

# INVESTOR DAY @ SHENYANG

Serge LAFON

Executive Vice President Trucks and Bus Tires Product Line,  
Group Executive Committee Member

MICHELIN CHINA  
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# Outline

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1. Truck General Overview
2. Customer expectations & Market segmentation
3. Levers for Growth
4. Levers for Profitability
5. Key Takeaways

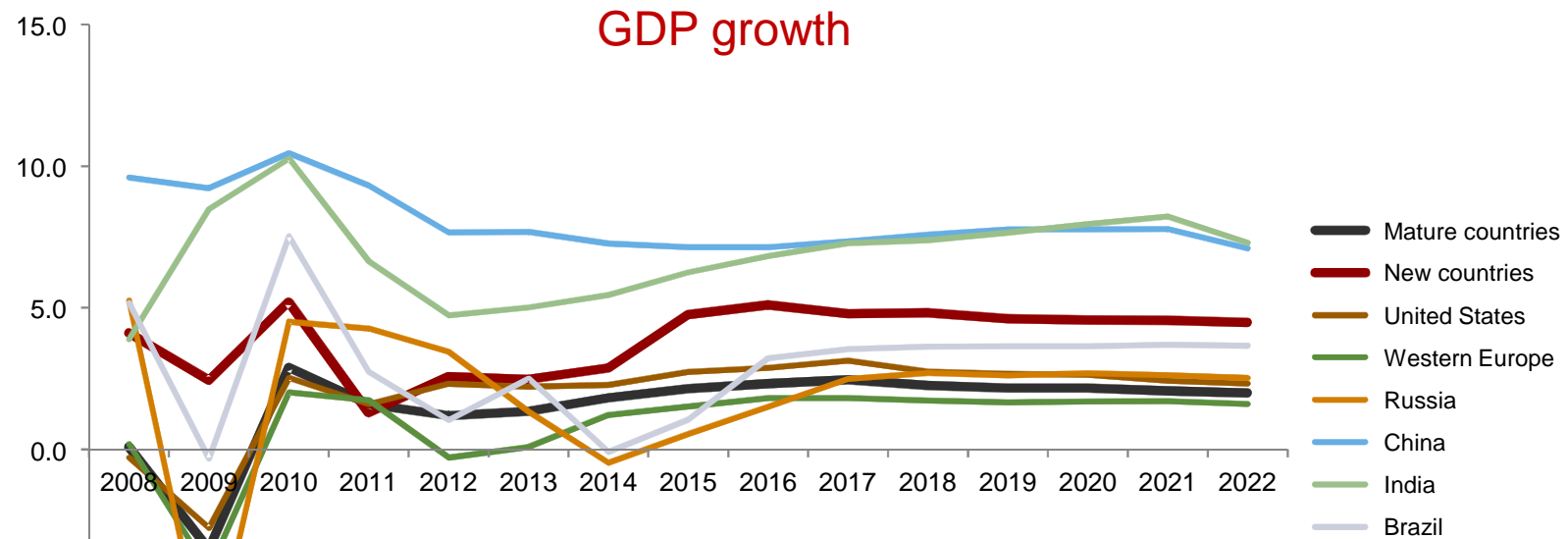


# TRUCK GENERAL OVERVIEW

# 1



## From 2008, volatile economies put pressure on transport companies Economies expected to grow... stronger in new markets



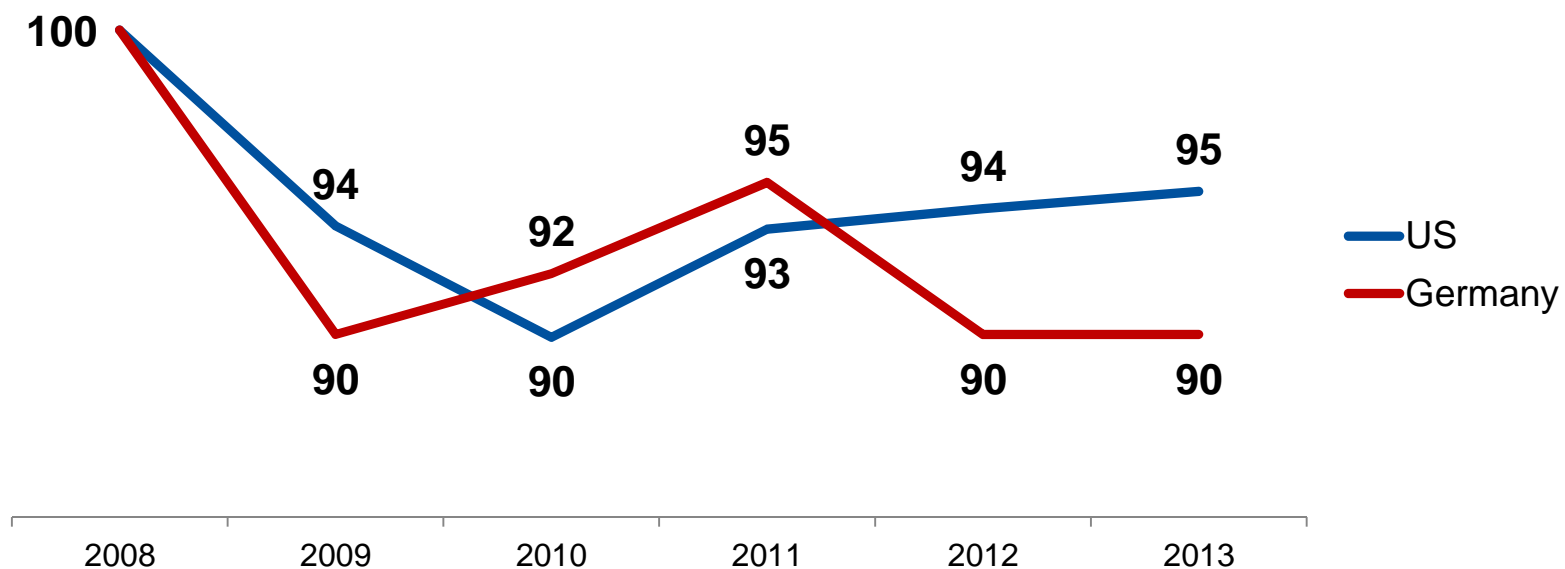
Source: Global Insight



## Economic crisis reset mature transport demand to lower levels...

### Transport Demand (tons-kilometers)

Index 100 = 2008



Source: American Trucking Association, Eurostat



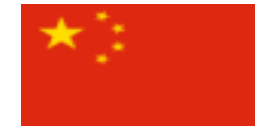
... while truck costs constantly increase as new norms are implemented, adding pressure on transport company costs



