

# **A STRATEGY GEARED TOWARDS GROWTH OPPORTUNITIES**



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**Analyst & Investor Day - Cuneo (Italy) – October 5, 2011**



# Outline

- *Solid Mid-Term Growth Outlook for the Tire Industry*
- *Acceleration to Seize Growth Opportunities*





# Multiple Growth Drivers

## Mid-term macro-economic environment

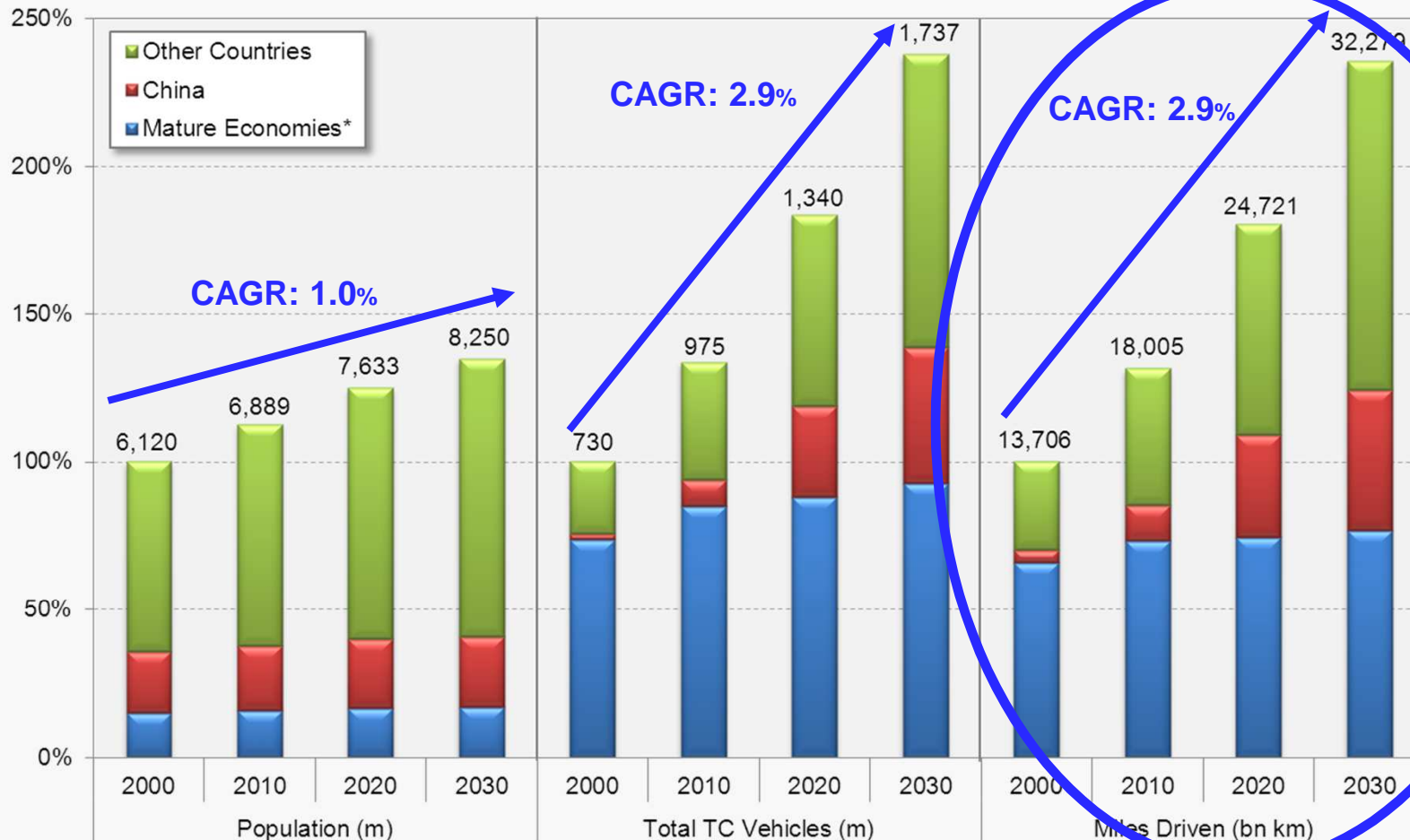
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- **General business fundamentals: population, regulations, etc.**
- **Economic trends (GDP growth, labor costs)**
  - *Provided by economists*
- **Short/medium term fluctuations like those seen recently**
- ...





# Under-lying Positive Factors Will Support Long Term Growth for Tires



\* US, Canada, Japan, Australia, New Zealand, European OECD members without Turkey

Source: Michelin Estimates





# Multiple Growth Drivers

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## Tire industry's long-term levers

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- Growing use of winter tires...
- ... gradually being seen in more countries/regions
- Grading: Europe, then...
- Specific requirements: Mines, Agriculture, etc.
- ...

