

INVESTOR DAY @ SHENYANG

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MICHELIN CHINA
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Outline



- 1. Key dynamics** of the Chinese market
- 2. Core strengths** of MICHELIN in China
- 3. Main challenges** for the next 10 years
- 4. Key takeaways**



KEY DYNAMICS OF THE CHINESE MARKET

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米其林轮胎



引领进步之道

KEY DYNAMICS

Private consumption to become the growth engine

China experiments a huge consumption growth (2010-2020):

- ▶ **US\$ 4.5 Trillion** in 2020 (3 times more than in 2010)
- ▶ Necessities spending (food...) will reduce to **20%** (28% in 2010)
- ▶ “Discretionary” will go up to **43%** (33% in 2010; transportation +85%)



Data resources: “Meet the Chinese consumers of 2020” by McKinsey



KEY DYNAMICS

Chinese Consumers – Meet them today

Public Concerns:

- ▶ **31%** feel concerned by the quality of manufactured goods
- ▶ **63%** think they are too busy (not taking care of themselves well enough)

Looking for experiential Consumption:

- ▶ **84%** want to shop in an amiable environment
- ▶ ... looking at factors beyond the physical product

Data resources: "China Consumption Trends 2014" and "winning in China 2014" by MEC;
"Mapping China's middle class" by McKinsey



KEY DYNAMICS

Chinese Consumers – Meet them today

Looking transparency and independence:

- ▶ **50%** want to check the content before decision
- ▶ **Generation2** is more confident and independent

The One-Finger Consumption:

- ▶ **500M** mobile netizens in 2013 (+50M every year)
- ▶ **80%** access internet once per day (average duration 2 hours)
- ▶ **Mobile** e-commerce jump to **RMB 255Bn** (53Bn in 2013)



Data resources: "China Consumption Trends 2014" and "winning in China 2014" by MEC;
"Mapping China's middle class" by McKinsey

KEY DYNAMICS

Chinese Drivers – Who are they?

- ▶ More than **80%** are **first-time car owner**, average age decreases
- ▶ Car park doubled in 5 years: 100M private car owners in 2014

Among them:

- ▶ **23%** tire consumers are looking for a reputable brand
→ safety and hassle-free
- ▶ **22%** are looking for a tire that offers “legitimate” and “credible” performances
- ▶ Young, sporty and green image are important to them



Data resources: “Car Driver Plenary 2014” by GiPA
MICHELIN internal survey – consumer segmentation study



KEY DYNAMICS

Chinese Drivers – Be with them across regions

Status

Brand

Safety

e-Wom

	National average	Hangzhou and Wenzhou	Xi'an and Taiyuan
Desire for premium cars Agreement with statement	"My car should reflect my social status"	29%	38% ↔ 30%
	"My car is a source of joy and must be aligned with my attitude toward life"	24%	24% ↔ 15%
	"The best use of capital is to invest and prepare for future risks"	20%	27% ↔ 11%
	"I must consider my image in other people's minds"	23%	29% ↔ 19%
Top 3 buying factors	Safety	Brand	Safety
	Brand	Body type	Brand
	Powertrain	Safety	Reputation
Top 3 touch points during active evaluation stage	Events at dealerships	Events at dealerships	Word of mouth
	Word of mouth	Word of mouth	Events at dealerships
	Internet	Auto show	In-store display