Norm  
Euro V  
January 2013



Norm  
Euro VI  
January 2014



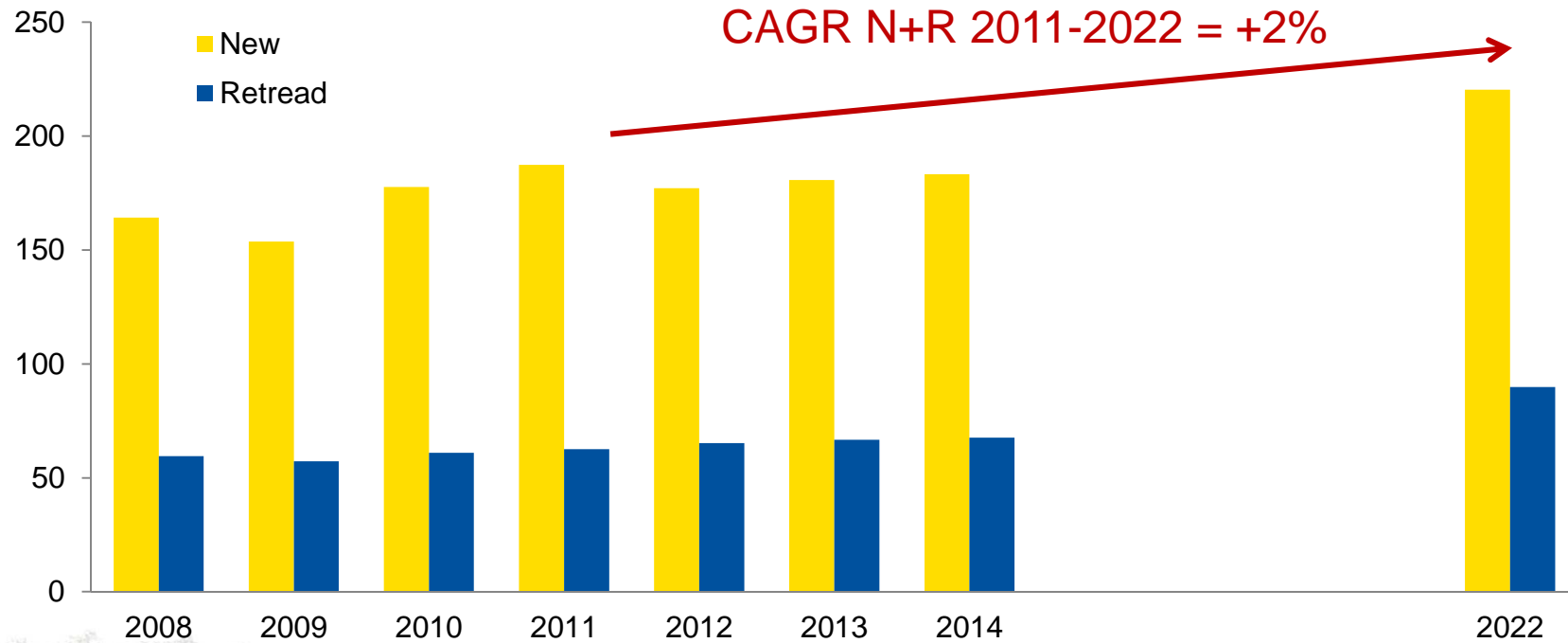
Norm  
China IV  
January 2015



# Tread market: an annual 2% growth driven by transport demand

## Transport companies under profitability pressure

In million tires



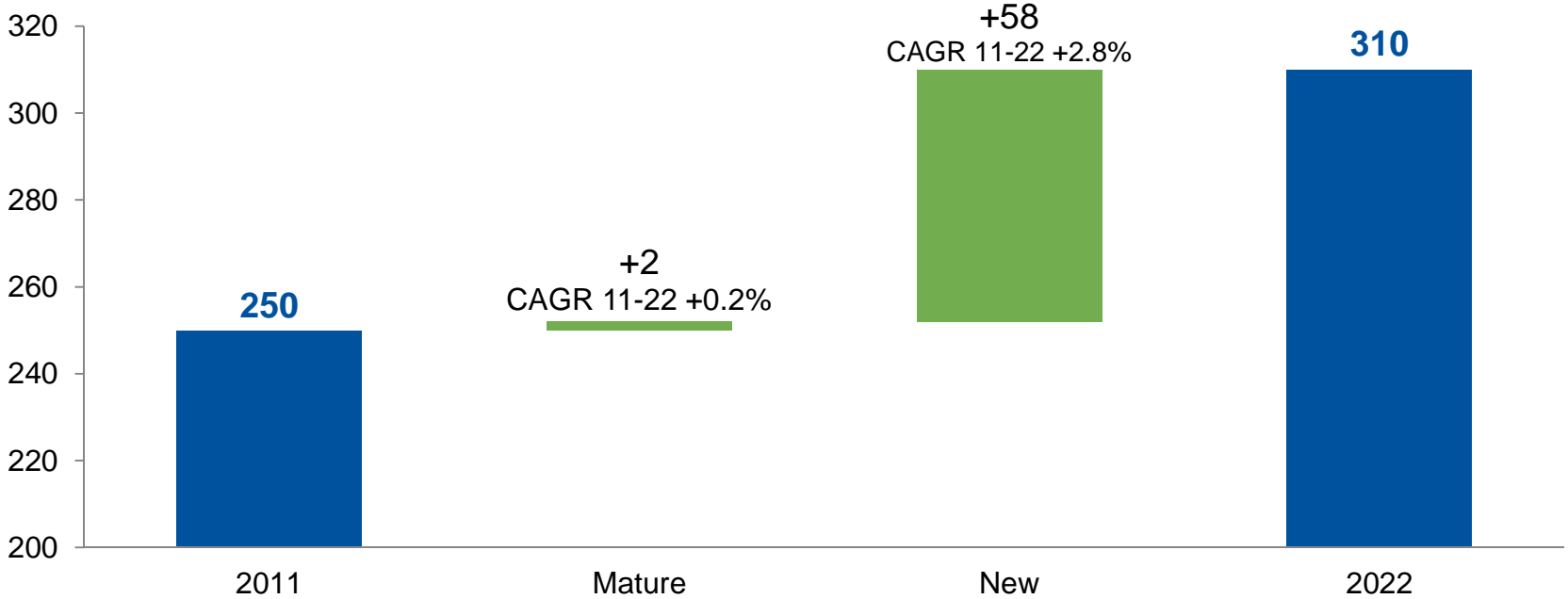
Source: Michelin estimates

Tread market = new OE + new RT + retread



# Market expansion driven by new countries

In million tires

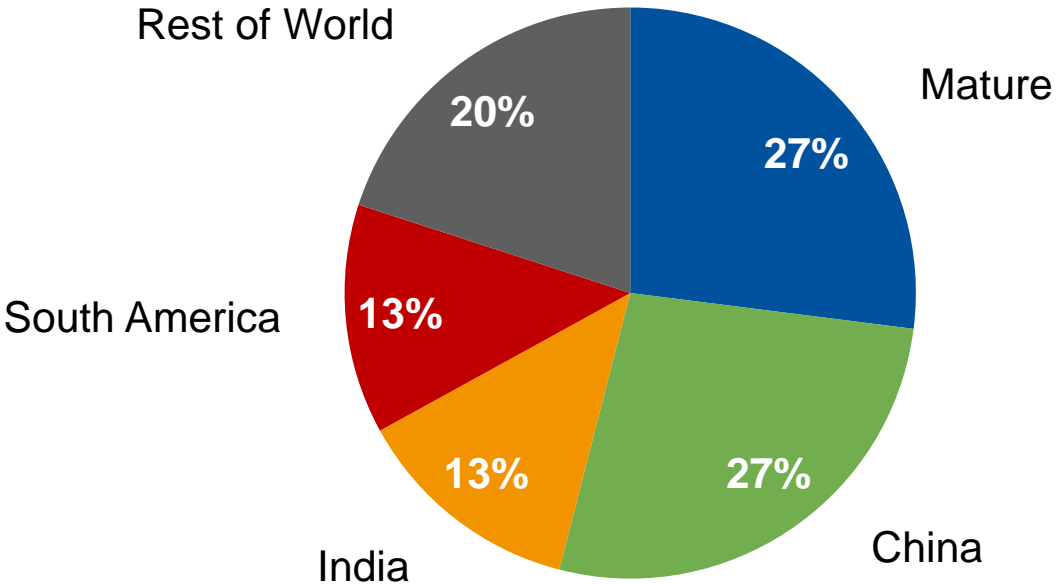


Source: Michelin estimates





# In 2022, China & India account for 40% of the tread market

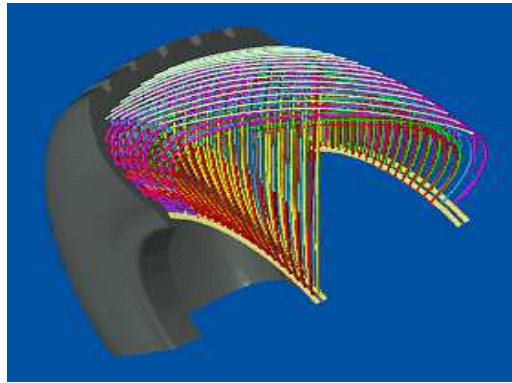


Source: Michelin estimates



## The truck-tire technologies

- ▶ Bias, the historical technology (1900's)



- ▶ Flat-rim: radial technology on bias wheel (1950's)



- ▶ Drop-center: radial technology on specific wheel (1970's)

