TheStreet Transcript

Goodyear Tire & Rubber (GT) Earnings Report: Q1 2015 Conference Call Transcript

The following Goodyear Tire & Rubber conference call took place on April 29, 2015, 09:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Christina Zamarro; Goodyear Tire & Rubber; VP - IR
- Rich Kramer; Goodyear Tire & Rubber; Chairman, CEO
- Laura Thompson; Goodyear Tire & Rubber; EVP, CFO

Other Participants

- David Tamberrino; Goldman Sachs; Analyst
- Itay Michaeli; Citigroup; Analyst
- Ryan Brinkman; JPMorgan; Analyst
- Rod Lache; Deutsche Bank; Analyst
- Robert Higginbotham; SunTrust Robinson Humphrey; Analyst
- Emmanuel Rosner; CLSA; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Good morning my name is Keith and I will be your conference operator today. At this time I would like to welcome everyone to the Goodyear Tire & Rubber Company first-quarter earnings conference call.

(Operator Instructions).

Thank you. I would now like to hand the program over to Christina Zamarro, Goodyear's Vice President, Investor Relations. Please go ahead.

Christina Zamarro (VP - IR):

Thank you, Keith and thank you all for joining us for Goodyear's first-quarter 2015 earnings call.

Joining me today are Rich Kramer, Chairman and Chief Executive Officer; and Laura Thompson, Executive Vice President and Chief Financial Officer. Before we get started there are a few items we need to cover. The supporting slide presentation for today's call can be found on our website at investor.goodyear.com. And a replay of this call will be available later today. Replay instructions were included in our earnings release issued earlier this morning.

If I could now draw your attention to the Safe Harbor statement on slide 2. I would like to remind participants on today's call that our presentation includes some forward-looking statements about Goodyear's future performance. Actual results could differ materially from those suggested by our comments today. The most significant factors that could affect future results are outlined in Goodyear's filings with the SEC and in our earnings release. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. Our financial results are presented on a GAAP basis and in some cases a non-GAAP basis. The non-GAAP financial measures discussed on the call are reconciled to the US GAAP equivalent as part of the appendix to the slide presentation.

And with that I'll turn the call over to Rich.

Rich Kramer (Chairman, CEO):

Thank you, Christina and good morning, everyone.

This morning, I will review a few of our highlights, including our first quarter results, a record performance in North America and a few significant announcements we made recently. Laura will follow with the financial review of each of our businesses and a detailed outlook before we open the call for your questions.

Our first-quarter performance delivered record segment operating income of $391 million with an operating margin of 10% despite the significant foreign exchange headwinds we encountered during the quarter. Segment operating income in the quarter grew 5% which, when adjusted for foreign exchange, would have been 16%. It's a clear indication of the strength of our underlying business.

During the quarter we also grew our volume in three of our four businesses, increasing global volume 2% with our consumer business leading the way growing at 3%. I'm very pleased with the execution of our strategy by our teams in each of our four business units to start the year with North America leading the way. By any measure North America achieved one of its best quarters ever including record first-quarter segment operating income of $198 million, the 23rd consecutive quarter of year-over-year earnings growth. Segment operating margin of 10.7%, also a first-quarter record. The fourth consecutive quarter of at least 10% segment operating margin. A unit volume increase of nearly 2% with share gains in our key consumer replacement segment. And improved price mix versus raw materials compared to a year ago.

In addition to these excellent results during the quarter, we also introduced our new Kelly Edge line of tires, joining the Goodyear Assurance All-Season and the profitable consumer replacement mid-tier segment. Last year Assurance All-Season became the fastest new product to reach 1 million units sold. We launched new commercial truck tire products as well, including the Fuel Max LHS making our commercial lineup the most fuel-efficient in the industry. And we're piloting our e-commerce platform for Goodyear consumer replacement tire sales online. More than 3,000 locations have already signed up with the program which is focused on making the tire buying process easier with our industry-leading dealer network. This is another form of both Goodyear's innovation and Goodyear's industry leadership.

Our North America business continues to execute our strategy sustaining and growing its profitability by responding to the needs of customers and consumers. Our team is delivering results while building capabilities and our performance is indicative of their success and their momentum.

Turning to Latin America we improved profitability as we increased our volume by almost 10% during the quarter. Building on the momentum that we established in 2014. We saw double-digit growth in consumer replacement in virtually every country in the region as demand for our high value-added Goodyear products remains strong. We now have a completely refreshed product portfolio across Latin America supported by the best distribution network in the region. Those two assets, and our team's focus on winning in key market segments, have allowed us to capitalize on growth opportunities even in volatile markets in the region. With currency, economic and political instability at levels not seen for years, we expect the Latin America region to remain volatile for the foreseeable future but we also remain extremely optimistic about the region's long-term prospects.

Looking at the Americas in tandem, the common denominator we see in these markets is the robust demand for HVA tires. Demand which in some cases exceeds our supply and that demand will continue to grow. In fact between now and 2019 we expect total industry demand for consumer tires to grow 10 million units per year in the Americas. However that is a result of industry demand by HVA tires growing at 18 million units per year while demand for low value-added products will decline by 8 million units per year over that same period. Now that equates to an additional 90 million tires of HVA industry demand by 2019.