## Michelin's specific focus points

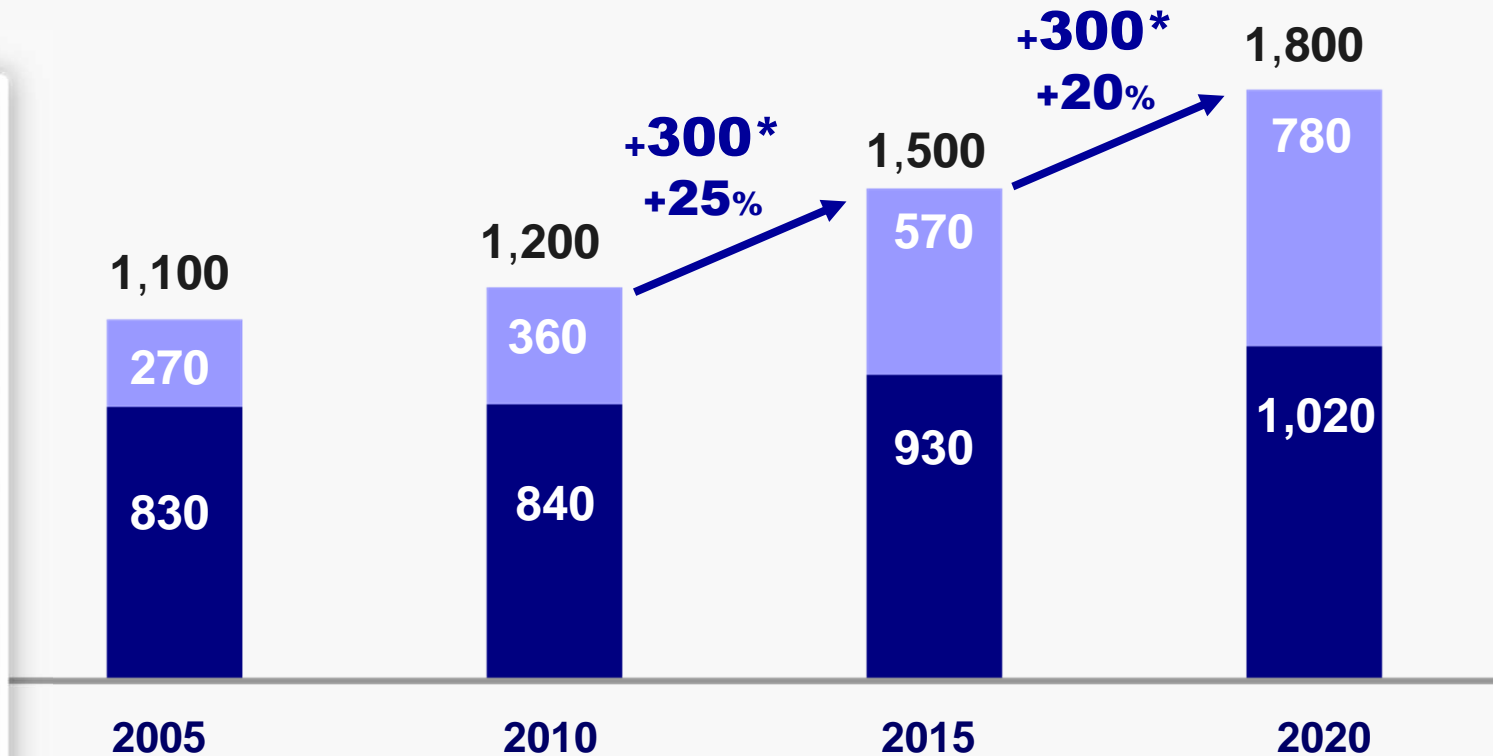
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- Innovative breakthroughs => Michelin's strength with OEMs
- New customer segments targeted
- Michelin's powerful response to demand in the Earthmover segment
- ...



# Confirmed Growth Outlook for Tires

*Passenger Car and Light Truck Tire Markets (in millions of tires)*



*\* Of which 70% in new markets*

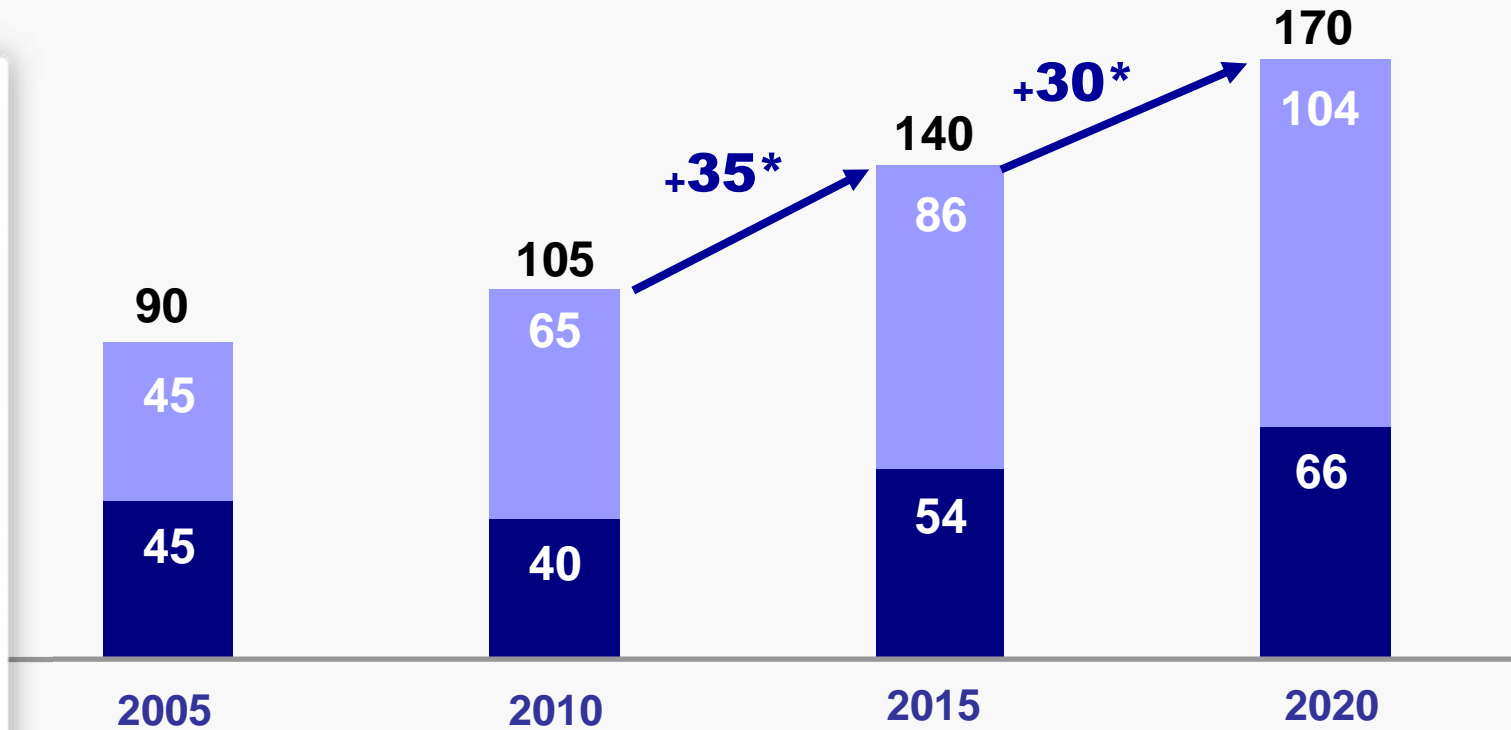
■ Mature markets   ■ New markets   *Michelin estimates*





