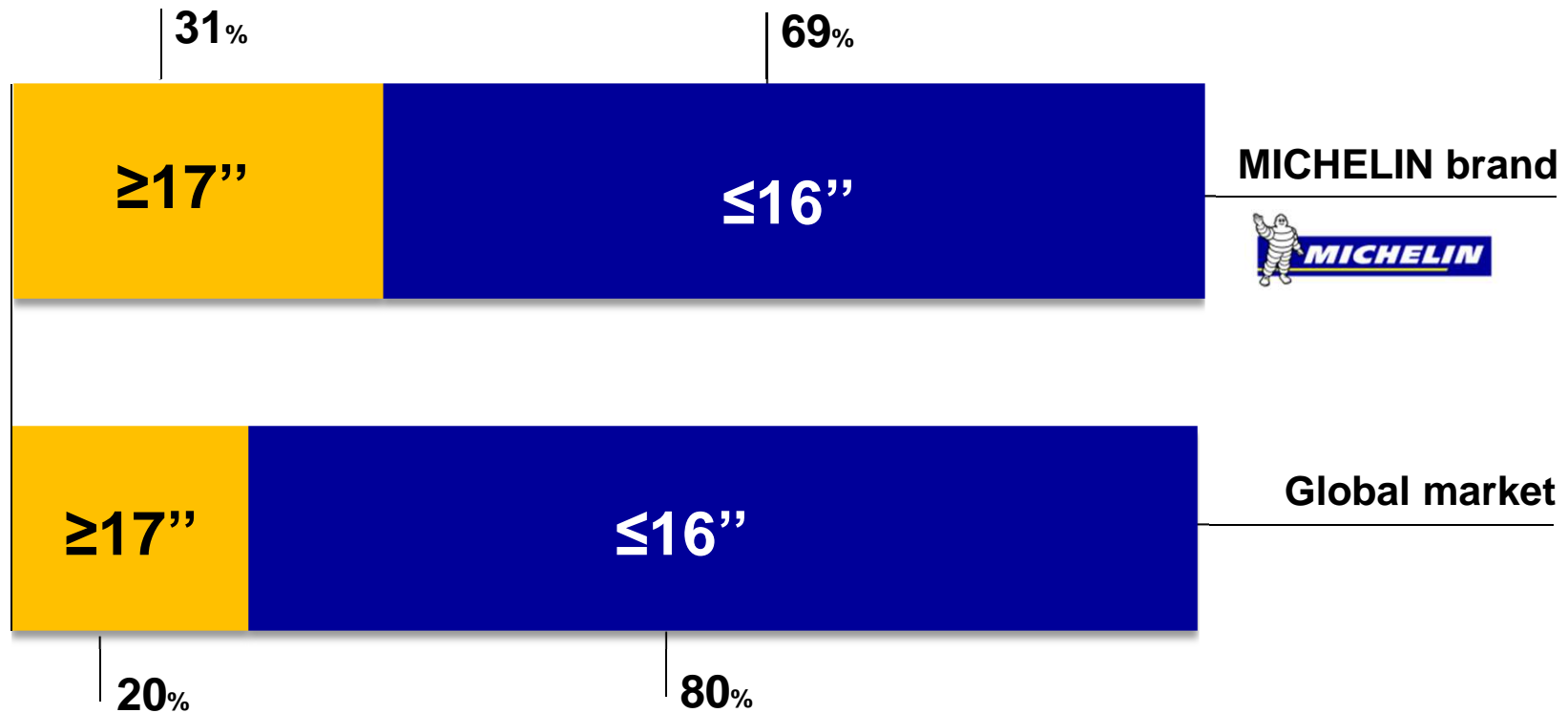
- Tier 1 segment: 1/3 of the global PC/LT tire market
- 2011 sales: more than 70% under the MICHELIN brand





# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

## Share by PC/LT tire seat size

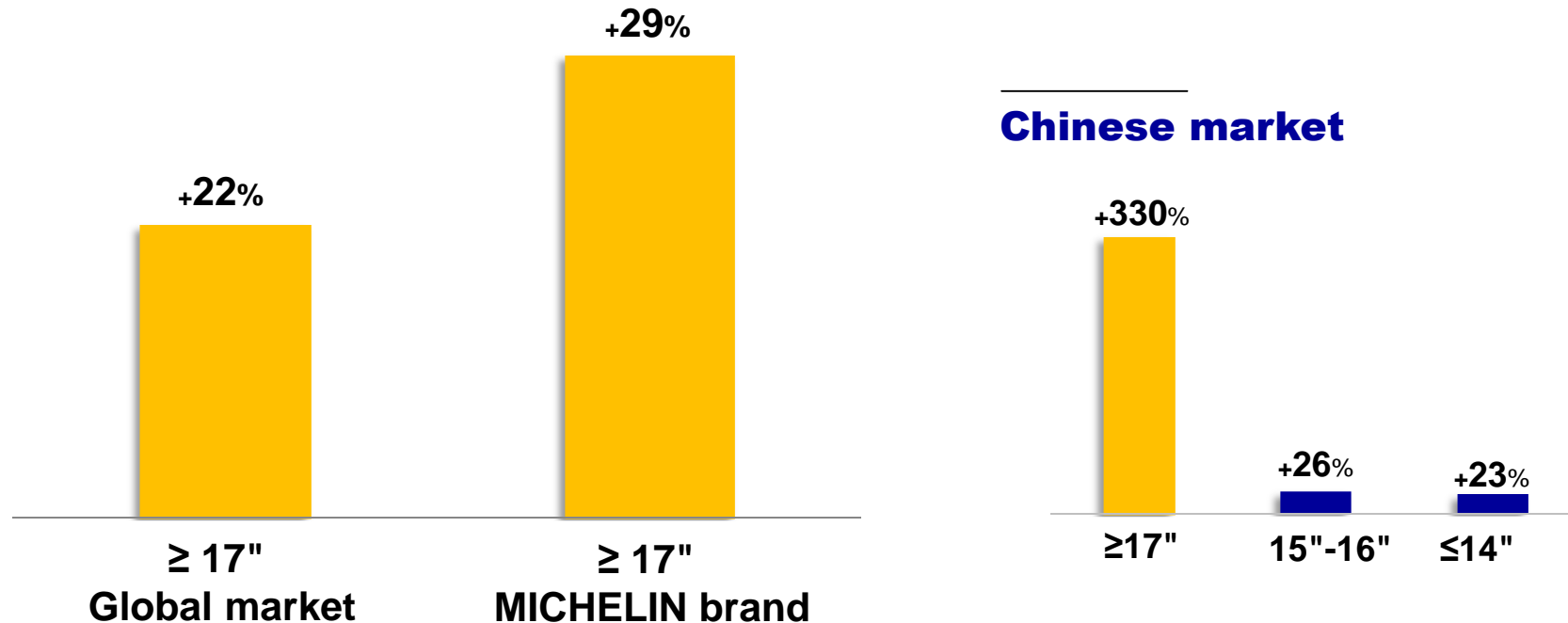






# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

## 2009 – 2011 CAGR by seat size



Source: Michelin





## Solid Drivers to Support Sustainable Leadership

- **The preferred brand of premium tirebuyers**
  - *According to surveys of customer perceptions and purchase intentions*
- **Technology carmakers want**
  - *Approved for use on premium brands and models*
- **Performance recognized by specifiers**
  - *Example: 66<sup>th</sup> JD Power Award since 1989*
- **Leading-edge product plan**

➔ **Solid competitive advantages to capture faster growth in the premium segment**