To meet the growing demand for Goodyear brand HVA tires and to support our customer's growth plans we recently announced our new America's plant to be located in Mexico. It's our first new plant in the America's in 25 years. The plant, which will supply 6 million tires per year when it comes online in 2017, will serve both the North America and Latin America regions. The new factory will be additive to our existing initiatives to supply more HVA tires including building incremental capacity through our prior CapEx investments, converting LVA capacity to HVA capacity and using operational excellence to improve output through efficiency gains.

Included as part of our announced existing capital allocation plan, our new factory will be managed in line with our key how to of enabling investments to achieve the required returns to drive increased profitability and shareholder value while growing our business and industry competitiveness. And having recently met with many customers in Latin America and North America, their excitement and commitment to Goodyear is palpable. They view the investments as a tangible sign of Goodyear's commitment to growth. It was a clear demonstration to me of the value of being a Goodyear partner.

Shifting our attention to Europe the impact of a weak euro accounted for nearly all of our year-over-year decrease in segment operating income. On the positive side our core Goodyear brand premium tires in both consumer and commercial performed well in a difficult environment in the quarter. Our volumes were negatively affected by the growing presence of low-cost Asian imports particularly in Eastern Europe. This is a trend we do not see abating in the near-term and we will continue to develop action plans to address it. Note that the situation we are encountering in Eastern Europe is not a new one to Goodyear . We've seen this before in North America and Latin America, where our recent results demonstrate our ability to successfully develop and execute strategies to drive our profitable growth. And I'm confident we'll do the same in Europe.

We will focus on innovative tire technologies such as our EfficientGrip Performance tire that earned a AA rating for wet grip and fuel efficiency, the highest grade afforded by EU standards. We'll also focus on brand building, customer service and reliability and our well-established distribution network in the region will also serve as a competitive advantage. Looking ahead we continue to see Europe as a slow growth competitive market but one where we will not deviate from our strategy of winning in targeted market segments while we can drive the value of the Goodyear brand.

Finally in Asia-Pacific where we achieved a 15% operating margin we increased our volume 9% in the quarter as we continued to see strong growth driven mainly by our consumer businesses in both China and India. In particular we saw very strong consumer OE growth in China as local manufacturers both domestic and foreign continue to develop their robust production and expansion plans both regionally and globally. And related to that and consistent with our strategy of winning in China we opened a development center in Pulandian, China during the quarter. As our customers in the country continue to innovate and grow at a pace unequaled in the world, establishing a development center will improve our speed to market, providing the superior service our customers need and expect. The development center is an investment in our future and will support our growth strategy in Asia and particularly in China.

So in summary, our first-quarter performance across all of our regions provided a strong start to the year and gives us confidence about the remainder of 2015. Equally important, during the first quarter we took further steps to build capabilities and drive sustainable growth and competitive advantage in the years to come.

While we're pleased with our results we're looking beyond the first quarter and the next quarter. As you've heard me say before we're running our business for long-term. The strategies we have in place around the world are working and, as evidenced by our North American business, are delivering long-term, sustainable value. Even so, cyclicality in the tire industry is a given. We're now experiencing just that in certain emerging markets that not so long ago had optimistic growth forecast. We except that cyclicality and are committed to managing through it.

For the remainder of this year we'll continue to leverage our strengths where the markets are healthy and take a disciplined but flexible approach to be positioned for recovery in weaker markets while remaining true to our strategy. The growing demand for our industry-leading HVA products, the successful execution of our strategy and the capability of our teams that we will continue to grow profitably, increasing our earnings and value for shareholders, not only in the near term, but in the long-term as well.

I'll now turn the call over to Laura.

Laura Thompson (EVP, CFO):

Thank you, Rich and good morning, everyone. Today I will cover our first-quarter results and provide more detail on key income drivers in the quarter. I'll also provide an update regarding our full-year outlook for 2015 before we open the call up for your questions.

Turning to slide 8, I want to highlight a few items on the income statement. Unit volumes increased 2% in the quarter with solid growth in three of our four business units. The strengthening of the US dollar against foreign currencies reduced sales by almost $400 million year-over-year. Gross margin improved 2.5 points, to 23.8%, and our SOI margin was 9.7% for the quarter. Our earnings per share on a diluted basis was $0.82. Our results were influenced by certain significant items, most notably the recognition of deferred income associated with the termination of a licensing agreement related to our former Engineered Products business. After adjusting for these items our earnings per share was $0.54.

Additionally, in this first quarter, income tax expense increased following the release of our US valuation allowance at year-end 2014. As mentioned previously, we do not anticipate paying significant cash income taxes in the US for approximately five years. As such we have also provided an adjusted EPS excluding this incremental, non-cash tax expense for comparison purposes. For the quarter the adjusted EPS on that basis is $0.65, up $0.09 versus last year on a comparable basis.

