

# **GROWTH IN CHINA**



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# China: A Fast-Growing and Modernizing Market

## *12<sup>th</sup> Five-Year Plan*

- ▶ **Urbanization of 5% of the population**
  - Continuous development of infrastructures
  - 83 000 km of new highways
- ▶ **Change in the Country Growth pattern to rebalance Domestic Consumption/Investment and Net Foreign trade**
- ▶ **Ambitious target to improve environmental conditions :**
  - Energy intensity by 16%
  - Carbon intensity by 17%
- ▶ **Logistic Industry among the sectors to be modernized**

## *Consequences for the Automotive and the Tire Market*

- ▶ **Automotive industry as a key consumption driver**
- ▶ **Growing enforcement of overloading regulation**
- ▶ **Norms & Regulation toward Rolling Resistance thresholds in 2013 & grading after 2015**
- ▶ **Trucks and Car OEMs starting to include Rolling Resistance criteria in their purchasing criteria**





## Truck & Bus: Already the Biggest Worldwide Market in Volume

- ▶ **Biggest market in the world in terms of volume (41M radial tires or 35% of the worldwide radial market in volume), with a 75% radial rate. but only 11% of the worldwide TB market in value.**
- ▶ **The market is growing and will continue to grow (41M in 2010, 64M in 2016).**
- ▶ **Modernization is under way:**
  - Rising urbanization is driving modernization of bus fleets
  - Increasing number of tractors/trailers with powerful engines
  - Highway development (74,000Km)
  - Reduced tendency to overload
  - Development of tubeless tires (18% of the market in 2010, 38% in 2016)
  - Government focus on CO<sub>2</sub> and fuel efficiency





# Original Equipment Market

- ▶ In 2010, China saw its annual heavy-duty truck sales rise above 1.3 million units for the first time.
- ▶ 95% by China makers