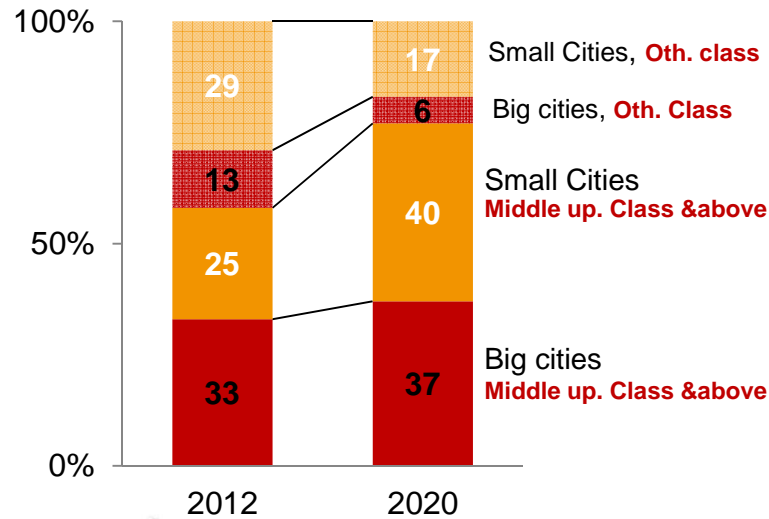
Source: McKinsey China Premium Car Research (2012)



KEY DYNAMICS

Car Market – Game changer comes from tier 4 & 5 cities

Urban Consumption (%)



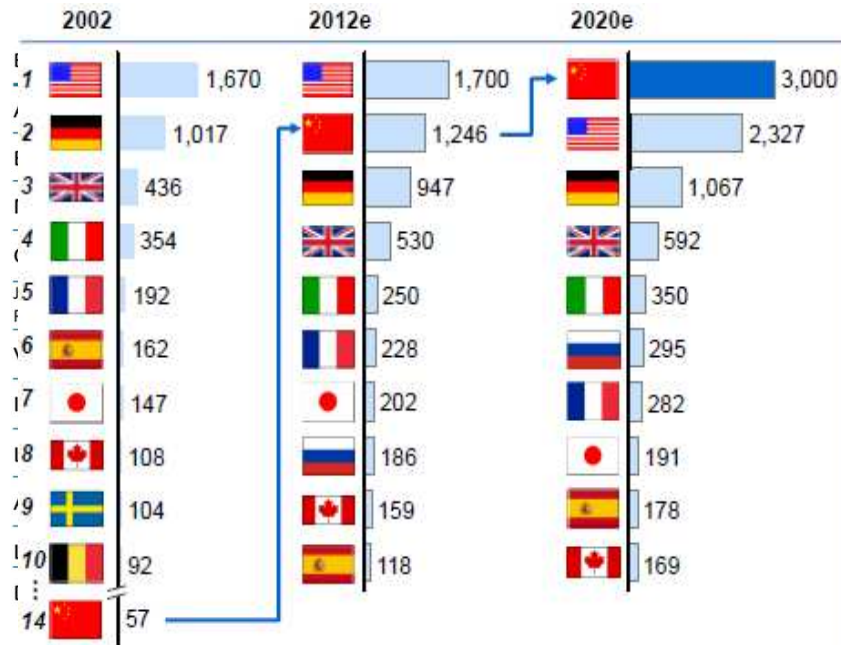
- ▶ Big cities (T1&T2) are under local government control for new car registration (from 2 to 6 in 5 years)
- ▶ Middle Upper Class & Affluent are stimulating consumption in more than 600 small cities (T4 to T6) (> 800K people)
- ▶ By 2020, **800 urban** locations will have disposable income/capita > Shanghai's today

"Mapping China's middle class" by McKinsey



KEY DYNAMICS

Car Market – Premium brands are expanding massively



- ▶ The largest premium car market: from 1.5M in 2013 to **3M in 2020**
- ▶ Premium brand OEMs plan to expand further their capacities in China

SOURCE: IHS Global Insight; McKinsey M-View; McKinsey China Premium Car Research (2012) in 000 units