The step chart on slide 9 walks first-quarter 2014 segment operating income to first-quarter 2015. Volume growth in the quarter created $23 million of increased year-over-year SOI. This was more than offset by the negative impact of higher unobserved fixed overhead costs which were primarily related to the fourth quarter warm weather driven production levels in Europe. A combination of these two factors generated a net unfavorable impact of $6 million.

Lower raw material costs of $46 million more than offset reduced price mix of $29 million for a net benefit of the $17 million during the quarter. Cost savings actions a $68 million, driven by our operational excellence initiatives, more than offset the $62 million negative impact of inflation. Which was driven in part by Venezuela. Foreign currency exchange was a headwind of $40 million reflecting the continued strengthening of the US dollar particularly against the euro.

Turning to the balance sheet on slide 10 cash and cash equivalents at the end of the quarter were $1.6 billion with a decline from year end reflecting the normal working capital seasonality in our business and a $200 million repayment on our US term loan earlier in the year. This cash balance includes $295 million of cash in Venezuela at the end of the quarter. Free cash flow from operations is shown on slide 11. For the quarter we used $414 million of cash, improving about $100 million from the prior year reflecting the increase in earnings. Over the last 12 months our free cash flow performance has been strong at nearly $1.1 billion.

Moving now to the Business units on slide 12, I'll start with North America. As Rich mentioned earlier, North America had another great quarter with record quarterly segment operating income of $198 million which is the 23rd consecutive quarter of year-over-year earnings growth and a clear example of a business creating sustainable value. In addition to the 27% increase in segment operating income, North America also achieved an operating margin of 10.7% an impressive milestone of four consecutive quarters above 10%. North America's earnings were driven by strong price mix versus raw materials as we continue to focus on selling innovative, industry-leading tires, that increase the value of the Goodyear brand. The demand for our products has allowed us to continue to improve our product mix while capturing the decline in raw material costs.

Volume was up almost 2% driven by strong replacement demand for Goodyear branded consumer tires including new products such as the Assurance All-Season and the Wrangler All-Terrain Adventure as the volatility associated with the speculative buying of Chinese tires last year continues to work through the industry channel this year. As we have discussed in prior quarters we continue to see strong demand for our premium branded consumer tires. We're leveraging our global manufacturing footprint and investing in North America to meet increased demand.

Our North America commercial truck volume also performed well in the first quarter. Total truck volume was up 6%. We are experiencing strong demand for our industry-leading fleet solutions and fuel-efficient tires such as the Fuel Max LHS steer tire. North America's results are evidence that our strategy of targeting profitable market segments is working. That includes mixing up and products through market-back innovations, pricing for the value of our tires and controlling our costs. Growth in North America is an attractive investment.

Europe, Middle East and Africa delivered segment operating income of $73 million in the quarter a decrease of about 34% over last year's $110 million. The impact of foreign currency translation, and fourth quarter warm weather production cuts, reduced earnings in the quarter by $55 million. More than explaining all of the year-over-year decline. Volumes decreased about 2% year-over-year. The volume decline was due to two factors. First, the discontinuation of our Farm Tire operations last year and second, increased competition concentrated within our Economy segment in Central and Eastern Europe. This is where we have seen additional pressure driven by an increase in Asian imports. These headwinds offset our volume and share increases year-over-year in the HVA performance and SUV segments in the region.

In Commercial Truck we continue to experience a stable industry environment and we have gained share and replacement with the launch of our industry-leading new products such as KMAX and Fuel Max. While our European business will continue to be challenged by foreign currency headwinds throughout 2015, our product portfolio is strong and our team is taking steps to return our business there to higher levels of US dollar profitability as the year progresses.

In Asia-Pacific our first-quarter volume of 5.7 million units, was about 9% higher than a year ago, and was driven by strong consumer share growth in two of our largest and fastest growing markets, China and India. Our Asia-Pacific business reported operating income of $67 million for the first quarter. The increase is mainly driven by volume growth, partially offset by higher conversion costs and lower price mix versus raw material costs. Overall, volume in our consumer businesses grew 14% with particular strength in OE, although Australian operations continue to see challenges related to the week macroeconomic conditions in that country.

In Latin America our volume increased about 10%. We saw strong growth in consumer replacement which more than offset the ongoing OE weakness in Brazil. Segment operating income was $53 million for the quarter, $11 million more than the prior year. Latin America benefited from price mix versus raw material costs and higher sales volumes during the quarter, which were partially offset by higher conversion costs and the impact of weaker currencies throughout the region. Overall, the increase in income was driven by improvements in our Venezuelan business which was up $28 million year-over-year.

You may recall that in the first quarter of 2014, our Venezuelan operations were negatively affect did buy labor negotiations that concluded in April of 2014. In addition the Commercial Truck industry in Latin America was severely impacted by the recession-like conditions in the region, with double-digit declines in both OE and replacement in Brazil. While Latin America is our most volatile region, our leaders are experienced in managing through these periods of uncertainty in response to the rapid devaluation of the real our team is it acting quickly to enable us to realize are overall value proposition and drive earnings growth.