# Confirmed Growth Outlook for Tires

Radial Truck Tire Markets (in millions of tires)



\* Of which 60% in new markets

■ Mature markets ■ New markets

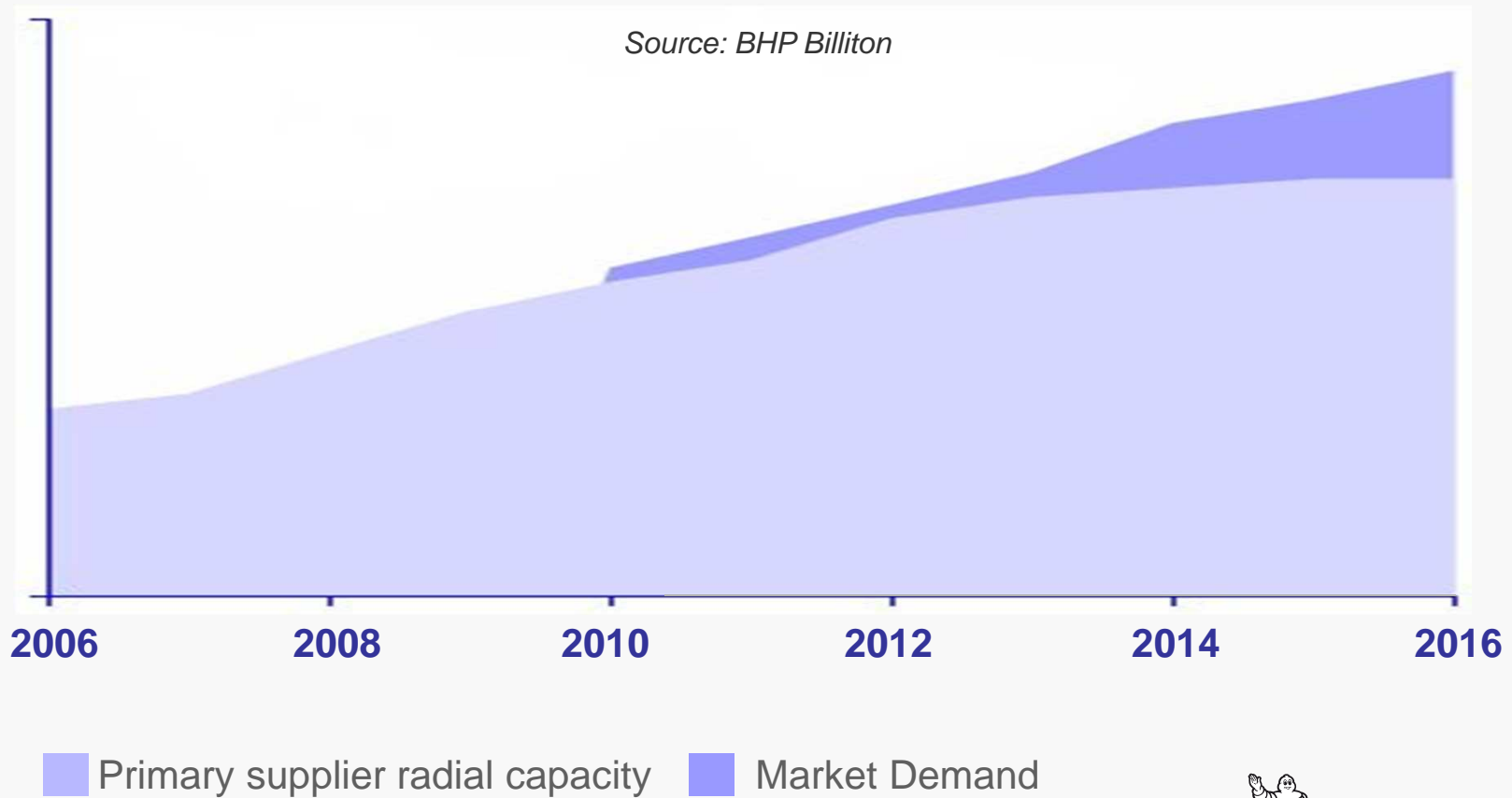
Michelin estimates





# Mining Tires: Structural Upward Trend in Demand

*Large mining tires (market supply and demand)*





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# Continued Focus on Three Strategic Growth Paths



