Goodyear Tire & Rubber (GT) Earnings Report: Q3 2015 Conference Call Transcript

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

Company Participants

- Richard Kramer; Goodyear Tire & Rubber; Chairman, President & Chief Executive Officer
- Laura Thompson; Goodyear Tire & Rubber; Chief Financial Officer & Executive Vice President
- Christina Zamarro; Goodyear Tire & Rubber; Vice President, Investor Relations

Other Participants

- Itay Michaeli; Citi; Analyst
- David Tamberrino; Goldman Sachs; Analyst
- Pat Nolan; Deutsche Bank; Analyst
- David Tamberrino; Goldman Sachs; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

At this time, I'd like to welcome everyone to The Goodyear Tire & Rubber Company third quarter earnings conference call.

(Operator Instructions)

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

Christina Zamarro (Vice President, Investor Relations):

Thank you, everyone, for joining us for Goodyear's third quarter 2015 earnings conference call.

Joining me today are Rich Kramer, Chairman and Chief Executive Officer and Laura Thompson Executive Vice President and Chief Operating Officer. Before we get started, there are a few items we need to cover. To begin 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 two. 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 U.S. GAAP equivalent as part of the appendix to the slide presentation.

And, with that, I will now turn the call over to Rich.

Richard Kramer (Chairman, President & Chief Executive Officer):

Thank you, Christine and good morning, everyone. This morning I will review our record third quarter results including our continued success in North America and provide examples of how we are executing our strategy in both robust and challenging markets. As always, Laura will follow with the financial review of our businesses before we take your questions.

I am extremely pleased with our third quarter's record results including the sequential improvement from our record second quarter results. Our consistently strong financial performance in both the volatile global economy and tire industry is a testament to our strategy and more importantly our execution.

We delivered outstanding earnings growth in the quarter, a record 599 million in segment operating income. When excluding the impact of currency on our results, our segment operating income grew 25% which is a clear indication that we executed against our strategy.

Also we delivered segment operating margin of more than 14%, the highest in more than 15 years, despite ongoing macroeconomic challenges in some of our key international markets. Each of our global businesses had segment operating margin of 11% or higher. By executing on a strategy roadmap, we are doing the right things to deliver strong quarterly results now while building capabilities for profitable growth.

Our strong performance in North America continued in the third quarter. The business grew its segment operating margin to more than 16% and achieved a 54% year-over-year increase in earnings driven by strong demand for our high value-added products. Its 323 million in segment operating income is a record for any quarter.

Demand for our tires, particularly our premium HVA products remain strong in North America as overall volume increased about 3% in the quarter. The consistent strength of our North American business is the result of our unwavering commitment to a strategy built on the alignment and integration of our industry leading products developed from the market back, our aligned distribution network, our operational excellence initiatives and the power of the Goodyear brand.

Together they create a value proposition that differentiates us from the competition. When we execute at the intersection of these attributes, we win with consumers, we help our customers win in their markets and we create competitive advantage that is reflected in our results.

As we progress with the execution of our strategy, we will take advantage of our brand strength with further high profile initiatives to support our more driven campaign. We will continue to build on our NASCAR and ESPN relationships and leverage our new fleet of Goodyear Blimps as I'm sure you seen with our increased presence on college football this season. The results of our ads have been terrific and have exceeded our expectations.

Also, we continue to rollout our e-commerce platform enabling consumers to research and buy tires online and have them installed through our network of aligned retailers. With more than 4,000 installers now signed up, we continued to expand our reach with this program which is aimed at making the tire buying process easier and creating value for Goodyear, for our participating distributors and of course for our consumers.

Since we initiated our e-commerce strategy earlier this year, others have taken similar steps which certainly confirms our strategy. We remain very confident in our approach which links the Goodyear brand, the number one search brand in the U. S., are participating Goodyear dealers and are aligned distribution all to benefit the consumer. We believe the combination of these attributes will be very hard to match.

Regarding industry demand, we expected to continue to mix up toward premium products. We welcome this trend as meeting the needs of the most discerning customers placed to our strengths.

In the near term, we are working to overcome our capacity constraints as backorders remain for our premium products we continue to strengthen our supply through our operational excellence initiatives to get more tires out of our factories through investments in our North American plants, and through sourcing products from our global footprint.

Additionally, the recent weakness in emerging market tire demand provides us with an opportunity to further leverage our international footprint to meet the strong demand for our products in the U. S.

Overall, this was another terrific quarter for North America's journey towards sustainable performance and value creation. Our goal is to maximize our ability to win at the intersection of innovation demand creation and supply, all to better serve our customers and consumers. We've made tremendous progress, but I know we can do even better.