1,327K vehicles sold in 2010



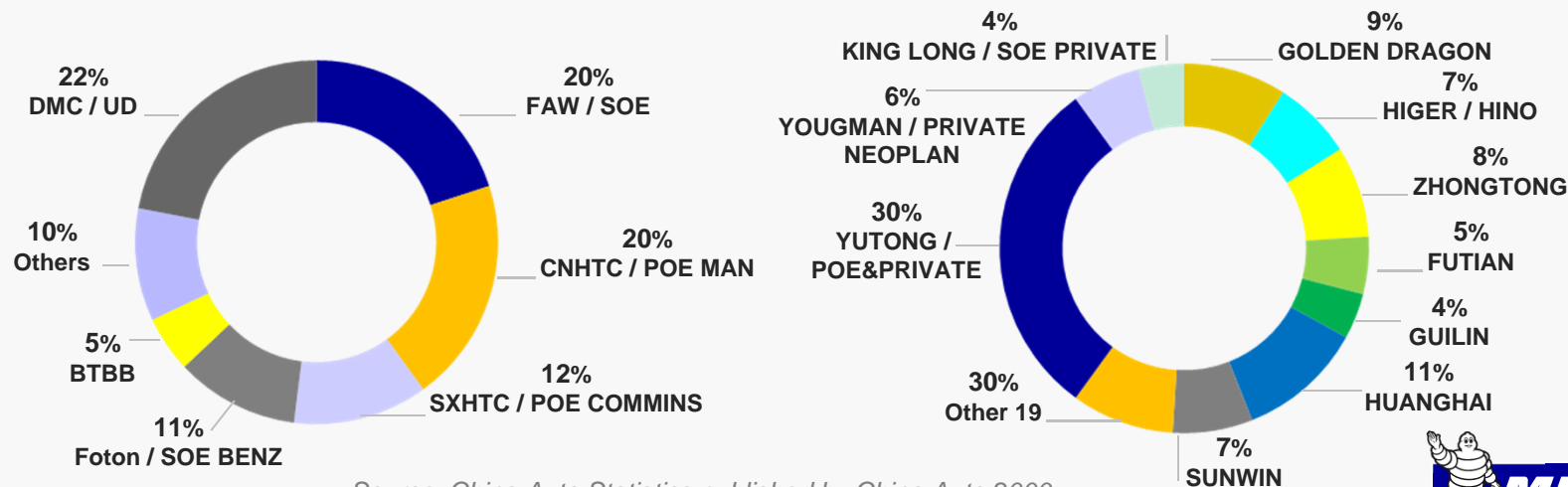
69K vehicles sold in 2010

## Price Gap:

6x4\* CNOEM retail price:  
300-400K RMB

6x4\* Imported retail price:  
900-1,100K RMB

\*Note: Tractor



Source: China Auto Statistics published by China Auto 2000



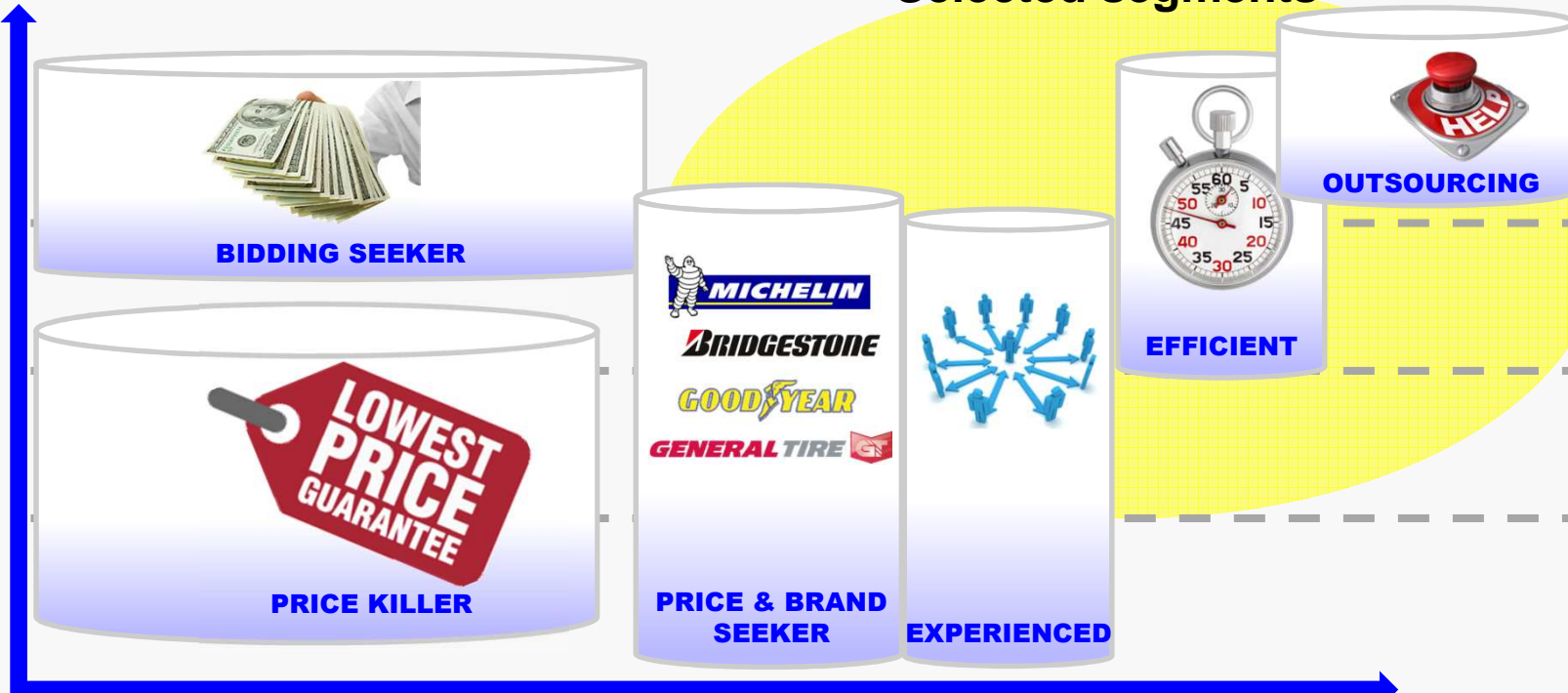


# Market by Purchasing Behavior

40% of China Truck&Bus Radial market to be in selected segments by 2016

Fleet Size

+



Selected segments

+ Service Maturity

Source: End User Segmentation Study (N = 8,500 fleets)