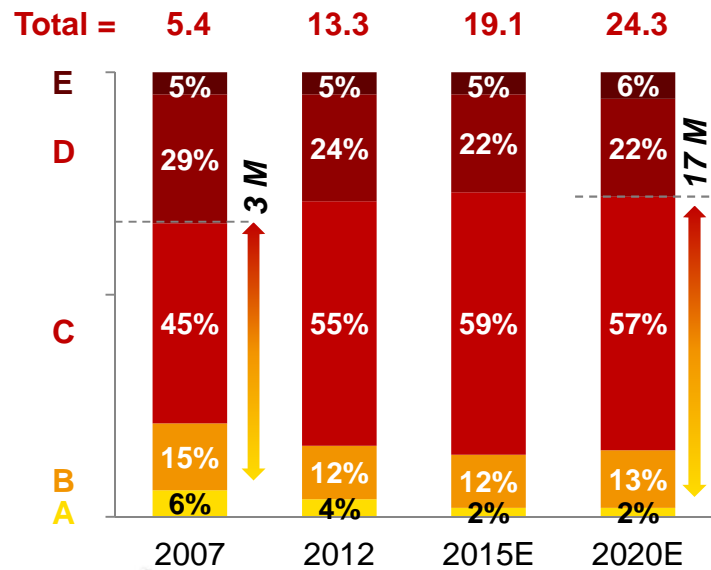
Source: upward Mobility, China's premium cars Mc kinsey 2013



KEY DYNAMICS

Car Market – Entry vehicles develop quickly in “emerging China”

Sales by Segment (PV)



- ▶ B&C segments sales increase from 3M to **17M in 2020**
- ▶ JVs introduce “Entry” vehicles to compete with local OEMs

Source: upward Mobility., China's premium cars Mc kinsey 2013



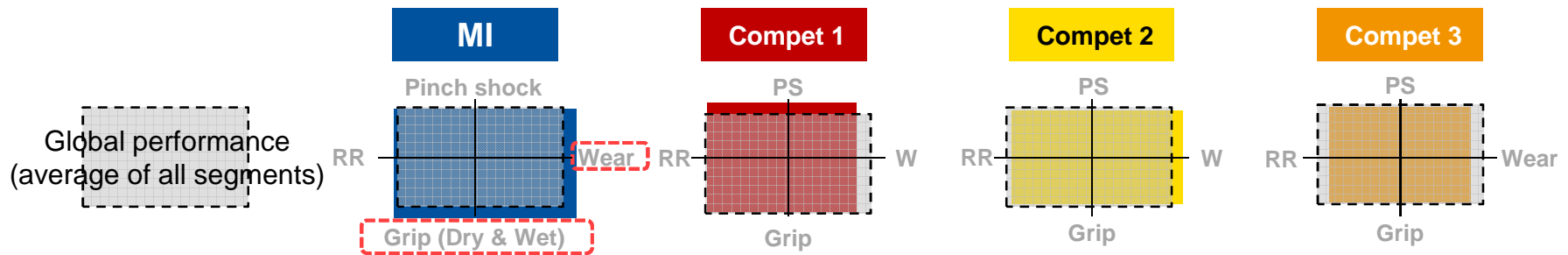
CORE STRENGTHS OF
MICHELIN IN CHINA

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CORE STRENGTHS

Product Performance – Deliver the “total performance”



Source: Michelin

MICHELIN,
 an outstanding performance
 in **safety** and **wear**...
 ...while **not compromising** in others



CORE STRENGTHS

Brand – MICHELIN main focus is on safety



Plus
+ 30k children participated in the **School Road Safety Program (2010-2013)**



CORE STRENGTHS

Brand – Transform brand lovers

2014: 3 campaigns for consumers looking for premium driving pleasure



Inspire – Engage - Amplify

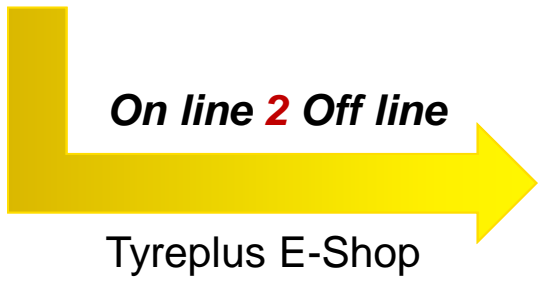
- ▶ All **web & mobile** based communications
- ▶ **1.9 billion** impressions, reached **>10M targeted consumers**
- ▶ Over **4M** click (like, forward & comment)