In our EMEA business, the effect of the strong U.S. dollar and soft winter tire sales explain the vast majority of the year-over-year decline in the regions results. We anticipated a week industry environment and it was even weaker than expected as winter tire inventory remain high. Given three consecutive warm winters, there was little motivation for the channel to stock up on winter tires during the traditional selling season. On the positive side, our product portfolio remains robust putting us in a strong position when consumers begin to switch to winter tires.

Our industry leading innovative new products continue to be recognized in influential magazine tests. The new Goodyear Vector 4Season are all season tire was the winner in an extensive test by a leaning German automotive magazine and was the only tire of the 10 that were tested to achieve the top exemplary rating. The Vector 4Season was the clear winner.

The Goodyear UltraGrip performance winter tire took first place in three magazine tests during the quarter and the Dunlop Winter Sport 5 claimed the top spot in two tests. The results of these test influence consumer buying behavior and we're very pleased with the independent validation of our innovative winter products.

Beyond the recognition for our winter tires, another positive was a 6% increase in our original equipment volume as the OE industry gained momentum in the third quarter. And in our commercial truck tire business we continued to deliver strong results with numerous key competitive fleet wins as our fleet service value proposition including our top-performing Goodyear KMAX tire lineup is demonstrating competitive advantage. We will remain focused on building our value proposition and supporting our business over the long-term with investments to deliver more premium products across the region.

You may have seen our announcement in the quarter related to our plan modernization of our factory in South Africa converting to the latest technology to further improve the plants high value-added consumer car tire production.

Looking ahead, we will work to strengthen our distribution and customer service to help further differentiate our value proposition while also continuing to reduce our cost to run rate of initiatives targeting increase profitability for EMEA business. We expect EMEA to be in a low growth environment and to have a weak euro for the near future and our focus is on executing in that environment.

Market conditions in our Latin America business continue to be extremely challenging. The high level of volatility in the region is not new and our leadership team continues to execute on our strategy and take advantage of pockets of opportunity.

For example, even as our consumer OE in commercial truck businesses remained weak in the region, particularly in Brazil, our consumer placement volume grew 22%. This was the foundation of our 8% overall volume growth. I'm pleased with our team's ability to execute our strategy under these adverse conditions.

We will continue to focus on our cost structure in the region as we anticipate the economic slowdown in Brazil to continue through 2016 and possibly beyond. We also are very focused on reacting quickly to the fast-moving swings and inflation and evaluations to ensure we are proactively managing our value proposition, our cost, and our balance sheet position. As you've heard me say before, this region will continue to be volatile but we are very well-versed in executing in this environment.

In Asia-Pacific, our segment operating margin grew to more than 15% despite flat volume growth overall in the quarter. We faced a weakening market environment in China in the third quarter as economic slowdown, stock market decline and tighter liquidity negatively affected consumers, retailers and distributor purchases.

We had strong growth in our consumer business in India but also had continued deterioration in Australia due to ongoing macroeconomic challenges in that country. In China, new car sales declined significantly in the past months and credit in the distribution channel tightened as well. Despite these adverse market conditions, we grew our unit sales by 4% in the quarter based on our strong market position and are winning product lineup.

More recently, the industry began to stabilize in September and we are encouraged by the announced reduction in sales tax related to new vehicle purchase starting this month. While we expect continued volatility in China, we remain positive on the long-term market outlook and project the countries growing middle-class will drive improvement in the automotive sector.

We are well positioned to benefit from this market growth as the Goodyear brand was recently ranked highest for consumer satisfaction in the luxury and SUV segments. Our EfficientGrip Performance tire won several important awards in the quarter including Motor Trend Magazine's Tire of the Year in the comfort category for the second year in a row. Also, we continue to win key OE fitments with both global and domestic automakers creating aftermarket costs.

To meet our growth in the region, we are committed to increasing our capacity over the long-term in our factory in Pulandian, China. With are announced and planned projects we expect to increase our capacity by up to 5 million additional consumer HVA tires by 2020. We are very optimistic about the long-term value proposition of our business and Asia-Pacific. Our new product introductions only pull-through an increasing points of distribution will be supported by our increased capacity and give us confidence that we will continue to be successful in one of our most important markets.

Looking back at the third quarter, I'm very pleased with our record results. More importantly, I am very happy with the way we continue to execute our strategy whether in strong markets or challenging once. Our teams have made the commitment to winning with consumers and helping our customers build their businesses every day while taking a long view of creating sustainable value.

Given our results to three quarters, the strong demand for our high value-added products, and our balance of investment in cost reduction, I'm confident in our ability to deliver our targeted earnings growth in 2015 and 2016. With our strong year-to-date performance, we now see full year segment operating income tracking to $2 billion which would be more than double what we achieved just five years ago.