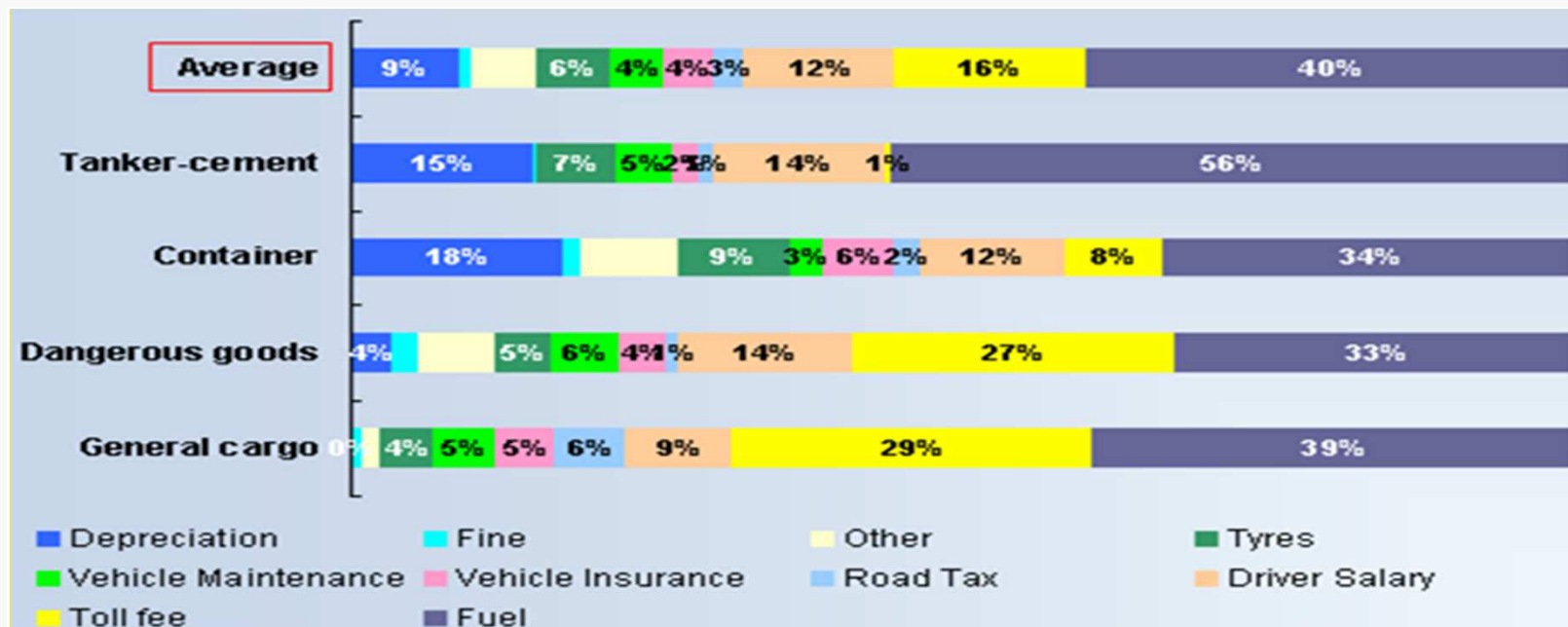




# Market vs. Fuel Efficiency

- ▶ Fuel accounts for 40% of average transportation cost
- ▶ Growing focus on fuel efficient vehicles, parts & tires

## China Truck Fleet Cost Structure



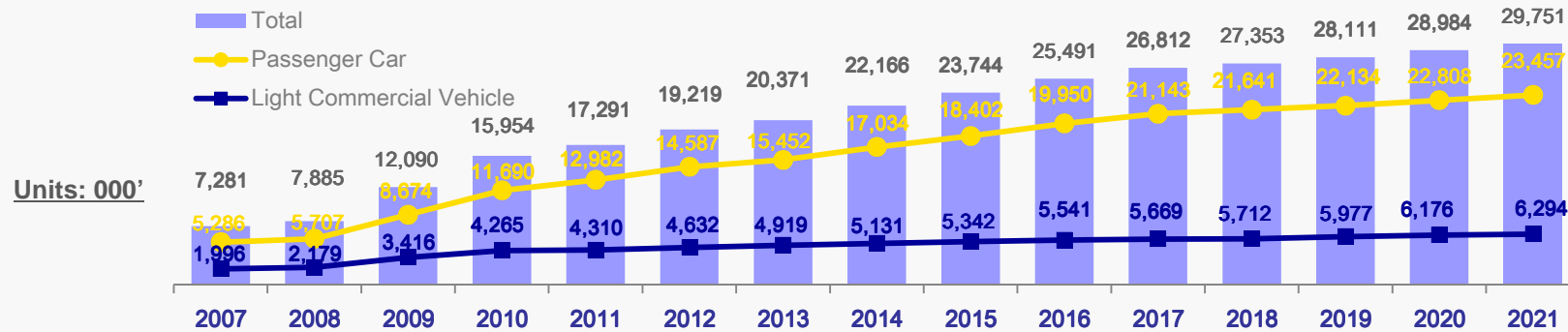
Source: Individual End Users Study in 2009 (N = 600 fleets)



