

INVESTOR DAY @ SHENYANG

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MICHELIN CHINA
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Outline



1. China: General Overview
2. Michelin in China: history & footprint
3. Main distinction of the Chinese tire market
4. The Chinese tire industry
5. Key takeaways



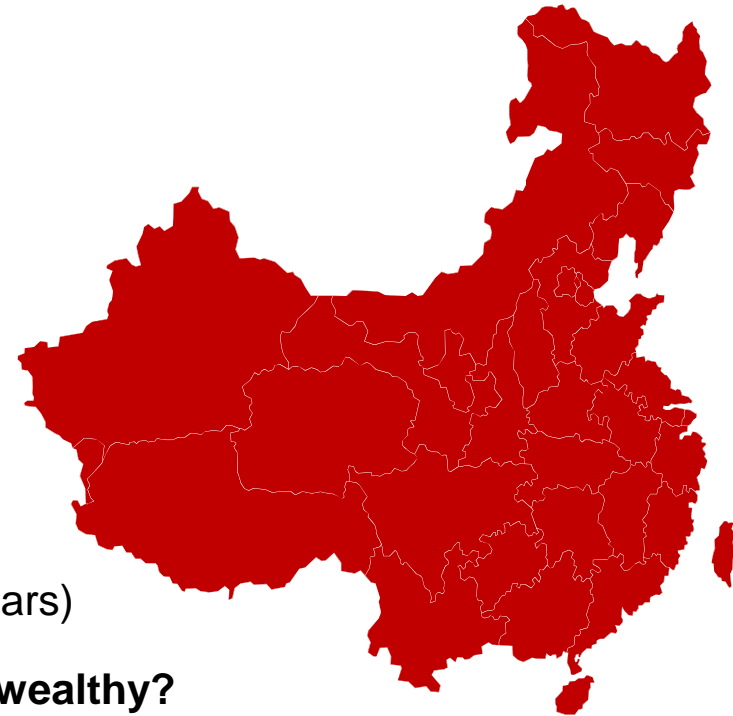
CHINA GENERAL OVERVIEW

1



A large and diverse population

- ▶ **1.36 billion** inhabitants
- ▶ Different levels of maturity
from Hong Kong to Inner Mongolia
from Taiwan to Tibet
- ▶ **60%** living in **coastal provinces**
- ▶ **300 cities over 1M** (3 cities over 20M)
- ▶ A fast growing **middle class** (x 6 in 10 years)
- ▶ A population **getting old before getting wealthy?**



35 years of incredible and successful transformation

| | 1978 | | 2013 |
|----------------------------|------|-------|------|
| Nominal GDP (trillion USD) | 0.27 | X 35 | 9.3 |
| Urbanisation rate (%) | 18% | X 3 | 54% |
| Car parc (million) | 0.3 | X 330 | 100 |
| TB parc (million) | 1 | X 16 | 16 |

WEBNAUTES

94 to **620 million**
From 2004 to 2013 **X7**



Some key economic and political challenges

- ▶ Address **urbanization** issues
- ▶ Fight against **corruption**
- ▶ Balance wealth between **urban** and **rural** areas
- ▶ Tackle worsening **demographics**
- ▶ Strengthen **safety net**



Embarking on the biggest policy shift: from a GDP-driven to a balanced growth

- ▶ From investment **to domestic consumption**
- ▶ From state **to private**
- ▶ From coast **to interior**
- ▶ From heavy industry **to services**



MICHELIN IN CHINA
HISTORY & FOOTPRINT

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MICHELIN in China

History

- ▶ **1988** Sales office in Hong Kong
- ▶ **1995** Joint venture (MSTC) in Shenyang
- ▶ **2001** Joint stock company Shanghai Michelin Warrior Tire Co., Ltd.
Start of an R&D company (MTRD)
- ▶ **2006** Start of Michelin Holding and Commercial Company in China (MCIC)
- ▶ **2009** TYREPLUS distribution network established as a franchise
- ▶ **2010** Shanghai tire plant 100% owned by Michelin
Reconstruction & expansion project of Michelin Shenyang plant
- ▶ **2012** JV with Huayi & Double Coin to produce Tier 2 Passenger car tires (Warrior brand)
- ▶ **2013** 1st Truck & bus & Passenger car tires produced in Shenyang new plant
- ▶ **2014** 1000th TYREPLUS store opened in China
- ▶ **2015** SHY1 to SHY2 production transfer completed