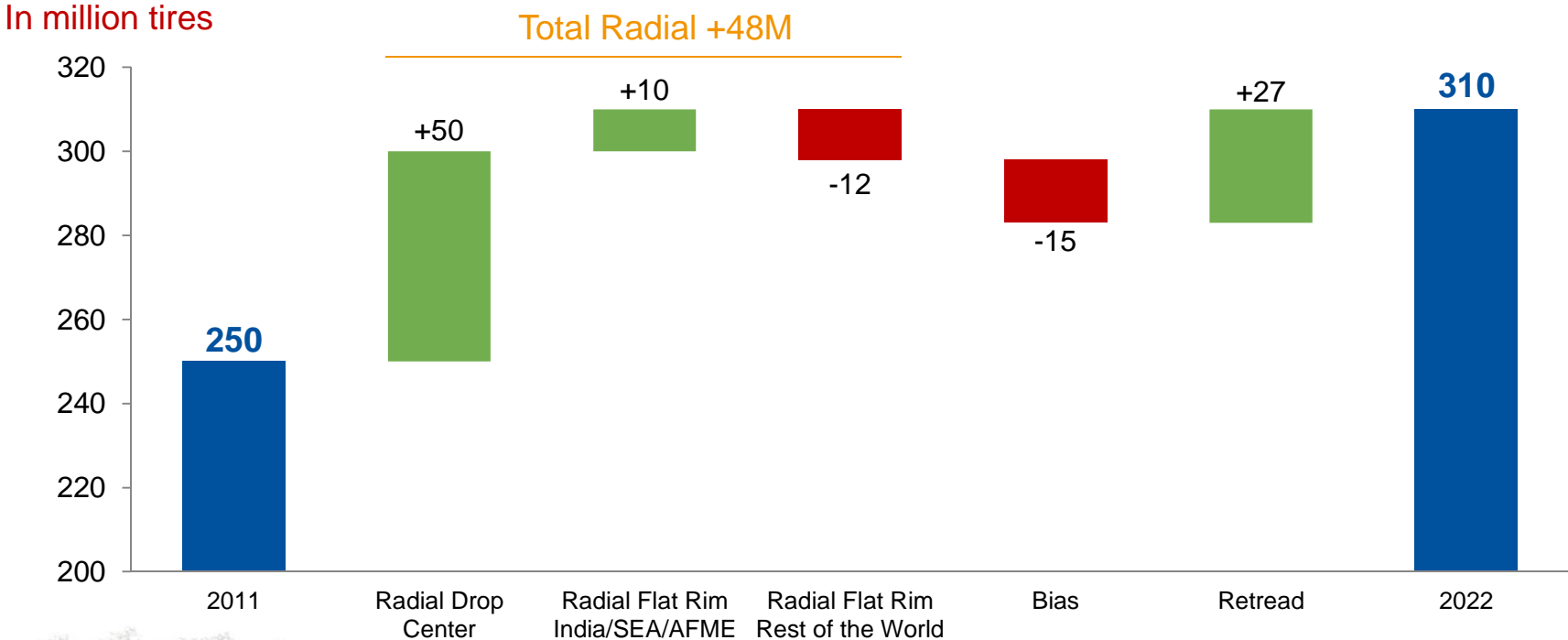


- ▶ Wear life twice as long
- ▶ 10% more fuel efficient
- ▶ Increased safety (new wheel)
- ▶ Global system 10% lighter



# Strong growth of Radial Drop-center driven by modernization

## Flat-rim radial still growing in India, South-East Asia & Africa Mid.-East

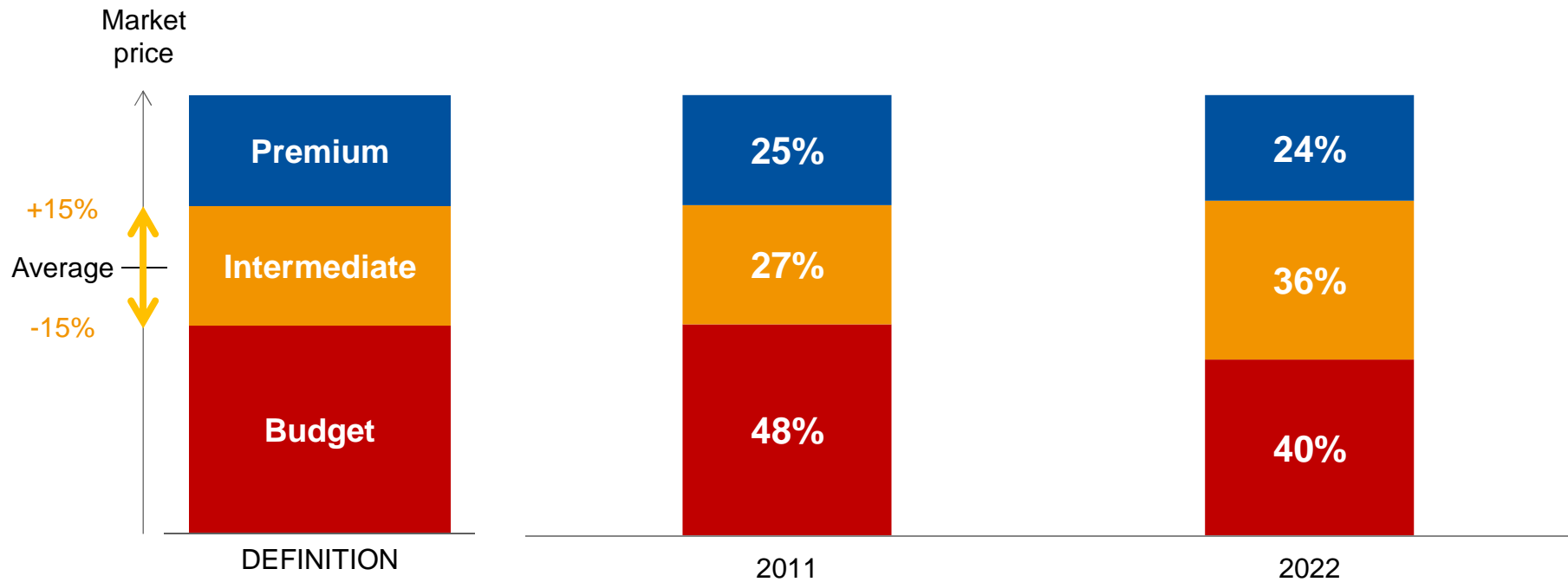


Source: Michelin estimates



# Pricing tiers: Premium increasing in line with market expansion

## Intermediate fastest growing segment at expense of Budget



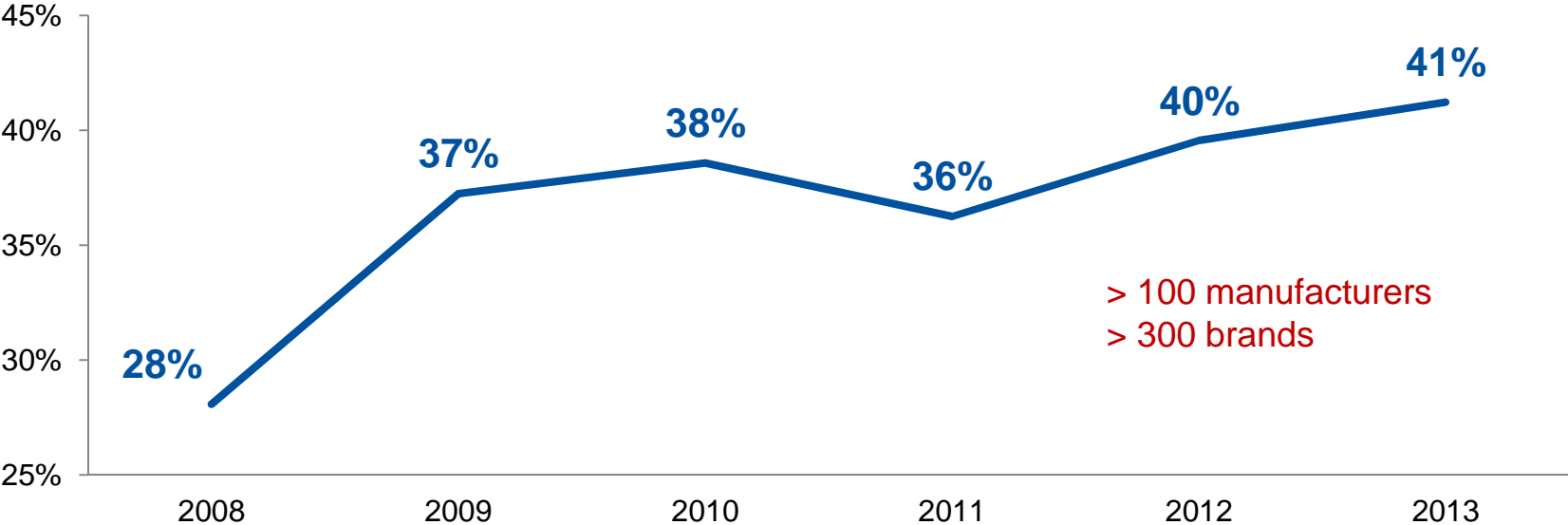
% = weight of total market (new tires)