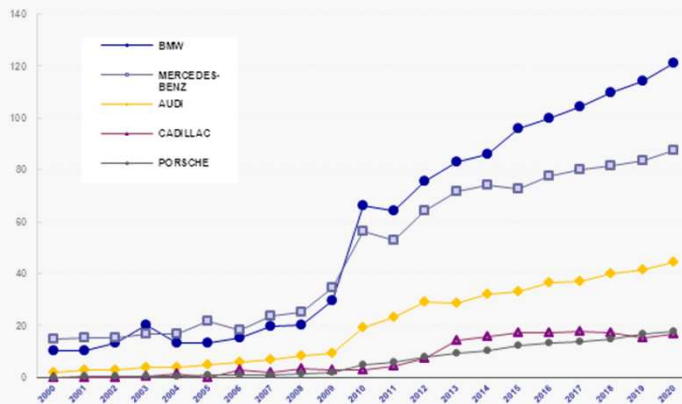


# A Fast-Growing and Upgrading Car Market

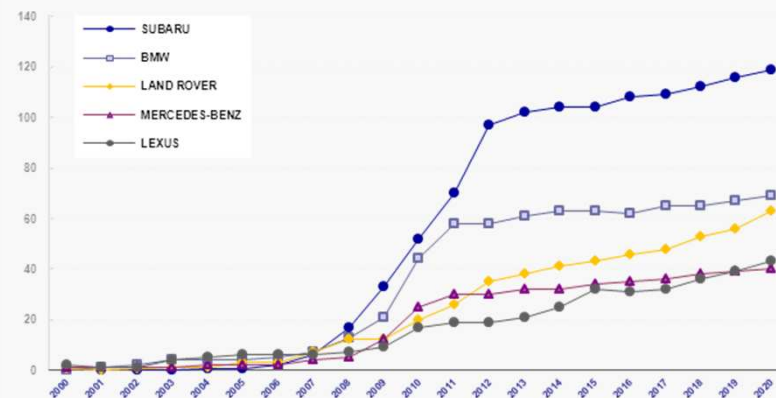
## Passenger Car & Light Truck Vehicle Sales



## High End Sedan Imports



## High End SUV Imports



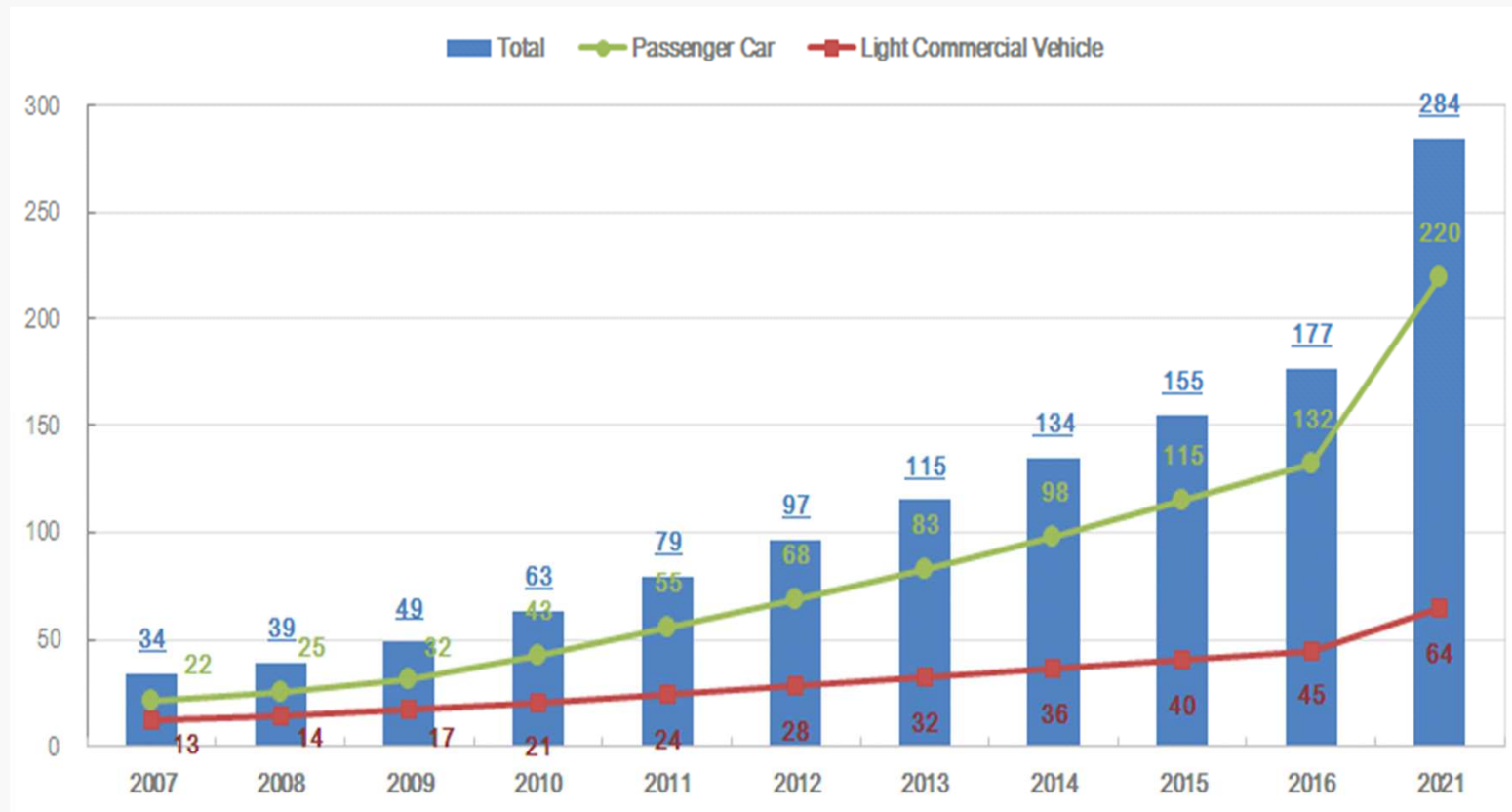
Source: Global Insight & Michelin estimates