Our North America business continues to be the cornerstone of our earnings generation. Our international businesses, however, are operating in very difficult, low growth environments driven by low commodity prices, weakening economies and weakening currencies versus the U.S. dollar. We do not anticipate that changing in 2016.

Still, we are maintaining flexibility to deliver on our long-term strategy while being prudent and proactive with our cost in the near-term. In all businesses, we are delivering innovative new products and investing where appropriate for future growth.

Now, I will turn the call over to Laura

Laura Thompson (Chief Financial Officer & Executive Vice President):

Thank you, Rich and good morning, everyone. My remarks today will start with a review of our third-quarter results including points from each of our four strategic business units. I will then cover updates to our full-year Outlook for 2015 before we open the call up for your questions.

Turning to slide eight, I'd like to highlight a few items on our income statement. In the quarter, we grew segment operating income by 15%. Our strong performance in a challenging international environment was driven by a combination of volume growth and margin expansion.

Segment operating income was $599 million and our SOI margin expanded to 14.3%. Unit volumes increased 1% in the quarter driven by solid growth in Latin America and North America, partially offset by a decline in EMEA and Asia was essentially flat.

The decline in our net sales for the quarter is fully explained by the strengthening of the U.S. dollar and reduced sales in other tire related businesses, primarily due to the effect of lower commodity prices impacting our third-party chemical sales in North America. Strong performance on price mix versus raw materials improved our gross margin by 3.8 points to 28.3%.

Our earnings per share on a diluted basis was $0.99. The results were influenced by certain significant items which are listed in the appendix of today's presentation. After adjusting for these items, our earnings per share was also $0.99 as the adjustments collectively offset each other.

As a result of the release of our U.S. tax valuation allowances at year end 2014, our U.S. tax expense increased significantly year-over-year. Consistent with our approach in the previous quarters for year-over-year comparison purposes, we have provided an adjusted EPS excluding this incremental non-cash tax expense. For the quarter, the adjusted EPS on that basis is $1.29 up $0.42 since last year.

As a reminder, although we are incurring tax expense and the U.S. today due to our significant U.S. deferred tax assets, we do not anticipate paying significant cash income taxes in the U.S. for approximately five years.

The step chart on slide nine, locks third quarter 2014 segment operating income to the third quarter 2015. Our segment operating income was up 15% year-over-year and excluding the impact of foreign-exchange translation, grew 25%. The positive impact of volume growth was partially offset by lower unabsorbed fixed overhead cost of $3 million. We were able to realize the benefit of lower raw material cost while holding price mix essentially flat, for a net benefit of $130 million during the quarter.

While year-on-year prices declined slightly in part due to our raw material index agreement, that reduction was almost entirely offset by positive mix. Excluding Venezuela, our net price mix versus raw material benefit in the quarter was $44 million. The $86 million impact of Venezuela was higher than we anticipated as we were able to offset higher than expected inflation. Our $76 million of cost savings was completely offset by the impact of inflation including hyperinflation in Venezuela.

If we exclude the impact of Venezuela, our cost savings net of inflation would have been $55 million during the quarter. This is more reflective of our progress on operational excellence initiatives throughout the rest of the company. It is important to note that our performance excluding Venezuela is in line with our net cost savings in recent years. The impact of Venezuela is embedded in each element of our SOI walk as always. But in aggregate Venezuela accounted for $39 million of our SOI in the quarter; and $12 million of the year on year growth and SOI.

Foreign currency exchange was a headwind of $49 million, reflecting the continued strengthening of the U.S. dollar particularly, against the euro and the Canadian dollar. The translation impact of the Brazilian real was muted due to weak business results from the continuing recession in Brazil.

Turning to the balance sheet on slide 10, cash and cash equivalents at the end of the quarter were $1.7 billion and is consistent with the prior quarter and the third quarter last year. This cash balance includes $292 million of cash in Venezuela at the end the third quarter.

Our total debt and our net debt are both down slightly from the second quarter balances. Net debt is lower than the third quarter last year by $801 million following our strong free cash flow performance over the last 12 months.

Slide 11 shows we generated $190 million of free cash flow from operations in the quarter. Our normal seasonal build and working capital with a use of $231 million down significantly from last year's level driven by lower raw material cost. Looking over the last 12 months, our free cash flow performance has been strong exceeding $1.2 billion.

Moving now to the business units on slide 12. North America continues to post impressive results recording the 25th consecutive quarter of year-over-year earnings growth with segment operating income of $323 million.

North America's $113 million improvement in earnings was driven primarily by strong price mix net of raw material cost, increased volume from our consumer business and an improved cost driven by our operational excellence initiatives.

Partially offsetting these benefits, the weaker Canadian dollar negatively impacted North America's SOI by $12 million. The demand for our industry-leading consumer tires is strong as we realized consumer volume gains of 4%.