MICHELIN in China

Footprint

8 Sales Offices

Beijing
 Shenyang
 Xi'an
 Chengdu
 Shanghai
 Guangzhou
 Hong Kong
 Taipei



4 Plants

- ▶ Shenyang (TC & PL)
- ▶ Shanghai (TC)
- ▶ Shanghai (steel cord)
- ▶ Wuhu (TC Warrior)

Production (K tons/year)*

| | <u>2013</u> | <u>2017</u> |
|------|-------------|-------------|
| Wuhu | 140 | 250 |

*JV excluded



MICHELIN in China

An extensive distribution network

| # Dealers | TC | PL |
|---------------|--------------|--------------|
| Durable | 2,000 | 130 |
| Advocate | 3,000 | 70 |
| Transactional | 2,800 | 1,600 |
| Total | 7,800 | 1,800 |



- Sales >=5%
- 2% < Sales < 5%
- Sales <=2%

% = weight of each province in Michelin China net sales



MAIN DISTINCTION OF
THE CHINESE MARKET

3



Challenging but with huge opportunities

- ▶ **Fast growing** to be the largest in the world 🚗
- ▶ Getting **sophisticated** 🚗
- ▶ **Crowded** tire industry 🚗
- ▶ Very **competitive** 🚗
- ▶ **Brand focused** consumers 🚗
- ▶ **Going West** 🚗

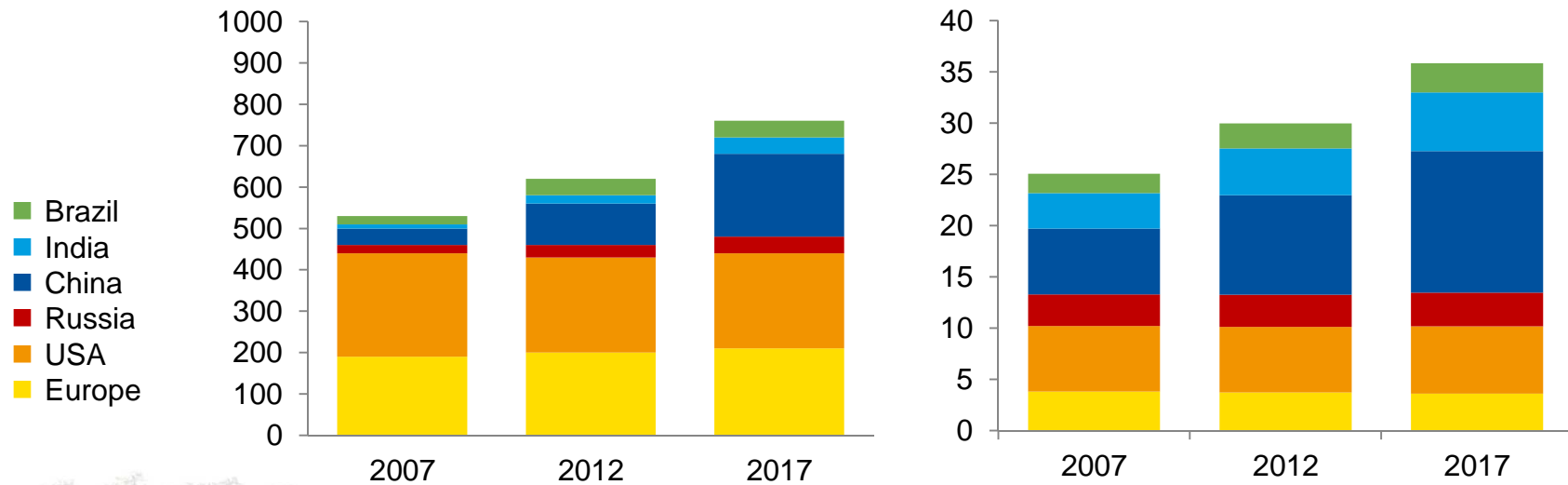


Fast growing to be the worldwide largest in Passenger car and already the largest in Truck & bus