On slides 13 and 14, we have updated our full-year modeling assumptions for 2015. You'll notice that most of the items are unchanged from the planning assumptions we outlined on our February call. There are a couple exceptions. Namely, incremental headwinds in foreign exchange, based on current spot rates and an improved outlook for Venezuela based on first-quarter results. Although we continue to see our full-year volume growth in the 1% to 2% range, the second quarter comparable is tougher, given last year's 3% growth. Which was the strongest quarter of the year. We continue to expect that the majority of our growth will be in the second half of the year.

We now expect raw material costs to be 8% lower than last year before cost savings actions. Due to slight increases in underlying raw material costs since February for carbon black and natural rubber. This also includes the negative impact of currency on raw material transactions in our international businesses. However we continue to see our full-year price mix versus raw materials benefit at around $200 million unchanged from our February outlook. For the second quarter we expect price mix versus raws to be between $20 million to $50 million as the majority of our year-over-year raw materials benefit will occur in the second half.

Regarding foreign currency translation the dollar has continued to strengthen against major currencies. As a result, our foreign currency headwinds have increased and we now see a full-year impact to segment operating income of approximately $200 million based on current spot rates.

As for our outlook on Venezuela, we earned about $20 million in income from Venezuela during the first quarter. This was the outcome of our experienced team on the ground working tirelessly to gain access to US dollars to produce tires and fulfill the strong local demand. Unit volume in Venezuela was up approximately 200,000 units during the quarter reflecting both the strong demand and last year's labor related production slowdown.

We had anticipated our earnings in Venezuela to be above zero for the full year given the situation we faced at year-end. However, in the first quarter we were able to access sufficient US dollars to pay for our imported raw materials. We are committed to our team and to our operations in Venezuela where we've had a presence for more than 70 years. However, continuing to expect or predict earnings from Venezuela remains difficult. We've included $20 million of earnings from Venezuela in the first quarter as part of our updated segment operating income outlook for the year. While we can't predict exactly what will happen in future quarters our belief is that it will become harder to generate income in Venezuela in the near future. Additional financial assumptions for 2015 are listed on slide 14 and each is consistent with what we provided on our February year end call.

In summary, as we look at 2015 our financial outlook has a few moving pieces but in total is unchanged as we continue to target 10% to 15% of SOI growth for the year. We continue to execute on our balanced capital allocation plan and as part of that plan we have an existing $450 million share repurchase authorization and we've repurchased $233 million for so far under our 2014 to 2016 plan. We are committed to repurchasing additional shares in 2015 and 2016. Our CapEx outlook remains unchanged as our new plant in Mexico was previously included in our outlook.

Now, we'll open the line up for your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

David Tampering, Goldman Sachs.

David Tamberrino (Analyst - Goldman Sachs):

Good morning, congrats on the quarter.

Rich Kramer (Chairman, CEO):

Thank you.

David Tamberrino (Analyst - Goldman Sachs):

Just curious in North America, more specifically in the US, how the pricing environment has been trending through the first-quarter and then the first month of April here, just given implemented tariffs on China import tires as well as the increased pricing by some manufacturers at the low end?

Rich Kramer (Chairman, CEO):

David, I would say we continue to be very pleased with our approach in the market right now obviously we're not going to speak specifically to pricing. If you look at our quarter not only did we -- I think Laura made this comment particularly in her remarks, not only did we get improved mix in the quarter but we also had an ability to not give back all the raw material costs as well.

So, I think as we look at our performance in the quarter and the value proposition that we're putting in the marketplace today. In terms of our new products, in terms of the supply, what we see is the balanced equations that we put into the marketplace, or the value proposition we put into the marketplace, is one that we're getting rewarded for, regardless of the situation relative to tariffs in the marketplace. So, we view it -- we have a very positive outlook in terms of our price mix versus raw materials for North America.

David Tamberrino (Analyst - Goldman Sachs):

Okay, that's helpful. And then just on European volumes, that came in better-than-expected and I know you noted some headwinds that offset share gains in HVA and premiums. Can you maybe expand on that share gain and really talk through how much of that was potentially sell-in for summer tires and then how that summer tire sell-out in Europe is trended following the Easter holiday?

Rich Kramer (Chairman, CEO):

David, I think the first quarter is always really not the most indicative of what's going to happen in the summer markets. As you know Q2 and Q3 tend to be heavier on summer and heavier on winter so they are a bit more indicative of, let's say, trends that we expect for the year. But you're right to point out, and we were very pleased with our performance and our key branded targeted market segments particularly around performance and SUV, and I was very happy with the volumes that we had in the quarter.

Also we had headwinds as you mentioned as well as Eastern Europe where we're seeing more volumes coming in of low-cost to Asian or Chinese tires. Which is, I think what we said in the past, is indicative of the location of that product just relocates around the world when you have tariffs going on in another part of the world and that's what we're experiencing there right now.