CORE STRENGTHS

Brand – Transform brand lovers to satisfied shoppers

2014: 3 campaigns



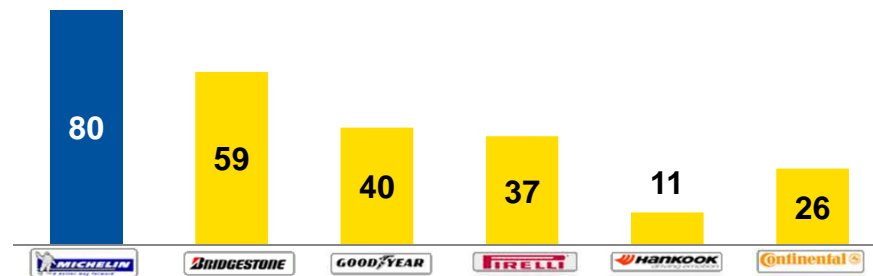
Leverage the growing online traffic to increase franchisees' business



CORE STRENGTHS

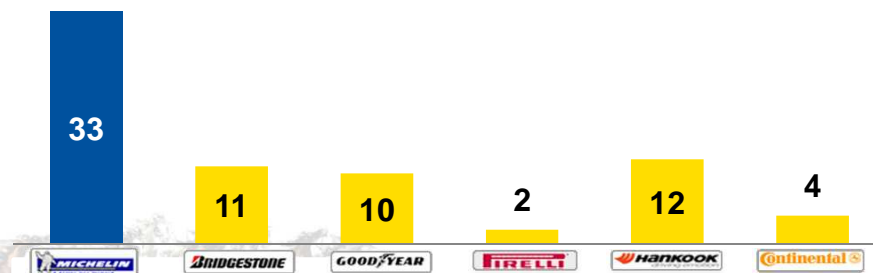
Brand – MICHELIN capitalizes on a superior equity

Consumer Advocacy (%)



▶ MICHELIN a **leading brand** with a high **purchasing intention**

Purchasing intention (%)



▶ Hankook, **limited brand** recognition but **OE presence** + **aggressive Price** boost the purchasing intention

Period: 2013 H2 BCM report



CORE STRENGTHS

Distribution – MICHELIN is facing strong competitors

	PREMIUM (Durable)	Premium (Advocate)	Transactional	TOTAL
MICHELIN	TYREPLUS, M 2,030 ↗↗	MICHELIN Certif. Retailers 3,020 ↗	MICHELIN Select. Dealer 2,750 →	7,800
BRIDGESTONE	Wing Of Car 330 ↗	(BS. Tire Shops) 2,400 ↗↗	BOSS 3,700 + →	6,400+
CONTINENTAL	Best Drive 20 ↘	Conti. Certif. Retailers 3,300 ↗↗↗	Conti. Auth. Retailers 680 ↘	4,000
HANKOOK	T-Station 40 ↘	Tire Town 1,260 ↗↗	Image Shop 1,000 ↘	2,300

- ▶ Continental, Bridgestone and Hankook are increasing their “advocate” retail network
- ▶ Tyreplus is clearly leading the premium service offer