Source: Michelin estimates



# An increasing pressure from Chinese manufacturers

WW Radial market share (%)



Source: Michelin estimates

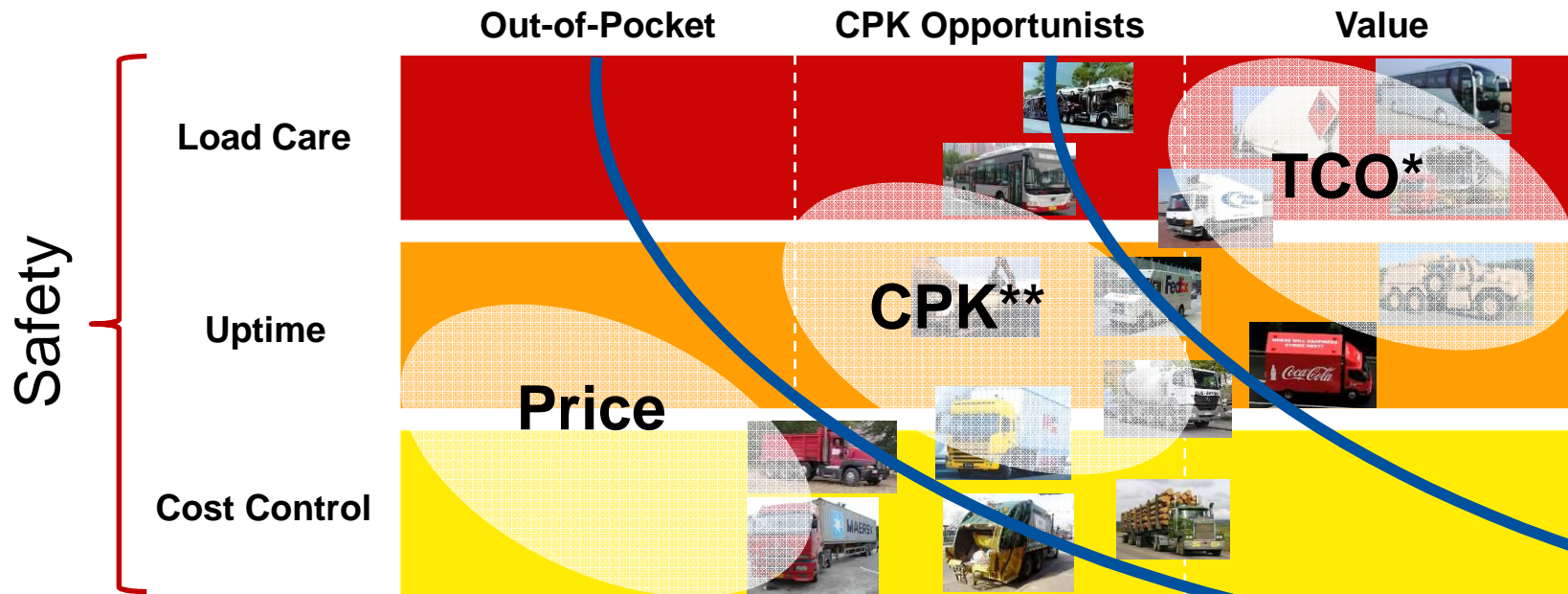


CUSTOMER EXPECTATIONS  
& MARKET SEGMENTATION

2



# 3 specific needs segment transport companies Leading to 3 key tire expectations: TCO, CPK, Price



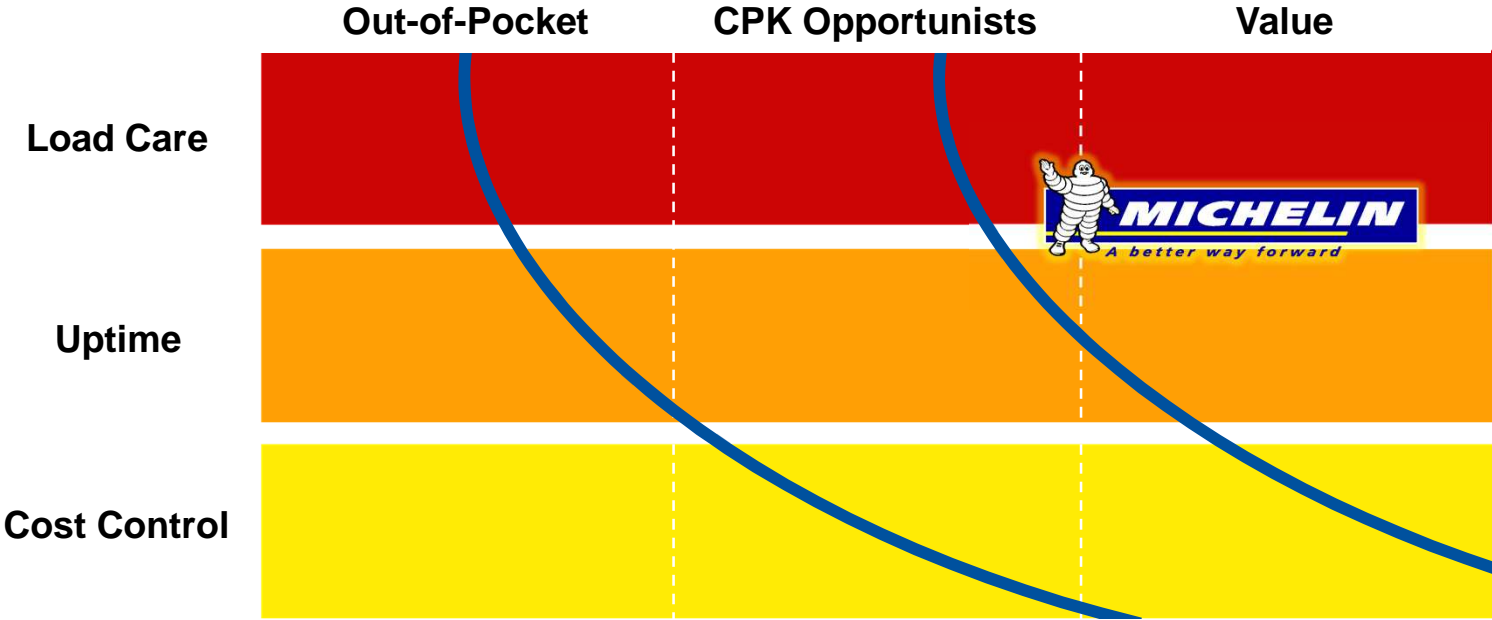
\*TCO: Total Cost of Ownership

\*\*CPK: Cost Per Kilometer



# MICHELIN – Best TCO: mileage, fuel efficiency, uptime, brand equity

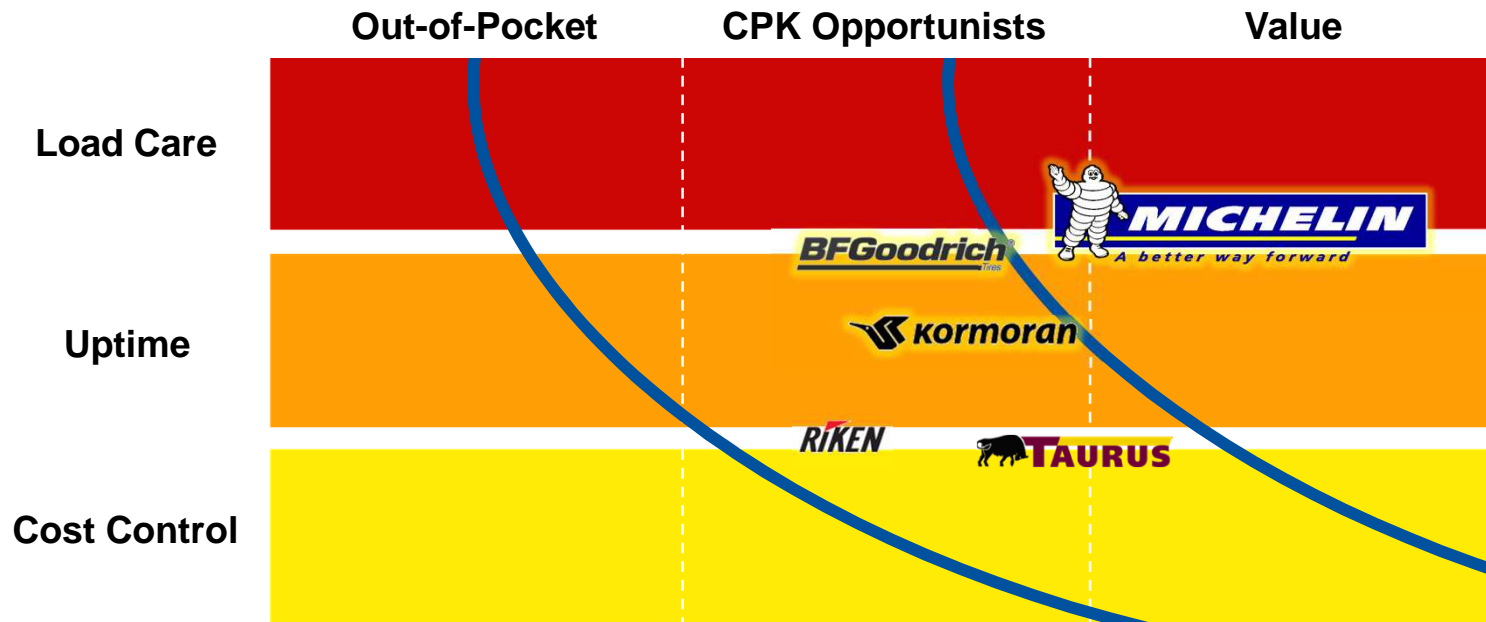
## Leading position in Premium segment





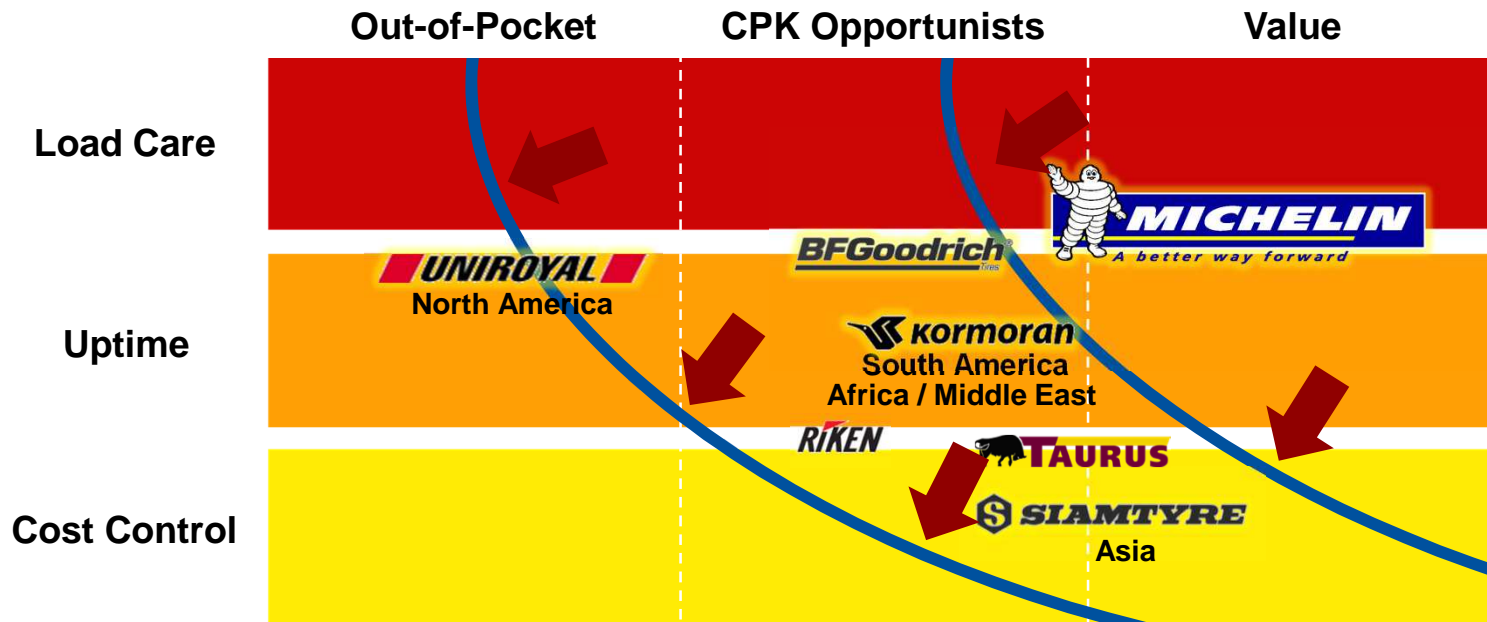
# Intermediate brands – CPK: wear life, reliability and price

## Strong positions in Europe and North America



# Strengthen MICHELIN: Best