# Equipment Rate to Reach Half of Mature Markets' Rate by 2020

## Equipment Rate – Number of Vehicles per Thousand Inhabitants



Source: Global Insight & Michelin estimates

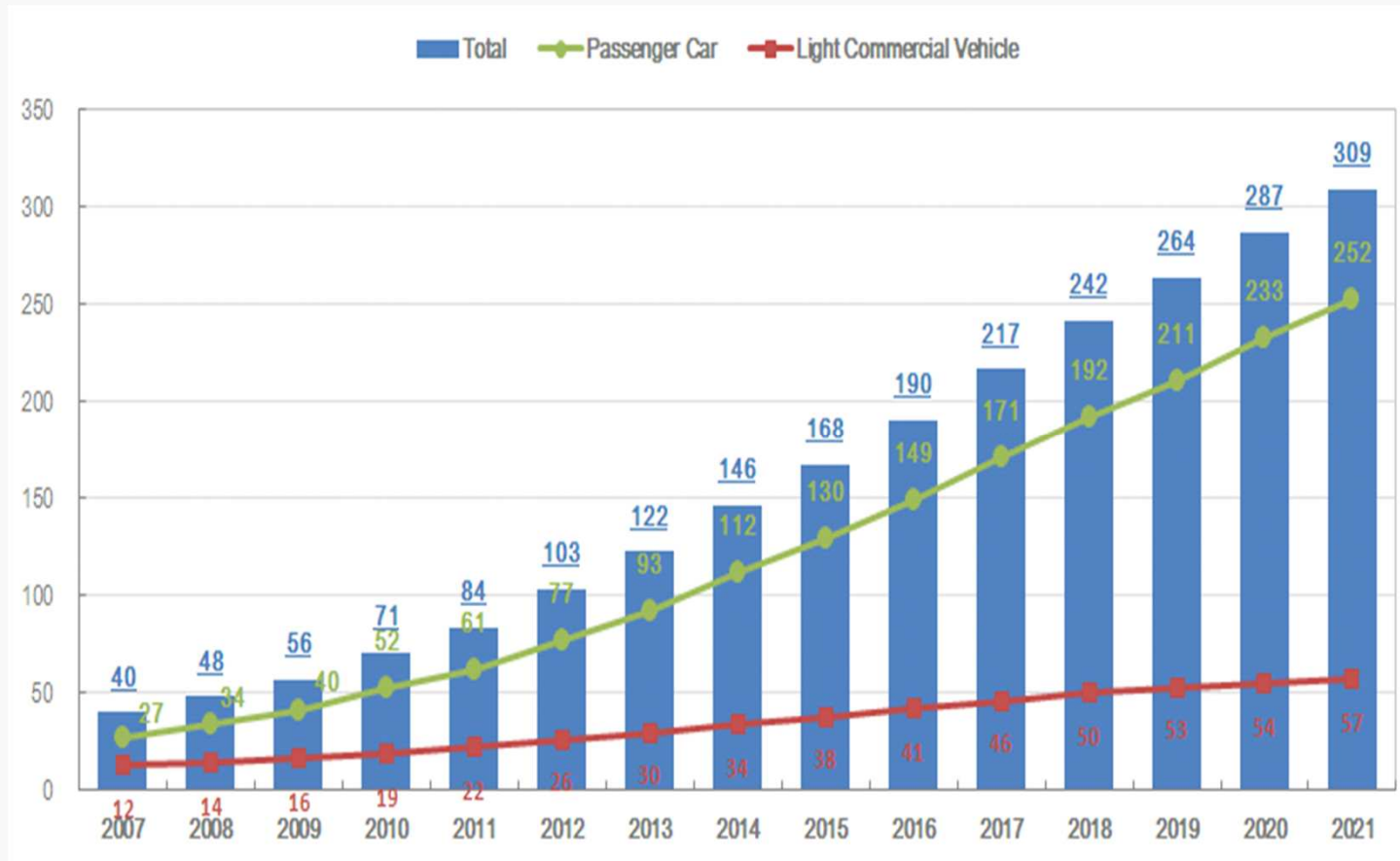






# A Replacement Tire Market with Huge Growth Potential

## Passenger Car & Light Truck Tire Market



Source: Global Insight & Michelin estimates





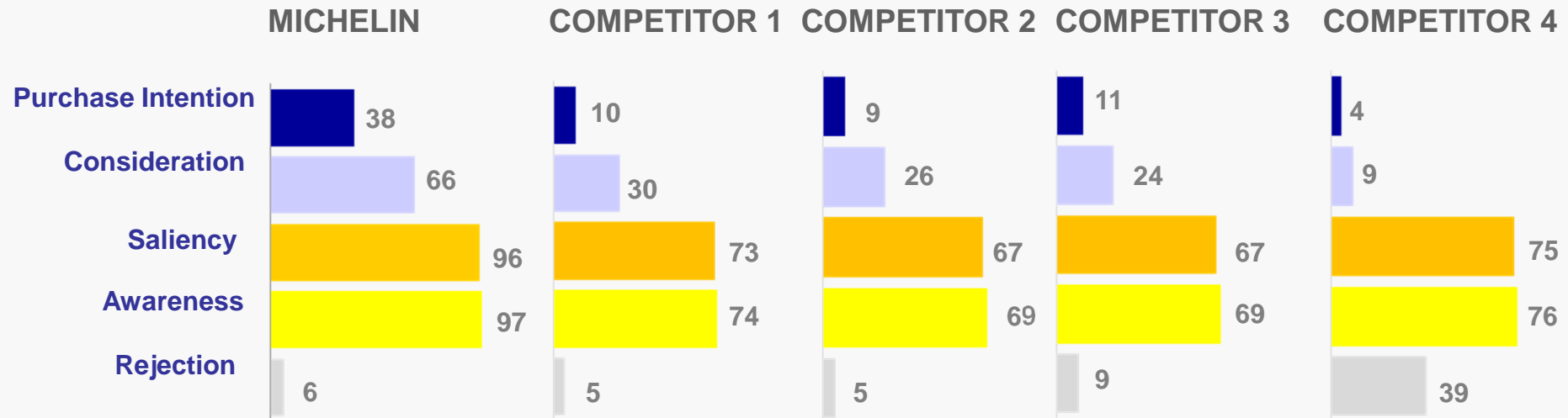
## Chinese PC Market: End Users

- ▶ Safety and long life first, robustness is key. Reducing fuel consumption should become another major need within 10 years.
- ▶ Every 10 years, 130M more Chinese move to cities and the proportion of Tier 3/4/5 cities is growing. Tier 3/4/5 cities already represent 55% of cars on the road.
- ▶ 45% of consumers today are looking for a trustworthy brand that offers safe tires and are feeling responsible.
- ▶ Safety, long life and robustness are clearly linked in a country where tires are punctured 1.2 times during their lifespan.
- ▶ The Internet is becoming the main place for the Chinese consumer to inquire about a brand/product and to share experience. 450M Chinese surf the web, 43% of them generate comments vs. 23% in the USA.





# Michelin: Leading Brand in Perception



Source: 2011 Consumer Tracker TNS Survey - Base = 1,000, all respondents

- ▶ **Strong alignment between corporate/brand and Below-the-line communication**
- ▶ **Leverage new technologies to increase consumer knowledge and intimacy (CRM, web...)**
- ▶ **Strong presence of the brand in Tier 1/2/3 cities through branded partnership distributors**
- ▶ **Targeted presence with iconic/premium vehicles**