During the quarter, we increased our share in OE which continues to enhance our profitability with increased sales of our premium HVA products such as the Wrangler All-Terrain Adventure and Assurance Fuel Max on some of the OEMs most popular vehicles.

Demand in our replacement business remained solid and we continue to see benefits from our new product launches such as the Kelly Edge. However, in many instances strong demand is outpacing our ability to supply our premiums Goodyear branded tires.

Through September, North America has delivered segment operating income of $842 million or about 14% of sales and we are on track to exceed $1 billion this year. We believe these results are continued evidence that our strategy is sound and our teams execution has been outstanding.

Europe, Middle East and Africa generated segment operating income of $154 million in the quarter which was $27 million less than the prior year. This decline was primarily driven by currency weakness as foreign currency translation reduced earnings by $24 million.

Overall, our EMEA unit volumes decreased about 2% year-over-year. The European winter tire industry selling during the quarter decreased more than 7% year-over-year, although, we did see year-over-year share increases and the winter HVA performance and SUV segment.

Summer industry volumes were up 4% during the quarter which helped offset some of the decline as well as weakness in parts of Europe, where we have been experiencing an increase in competition from Chinese imports.

Our EMEA business has continued to deliver solid underlying performance in 2015. While we have seen cold weather and even snow in some countries in October, we continue to take a cautious approach on volume expectations for the remainder of the year, but the strength of our winter product portfolio has us well position to drive future business and win in our targeted market segment.

Asia-Pacific generated segment operating income of $72 million in the quarter, a decrease of 10% versus last year's $80 million. The main drivers were foreign currency headwinds, due to the stronger U.S. dollar and higher SAG expense, partially offset by favorable price mix versus raw material cost. The segment operating margin in the region increased to 15.7%.

Despite recent economic headwinds in China, our team has been performing well and growing our volume. Our OE business delivered double-digit volume growth in the quarter despite the weakness in the industry. And replacement, we did see an impact from de-stocking in our distributor channel and we also made some choices based on customer credit both related to the tighter liquidity environment.

Asia remains a key growth opportunity for the company and we are confident about the region's long-term growth trajectory. We are prepared for short-term volatility and remain committed to mid- and long-term growth.

In Latin America, segment operating income was $50 million for the quarter. Latin America benefited from higher volume and positive price mix which more than offset the impact of inflation on raw material and conversion costs.

Our volume increased 8% driven by 18% growth in our replacement business with double-digit growth in most countries in the region including Brazil, Mexico and the Andean countries as a result of our strong product line up. The OE business declined 21% due to the continuing recessionary environment in Brazil.

As I mentioned earlier, for the quarter, operating income from our Venezuelan business was $39 million. This operating income excludes foreign currency exchange losses related to the Venezuelan Bolivar, which were $8 million in the quarter. While economic conditions and currency controlled in Venezuela remain challenging, we have received US$15 million in the quarter to purchase raw materials to support continued operations.

Our Latin American team is continuing to work proactively to maximize market opportunities in an increasingly difficult environment, while at the same time, taking actions to address the cost structure to be in a position to better weather the storm.

Slide 13 shows our updated full year modeling assumptions for 2015. You will notice that volume and unabsorbed overhead are unchanged from our July call. The first update is an increase in our outlook for price mix net of raw materials. We now expect a full year net benefit of approximately $370 million, which reflects an increase related to our third quarter performance. We continue to expect raw materials to be down about 7% versus 2014 before cost saving actions. This includes the negative impact of currency on raw materials transaction in our international businesses.

With rapidly increasing inflation in Venezuela in the second half of the year, we revised our net cost savings in 2015 to be neutral.

Outside of Venezuela, our businesses are delivering on our operational excellence initiatives. The savings excluding Venezuela are on plan and are delivering as expected. Our segment operating income drivers include about $20 million of earnings in Venezuela in the fourth quarter. As we have sufficient U.S. dollars to enable us to produce through the end of the year. We are taking a cautious view on Q4 as Venezuela heads in to its December election, which could amplify the already volatile environment. Based on current stat rates we now expect translation to be headwind of $160 million for the full year.

Finally, with our year to date strength in our other tire related businesses, we have included a $20 million benefit in our outlook. In summary, as we look ahead and based on our current assumptions, we are tracking above our 10% to 15% segment operating income target for 2015 to $2 billion. Additional financial assumptions for 2015 are listed on slide 14 and reflect updates related to our year-to-date trend. The significant changes are reduction in our CapEx outlook to $1 billion to $1.1 billion and the likely need for 50 million to 75 million of working capital to support the business.

Turning to 2016, we continue to target 10% to 15% SOI growth. We have strong positive momentum in many parts of our business and challenges in others. We will way all of these factors including raw materials and foreign exchange and provide our specific thoughts during our yearend earnings call.