## COMPETITIVENESS

Productivity – Profitability/  
Volumes



## EXPANSION

In new markets: Backbone  
selectiveness & project  
profitability



## INNOVATION

Michelin leadership





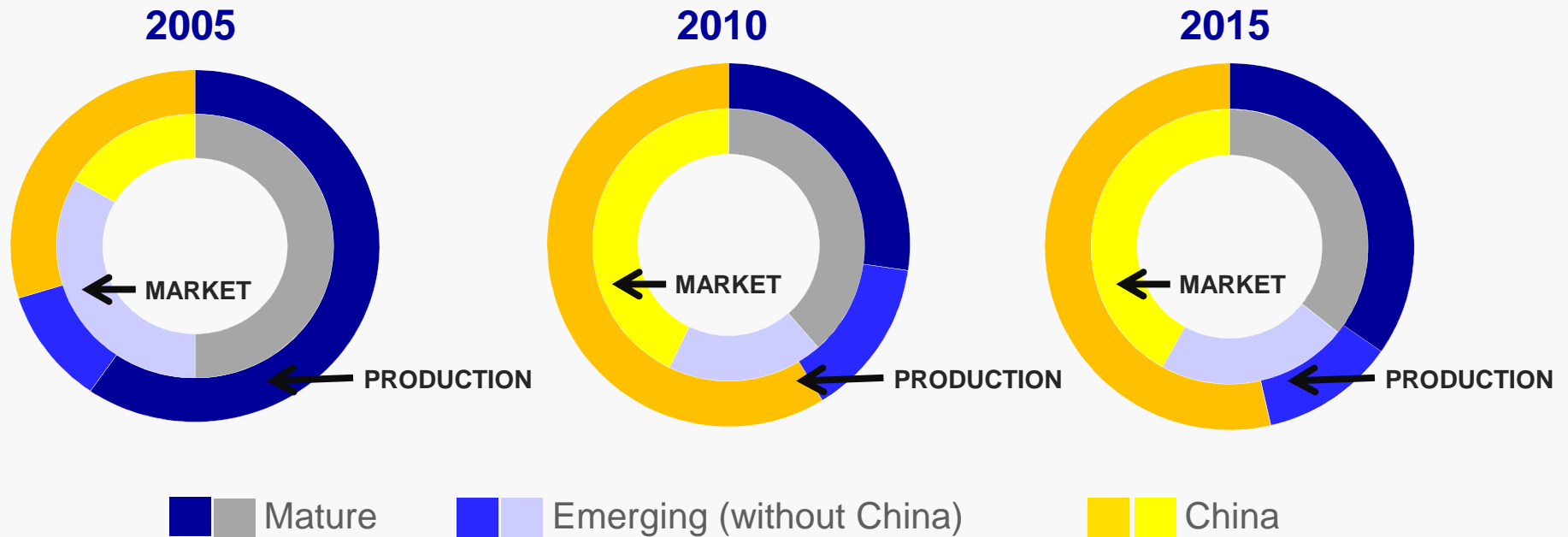
# Acceleration to Increase Value Creation

- ▶ **Remain a major player in the tire industry and maintain the Group's positions**
  
- ▶ **Use our identified levers to seize value creation opportunities through:**
  - **More pronounced demand for technological and/or green products**
  - **Growing demand for Tier 1 tires in new markets**
  - **A presence in the Tier 3 segment**