TCO and more affordable

## Expand Intermediate : CPK, reliability



# LEVERS FOR GROWTH

# 3



# Michelin Truck tire offer

LONG HAUL	REGIONAL	URBAN	ON/OFF ROAD	OFF ROAD
<b>X LINE</b>				
	<b>X MULTI</b>			
		<b>X WORKS</b>		
		<b>X INCITY</b>		<b>X FORCE</b>
		<b>AGILIS</b>		
<b>X COACH</b>				
		<b>X METRO</b>		

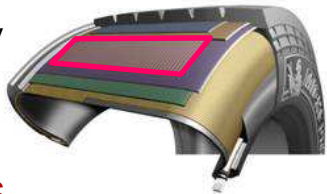


MICHELIN brand

# Matching customer expectations (wear life and fuel efficiency) with innovation

## INFINICOIL™

Wear life  
Fuel efficiency  
Mass



*Xone Multi*  
*X Line Tropic*

## ENERGYFLEX™

Fuel efficiency  
Mass  
Retreadability

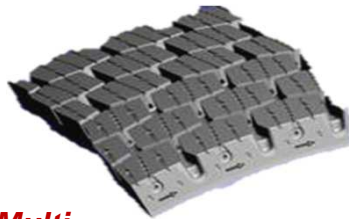


*X Line*  
*X Multi*

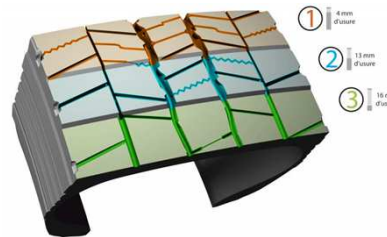
- ▶ Performance lever
- ▶ Patent clusters
- ▶ Industrial Know-How