Finally, we continue to execute on our capital allocation plan. And as part of that plan, we have an existing $450 million share repurchase authorization. Including the $30 million for repurchases during the third quarter, which essentially offset dilution, we have repurchased $313 million under our 2014 to 2016 plan. We also recently announced an increase in our quarterly dividend to $0.07 per share effective with our December dividend payments.

Now we will open the line up for your questions.

QUESTIONS & ANSWERS

Operator:

And at this time if you would like to ask a question. [Operating Instruction] And we can take our first question from Itay Michaeli with Citi. Please go ahead.

Itay Michaeli (Analyst - Citi):

Great. Thank you, good morning. Good morning and congrats.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Good morning, thanks.

Itay Michaeli (Analyst - Citi):

I may have missed this but just on the price mix versus Raws being revised at $40 million. Can you maybe talk a little bit about what pumped that revisions, is that mostly on the mix size, because I think Laura you mentioned the raw material Outlook is consistent still for the year. And to that you have an early look given the lack of roughly maybe where raw materials may be in the early part of 2016?

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes sure Itay a couple of things. So first I'll start with the second question first. Related to 2016, really based on where we sit today current spot rates and currency rates as well. We do see I guess at this point low single digits excuse me low single digits positive as we go into the 2016 versus the 2015 on raw materials. The changes that we made in the Outlook are a couple of things. It primarily relates to where we are at year-to-date and including our Outlook for Venezuela.

Itay Michaeli (Analyst - Citi):

Excellent, great. And if I may just sneak in one on cash flow, it does seem that the EBIT with CapEx year-to-date you probably have a significant increase just to get to the low end of the range. And I think you should have a working capital benefit in the fourth quarter. I was wondering about capital allocation and maybe an acceleration and some of the buyback activity in the fourth quarter as cash flow should see some tailwinds it looks likeÉ

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes, so Italy as we think about remember for us -- historically just the way our business flows, essentially all of our cash flow is generated in the fourth quarter. So when you think about our three-year plan -- our capital allocation plan that is it about 2014, 2015 and 16, we're really only about one year through our three-year plan in that sense.

Now I get it the fourth quarter is coming and soon we will have two years into that plan. We have we said that any increases to that shareholder return program, you will remember our capital allocation plan has a range on it right now. It is 0.6 to 1.25 billion and again we feel good about results and where we are at, but as we generate that that cash in the fourth quarter, we will look to take another look at where we are at in our authorization.

We have $313 million of the share repurchases of that $450 million through the third quarter and we are very committed to that shareholder return program, okay. Now we did also increase the dividend in the fourth quarter so you see us continuing to make product us as we deliver the results.

Itay Michaeli (Analyst - Citi):

Terrific, that's very helpful. Thanks so much.

Richard Kramer (Chairman, President & Chief Executive Officer):

Thank you Itay.

Operator:

And we'll take our next question from David Tamberrino with Goldman Sachs

Richard Kramer (Chairman, President & Chief Executive Officer):

Good morning, David.

David Tamberrino (Analyst - Goldman Sachs):

Good morning and congrats on the quarter. My first question is really just around the 2.0 billion SOI tracking number that you put out. Really in relation to kind of last year, we're still tracking similarly to the top end or above of that 10% to 15 % those three quarters now. Just wondering what really gave you the confidence to come out and put out that number of $2 billion, which is 17% year-over-year increase and above that 15%. Is it order levels, what you seeing in that channel that gave you the confidence?

Richard Kramer (Chairman, President & Chief Executive Officer):

David I think it's just confidence in the strategy that we have been executing, the changes that we've made to the business model is what you are seeing in the results that we're delivering. And also you're seeing that particularly in the strength of our North American business.

And I think when we look at what we see in that business, the improvements that we are making there and we look also at some of the other elements around the world, that gave us the confidence to make that statement to say that we are tracking to that range.

David Tamberrino (Analyst - Goldman Sachs):

Okay. That's fair. And winter tire inventories in Europe obviously we've seen the selling has been poor, I think it was on top of a pretty high single digit selling last year. Where do you think the inventories are now as it relates to potentially cold winter here. Do think that easy comp from last year is going to set up for a particularly strong quarter in the event that we do see a little bit more been normalized winter in Europe?

Richard Kramer (Chairman, President & Chief Executive Officer):

David it's a good question. If I just maybe take a step back for one second, the winter market is important to the industry there. It's roundabout 30% of the tires we sell. It's typically high-end tires and it's a very good mix so forth. So it's very important to us and as you know we are leaders in winter technology. The situation that we're seeing is coming off of three warm winters in a row.