04

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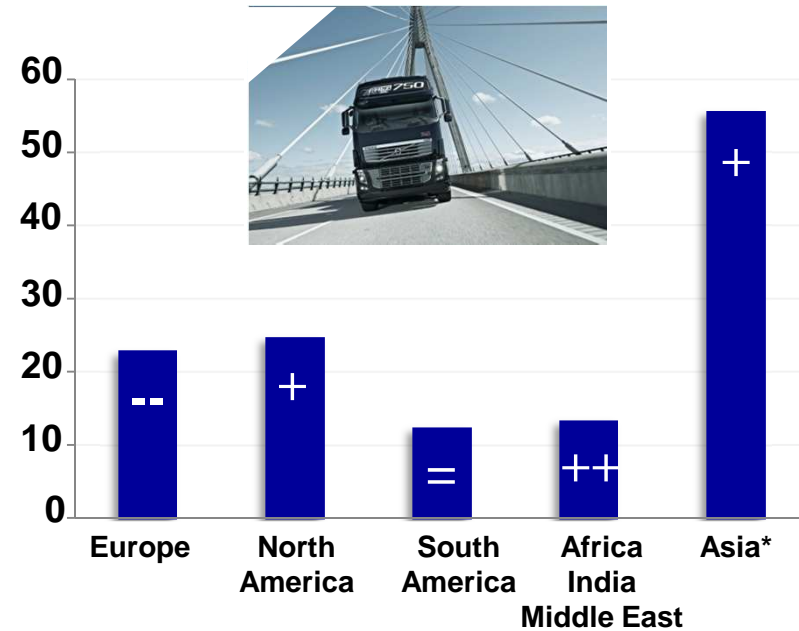
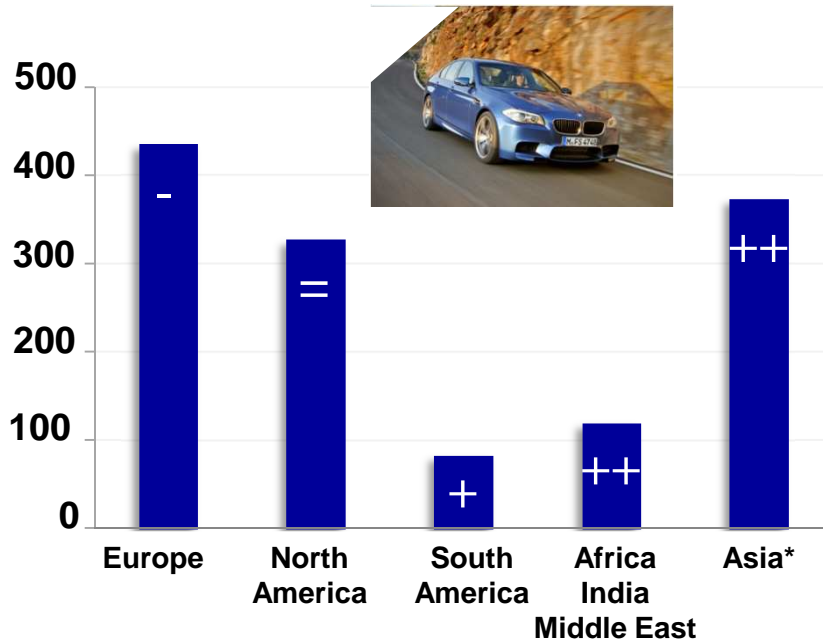
# Outlook





# Market Trends: Michelin will Benefit from its Global Exposure

## 2011 PC/LT & truck markets and 2012 outlook (in millions of tires)



++ : > +3%  
 + : ] +1%; +3%  
 = : [-1%; +1%  
 - : [-3%; -1%[  
 -- : < -3%

\* Excl. Japan





# German Freight Tonnage runs ahead of 2010 & 2011 levels

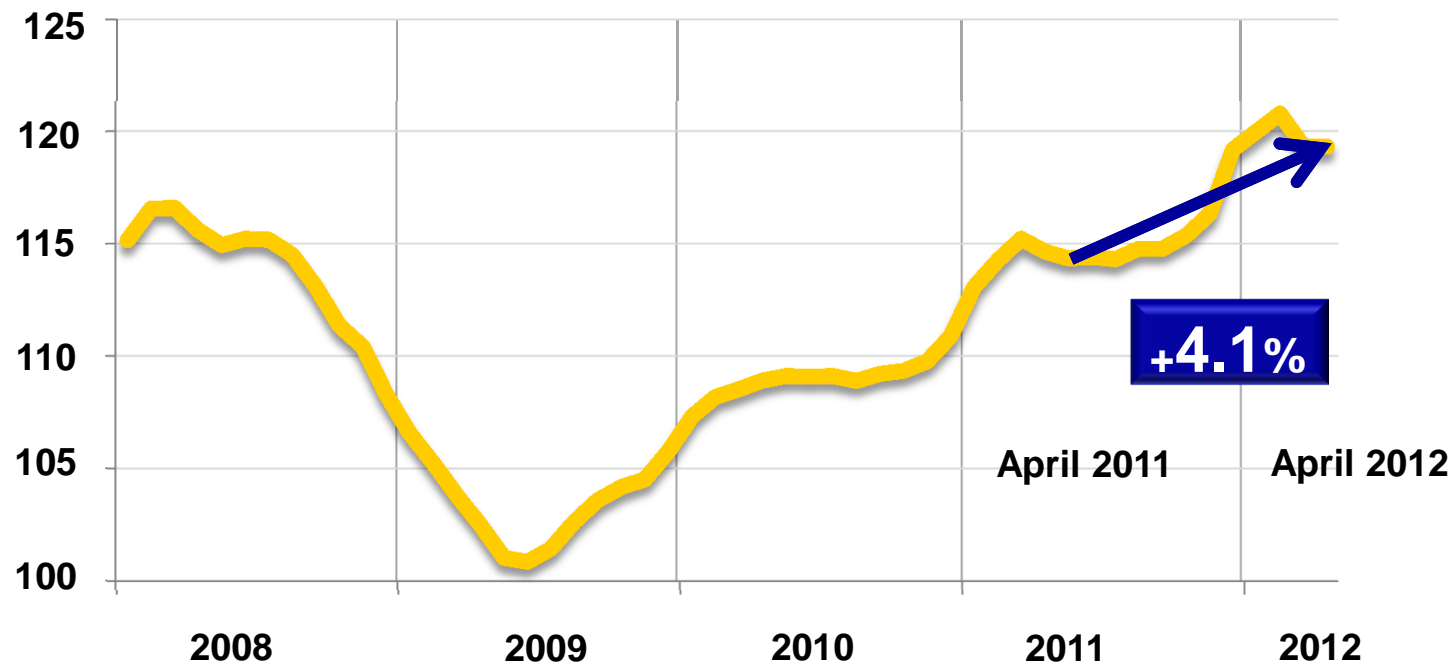
**Freight Mileage on German roads in thousands of km – (rolling 3-months)  
January 2008 – March 2012**





# US Freight Tonnage runs ahead of 2008 level

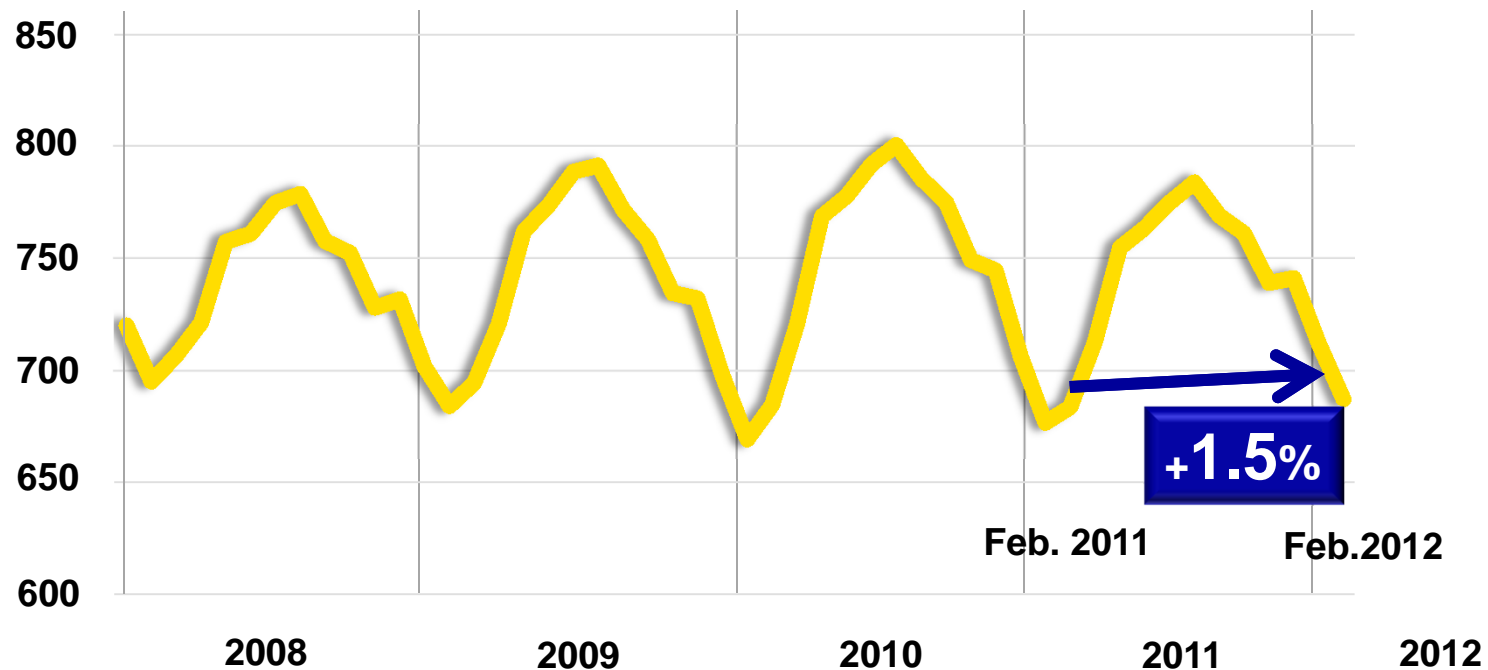
## Truck Tonnage Index in the United States (rolling 3-month) January 2008 – April 2012