## REGENION™

Wear life  
Fuel efficiency  
Mass



*X Multi*



*X Incity, X Line*

## CARBION™

Wear life  
Fuel efficiency



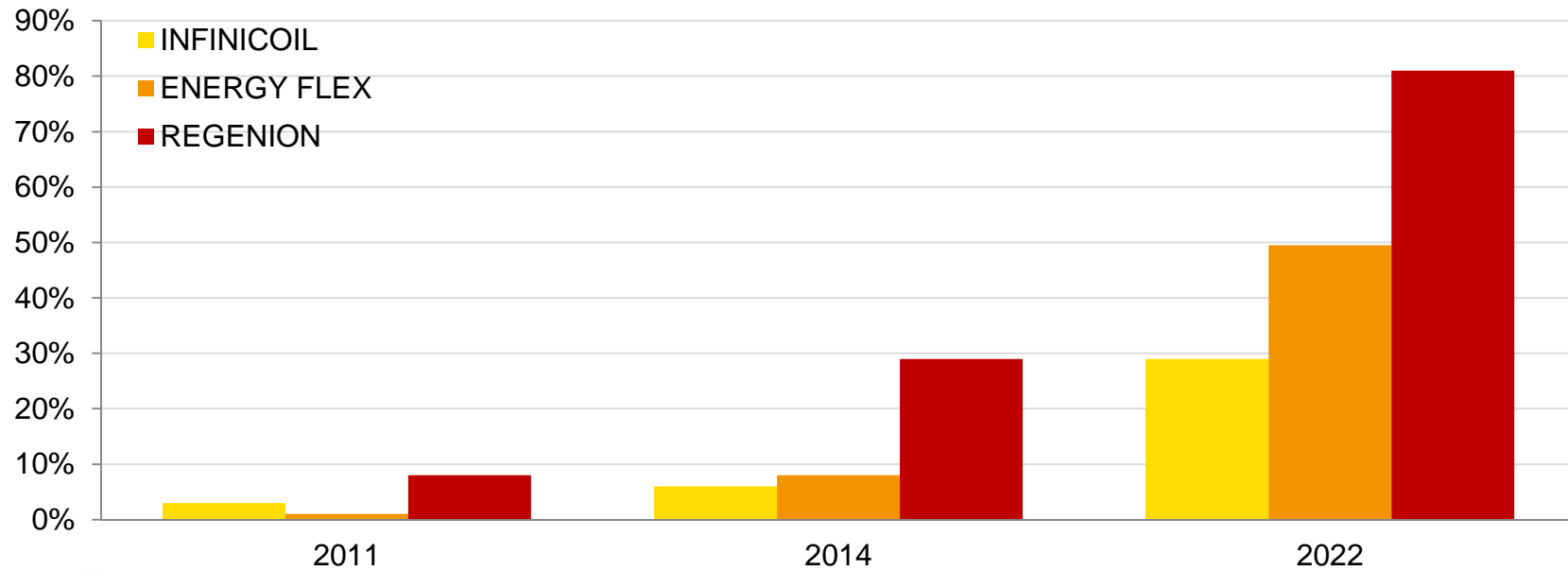
*X Multi*



MICHELIN brand

## A fast deployment of key technologies

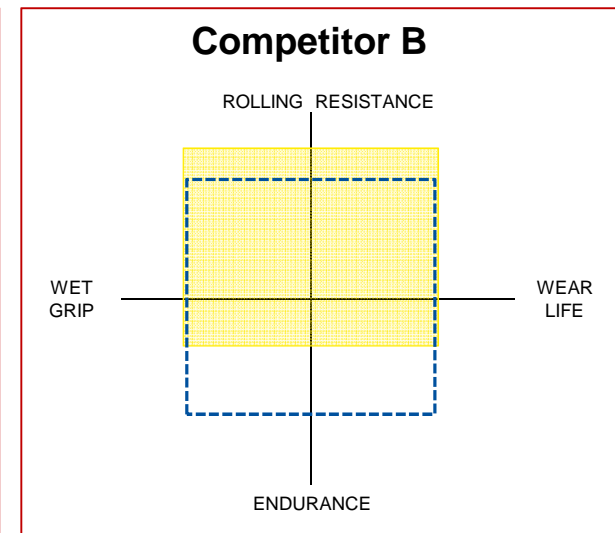
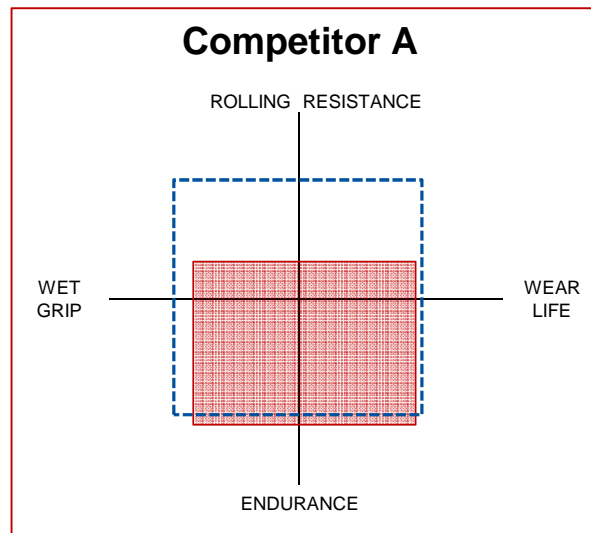
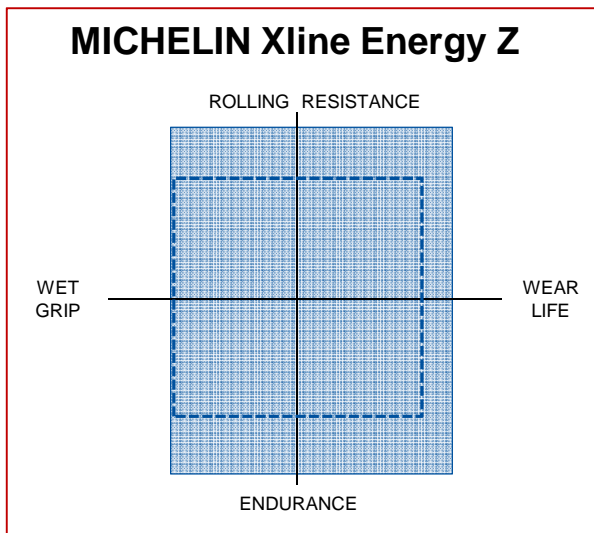
% of MICHELIN tires equipped



MICHELIN brand

## The best total performance for customers

Europe: 315/70R22,5 Steer Axle – Long Haul



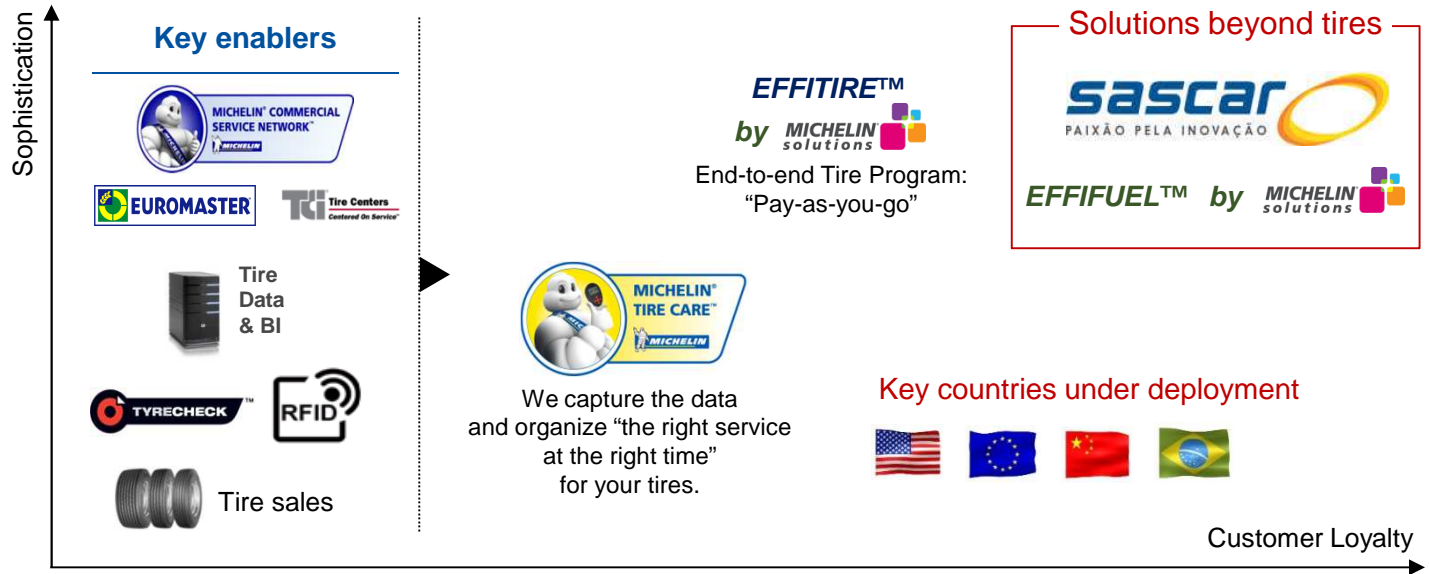
Reference: Premium Average



MICHELIN brand

# A unique panel of Services & Solutions

-   
**3 - Optimize**
-   
**2 - Monitor**
-   
**1 - Ready**





*INTERMEDIATE brands*

## Reliability and Cost per Kilometer 1<sup>st</sup> life at low price

- ▶ Intermediate Product Design
  - Product wear life and balance of performance designed to targeted segments
  - Reliable casing, excellent manufacturing quality
  - Adaptation of material specification to reduce material cost
  - Focus on lower mass & fewer components
- ▶ A lean RDI process
  - Small and efficient design team
- ▶ A lean manufacturing
  - Driven by standardization and process optimization