As Laura mentioned, and I think as we said in the past, we have kind of planned for that sort of pre-winter even though we've seen some snow at this point. And part of what goes into our thinking is, excuse me is pretty much in line with what you're saying. You could almost call it the sort of the animal spirits of the winter or the channel in Europe right now particularly in Germany, they do have higher inventory in the channel right now.

And on top of that, you've had these three warm winters, so there is little motivation to go stock up and go long on tires. The industry is typically round 100 million units or something like that if you do the math. We would say that that with higher inventory in the channel that's obviously still a question as to whether we can even reach that level. It's clearly been much higher than that as we go back to the light winters of 2011. It was actually much higher than what I am saying.

So as we look at it, we are going to continue to sort of stay in a cautious view. We think, we are very well prepared for it. I went through on my remarks, our winter line up our UltraGrip performance tire, our Dunlop winter sport five, our Vector 4Season for those that want to move to Offseason, that's a small market. But we have top-tier winning podium products and all of those categories right now so were ready -- I think what would give us a boost, what would give the industry a boost frankly is cold weather and snow as we head into November here.

David Tamberrino (Analyst - Goldman Sachs):

Okay. So just to summarize that it sounds as is there is upside to the $2 billion if there is in fact a colder and normalized winter in Europe?

Richard Kramer (Chairman, President & Chief Executive Officer):

I think unequivocally we could say that and it's kind of, as we look at the winter, it's kind of like interest rates. We think they are going to go up and they don't. We think its' going to snow and it hasn't. So if we got to wait for the event to happen, and then we will see what happens? But clearly, if it snows, there's absolutely a virtuous effect in that.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes.

David Tamberrino (Analyst - Goldman Sachs):

Understood. And then maybe just one more for me. For the online sales channel, we've seen a little bit of a small arms race here as Michelin has bought a few in Europe, they have also rolled out and on-demand service in the U.S. And then Bridgestone more recently bought some distribution channels both brick-and-mortar as well as online over this past weekend. How do you see that online e-commerce distribution channel evolving over the coming couple of years really for the global Big Three?

Richard Kramer (Chairman, President & Chief Executive Officer):

One -- number one, I think it's really confirmation of the strategy that we rolled out earlier in the year. And I think that's important. That's what we saw coming. It's why we did what we did. And I would tell you we took a long time in getting there, building up what you've heard me say, our brand, and building up search our brand where the number one search tire brand, tire manufacturer in the U.S. rivaling some other big online tire sellers right now and doing that as a manufacturer. We are significantly ahead of others let's just say. And we did that very consciously to create the demand in the market place. Then we pulled together, signing up our partners dealers and also putting the distribution capabilities in place.

And then marrying the technology to be able to make that work, so customer has a good experience as are doing this really to make the tire buying process easier for the consumer. What I said, I said very simply, but it's a very complex problem. And it's one of those things that sort of bolt ons don't necessarily make the process have that much less friction in it because you have to hook up all kinds of things in the back.

So this is not an easy thing to do to get you know the SKU explosion to get the right tire to the right place at the right time when consumers are going online to buy their tires. This is not an easy process, and it's why were being very methodical and having a good success as we go at this point.

Having said that, I do think -- like most other products and particularly around millennial being the consumers with $1 trillion of buying power or some 80 million millennials out there that this will be an absolute way to buy tires and expected way to buy tires because that is how that group does commerce to a large degree.

So having a formula that works out there and being able to marry it with the brand and importantly, the distribution both retailers and aligned distributors to get the tires there is going to be what wins.

And that's how we are thinking about it sort of building it from the bottom up to be able to deliver in that value promise. So far we feel very good about it. But there's no question it will be a way that consumers want to shop. And Goodyear and its partner dealers are getting ready for that.

David Tamberrino (Analyst - Goldman Sachs):

Okay. That's helpful. I will turn it over. Thank you.

Richard Kramer (Chairman, President & Chief Executive Officer):

Thank you.

Operator:

[Operator Instructions] We can go next to Rod Lache with Deutsche Bank. Please go ahead.

Pat Nolan (Analyst - Deutsche Bank):

Good morning everyone. It's actually Pat Nolan for Rod.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes, good morning, Pat.

Richard Kramer (Chairman, President & Chief Executive Officer):

Hey Pat.

Pat Nolan (Analyst - Deutsche Bank):

Two quick questions on North America. First on the supply issues you alluded to in Q3, is that something you see being near term, in other words will you be able to perform in line with the industry over the next couple of quarters or do think the supply issues constrain your EBITD there?

And secondly, maybe Rich if you could expand on your view on the sustainability of this North American margin performance I mean, it's a multiple of what the historic level has been. Maybe if you could just expand on how sustainable you think these margins are?