In terms of summer season and winter season going forward, when we look at how the channels are right now I think probably more winter inventory was sold out then we might have thought when we talked to you the last time. But as we sit here and we look at what were three, essentially, warm winters over the past few years we're certainly again working on a balanced equation to figure out how to handle the balance of the year. But we still feel like we're on plan for our European business at this point.

David Tamberrino (Analyst - Goldman Sachs):

Understood and just following up on that, but with a couple of warm winters this past couple years and not necessarily seeing the replacement or just the change out of tires, does that mean, or does that indicate, that you're potentially set up to see a pretty good summer tire selling season in Europe?

Rich Kramer (Chairman, CEO):

David, we haven't made any forecasts particularly on summer or winter specifically. I think what probably gives us more optimism in Europe is the fact that we're seeing a little bit of lift from a local economy perspective as we see the European economy get slightly better because of more competitive currency. Certainly hurts us in other ways but just sort of the economy that's indigenous to those consumers over there we see a little bit of a lift so that gives us a little bit more optimism on the summer markets. Europe as I said we continue to see it as being a slow growth economy going forward. It would be a little bit better but we don't see any big uptick in summer tires.

David Tamberrino (Analyst - Goldman Sachs):

Thanks for taking my questions.

Rich Kramer (Chairman, CEO):

Thank you.

Operator:

Itay Michaeli, Citi.

Itay Michaeli (Analyst - Citigroup):

Great, thanks, good morning everyone and congrats.

Rich Kramer (Chairman, CEO):

Good morning. Thanks, Itay.

Itay Michaeli (Analyst - Citigroup):

Thank you for all the detail today, obviously a lot going on and reassuring to see the confirmation of the full-year SOI range. Curious, maybe it's not an easy question this early in the year, but maybe do you have a bias at this point towards the low or higher end to that range? Or maybe just talk about some of the scenarios that would lead you lower end versus higher end clearly Venezuela seems to be going a little bit better than expected, but maybe just talk to that as we look to 2015?

Rich Kramer (Chairman, CEO):

Itay, it might be the obvious comment, but as we look at the quarter we're actually very, very pleased with the results. It's not a way that we would continually choose to look at the quarter but in my remarks, I said the underlying strength of our business would, say on a currency adjusted basis, the Business is at about 16% improvement year-over-year. So it says that we're doing all the right things.

If you say what are those headwinds relative to high or low end for the range out for the full year clearly currency is going to be the biggest one that we ultimately have to deal with and the other one is just some of the headwinds that the emerging market economies are seeing. We've got to work our way through those. But I think they're really external things that we're going to have to work through that probably will impact us.

Itay Michaeli (Analyst - Citigroup):

Great. Maybe one internal question. Looks like cost savings versus inflation, you're still about $160 million for the full year. I think Q1 was a little bit, slightly positive -- maybe talk about some of the initiatives and the cadence of how we should think about that relationship for the rest of the year?

Laura Thompson (EVP, CFO):

Sure, I'll take that one. So I think, the $6 million net in the first quarter, we're still forecasting, and confident, in the $160 million for the full year. We have a couple of things going on as we look at it by quarter. So, first of all, in the first quarter last year we would say -- in first quarter last year, especially in places like Venezuela, where our labor slowdown was causing us to have less cost, I guess I'd say in the factory. As we look at it year-over-year, caused our inflation number to be very high when you look at just the first quarter.

So as we go forward, we see that $6 million building and expect really the biggest part of that $160 million to be both in Q3 and in Q4. And a lot of that is driven by operational excellence initiatives, right? These are ones that we have talked about for quite a while, laid the foundation for those in several plants a few years back. And as that continues to roll out around the world, again, very confident in the results like I said not an initiative for the day but something we've really planned, on worked through, and have methodically put through our plans. So all that said, really gives us confidence, not a problem, as we look at that $160 million for the full year.

Itay Michaeli (Analyst - Citigroup):

Great thanks for that detail and two quick last ones. One, the CapEx I know will start to ramp up with the new plant, but does seem to be running a little bit lower than the full-year plan. So maybe if you can comment on that. And then secondly any update at all on the Sumitomo arbitration dispute?

Laura Thompson (EVP, CFO):

Yes, so for CapEx we still expect the $1.1 billion for the full year. Nothing to read into a little slower spend in the first quarter. It is just really timing of large equipment purchases and so on. So the $1.1 billion we feel is a very good number for 2015 as we go. And then really, as for SRI and the arbitration process there's nothing to comment on -- related to that. Our arbitration processes can be quite lengthy and we'll work through that but are kept a very confidential.

Itay Michaeli (Analyst - Citigroup):

Great, very helpful. Thanks so much and congrats again.

Rich Kramer (Chairman, CEO):

Thank you, Itay.

Laura Thompson (EVP, CFO):

Thank you.

Operator:

Ryan Brinkman.

Ryan Brinkman (Analyst - JPMorgan):

Thanks for taking my question in the past you've called out softer demand for raw material intensive OTR tires is limiting the benefit that you would have otherwise gotten from lower commodities. Was at a factor 1Q as well? And then can you remind us of the cadence of year-over-year OTR compares as the year progresses? Was 1Q your toughest compare?