**INTERMEDIATE brands**

## Cost per Kilometer 1<sup>st</sup> life at low price

- ▶ Resulting in commercial launches from 2013
  - KORMORAN in South America and Africa-Middle East
  - New ranges for BFGoodrich
  - New ranges for KORMORAN in Europe
  - SIAM Radial in Asia
  - UNIROYAL in North America



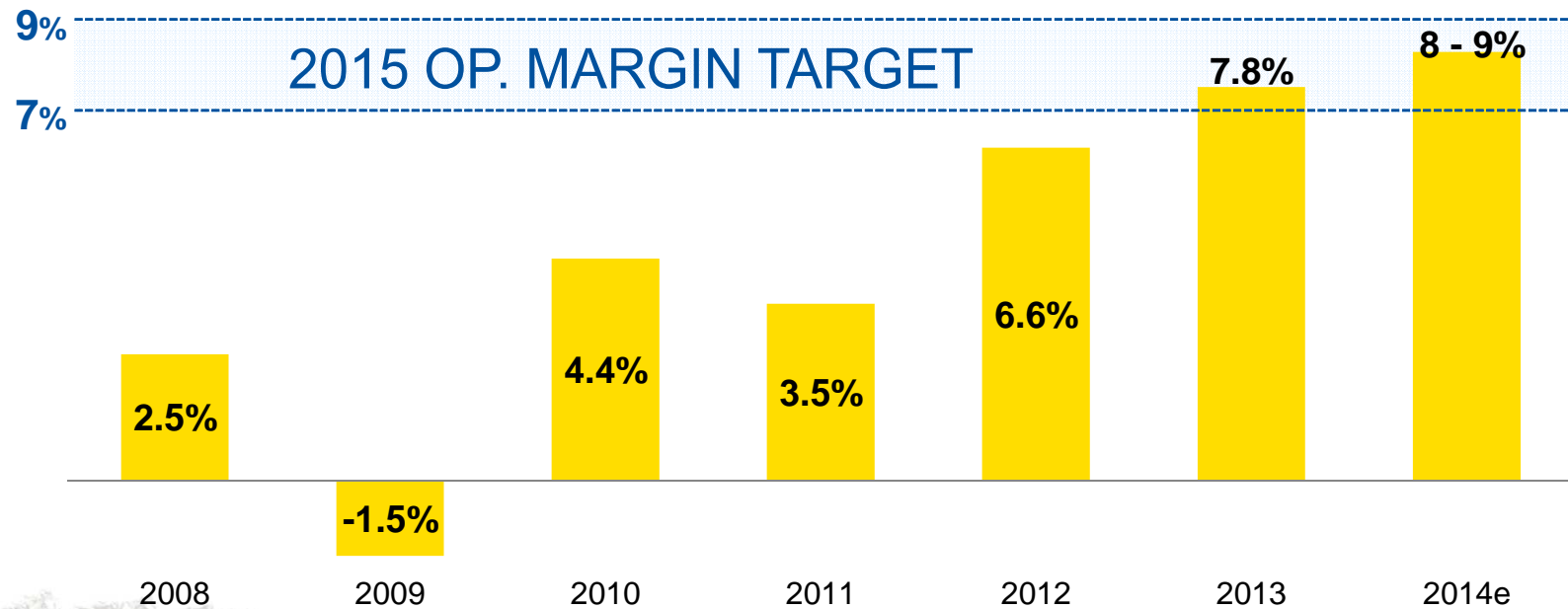
# LEVERS FOR PROFITABILITY

# 4



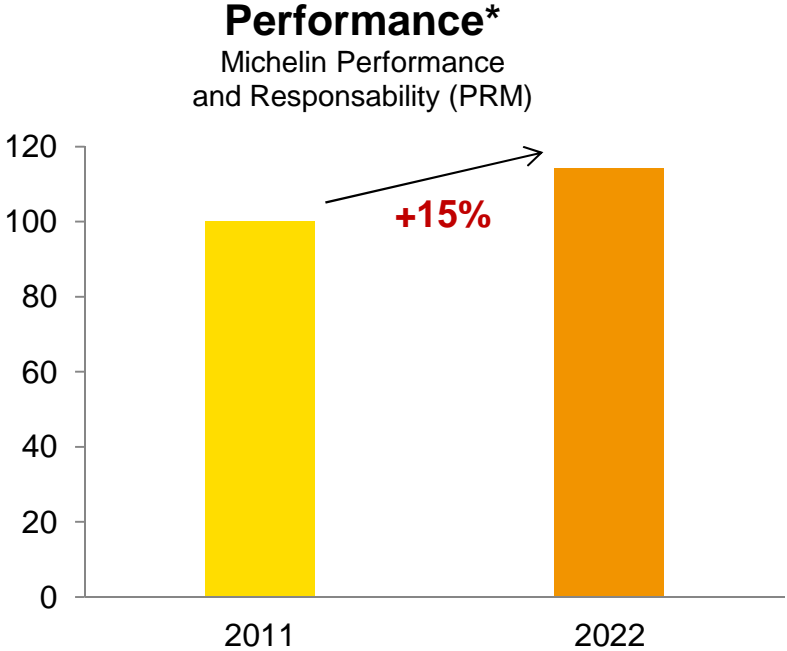
## A recovering profitability

SR2 Operating margin  
(before non-recurring items)  
In % of Net sales

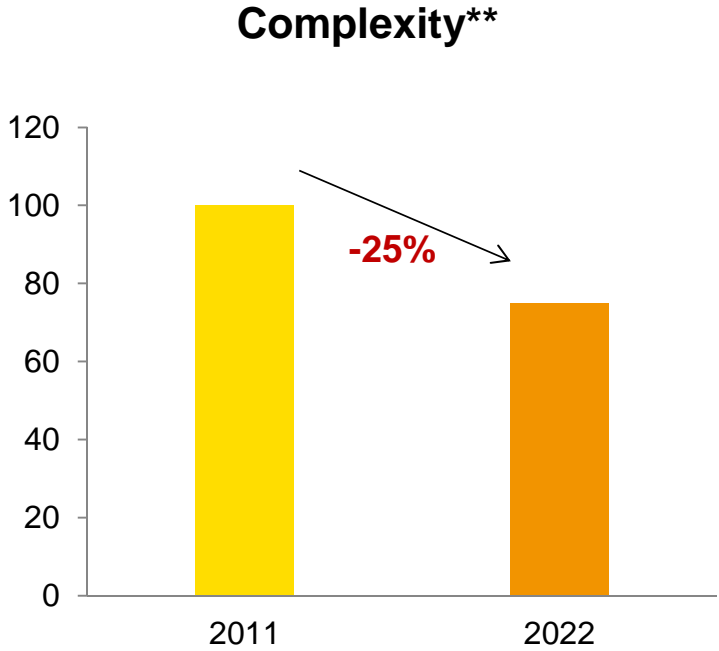


# MICHELIN brand: Less mass/more performance

## Reduce product complexity



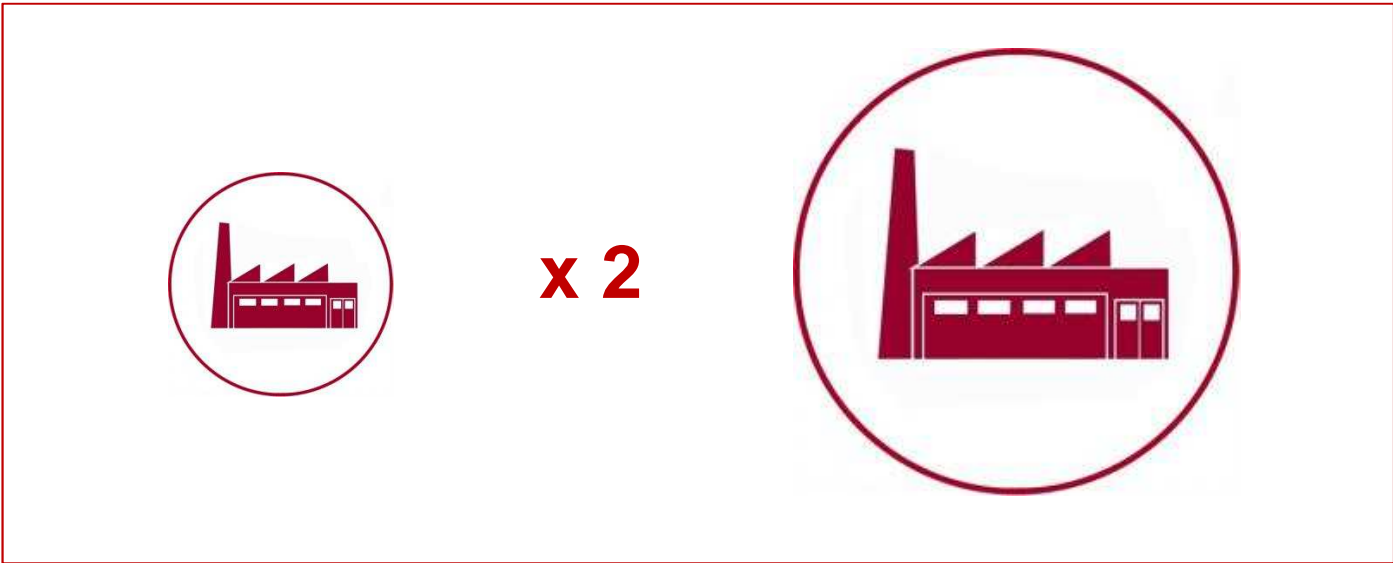
\*PRM index: rolling resistance, wear life, wet grip and mass