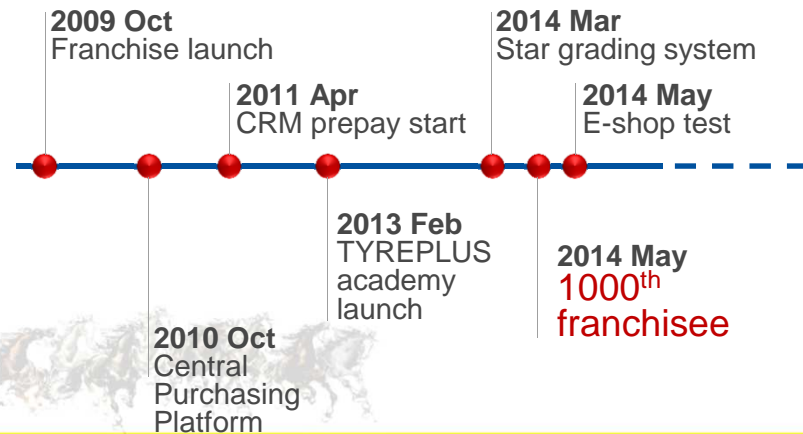
CORE STRENGTHS

Distribution – Leverage the *TYREPLUS* leadership



3 wins in 2014

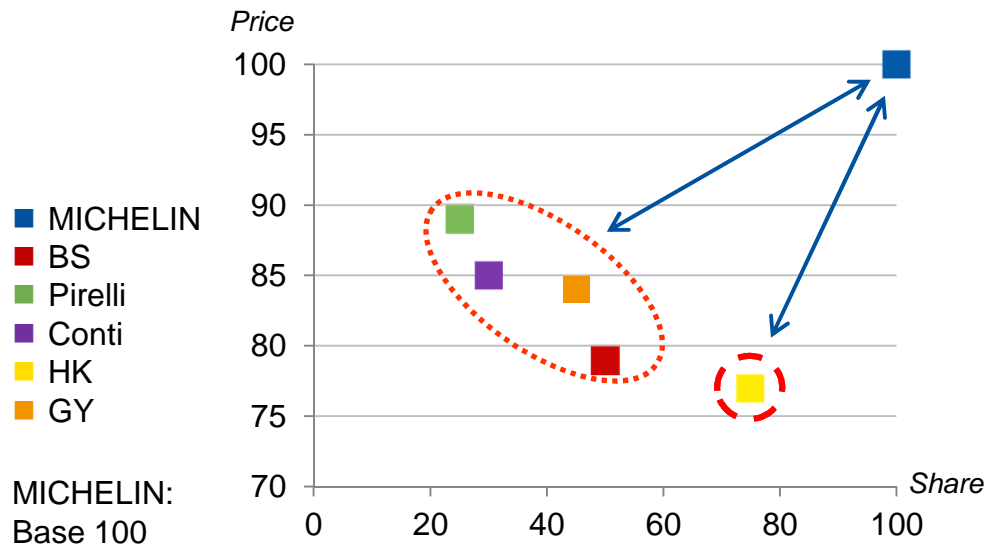
- ▶ MICHELIN Volume growth **+19%**
- ▶ Franchisees profitability **+18%**
- ▶ Net Promoter Score reach **45%**



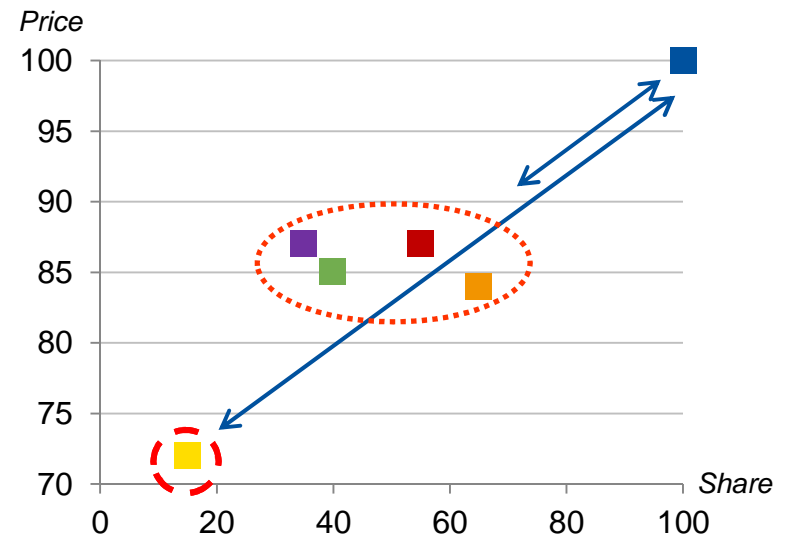
CORE STRENGTHS

A winning strategy – Michelin enjoys a great success in 16" and 17"