## TBR: Chinese Share of Global Market Growing, Spurred by Strong Domestic Demand



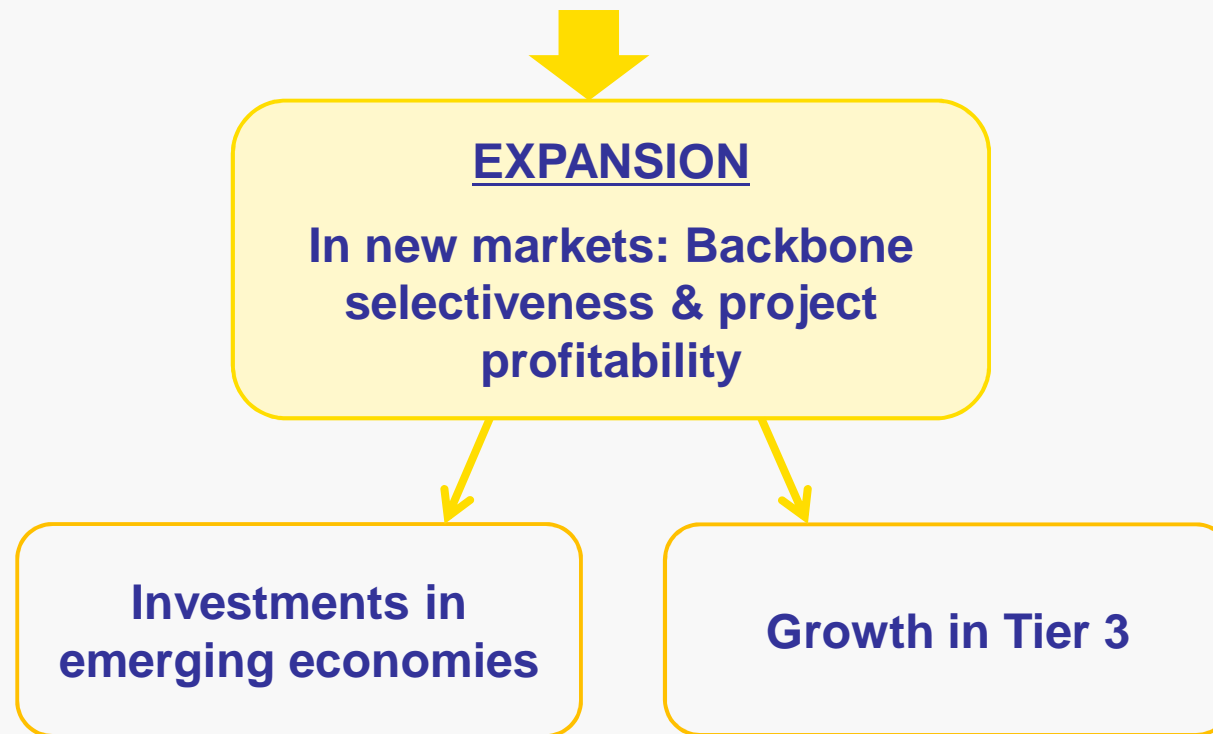
TBR (Truck and Bus Radial) volumes

**Need to pursue our Premium/Innovation (multi-life) positioning in contrast to the “budget” approach**





# ...Today, an Emphasis on Expansion along Two Selected Axes



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  - **Investments in emerging economies**
  - **Growth in Tier 3**