Car park
(in millions of vehicles)

Truck & Bus park
(in millions of vehicles)



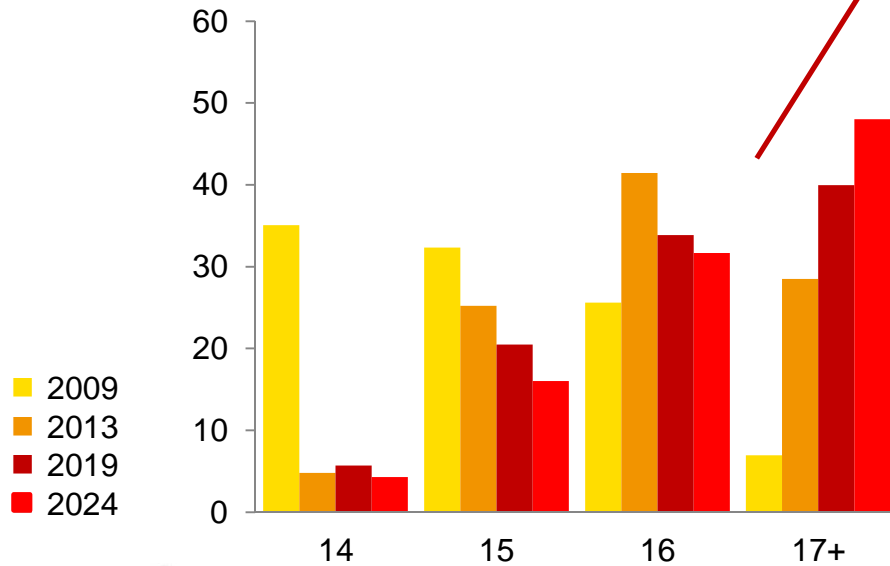
China to represent over 50% of worldwide vehicle growth