Rich Kramer (Chairman, CEO):

I would tell you, Ryan, we're very pleased with the way the OTR business has performed in the quarter and we would expect that for the year as well. You're right, again, to point out that last year we had that drop, if you will, as commodity prices went down. But I'm very pleased with our business team showing the flexibility to switch some of our products that we're selling from the large big 63-inch tires to some of the smaller tires that are still in demand in various parts around the world. They are doing a great job at it and really as we sort of forecasted last year we don't see the big impact or negative impact that we had last year, in fact we're pretty much on our plan.

Laura Thompson (EVP, CFO):

Yes, exactly. So OTR in the first quarter, again wasn't a significant positive or negative and we don't expect that at this point through the remaining three quarters.

Ryan Brinkman (Analyst - JPMorgan):

Okay, that's helpful. Can you maybe go into a little greater detail about what's driving the volume strength in North America? I think most investors we spoke to were braced for a decline their, just given the hangover from tariff, pre-buy and the RMA figures that everyone is seeing. And then just more generally, how should we think about market share in the US going forward? How do you expect that to be impacted by the tariff, and then longer-term, by the rising percent of tires being HVA as highlighted on slide 5?

Rich Kramer (Chairman, CEO):

So, Ryan, I would tell you the performance, both from a profitability standpoint and from a volume standpoint, and I would say competitive standpoint in the market is really the result of the actions that the team's put in place in the past number of years. So I wouldn't have you think about volume in the sense of just one quarter.

Clearly we had a very good volume quarter in the context of demand for our HVA tires but what we've done is build the Business model there that's driving mix, it's now driving volume and driving positive price mix at the same time, at a time where we have more demand for our HVA products then we can fill. And I'd also say at a time where we have a very, very good book of OE business that's driving more consumers into the replacement market to get those tires. That hasn't happened in one quarter or one year, it is the strategy we've put in place and in fact it's working very well and I think you see that in the results.

In terms of the way to look at the industry I guess the thought that I would leave you with is we have been, and will continue to, play our game in terms of volume. If you look at what's happened -- and it's maybe a little bit lengthy response, but the industry of volumes have been really skewed, really going back to Q1 of last year and we could argue even before that, with the impacts of the tariffs. You have these big sell-in periods that are followed by significant, reduced-industry purchases for sell-in, as dealers have loaded up and when you comp those a year later you have big share gains and big share losses.

Think about Goodyear in Q3 last year we trailed the industry. This quarter, Q1 of this year we are ahead of industry and that's because, you got to follow me here, but in Q4 of 2012, as the tariff's rolled off you had a big sell-in into the channel -- excuse me that was 2013. Q1 of 2014, dealers weren't buying tires and we had a big dislocation again. So, as we look at this, the way you have to look at us is not necessarily relative to how purchase pre-buys or restocking of low end tires impacts the industry, but rather how Goodyear is driving its business.

We focus on sell-out, we focus on miles driven, we focus on our brand and that's how we've been playing the game and that's how we're going to continue to play the game. And if I could forecast a little bit you're going to see Q3 of this year, an odd industry dynamic, because remember last year we had a big sell in. Q1 next year you're going to see the opposite again of what's happened this year more than likely. So, I'd say we focus on Goodyear , we focus on our customers and we focus on delivering and that's what you're seeing in our results.

Ryan Brinkman (Analyst - JPMorgan):

Right, that's super helpful. Last question, just a quick one, another volume question. Latin America up 10%, a lot better than the industry. What's driving the share gains there? Are they sustainable? And how to think about Chinese tires finding their way there, as well as Eastern Europe. Are the Chinese more light-vehicle heavy whereas you're more commercial vehicle heavy in LatAM, how to think about that?

Rich Kramer (Chairman, CEO):

I'm glad you brought up Latin America. Really I'm thrilled with the volume performance that we've had in Latin America this quarter and it really builds on the momentum that we put in place last year around putting new products in place. I think we had 12 new product introductions last year. We've engaged our dealers in a more aggressive way. We've had double-digit volume increases now in virtually every country in Latin America in the quarter, followed on by significant volume increases last year as well.

So as we look at the Business model we're putting in place and then add on top of that the announcement of a factory for the Americas in Latin America, I would say it is sustainable and it is something that has a lot of momentum right now, despite what are, obviously, difficult economies in Brazil and Venezuela and in Argentina. But we're committed to the long-term.

And, in terms of Chinese tires or low-end tires, we did see a lot of those come into Latin America the last time we had tariff's in the US. But certainly with the decreasing -- the devaluations of the currency in Latin America right now, there's less imports in there, which certainly is a benefit to us. A benefit to all local manufacturers in the region.

Ryan Brinkman (Analyst - JPMorgan):

Great, thank you.

Operator:

Rod Lache, Deutsche Bank.

Rod Lache (Analyst - Deutsche Bank):

Good morning, everybody. A couple things I was hoping you can kind of give us a feel for the price mix versus raw material variance or the net of those two, on a regional basis it sounds like North America was really good. When you look at the other regions, was that a drag or was that neutral at this point?