# The Widest and Most Aligned Distribution Network

## Distribution networks – number of points of sale

Brand	Durable	Advocate	Transactional	Total
Michelin	<b>T+</b> (Tyreplus) <b>MTC</b> (Michelin Tyre Service Center) <b>MBA</b> (Michelin Business Acceleration) <b>1,450</b>	<b>MCR</b> (Michelin Certified Retailer) <b>1,975</b>	<b>MSD</b> (Michelin Selected Dealer) <b>2,292</b>	<b>5,717</b>
Goodyear	<b>Flagship</b> <b>110</b>	<b>Service Center</b> <b>800</b>	<b>Image Shop</b> <b>700</b>	<b>1,610</b>
Bridgestone	<b>WOC</b> (Wing Of Car) <b>235</b>	<b>BTS</b> (Bridgestone Tyre Shops) <b>BTS+</b> (Bridgestone Tyre Shops Plus) <b>836</b>	<b>BOSS</b> <b>3,575</b>	<b>4,646</b>
Continental	<b>Best Drive</b> <b>30</b>	<b>CCS</b> <b>450</b>	<b>CAR</b> <b>900</b>	<b>1,380</b>
Hankook	<b>T-Station</b> <b>64</b>	<b>Tire Town</b> <b>525</b>	<b>Image Shop</b> <b>1,434</b>	<b>2,023</b>

Source: Internet information, Press reviews & sales force survey





## **Growth Levers**

- ▶ **Products and services tailor-made for local markets**
- ▶ **Enhanced distribution leadership**
- ▶ **New state-of-the-art production capacity in Shenyang**
- ▶ **Alliance in Passenger car Tier 2 with Double Coin Group and Huayi Group**





# Products and Services Tailor-Made for Local Needs

## 米其林 XZE 3 加强型

全轮位安装的有内胎轮胎 满足更高使用要求



- 安全的行驶得益于更低轮胎故障
- 更低的轮胎使用成本得益于米其林多次生命方案
- 更低的轮胎使用成本得益于更长的里程表现



## XZE3 Reinforced

- ▶ **Product Launch: August 2011**
- ▶ **Benefits to Users:**
  - Reduced tire damage
  - Even wear, long lasting
  - Exceptionally durable casing
- ▶ **Tailor-made for Chinese market**
  - Strengthened design on crown area, bead area and casing
  - Sidewall marking in Chinese: Strong “加强”
  - 6 months “peace of mind” warranty
  - Dedicated and optimized claim process





# Products and Services Tailor-Made for Local Needs

**无忧行**  
米其林卡客车会员俱乐部  
服务电话: 40088 90088  
会员编号: No.8888888

积分兑换 道路救援 信息快速 上门服务 会员网站 会员活动

**安全 进步**

米其林无忧行卡客车会员专享服务:  
 ○ 积分兑换 / 购买轮胎奖励积分, 丰厚礼品可供兑换;  
 ○ 道路救援 / 24小时卡客车道路救援, 无现场付款, 无后顾之忧;  
 ○ 信息快速 / 第一时间信息准确及时送达;  
 ○ 上门服务 / 专业技术人员为车队提供上门服务;  
 ○ 会员网站 / 会员享有专有网站, 积分礼品等信息随时查询;  
 ○ 会员活动 / 各种精彩会员活动, 敬邀您的参与。

只要到米其林无忧行卡客车会员俱乐部认定的卡客车轮胎零售处填写会员申请表, 或上网填写会员申请表, 即可加入米其林无忧行卡客车会员俱乐部。  
 欲了解更多信息, 请拨打米其林热线电话: 40088 90088, 或登陆米其林无忧行网站:  
<http://wuyouxing.michelin.com.cn> 或到米其林无忧行认定的零售处进行咨询。

无忧行卡客车道路救援服务仅限于米其林救援服务覆盖的路线范围, 并由米其林无忧行救援服务提供商提供。  
 米其林(中国)投资有限公司享有对本活动的最终解释权

米其林轮胎 MICHELIN

## Wu You Xing (WYX)

- ▶ Created: June 2008
- ▶ How it works:
  - Rewards clients with points per tires purchased
  - Provides exclusive services (breakdown service, direct mailing, TSR visit, private web access, specific services, etc.)
- ▶ Main benefits for Michelin:
  - Maintains direct contact with end-users
  - Activates promotions with less cash out
- ▶ Impact 2011 YTD:
  - Current members: 413K vehicles, 2.3K dealers, 22K fleets
  - 60% of Michelin PLCN RT sales connected
  - 21% of RT direct sales lead (e.g., only made through WYX point system)





## Products and Services Tailor-Made for Local Needs

- ▶ **Michelin Energy XM2 韧悦 delivers enhanced control and safety thanks to its:**
  - Shorter braking distance (1.7m shorter than industry average)
  - Outstanding robustness
  - Longer mileage (20% more than industry average)

IRONFLEX VIDEO



NEW TVC







## Enhanced Distribution Leadership

Program		2011	2015
Durable	T+ MTC/MBA	1,450	2,550
Advocate	MCR	1,975	2,800
Transactional	MSD	2,292	2,750
Total		5,717	8,100

- ▶ Tyre Plus was transformed in 2010 into a franchise looking to provide basic car maintenance services and a premium consumer experience.