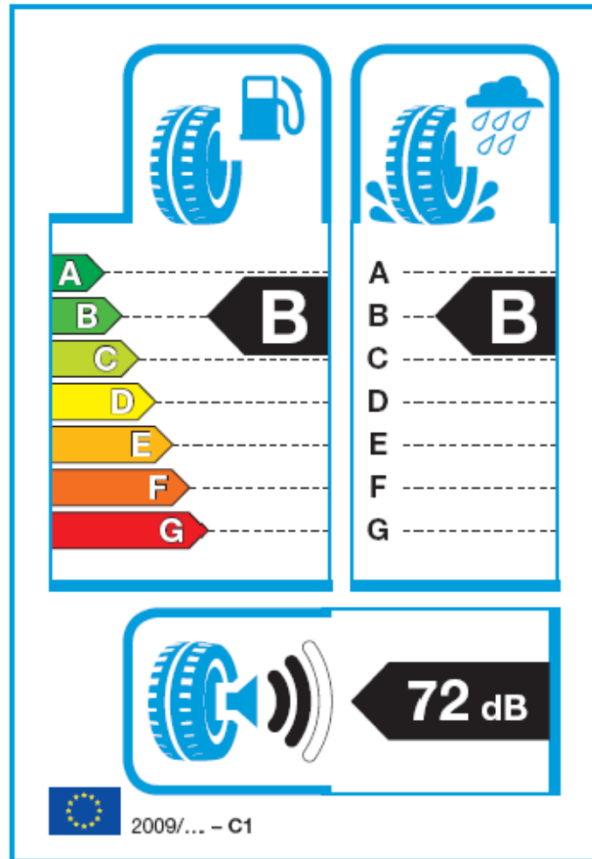
# US miles driven more supportive

Number of Miles Driven (rolling 3-months) January 2007 – February 2012





# Tire Performance Evaluation System in Europe



Label

- Performance thresholds in 3 areas:
  - *Rolling resistance*
  - *Wet grip*
  - *Noise*
- **Classes**
  - *A-B-C-E-F-G*
  - *Current Excellent class = C*
- **Implementation > 2012**
- **Thresholds scheduled to be lowered > 2016**







# Regulation to be gradually introduced

## ■ Agenda

- *Grading :*
  - *Nov 1, 2012: mandatory grading on all tires*
- *Threshold*
  - *Nov 1, 2012: new tire lines*
  - *Nov 1, 2013: new tire lines + tires on new cars*
  - *Nov 1, 2014: all tires*

## ■ Initial impacts

- *Better education of end-user*
- *Marketing tool*





## 2012 Guidance Confirmed

- **Stable volumes**
  - *The 2<sup>nd</sup> half will benefit from a more favorable basis of comparison and the phase-out of inventory drawdowns*
  - *Passenger Car & Light Truck and Truck markets will be weak in Europe, resilient in North America and more vigorous in the growth regions*
  - *Specialty markets will continue to trend upwards*
- **Favorable price effect despite the contractual adjustments coming in July, expected to be downwards**
- **Clear increase in operating income**
- **Ambitious €1,900-million capex program, focused on the technological segments**
- **Positive free cash flow\* after capex and before the impact of the Paris property disposal**

\* *Based on the raw materials headwind assumption (€300-350m)*





## Key Takeaways

- **Stable volumes in 2012 confirmed**
- **Firm prices**
- **Ambitious capex programs focused on the technological segments**
- **Positive 2012 FCF before the property disposal**
- **Premium positioning and Specialty tires are 2 competitive advantages**





# Contacts

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# PC&LT Tires and Distribution: Dealer Destocking and Hesitant Customers in Q1 2012



## Passenger Car and Light Truck

In € millions	Q1 2012	Q1 2011	% Change
<b>Net Sales</b>	<b>2,760</b>	2,683	<b>+2.9%</b>
Volume growth	-8.9%		

- **Volume growth dampened by:**
  - *High prior-year comparatives due to the price increases starting as early as April 2011*
  - *Sustained dealer inventory drawdowns*
  - *Hesitant markets*
- **Full impact of the 2011 pricing policy and the premium strategy**





# Truck Tires and Distribution: in Q1 2012, Firm Prices, Volumes in Line with Market Trends



## Truck

In € millions	Q1 2012	Q1 2011	% Change
<b>Net Sales</b>	<b>1,604</b>	1,606	<b>-0.1%</b>
Volume growth	-16.3%		

- **Volume performance varied by market:**
  - *Europe down, especially in Southern Europe*
  - *Firmer performance in North America*
- **Dealers are drawing down inventory**
- **Assertive strategy of increasing profitability, in particular by improving price positioning**
- **Product plan now being refreshed**





# Specialty Businesses: Sustained Growth, Held Back in Q1 2012 by Lack of Capacity



## Specialty Businesses

In € millions	Q1 2012	Q1 2011	% Change
<b>Net Sales</b>	<b>940</b>	759	<b>+23.8%</b>
Volume growth	+6.2%		

- Firm demand and volumes
- Prices holding steady and still positive impact from raw materials clauses