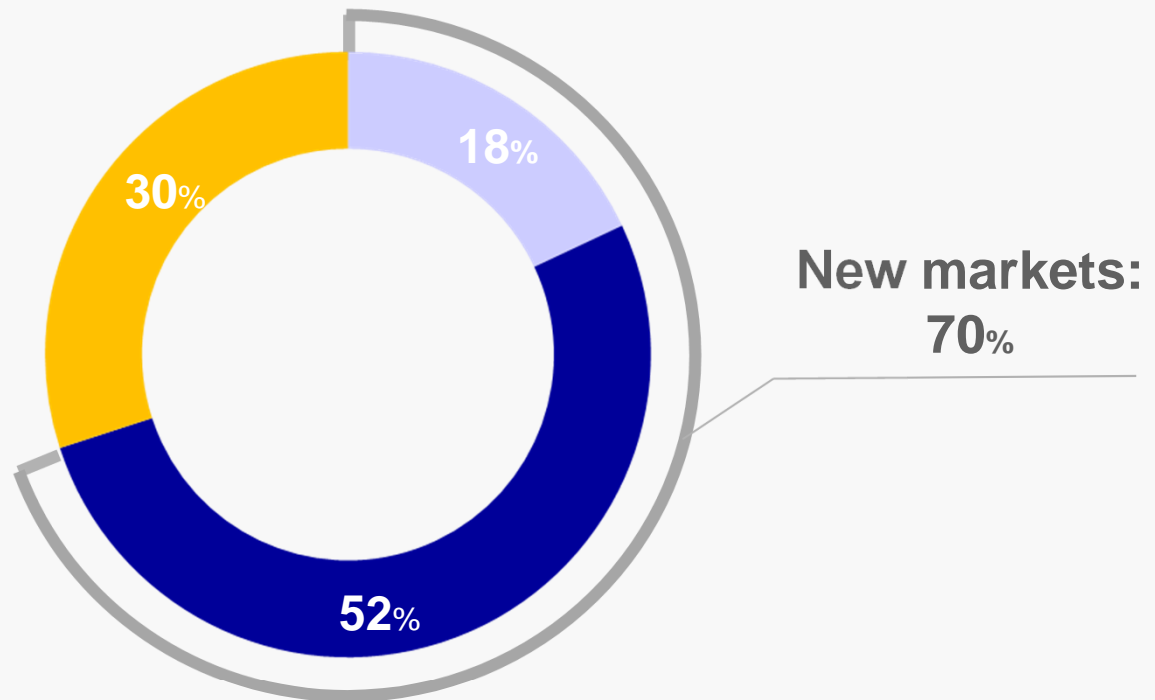




# Capacity Expansion Aligned with Potential Market Growth

2011-2015 Capacity Investment by Type and Region

- ▶ Additional capacity: 150KT per year
- ▶ Michelin brand: organic growth

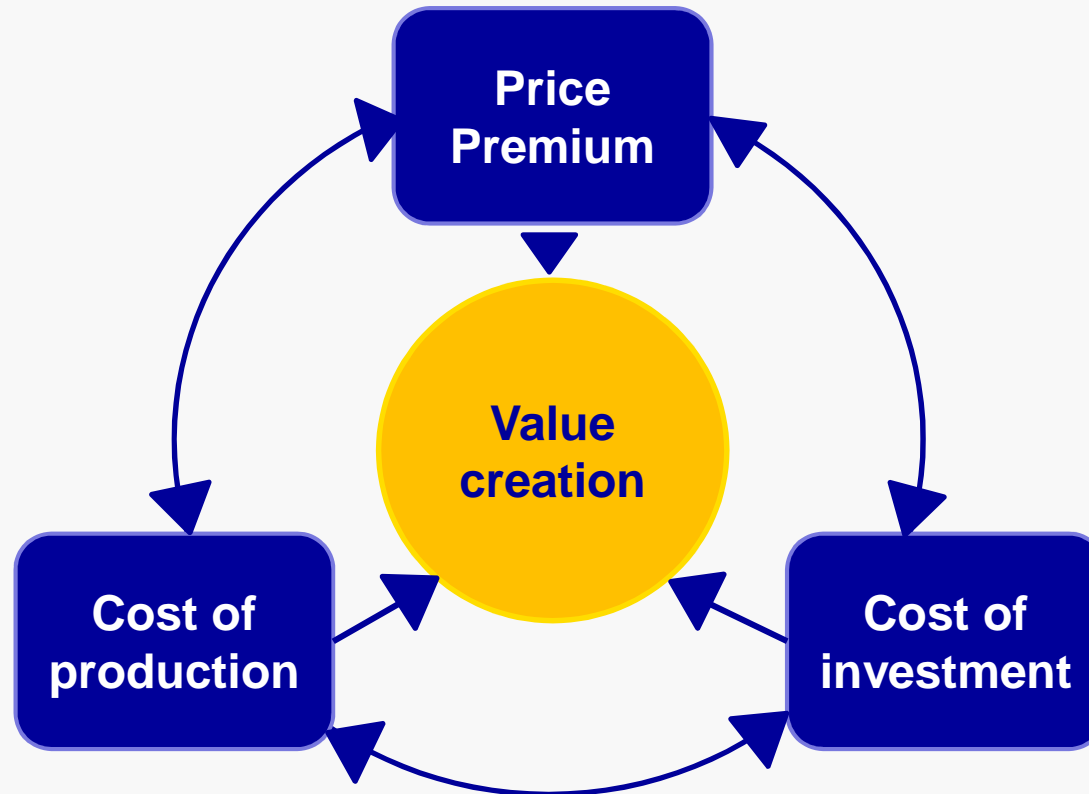


■ Mature Market Brownfields   ■ New Market Greenfields   ■ New Market Brownfields





# Capacity Expansion in the Context of the Virtuous Spiral for Value Creation



Product quality and performance are contributing to the price premium  
Product quality and performance impact investment costs







# Capacity Expansion: Michelin is Consistent with its Business Model

## Example: Capacity Expansion in China

	Cost of investment	RT price positioning	Assumptions
<b>Michelin brand</b>	100	100	Cost: \$1,350m 10m car tires, 1.8m truck tires, 295,000 retread → \$6.36/kg
<b>Competitor 1</b>	99	90	Cost: \$253m 4m car tires → \$6.33/kg
<b>Competitor 2</b>	91	70	Cost: \$954m 10.5m car tires, 1m truck tires → \$5.78/kg

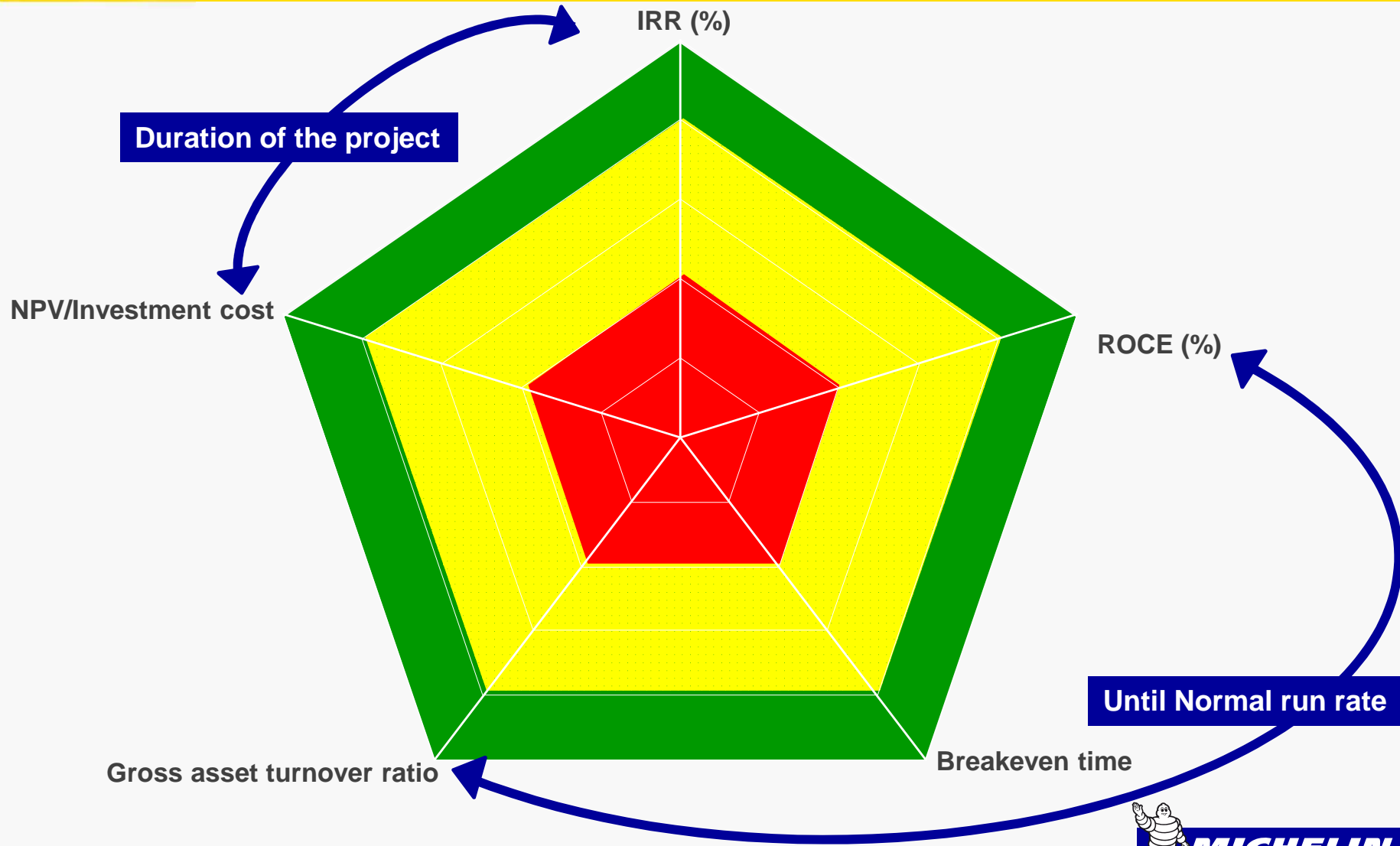
Sources: Company information, Michelin estimates