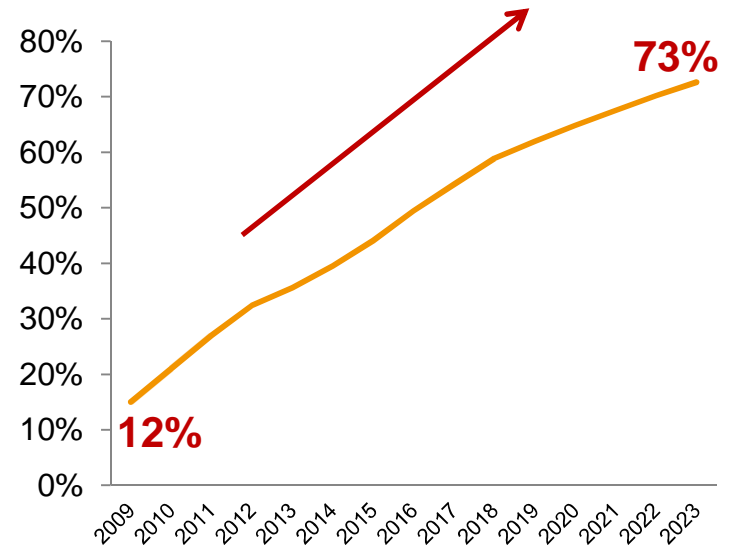
Getting sophisticated



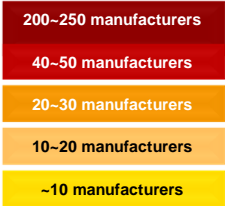
PC tire seat 2009-2024
% Market



TB Tubeless 2009-2024
% Market



Crowded tire industry



Source: CRIA & Company Self-announced data

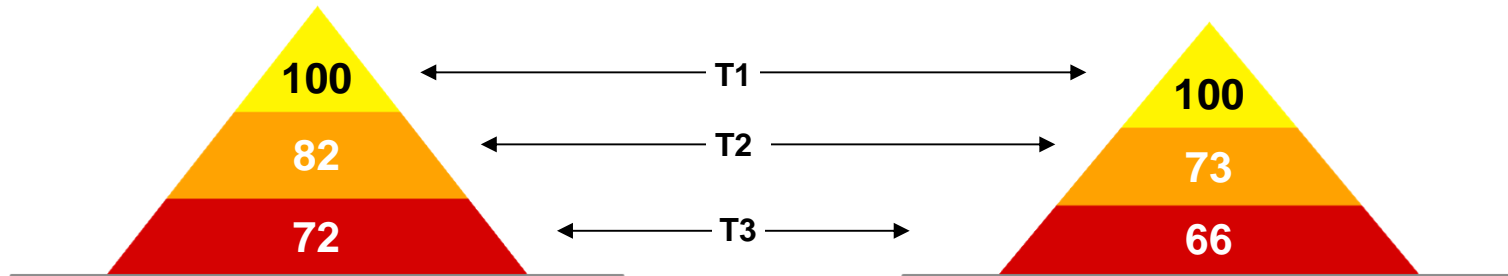


Very competitive



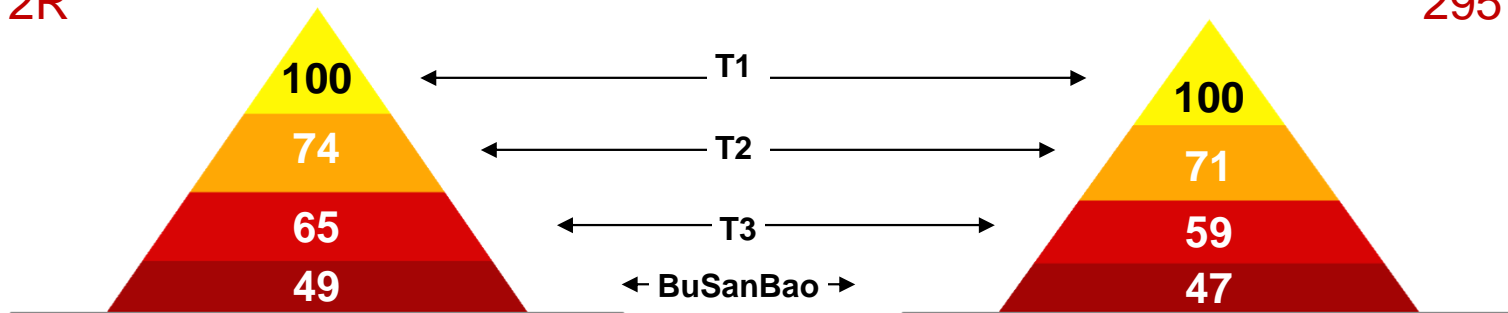
205/55 R16

225/50 R17



12R

295








Source : TCCN/PLCN marketing



“Brand” focused



- ▶ Chinese consumers valued “Brand” as most important factor on decision making in mobile, food, clothing, and personal care categories (source McKinsey 2011 study)

| |  Trustworthy Brand |  Price & Promotion |  Channel Distribution |
|---|---|---|--|
|  | 63% | 20% | 15% |
|  | 54% | 22% | 21% |
|  | 50% | 29% | 16% |
|  | 44% | 28% | 23% |



Resource: Nielsen release report



Going West



By 2020, the development of a sizeable middle class
(disposable income > RMB 5,000 per month)

- ▶ ~ From **230 M** in 2013 to **400 M+**
- ▶ ~ **2/3** in “small” cities
- ▶ ~ **800 cities** with disposable income/ capita > Shanghai’s today