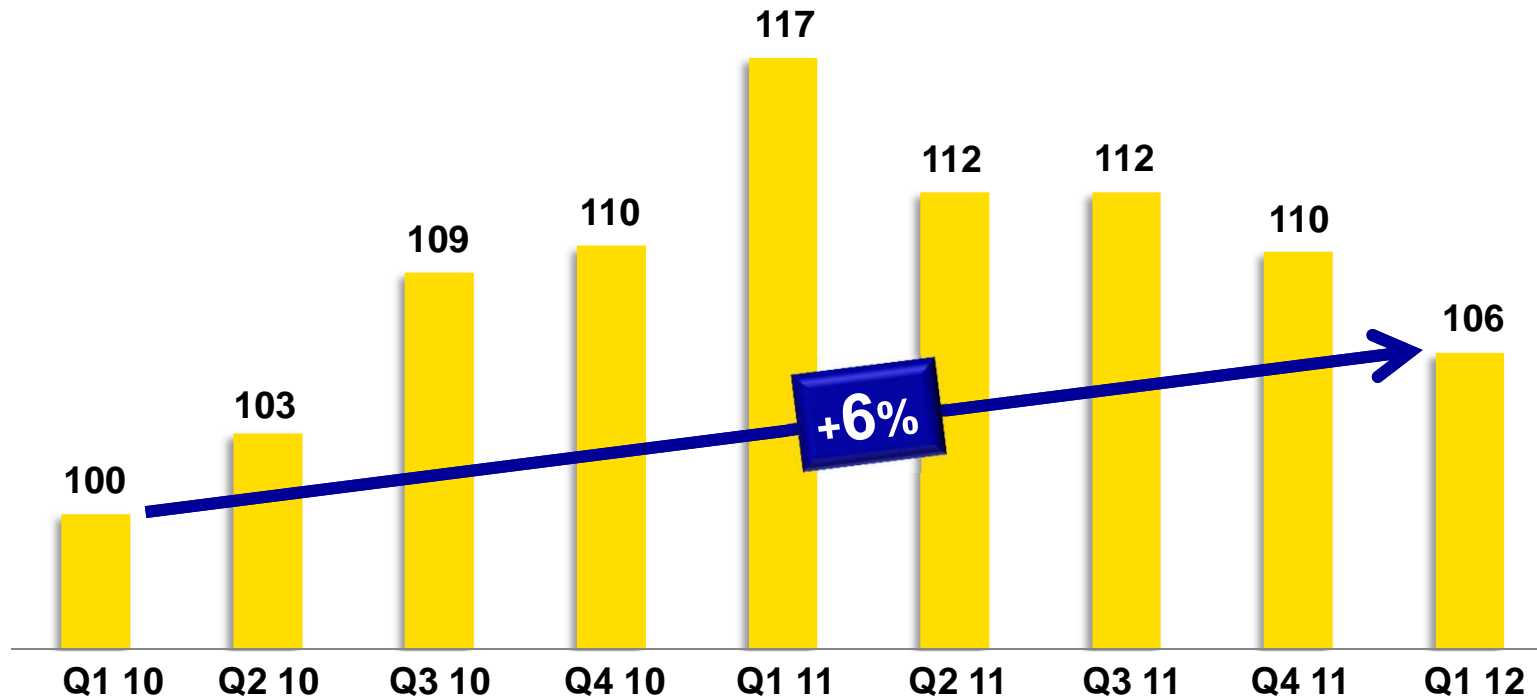




# High Prior-Year Comparatives and Dealer Inventory Drawdowns

## Tonnages sold

(Base 100 = Q1 2010)





# 2011 Financial Highlights

## 2011 & 2010 figures as reported

In € millions	2011	2010
Net Sales	20,719	17,891
Operating Income	1,945	1,695
Operating Margin	9.4%	9.5%
Net Income	1,462	1,049
Investment	1,711	1,100
Net Debt-to-Equity Ratio	22%	20%
Free Cash Flow*	(19)	426
ROCE	10.9%	10.5%

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

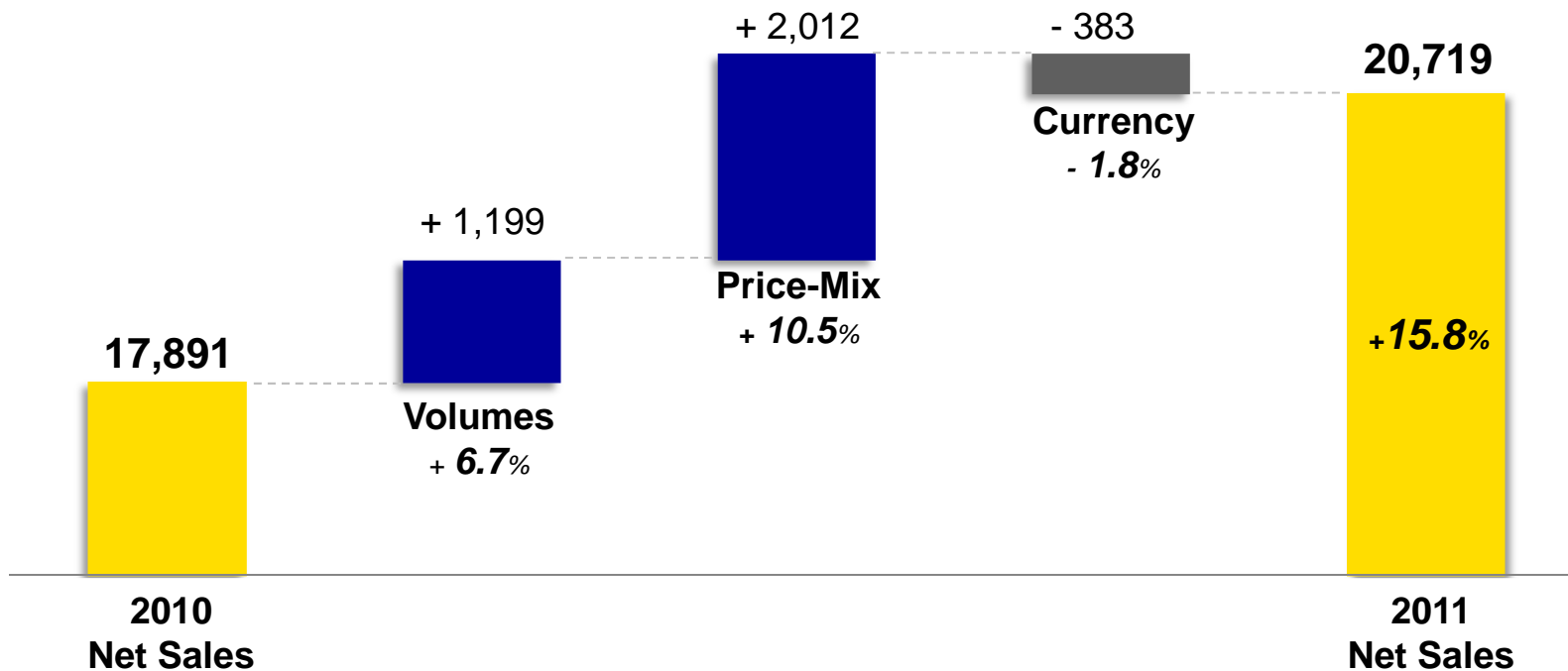




# Higher 2011 Net Sales, Led by Pricing Power and Sales Performance

## YoY change

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

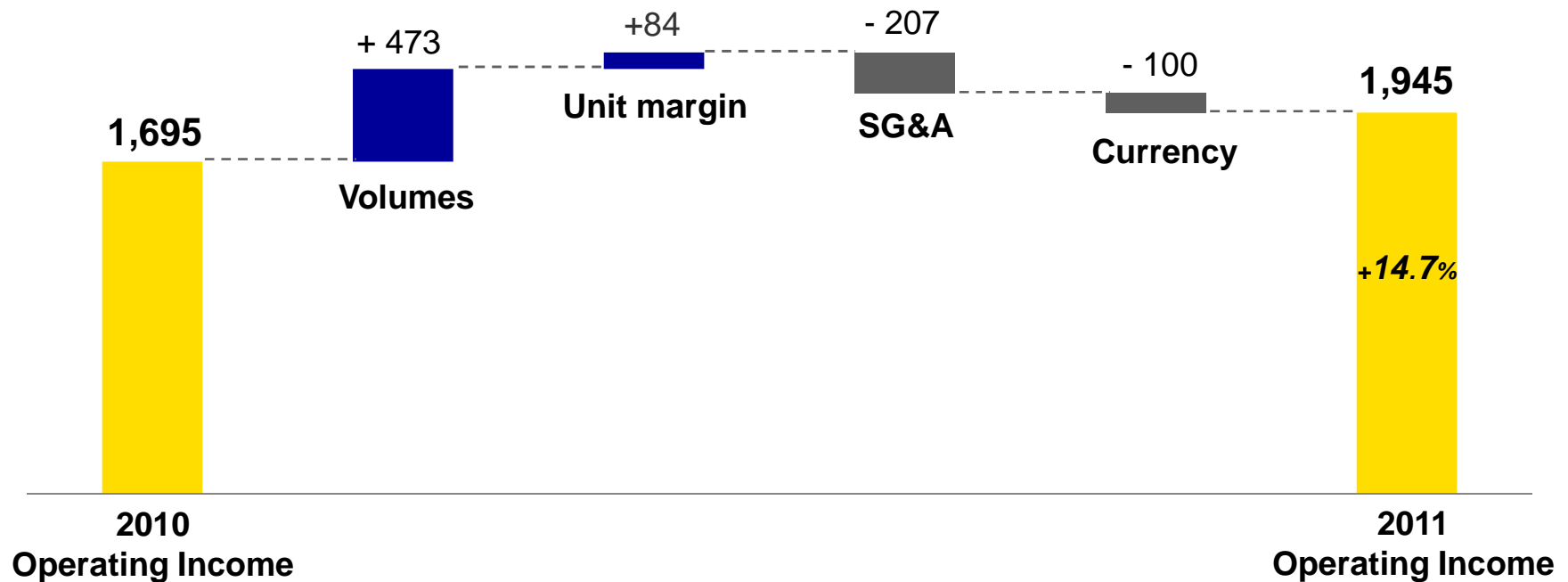




# 2011 Operating Income Up as Targeted

## YoY change

(in € millions)