Richard Kramer (Chairman, President & Chief Executive Officer):

Sure. So the first question on the way to catch up on supply -- I would tell you, this is a point that we've been making relative to supplying those high-end HVA complex tires. I think the larger end diameter S view tires in particular or performance tires. And those are tires that remain high in demand, the capacity for those tires on a broad basis still I would say is behind the demand for those tires.

And that is something that we are working to continue to make more of and doing by getting more tires out of our existing factories, investing in our North American factories, and also, using our sort of lower demands around the world to import some of those tires in. So in the near term that is how we are trying to catch up and continue to be a better supplier.

Over the long-term, that's also why we embarked on the Americas plan that we talked on in the past. So that's something that will take some time to put in place. It also is going to be a function of the demand that is out there as well. We think the demand will be there and we are going to work -- we are working feverishly to do that keeping our factories running full to be able to supply those tires.

I would also say though -- just to put it in perspective that part of the market continues to grow. The other parts of the market as we said are always subject to these imports coming in. Remember we had these big gyrations because buying ahead of tariffs and the like and you have to remember as that drives the market or has an impact on the market, it had it impacts is less as we are focused on other segments of the market and not so much what is happening in the lower in.

The question on that the sustainability of North America's market. Excuse me, margins. I would say as we look at the business to date we remain, the industry today, we remain very optimistic and positive on what is still available for us to go achieve. I just mentioned the demand for HVA tires out there and made a few remarks earlier about the opportunities related to growing through digital.

And as we look at our business, the tire business is really one of execution. Right tire, right place, right time and creating the right demand and having a brand that bring consumers to the stores and to our participating dealers. By doing those things right and as I said working and executing at the intersection of innovation of demand creation and supply, we see continued opportunity to continue to grow our business.

So as we look at the earnings power of North America and we look at the industry conditions out there, I still remain very confident in the ability and the earnings ability of our North American businesses.

Laura Thompson (Chief Financial Officer & Executive Vice President):

And when you add on the continued operational excellence initiatives, that drive the cost that's not fully rolled out through all of our factories even in North America, through all the work stations. And then I probably say maybe to the earlier question, we live it every day. But don't forget about how complex these tires are.

Right, the complexity that's part of the equation. I would say that we are seeing probably demand higher than our expectations for the really highly complex tires. The performance and the SUV tires as well. And that continues to really put pressure on supply as we go.

Pat Nolan (Analyst - Deutsche Bank):

That's very helpful. If I could just sneak in just one housekeeping item. What are you incorporating in the guidance as far as Venezuela profitability in Q4?

Laura Thompson (Chief Financial Officer & Executive Vice President):

About $20 million of SOI

Pat Nolan (Analyst - Deutsche Bank):

Thanks very much. I'll get back in the queue.

Operator:

We'll take our next question from Ryan Brinkman with JPMorgan . Please go ahead.

Unidentified Participant:

Hi. This is actually Samik on for Ryan. And I apologize if I missed a part of the call, so if these questions have already been answered. But just wanted to touch firstly on the guidance on the raw material price mix spread here. I remember earlier you were guiding to 3Q probably looking like more like the peak benefit in the year on that front and now it looks like you sort of looking at 4Q being a similar benefit.

Now when I'm -- I guess with sort of the lag that you see in sport prices flowing through the P&L, how should we think about 1Q, does it look like it's going to frail [ph] off or does it look similarly strong for Q4?

Laura Thompson (Chief Financial Officer & Executive Vice President):

I guess I would say for raw materials year-over-year in 2016, we do see overall low single digits improvement. I think as we look at it today, based on current spot rates and the currency rates that that would be a little better than that in the first half of the year versus the second half of the year. But we will like I said we will keep watching this and give you a full update on the fourth quarter call.

Unidentified Participant:

Got it. Got it. And just my last question on the North America segment, I see on the global SOI walk you had a small headwind from price mix. But could you help me with what that was for North America and how is pricing environment in North America?

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes. I mean the price mix for North America continues to be strong right? The new product line up, the high demand for the very complex tires very positive results in North America. I think is mix is very strong. A very significant positive for us in the quarter. And we expect based on our demand that to continue.

Now when it comes to price for North America, the only thing is, is our OE contracts right? Those have our RMIs included in them and some of the commercial fleets as well. And that comes into play in the pricing equation in North America. But things are strong and the resultsÉ

Richard Kramer (Chairman, President & Chief Executive Officer):

I would echo Laura's comments on mix. I think as we look at the results we're very pleased with the whole price mix equation for North American business.

Unidentified Participant:

Great. And just a follow-up on that front. Since the tariff kicked in, in early August has there been any change on that front? Has there been like a greater benefit to mix and pricing coming through after that?

Richard Kramer (Chairman, President & Chief Executive Officer):

You meant from the tariffs coming? The tariffs coming in.