THE CHINESE TIRE INDUSTRY

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Crowded



2014 PCR Capacity Top 10

| No. | Name | Capacity (in Mu) |
|--------------------------|------------------|------------------|
| 1 | GiTi | 38 |
| 2 | Hankook | 35 |
| 3 | Kumho | 34 |
| 4 | ChengShin | 31 |
| 5 | LingLong | 31 |
| 6 | Hangzhou Zhongce | 27 |
| 7 | Sailun | 22 |
| 8 | Triangle | 20 |
| 9 | Bridgestone | 15 |
| 10 | Cooper | 14 |
| of total capacity | | 55% |

2014 TBR Capacity Top 10

| No. | Name | Capacity (in Mu) |
|--------------------------|------------------|------------------|
| 1 | Hangzhou Zhongce | 17 |
| 2 | Double Coin | 10 |
| 3 | GITI | 8 |
| 4 | Triangle | 7 |
| 5 | LingLong | 6 |
| 6 | Xing Yuan | 6 |
| 7 | Cooper | 5 |
| 8 | Aeolus | 5 |
| 9 | DoubleStar | 4 |
| 10 | Guizhou | 4 |
| of total capacity | | 56% |

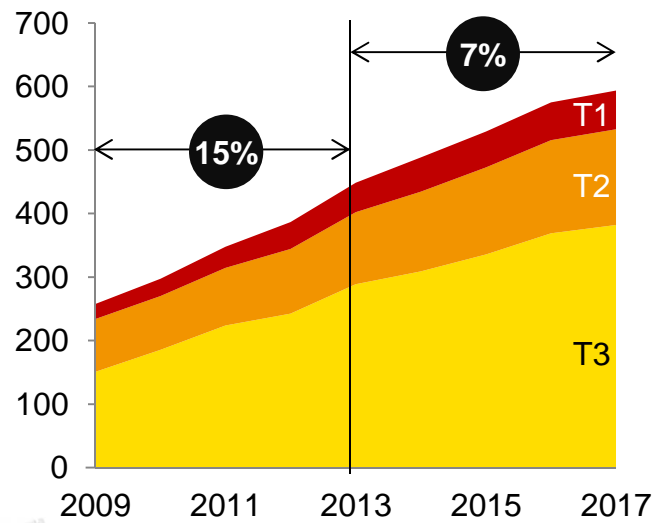


Source: CRIA & Company Self-announced data

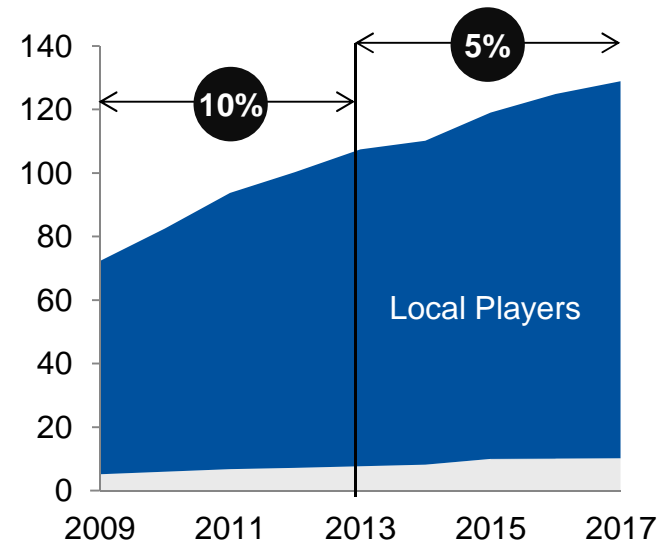


Industrial capacity... not yet on the brake!