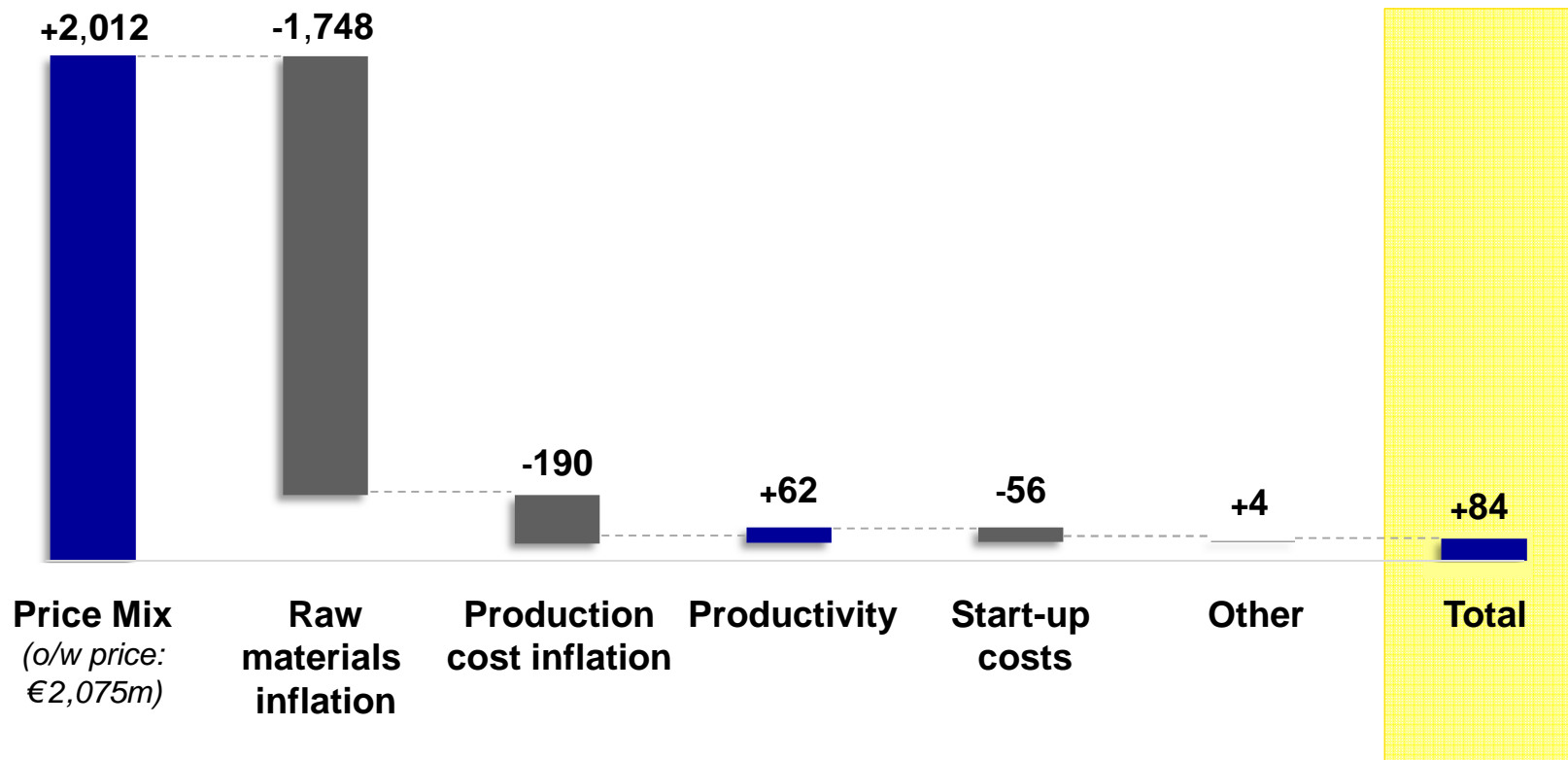




# 2011 Price-mix Gains Exceeded the Increase in Raw Materials Costs

## YoY change in unit margin components

(in € millions)





# 2011: Spending to Build Future Growth

## YoY change in SG&A

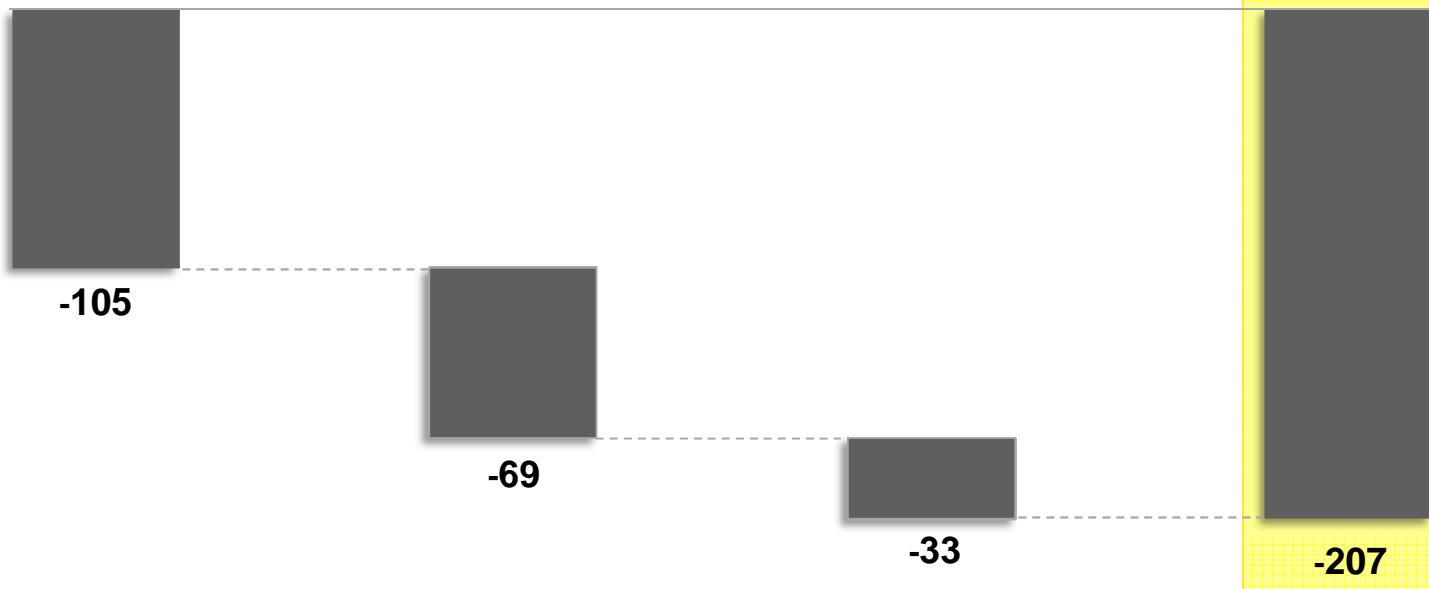
(in € millions)

Cost of driving growth  
(New markets,  
R&D, communication)