## New State-of-the-Art Production Capacity in Shenyang 2



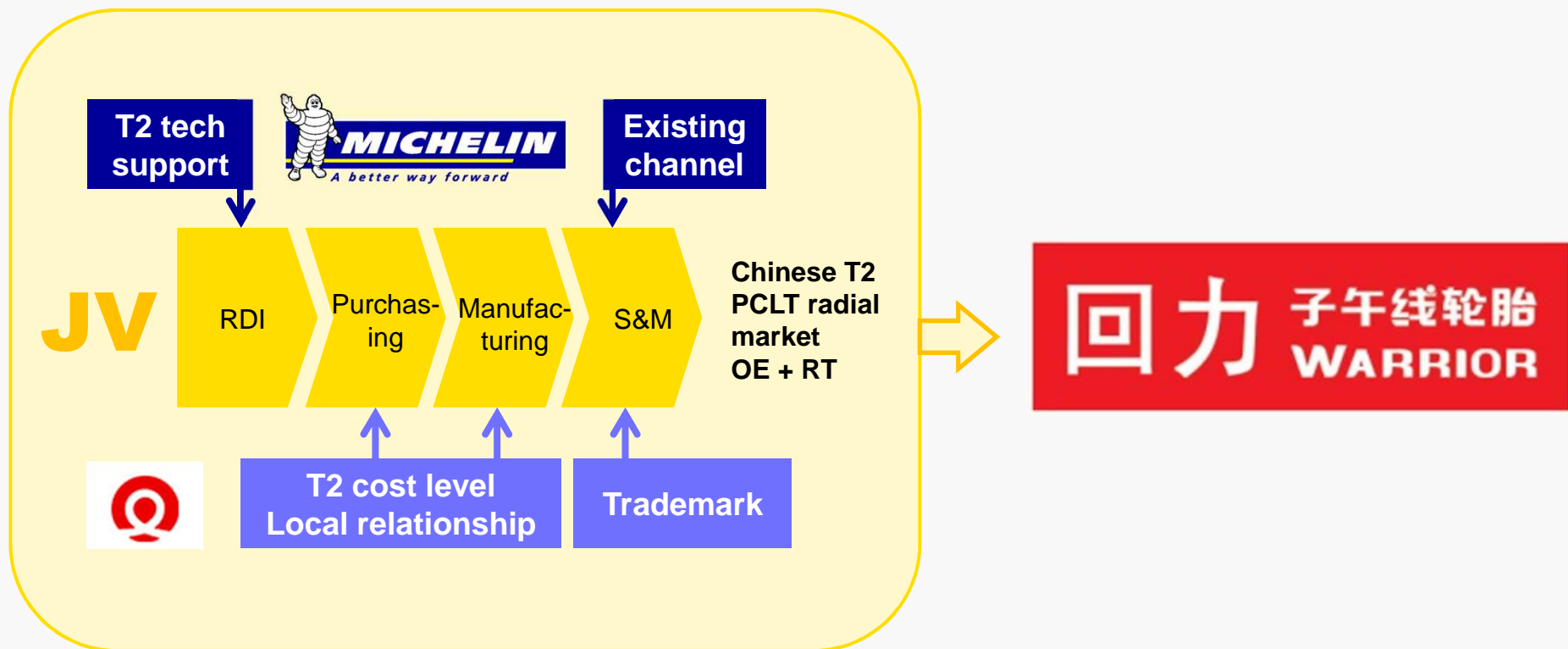
- ▶ Permit obtained from State Council on September 2010
- ▶ Construction began in October 2010
- ▶ 320,000 sqm of buildings to be finished by March 2012
- ▶ First tires: TB in July 2012  
PC in July 2013
- ▶ At the end of ramp-up, the factory should employ 1.5 times the existing workforce (SHY1) for 3.5 times more output





# China JV to Leverage Both Shareholders' Competitive Advantages

**Business Model:**  
**Tier 2 PCR business with joint force of shareholders**





## Key Takeaways

- ▶ Long-term favorable tire market environment
  
- ▶ Michelin aims at leveraging its strengths:
  - MICHELIN Brand
  - Tyre Plus and partner distribution networks
  - Efficient manufacturing
  - Double Coin local alliance