PCR Capacity (Mu)



TBR Capacity (Mu)



Source: CRIA data compiled by Michelin



Tier 1 footprint

| Mu PC Capacity | TODAY | Tomorrow |
|-----------------|-----------|-----------|
| Michelin | 10 | 18 |
| Bridgestone | 15 | 17 |
| Goodyear | 10 | 12 |
| Pirelli | 10 | 10 |
| Continental | 8 | 12 |

| Mu TB Capacity | TODAY | Tomorrow |
|-----------------|------------|------------|
| Michelin | 0.8 | 1.8 |
| Bridgestone | 2.3 | 2.3 |
| Goodyear | 0.5 | 1.0 |
| Pirelli | 1.0 | 1.0 |
| Continental | -- | -- |



Source: CRIA & Company Self-announced data

Other sizeable players

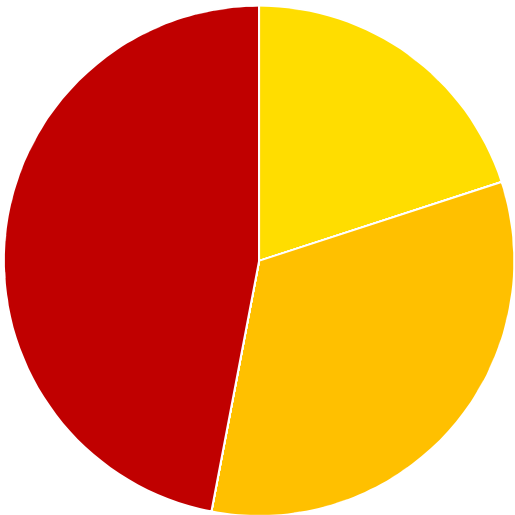
| Mu PC Capacity | TODAY | Tomorrow |
|----------------|----------|-----------|
| Hankook | 35 | 40 |
| ChengShin | 32 | 39+ |
| Warrior | 5 | 15 |
| HZZC | 28 | 45 |

| Mu TB Capacity | TODAY | Tomorrow |
|----------------|-------|----------|
| Hankook | 2.8 | 3.6 |
| ChengShin | 3.5 | 4.0 |
| Double Coin | 8.0 | 13.0 |
| HZZC | 13.0 | 16.5 |



Source: CRIA & Company Self-announced data

Competitive landscape - PC



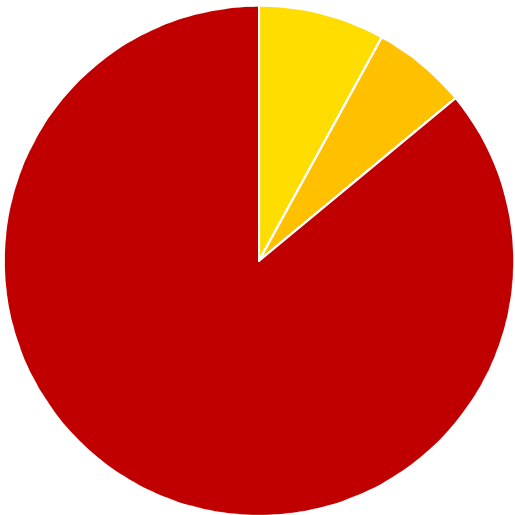
▶ **T1**
(20%)
Michelin
Others

▶ **T2**
(33%)
Hankook
Kumho
ChengShin
Warrior
Others

▶ **Other locals**
(47%)
GiTi
Hangzhou Z.
Triangle
Wanli
LingLong
Others



Competitive landscape - TB



▶ **T1**
(8%)
Michelin
Others

▶ **T2**
(6%)
Hankook
Kumho
Others

▶ **Other locals**
(86%)
Hangzhou Z.
Double Coin
GiTi
LingLong
ChengShin
Triangle
Others



KEY TAKEAWAYS

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Key takeaways

- ▶ China is a strategic market:
 - 50% of worldwide growth
- ▶ Michelin has a role to play in China:
 - Successful development
 - Recognized leadership
- ▶ Michelin has a strong potential for growth by leveraging its strengths:
 - Michelin Brand – all product lines
 - OE presence
 - Footprint: R&D, Manufacturing, Retail Network
 - JV Warrior (Tier 2 & Tier 3 extension)
 - Committed and talented people

**Ambition: more than double the business
over the next 10 years**



THANK YOU