\*\*Complexity index: number of casing, components

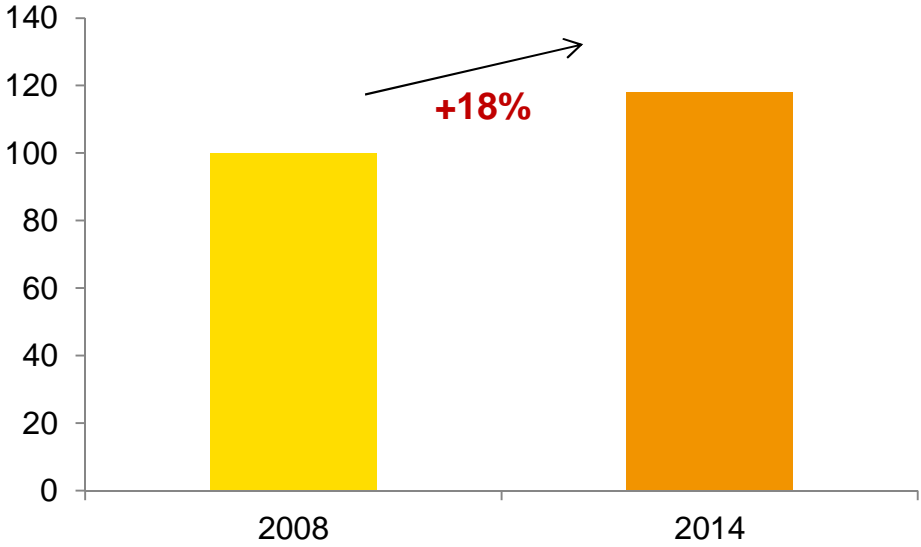


# Cost of production: double average plant output from 2011 to 2022



# Cost of production: continuing efficiency gains

▶ Productivity\*: 3% annual target



\*Productivity index / output ratio



## Cost of production: Modernization

### New Automatic Assembly Machine

- ▶ Productivity x 3
- ▶ Drastic flexibility improvement
- ▶ Enable deployment of new technologies
- ▶ Improve manufacturing quality





## Manufacturing footprint optimization to get closer to markets

2010-2015 <i>In thousands of tires</i>	Capacity closures	Capacity additions
Mature markets	-1,500 (Tours, Budapest)	+925 (Marginal capacity)
Growth regions	-1,565 (Bogota, Alger, bias Thailand, Shenyang1)	+2,200 (Campo Grande extension, Chennai, Shenyang2)
<b>Total</b>	<b>-3,065</b>	<b>+3,125</b>



## Projects deployed in 2013 and 2014 to optimize the truck manufacturing footprint will deliver close to €70m in annual gains

<i>In € millions</i>	2013	2014e	2015e	2016e	2017e	
						<b>Total</b>
<b>Non recurring expense</b>	<b>(202)</b>	<b>(39)</b>				<b>(241)</b>
<i>of which cash out</i>	<b>(41)</b>	<b>(56)</b>	<b>(60)</b>	<b>(18)</b>	<b>0</b>	<b>(175)</b>
						<b>Annual gains after 2017</b>
<b>Productivity gains</b>	<b>0</b>	<b>38</b>	<b>51</b>	<b>66</b>	<b>69</b>	<b>69</b>



## Localization in key expanding markets

**Start of large Shenyang2 plant, China  
2012**



**Extension of Campo Grande, Brazil  
2011-2013**



**Start of Chennai, India  
2013**



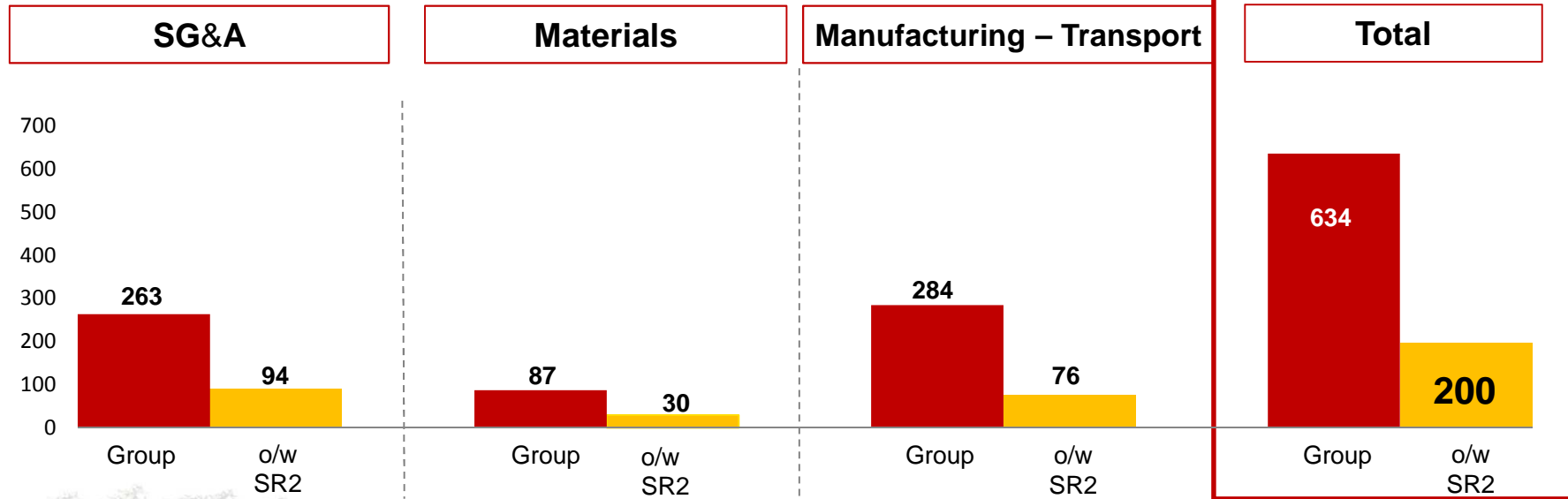
## Distribution: Profitability improvements

- ▶ Cost optimization in overheads
  - Externalization & pooling
  - IS / IT optimization
  - Lean back office processes policy
- ▶ Productivity in service centers
  - Euromaster operating method and productivity program
  - Footprint management
- ▶ Development of services to fleets
  - Mass-customized IS-based services, extracting more value from preventive maintenance and maximized vehicle uptime



# Truck division to contribute €400m to Group €1bn 2012 – 2016 competitiveness plan

Gains\* achieved 2012 – Sept. 2014  
in million €



\*Before inflation and including avoided costs



# KEY TAKEAWAYS

# 5



## Key takeaways

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- ▶ A growing market... mostly in new markets
- ▶ A growth strategy suited to the various market segments
  - MICHELIN brand: innovative products more affordable and services
  - Intermediate: offer designed to segment, new brands, geographical expansion
- ▶ Improve profitability through
  - Product costs reduction, localization, SG&A control and distribution efficiency

**Grow MICHELIN share of Premium segment**  
**Expand in Intermediate**  
**Keep improving profitability**



THANK YOU