Market Winners 16" PC
(Price / RT Market share)



Market winners 17" PC
(Price / RT Market share)



- ▶ Consumers are ready to pay a price premium for Michelin tires
- ▶ Hankook capitalizes on a strong OE presence in 16 inches

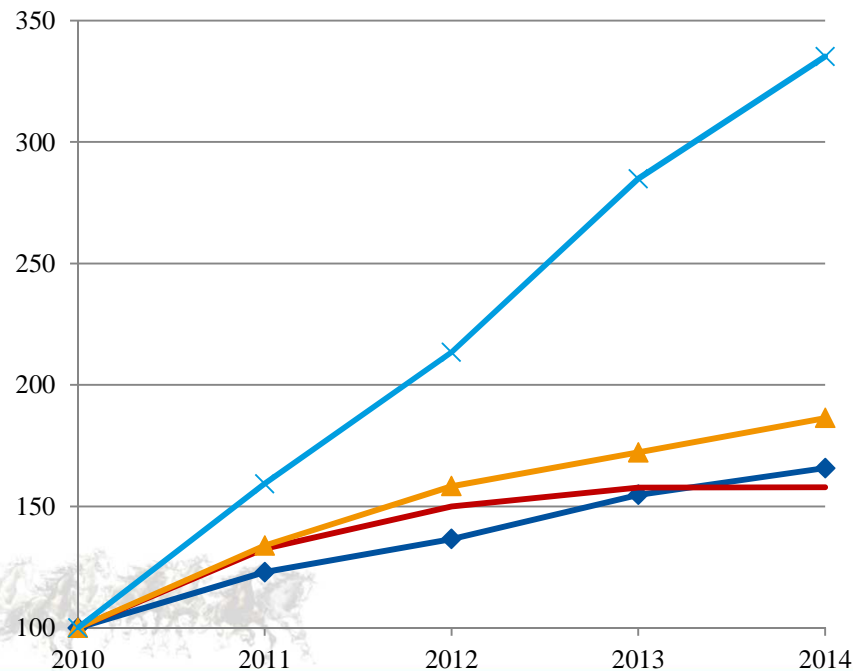


CORE STRENGTHS

A winning strategy – Mix machine to support profitability

Business growth 2010-2014 (100 based in 2010)

Progressive growth



MICHELIN

- ▶ **Tons:**
growth helped by the mix and sustainable demand for MICHELIN brand
- ▶ **Net sales:**
impacted by Raw materials and oversupply in 2014
- ▶ **Gross Margin:**
still up thanks to the favorable mix effect
- ▶ **17'+ unit sales:**
strong segment share



MAIN CHALLENGES FOR
THE NEXT 10 YEARS

3



Main challenges

- ▶ Boost industrial capability
 - Increase local production
 - Introduce new technologies to combine robustness and fuel efficiency
- ▶ Increase OE lift
 - 18"+ to promote image & technologies
 - 16" to support expansion in "emerging China"
- ▶ Improve product coverage
 - Strengthen MICHELIN position in PC & SUV
 - Capitalize on the partnership with Huayi/Double Coin
- ▶ Penetrate "emerging China"
 - Adapt the business model for more competitive zones
 - Speed – Cost efficiency – Scale are key factors of success



KEY TAKEAWAYS

4



KEY TAKEAWAYS

- ▶ Tire market will continue to expand quickly in China
- ▶ Michelin must not compromise on existing assets
 - (Brand, product, Tyreplus...)
- ▶ More investments are required to speed up our growth
 - (capacity/technologies, OE, retail network in “emerging China”, digital initiatives)
- ▶ The partnership with Huayi/Double Coin is critical for the multi-brand approach
- ▶ A lean mindset is the only way for sustainable profitable growth

THE Challenge: Grow quicker than the market



THANK YOU