Tire weight assumption - Car = 10kg/ tire, Truck = 60kg/tire, Retread = 15kg/tire





# Capacity Expansion... for Backbone Projects, Two-time Horizons Managed





# Ramp-ups of New Plants are Organized in a Gradual Manner

- ▶ **Managing investment phases per product line**
  - Greenfield projects are built in several successive phases
    - PC phase = 5 million tire capacity
    - TB phase = 350,000 tire capacity
  - Phase ramp-up = 2 years from 1<sup>st</sup> tire
  
- ▶ **Several projects/product line can be organized simultaneously**
  - Shenyang2: truck and passenger car
  - Chennai: truck and earthmover





# Acceleration of Ramp-ups

## ▶ Manufacturing ramp-up

- Anticipating production team hiring and training
  - August 2011 ytd: 2,200 hires, of which 1,200 in emerging economies
  - 200 Chinese, 200 Brazilians, 350 Indians training in Michelin plants
- Anticipating expatriate needs
- Aligning production schedules

## ▶ Sales ramp-up

- Anticipating marketing & sales team hiring and training
  - August 2011 ytd: 300 hires of which 260 in emerging economies
- Defining the product catalogue upstream
- Developing distribution networks





# Capacity Expansion China: Acceleration Through Targeted Partnership

## RubberWorld

### Michelin investing EUR 75 million in Chinese venture

Michelin investing EUR 75 million in Chinese venture  
Thursday, September 8, 2011  
Paris, France –

Michelin, Double Coin Holdings and Shanghai Huayi have signed the final agreement to create a joint venture in China to produce and market Warrior brand passenger car and light truck tires for the local market. The new company, Double Coin Group (Anhui) Warrior Tires Co., will be owned 40 percent by Michelin and 60 percent by its Chinese partners ...



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  - Investments in emerging economies
  - **Growth in Tier 3**





# Tier 3 Presence: a Necessary Move for Global Leadership

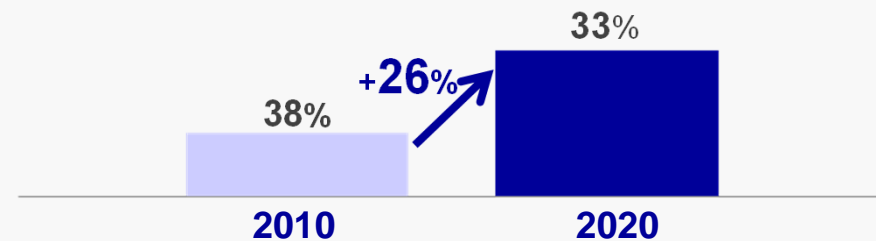
## T1 + strategy



## T3 stand-alone strategy



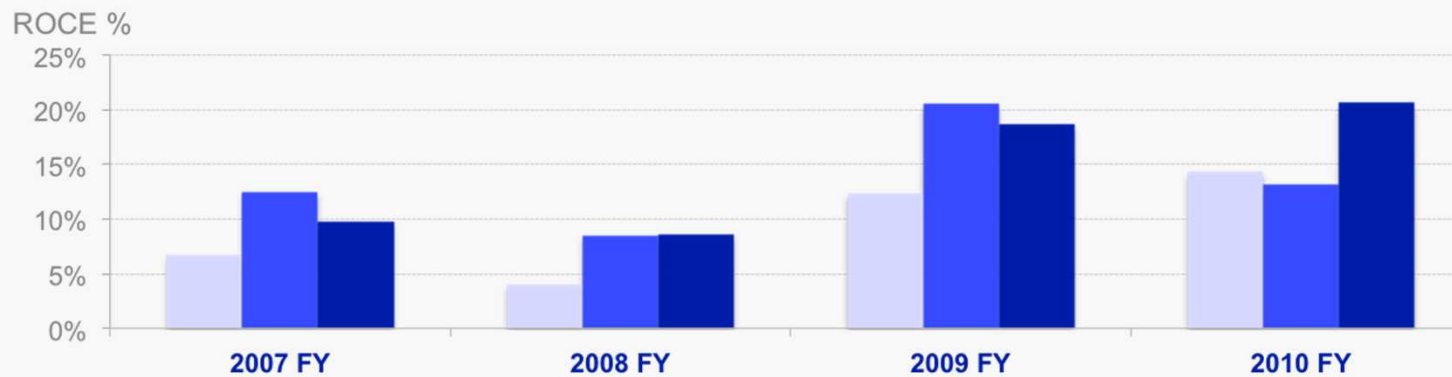
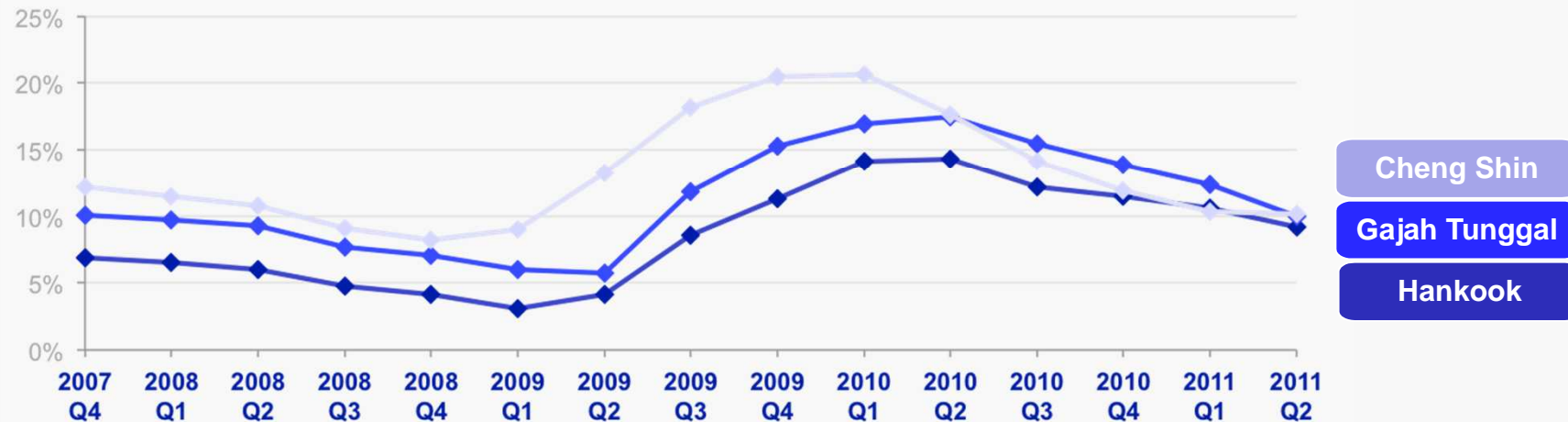
## Tier 3 worldwide segment - share and growth