Inflation

Other

Total





# 2011: Recurring Business Structurally Generates Free Cash Flow

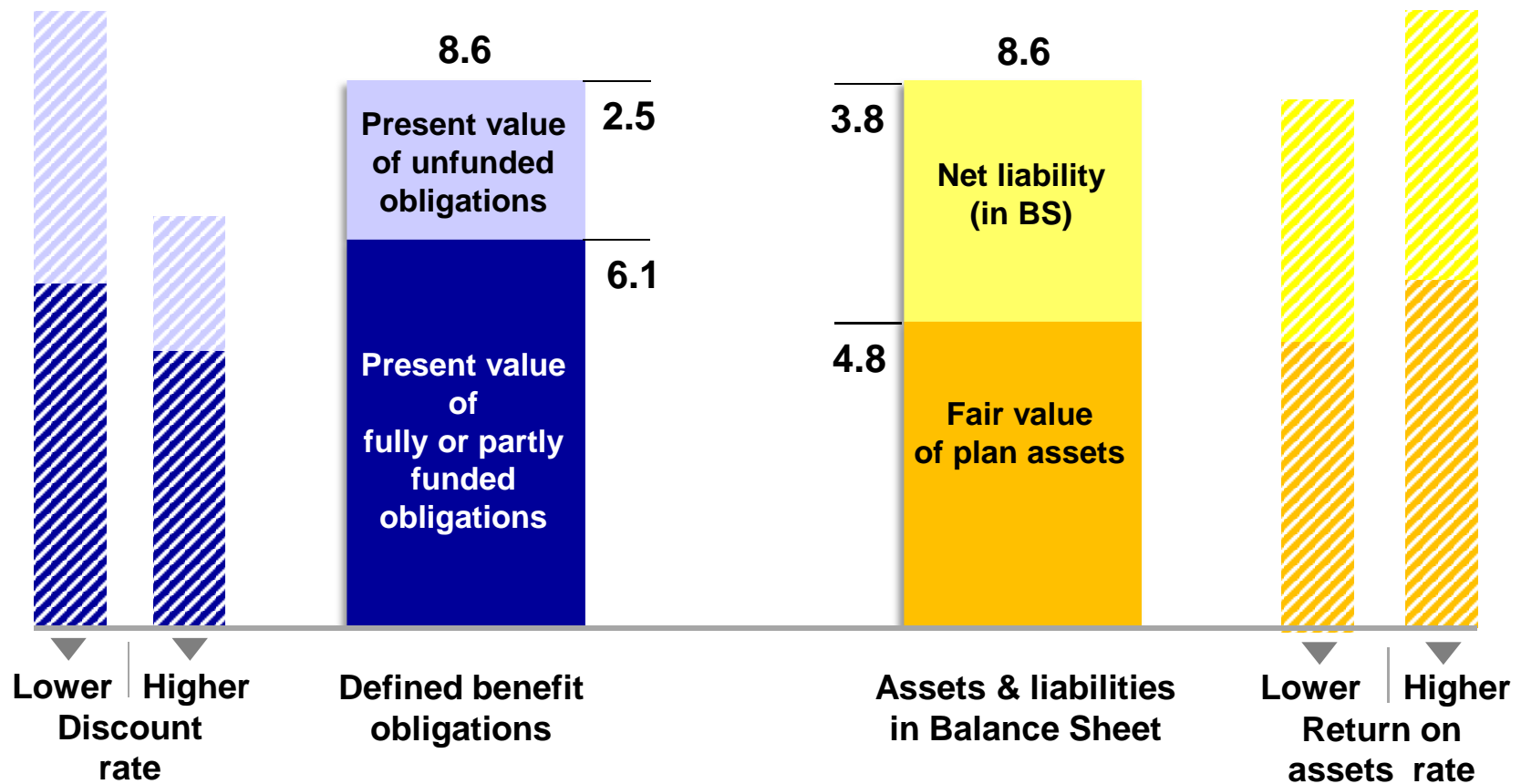
In € millions	2011	2010
<b>EBITDA</b>	<b>2,878</b>	<b>2,660</b>
Change in WCR	(912)	(461)
Restructuring Cash Costs	(145)	(229)
Change in Operating Provisions	13	(194)
Other Operating WCR	(5)	20
<b>Cash Flow from Operations</b>	<b>1,829</b>	<b>1,796</b>
Taxes and Interest Paid	(632)	(474)
Routine Capital Expenditure (Maintenance, IS/IT, Dealerships)	(671)	(565)
<b>Available Cash Flow</b>	<b>526</b>	<b>757</b>
Growth Investments	(1,040)	(535)
Other Cash Flow from Investing Activities (o/w disposal of Hankook shares)	495	204
<b>Free Cash Flow</b>	<b>(19)</b>	<b>426</b>





# Higher interest rates decrease the obligation Lower interest rates increase the obligation

**December 2011 Financial position of Defined Benefits plans**  
(in € billions)







# Benefits: impact in P&L and Balance Sheet

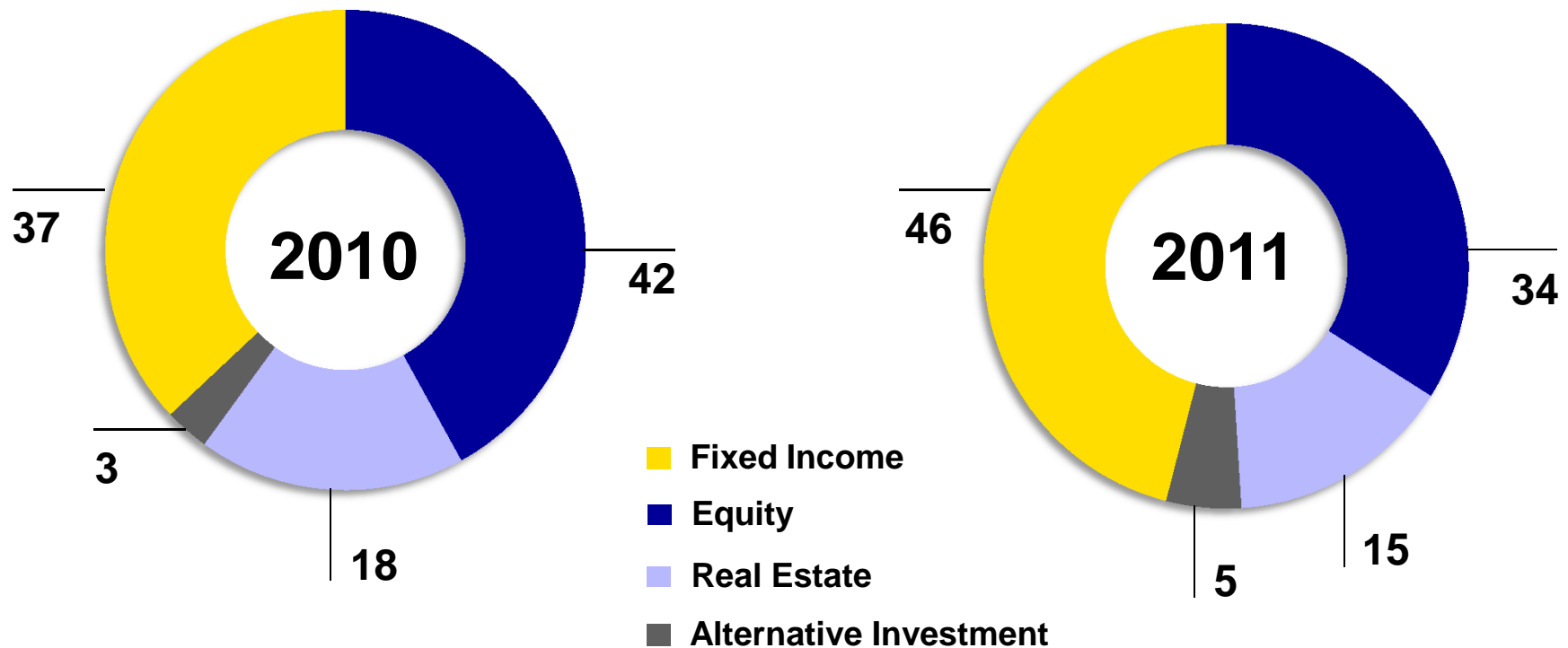
- **Funding requirements based on local regulations**
    - *US: 100% funding over 7 years*
    - *UK: 100% funding over 15 years*
  - **Obligation and discount rate are steadily reviewed**
    - *US: Every year*
    - *UK: every 3 years*
- ➔ **Amount of annual contribution (refer to Financial report page 123)**
- **Balance Sheet**
    - *Net defined benefit obligation recognized as a defined benefit liability*
    - *Any actuarial gains and losses recognized in Other Comprehensive Income*
  - **P&L**
    - *Net service cost*
    - *Any change in the benefit plans*