Rich Kramer (Chairman, CEO):

You now, Rod we typically don't break it down in a great deal by region. Certainly North America was very good. And maybe a way to answer it in a little bit more color is we look at Latin America -- for instance we have a situation in Brazil where we struggled a bit more because, as we're seeing there, the decrease in raw materials is actually turning into a bit of a headwind given the decrease of the currency there.

So what we're seeing in Latin America is not as strong a price mix versus raw materials, or at least in Brazil I should say, because of our ability to recover that raw material cost in the decreasing currency environment. So, we've got that going on there. We expect that we'll be able to deal with that but again, you know this from following us, it's hard to recover that type of cost or that type of pricing for those raw materials in a given quarter. So, we'll manage through that as we go forward.

Laura Thompson (EVP, CFO):

No doubt. Maybe to give a little color for you, you could probably look at it and say, [listen] Europe and Asia more flat price mix versus raws. Latin America positive, but really the driver is North America.

Rod Lache (Analyst - Deutsche Bank):

Great. And it looks like your updated raw material guidance would calibrate to around $480 million on a gross basis for the full year. At $48 million in Q1. Is that something that we should be thinking steadily increases quarter to quarter? Or is there a little bit of unusual cadence there?

Laura Thompson (EVP, CFO):

It's a good question. So we had about $30 million in the fourth quarter. This is $46 million here in the first quarter. We do expect as it moves through the P&L that, that benefit will increase as we go through the remaining quarters.

Rod Lache (Analyst - Deutsche Bank):

Okay. And lastly, I'm a bit surprised by the percentage of the market on slide 5 that you're allocating to HVA tires. Just because I think that some other definitions might be somewhat different. Have you changed the definition of what an HVA tire is that gets it over 62% of the market at this point?

Rich Kramer (Chairman, CEO):

No, Rod. We put a definition out, back in I think it was 2010, or something like that. That's the one we're sticking with, understanding the point that it's a word we've tried, as we viewed, tried to define and someone may choose to define it different. But that's how we've defined it and we continue to stick to that.

Rod Lache (Analyst - Deutsche Bank):

Okay, all right. Great, thank you.

Rich Kramer (Chairman, CEO):

Thanks, Rod.

Operator:

Robert Higginbotham, SunTrust.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Thanks, good morning, everyone.

Rich Kramer (Chairman, CEO):

Morning, Robert.

Laura Thompson (EVP, CFO):

Morning, Robert.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

My first question is around pricing versus raw mats. You talked about your gross raw mat's savings maybe being a little bit less for the year than you talked to in the prior quarter. So, I am first wondering what are the offsets that you see in price mix that still gets you to that same annual net guidance?

And just to make sure I heard some of your quarterly comments right. Did I hear that 2Q net price versus raw mat you expected to be in the $20 million to $50 million range? And that would be the biggest of the year? I'm trying to reconcile that with that $200 million expectation?

Laura Thompson (EVP, CFO):

So let's see, so for the first quarter we had the $17 million. We think, again it's quite diverse markets around the world, but we're expecting $20 million to $50 million in the second quarter and then the rest will get you to the $200 million for the full year.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Okay I just thought I heard you say that 2Q would be your biggest of the year. Maybe I misunderstood?

Laura Thompson (EVP, CFO):

All no all we did was give a range of Q2 of between $20 million and $50 million but it's not the biggest of the year.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Got it and then so on the first part of that, though, to the extent that your gross raw mat savings would be a little less than you previously expected. What are the offsets you're seeing in price mix? Whether it's a pricing environment, your mix of product, et cetera?

Laura Thompson (EVP, CFO):

Unfortunately there is no succinct answer to that, just a lot of different moving pieces. The 8% versus 10% that we had, as in February, talked about raw materials being down year-over-year. As the dollar strengthened it's really reducing our raw material benefit and about two-thirds of that is US dollar denominated. But as we move through the year we'll get some of that back as we go. But no -- really offsets in price mix but again all these diverse markets all over the world, product mix, even within consumer replacement and so on. So again, in total, feel good about the $200 million full year.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Got it. And then somewhat of a housekeeping item on the quarter. One of the big variances versus our model was the other category in your SOI bridge. Could you give us a little bit more color on what was in that? Some of that I believe is [Amiens] maybe $15 million to $20 million or so. But what was the other big chunk of that bucket?

Laura Thompson (EVP, CFO):

Of course, as others always are, there's just a large list of things that go in their. But I'd probably say the two biggest items in their as you mentioned are Amiens, that one is about $8 million in the first quarter. We still expect $20 million for the full year, but as you think about our exit of the Farm Tire business, is what changes which quarters that $20 million shows up in.

But a big piece of the $41 million of other was related to Amiens and the other, maybe $12 million to $13 million, I would just categorize as structural changes we made in some of our pension plans. Not just in the US as well as in places like the UK, that have given us a benefit also as part of that $41 million.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Okay, and one last question what's your updated view on capacity growth around the globe? Both HVA and non-HVA/LVA product?

