

1Q'18 Earnings release

coway



DISCLAIMER

This presentation contains historical information of the company which should not be regarded as an indication of the future performance or results.

This presentation also contains forward-looking statements that are, by the nature, subject to significant risks and uncertainties.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance or results.

Actual results may differ materially from information contained in the forward-looking statements as a results of a number of factors beyond our control.

CONTENTS

1. 1Q'18 Earnings Release

- Consolidated Revenue / Profits
- Total accounts (domestic & overseas)

2. Business Review

- Health appliance business
- Overseas business
- Home-care and Cosmetics business
- New products (domestic & overseas)

3. 1Q Review and 2Q Plan

- 1Q Review and 2Q Plan

4. Appendix

- Consolidated financial reports
- Subsidiary results

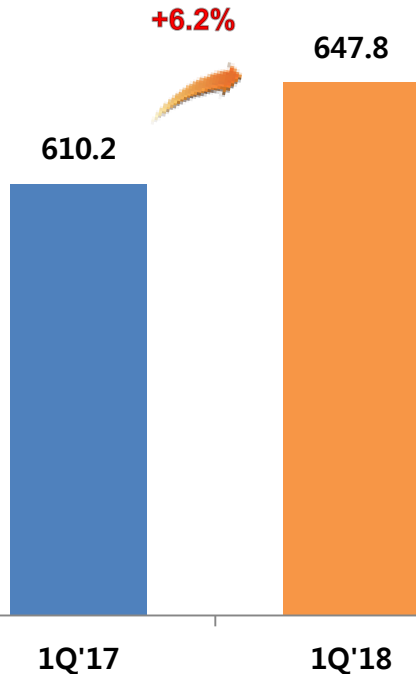
1-1. Consolidated Revenue and Profits

1Q'18 Revenue KRW 647.8bn (+6.2% YoY), due to historical high 1Q rental gross adds (460k)

Operating Profit KRW 131.3bn (+8.6% YoY), Net Profit KRW 95.2bn (+26.2% YoY),
- Historical High Operating Profit

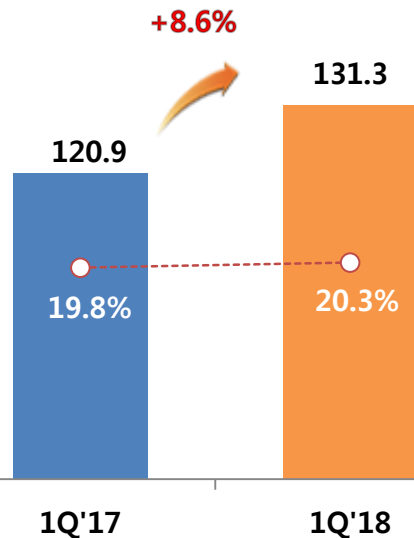
Revenue

[Unit: KRW bn]



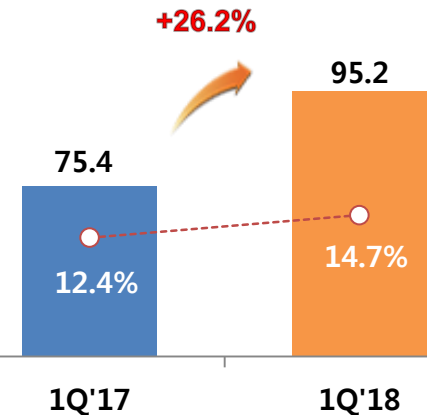
Operating Profit

[Unit: KRW bn/○: Margin]



Net Profit

[Unit: KRW bn/○: Margin]