Unidentified Participant:

Yes.

Richard Kramer (Chairman, President & Chief Executive Officer):

I would say that that's really by in large part of the market that's not where we have a significant presence. So our situation really revolves around our value proposition, the new products we are bring to market in our ability to do that our new Wrangler All-Terrain Adventure, our Wrangler DuraTrac, the whole Kelly Edge power line up all these things are really what's driving our increases in my the marketplace.

Unidentified Participant:

Got it. Great. Thanks for taking my questions. Thank you.

Richard Kramer (Chairman, President & Chief Executive Officer):

Thank you.

Operator:

And we'll take a follow up from David Tamberrino with Goldman Sachs . Please go ahead.

David Tamberrino (Analyst - Goldman Sachs):

Hi thank you. Just a few more for me. I think Latin America is, one of the concerns here is specifically Venezuela, it sounds as if you guys have continued to be able to transact at one of the favorable sick add rates. How much longer do you think that continues and you'll be able to get U.S. dollars to buy raw materials down there because, just thinking about the core of the year in Venezuela has been a meaningful contributor to earnings and I guess a thought going forward is how much longer can that continue in your view?

Richard Kramer (Chairman, President & Chief Executive Officer):

Yes David just a quick comment on Latin America in general. Very difficult environment down there particularly in Brazil, I know your question's on Venezuela. But I will just take the opportunity that our teams have been executing well down there, in light of consumer OE business and truck business there that's down, 20% plus and you see from our numbers we grew volume above 20% in consumer replacement volume above 20% in virtually all of our key countries down there.

So the team is executing well there in what is a very difficult environment around currency and inflation and evaluation in general excluding Venezuela. So we are pleased with how we're doing but we clearly see the headwinds going on there. And Venezuela is clearly one of them and I will have Laura address your questions in particular.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes, sure, David. So when you think about it for us, and for tires. Tires are being treated as a priority good. Right now there's very few forms of transportation in the country. And we continue to, to have access to U.S. dollars to buy those raw materials as I mentioned. We just received $15 million in the third quarter. Now line of sight is limited. Each company facts and circumstances are very different. But we continue to, to make and sell tires and they are in high demand. We certainly have a tremendous amount of disclosure related to Venezuela and all of our cues and case. For us we continue to operate the business under normal course and really predicting kind of the future is very difficult for Venezuela.

David Tamberrino (Analyst - Goldman Sachs):

Okay that's fair. And I guess, may be on that topic when you think about the hyperinflation down there, how conservative have you been in your updated outlook and kind of SOI walk for inflation? Could it be something that gets again for the fourth quarter comes in a little bit higher and ends up really eating into and making the cost savings minus inflation are negative or do think you've been accurate on your estimates for 4Q?

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes, I mean for us that about $20 million in the fourth quarter takes into consideration the December elections and that historically -- and I think everyone would expect that to create even more volatility as we go then was in the third quarter. So for us, we see it as a balance estimate for the fourth quarter.

Richard Kramer (Chairman, President & Chief Executive Officer):

Yes and David I would say from your question on cost savings, I mean, we still if you exclude Venezuela, which we've tried to do pretty much on our sort of forecast for cost savings is not actually exceeding it. So if you strip Venezuela out and it certainly does sort of complicate things, but when you take it away, I would say we're executing very well against those cost savings if that was an underlying question -- we feel pretty good about the core business.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes. And we have been able to work through the inflation increases even if we have some impact further in our cost savings versus inflation. It tends to be offset in the price mix versus raw for Venezuela.

David Tamberrino (Analyst - Goldman Sachs):

Okay. And that is helpful. And then just lastly, in your analogy earlier you were talking about the potential rising interest rates that revolving were kind of waiting to see here. Is there kind of any update when you think about your balance sheet and the structure in terms of timing may be coming to the market and looking at refinancing some of that higher coupon debt that's out there. I know a couple of them become callable or one has become callable in a more in the next year?

Laura Thompson (Chief Financial Officer & Executive Vice President):

So we all always are monitoring our capital structure and we take a very proactive approach to managing our interest expense. And we will continue to do that. Now we obviously can talk about or comment when we would be in the market or not. But that is our history and you have seen it recently right? In May we amended and restated our European revolving credit facility and I think a 75 basis point reduction, June we amended the U.S. second term loan and lower that by about a 100 basis points. So that's kind of been our MO of the past.

Operator:

And it appears we have no further questions, so I will return the call to Goodyear for closing comments.

Richard Kramer (Chairman, President & Chief Executive Officer):

I just want to thank everyone for joining us today. We had a great quarter and we felt very good about finishing off the year. So thank you very much.

Laura Thompson (Chief Financial Officer & Executive Vice President):

Yes. Thank you.

Operator:

This does conclude today's program.