# Asset Management of the plans: aimed at reducing volatility

## Asset Allocation of fully and partly funded US pension plans (in % of total portfolio)

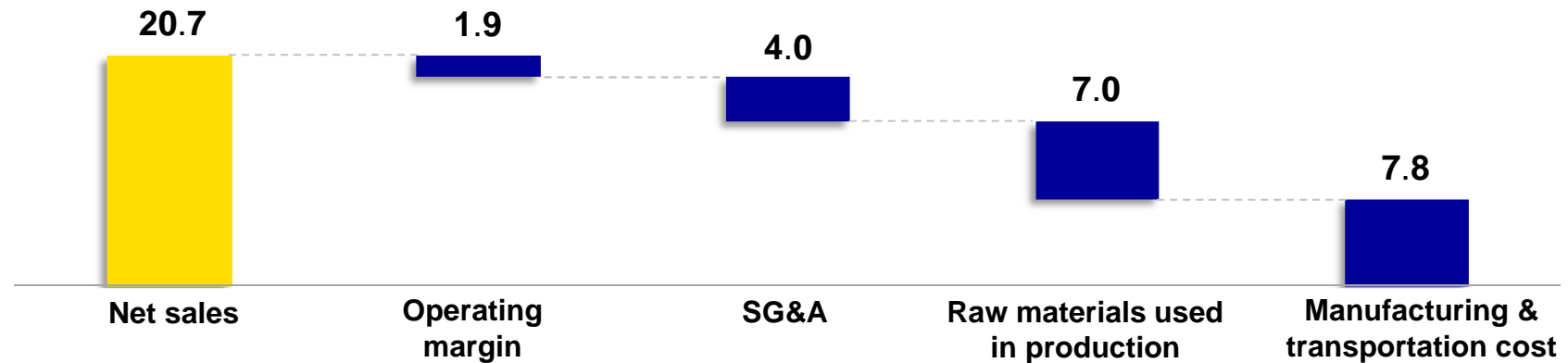




# A Competitiveness Program to Drive Growth

## 2011 cost structure

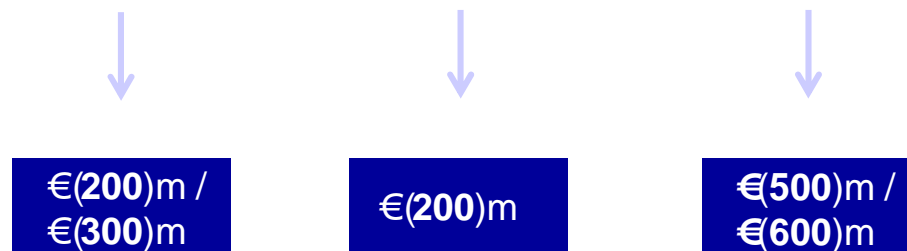
(in € billions)



## 2012 – 2016

### competitiveness program

Excl. Inflation and incl. avoided costs



≈ €1 billion in competitiveness gains over five years





## 2015 Objectives

- **Volume growth: at least 25% over the 2011-2015 period**
- **Annual capex: around €2 billion**
- **2015 operating income: around €2.5 billion**
- **Free cash flow: positive over the 2011-2015 period**
- **2011-2015 ROCE: > 9% each year**





# The Widest and Most Aligned Distribution Network

## 2011 Distribution networks – number of points of sale

Brand	Durable	Advocate	Transactional	Total
<b>Michelin</b>	<b>T+</b> (Tyreplus) <b>MTC</b> (Michelin Tyre Service Center) <b>MBA</b> (Michelin Business Acceleration) <b>1,450</b>	<b>MCR</b> (Michelin Certified Retailer) <b>1,975</b>	<b>MSD</b> (Michelin Selected Dealer) <b>2,292</b>	<b>5,717</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>





# Enhanced Distribution Leadership

Program		2011	2015
Durable	T+	626	1,150
	MTC/MBA	824	1,400
Advocate	MCR	1,975	2,800
Transactional	MSD	2,292	2,750
Total		5,717	8,100

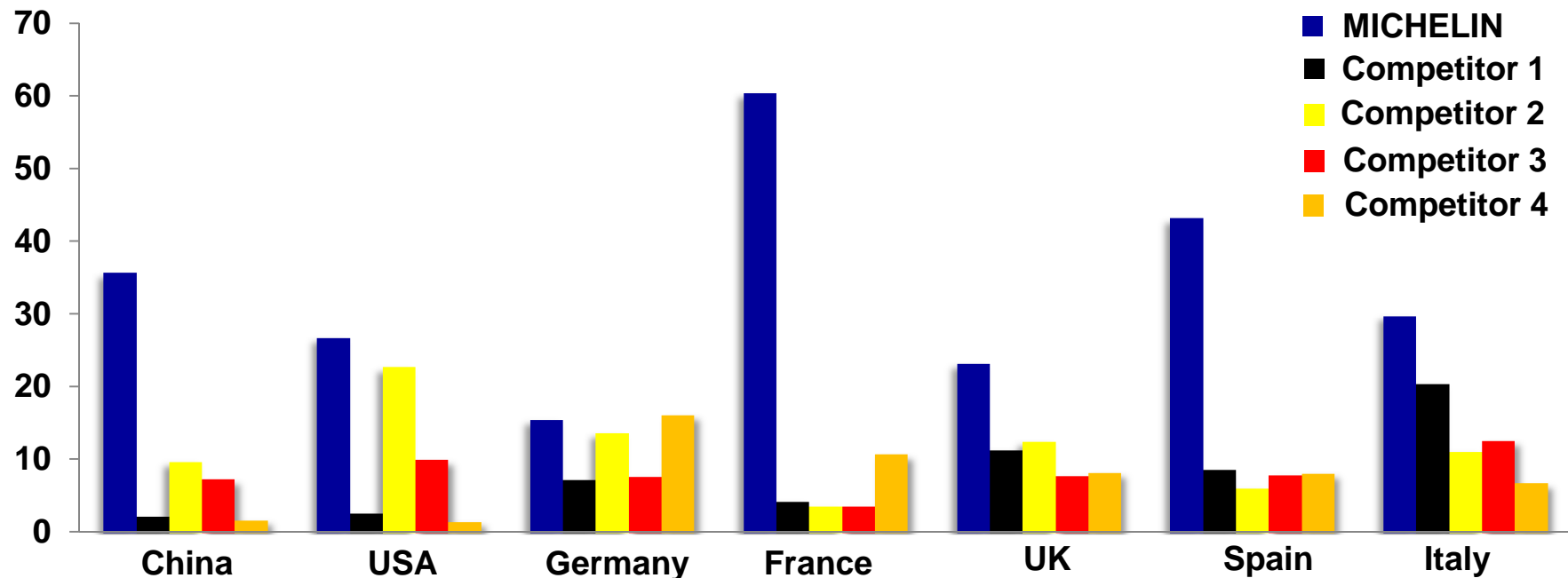
- Tyre Plus was transformed in 2010 into a franchise looking to provide basic car maintenance services and a premium consumer experience.