# Tier 3: A Value-Creating Business with its Own Rules

Operating margin trend – 12 month rolling – 2007 Q4 to 2011 H1



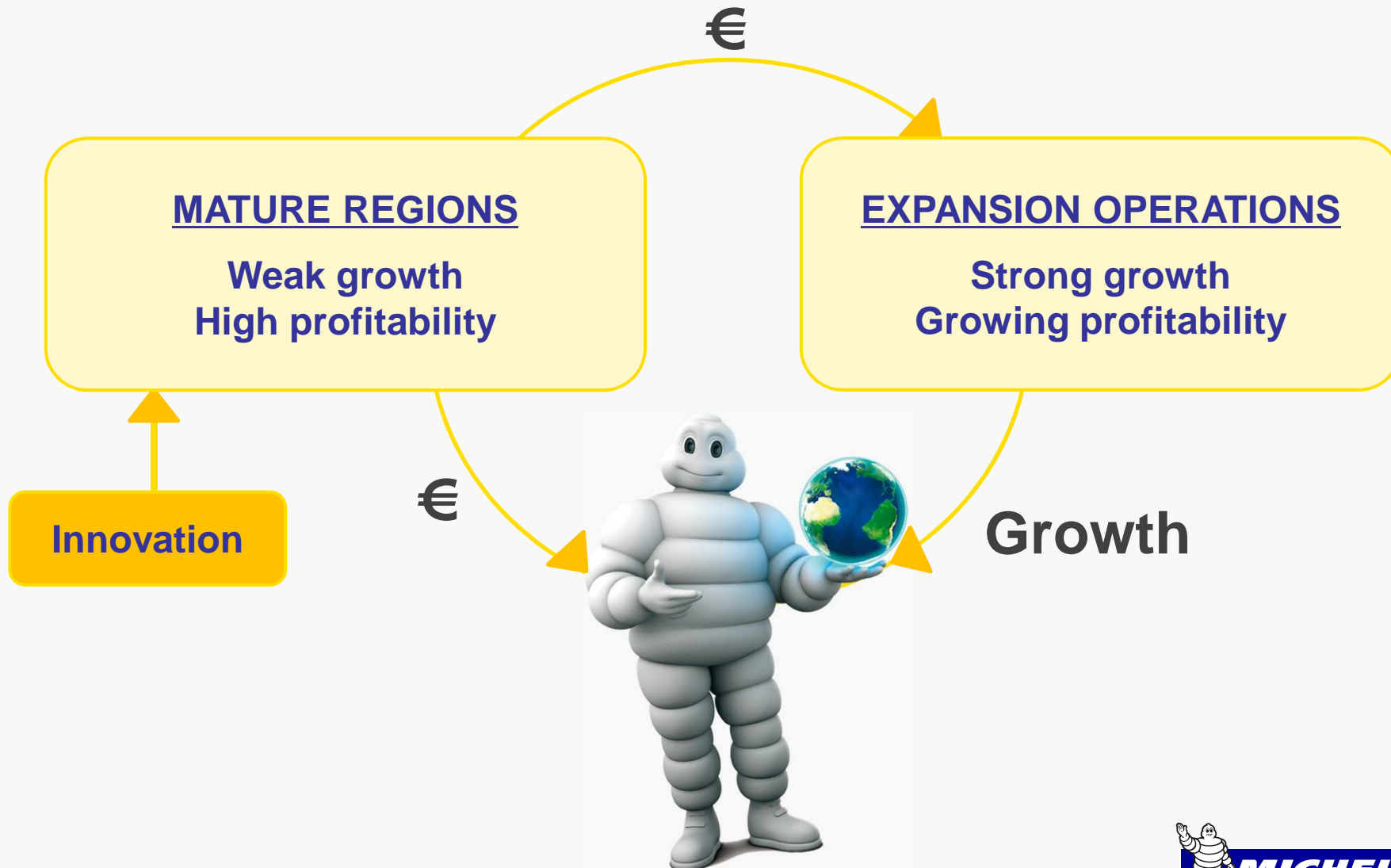
Source: Company Financials , HK & DC = Group figures







# The Strategic Challenge of Michelin... On Its Way



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