Rich Kramer (Chairman, CEO):

I don't think we have any real changes, Robert, in terms of our view. I will tell you as we've gone through and made the announcement for our America's factory last week, we had a very lengthy assessment internally as you might imagine going through both an assessment of supply demand globally on HVA and LVA. As you know, we have to be very frugal with our cash and very analytical with the investments that we make.

As we looked at it, we looked at the industry demand by tire type. We looked at what our competitors were doing from a capacity standpoint. We looked at when that capacity is coming online and we still concluded that the demand for HVA tires was there for the industry. And certainly as we looked at our customers asking us for more of Goodyear branded HVA product, we're very comfortable with the decision we've made. And I think had a very thoughtful process to get to the conclusion we came to, to invest in that new factory.

Robert Higginbotham (Analyst - SunTrust Robinson Humphrey):

Okay, thank you.

Rich Kramer (Chairman, CEO):

Thank you.

Operator:

Emmanuel Rosner, CLSA.

Emmanuel Rosner (Analyst - CLSA):

Hi, good morning, everybody.

Rich Kramer (Chairman, CEO):

Hello, Emmanuel how are you?

Emmanuel Rosner (Analyst - CLSA):

Good, how are you?

Rich Kramer (Chairman, CEO):

Good, thanks.

Emmanuel Rosner (Analyst - CLSA):

So my first question is on the volume growth. You are off to a very strong start to 2015 probably at the high end of what you're seeing for the full year. And I guess my question is around how sustainable do you view these solid growth as we go through the year? Is it really, mostly, a function of easier comp and then maybe catch up from selling fewer tires in the past few quarters because of the Chinese pre-buy? Or have we really just turned a corner in terms of your refocusing away from less attractive business and that we could really see some real strong underlying trends in your numbers?

Rich Kramer (Chairman, CEO):

Emmanuel, I would say again, that we're on the strategy that we've put forward. Our strategy as you know has always -- not to pursue volume for volumes sake. And our strategy has been to focus on selling in our targeted market segments where we can get value for the Goodyear brand. And I can confirm to you that, that won't change in terms of how we're looking at our volume growth over the period. And I would say that our 1% to 2% volume forecast, we're very comfortable with at the moment.

I would say in North America, clearly in the quarter, there is an impact relative to Goodyear's performance versus the industry on just the sways of pre-buys. But if you look at around the world the comments I made in Latin America, we're gaining tremendous amount of traction there. Asia we had very good growth in both the consumer replacement and the consumer OE business there. And again back to North America, I think the demand for our products remains very, very strong. You've seen that in the quarter and we only see that increasing.

So certainly I would say that the progress that we've seen is something that we've been working toward and we expect to deliver. Could it be at the higher end of the range? Could it be above 2%? Look, that's not something we're willing to forecast at this point. What we're doing is focusing on the plan that we put in place and we're very comfortable with the guidance that we given.

Emmanuel Rosner (Analyst - CLSA):

Okay. And then second question on the pricing piece of your SOI walk. I was a little surprised by the small magnitude of the price decline, I'm talking about price mix on the gross basis. We've been used to anywhere between $70 million to $100 million per quarter in each of the past two years. And right now we're really talking about a very small price decline or price mix decline. Is it really a function of better pricing trends or is it really more the mix?

Laura Thompson (EVP, CFO):

One thing that -- well, we talked earlier that OTR for us in 2015 won't be in negative year-over-year. Last year OTR was a big driver, I negative driver in mix if you'll recall and I think actually I can't remember second or third quarter was quite a large number. Almost $100 million for the full-year. So, I think that's one of the things that is different as you look at 2015. That's a big driver of why it's different this quarter.

Emmanuel Rosner (Analyst - CLSA):

Okay, that's very helpful. And then maybe -- final one on the European margins, obviously there's some currency headwinds but the margins took a little step back. Do you still believe that you can get back to the historical margin levels by next year or is it more complicated with the current currency levels?

Laura Thompson (EVP, CFO):

While there is currency the other thing that is a big driver of that in the first quarter is the weather. So the warm weather in the fourth quarter that causes production cuts, hit the P&L in the first quarter. So that is really the big driver for Europe in terms of their margin. Now, again, as Rich mentioned feel very good about what we've done in our targeted market segments there. So, I think as we move forward this overhead should -- none of the absorbed overhead that's hitting the P&L in the first quarter, should not be anywhere near as severe.

Emmanuel Rosner (Analyst - CLSA):

Perfect, thank you very much.

Laura Thompson (EVP, CFO):

Thank you.

Operator:

Ladies and gentlemen that does conclude today's Q&A portion of our program I'll turn it back over to our presenters for any additional or closing remarks.

Rich Kramer (Chairman, CEO):

I just want to thank everyone for joining us today, we appreciate it.

Laura Thompson (EVP, CFO):

Yes, thank you.

Operator:

This does conclude today's program. Thanks for your participation. You may disconnect, and have a great day.