# The Preferred Brand of Premium Tirebuyers

**"Which brands among the following would you seriously consider if you were going to buy tires for your car tomorrow?"**



Sources: Europe = TNS Sofres, USA = Lieberman Research, China = Nielsen, 2011





# 2011 Production Capacity: a Global Footprint

**2011**

**Total capacity: 3,460 K tonnes**

**North America**

**34%**

1,200 K tonnes

**South America**

**5%**

160 K tonnes

**Western Europe**

**42%**

1,400 K tonnes

**Eastern Europe**

**10%**

400 K tonnes

**Asia**

**9%**

300 K tonnes







# 2015 Production Capacity: a Global Footprint

## 2015

**Total capacity: 4,310 K tonnes**  
**Up 25% vs 2011**

### North America

**32%**  
≈1 350 K tonnes  
Up 13% vs 2011

### South America

**7%**  
≈300 K tonnes  
Up 88% vs 2011

### Western Europe

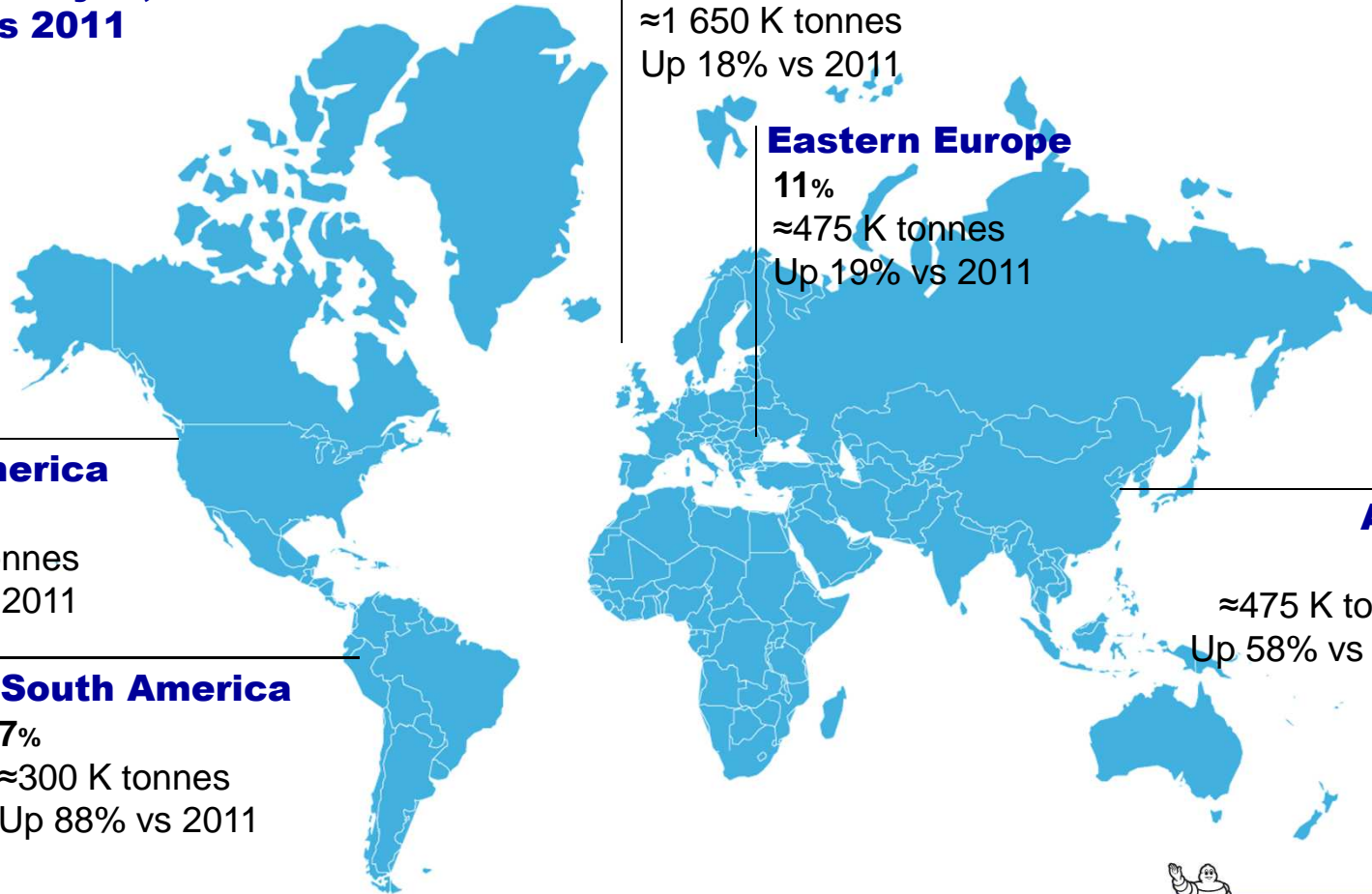
**39%**  
≈1 650 K tonnes  
Up 18% vs 2011

### Eastern Europe

**11%**  
≈475 K tonnes  
Up 19% vs 2011

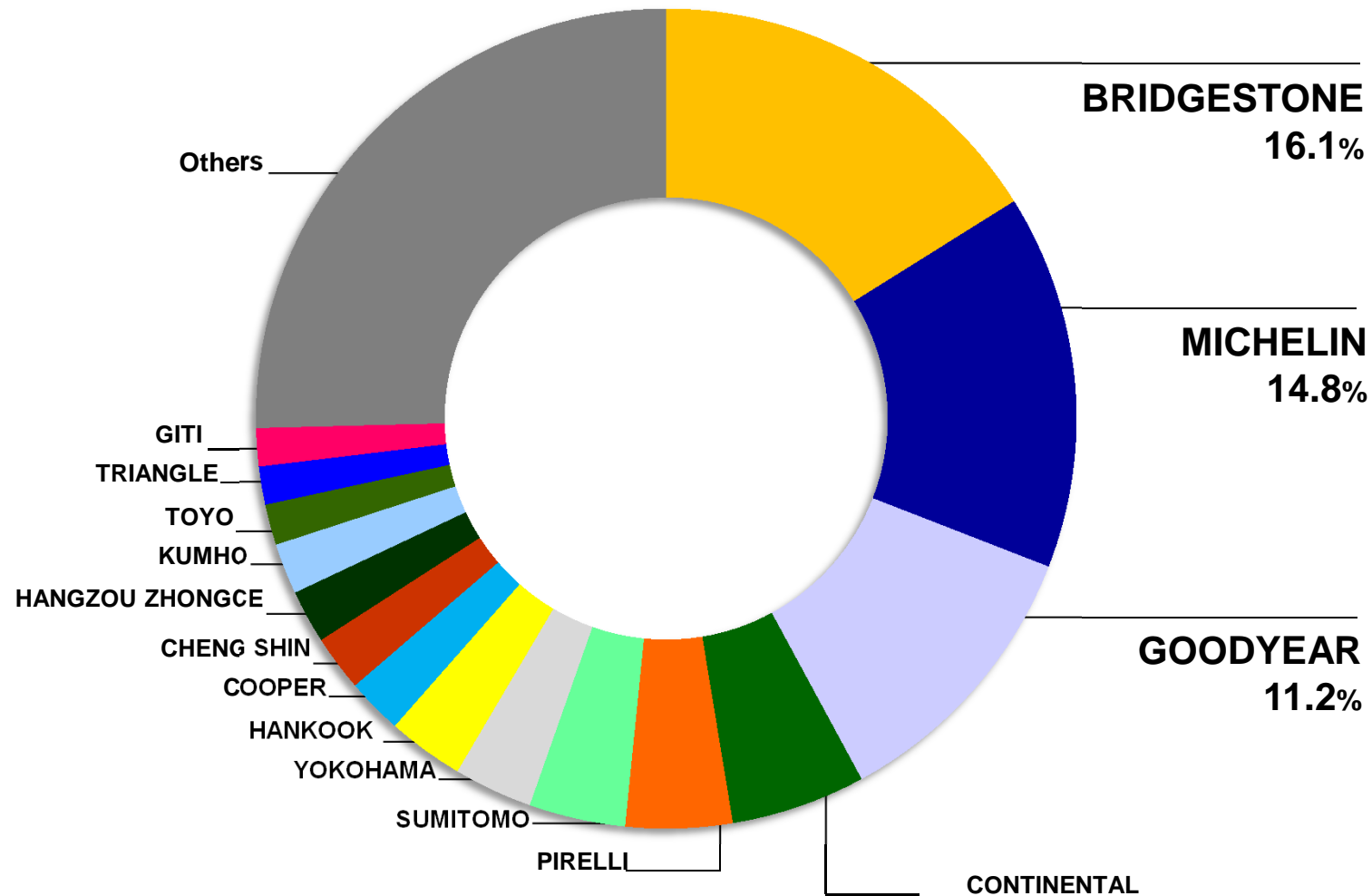
### Asia

**11%**  
≈475 K tonnes  
Up 58% vs 2011





# Tire Business Ranking 2011



Source: Tire Business – Août 2011





# A Comprehensive Brand Portfolio