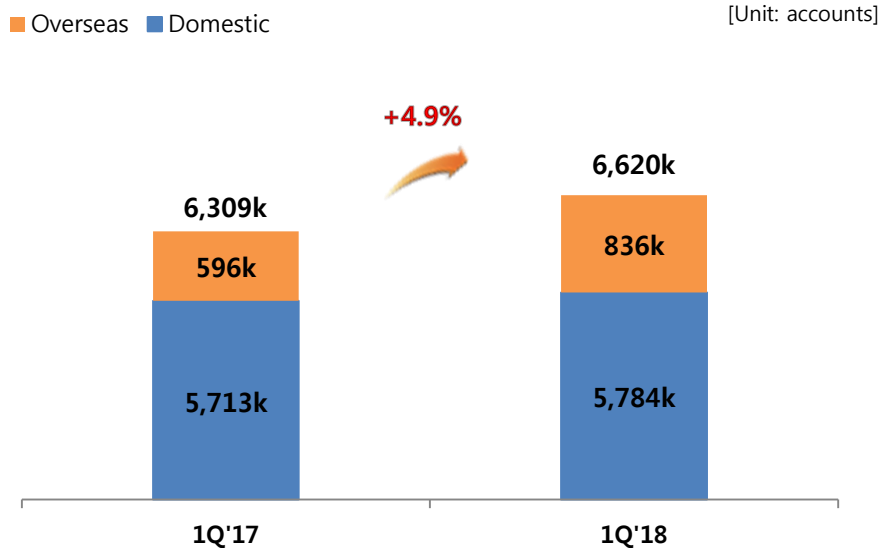


1-2. Total accounts (domestic & overseas)

1Q'18 Total accounts **6.62mn** in 4 countries (Korea, Malaysia, U.S., Thailand)

- Recorded **6.62mn** accounts in 1Q'18, plan to achieve **7.00mn** accounts by 2018

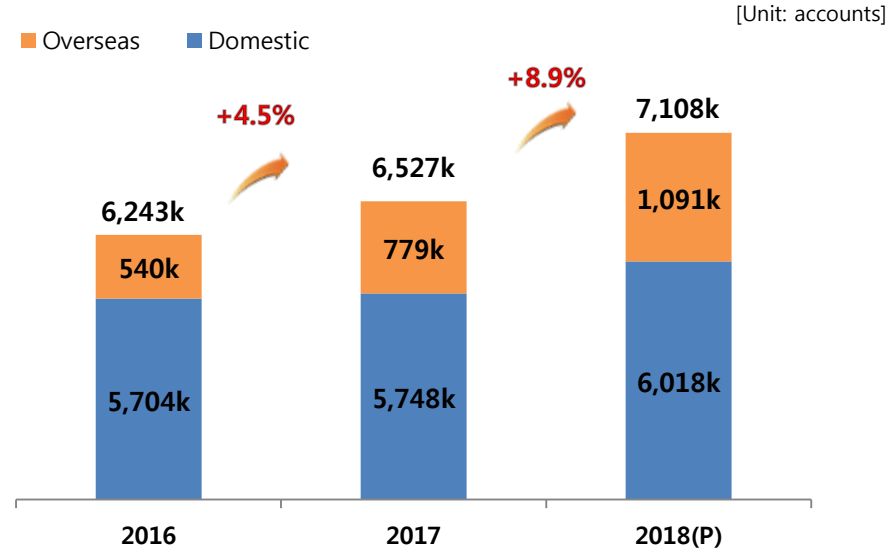
Total accounts (Quarter)



Ⓢ **1Q'18 total accounts 6.62mn**

- Domestic 5.78mn (+1.3% YoY)
- Overseas 836K (+40.4% YoY)
- : Malaysia 708K, U.S. 111K, Thailand 17K

Total accounts (Annual)



Ⓢ **Plan to achieve total accounts of 7mn by 2018**

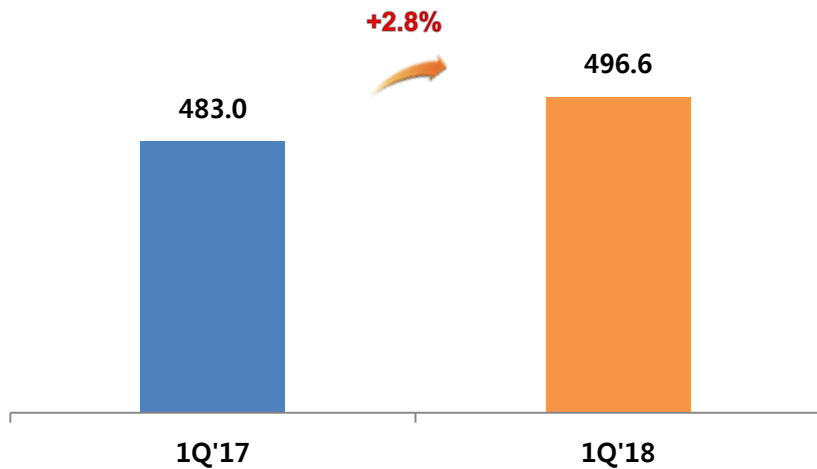
- 2018(P) 7.11mn
- Domestic 6.02mn (+4.7% YoY)
- Overseas 1.09mn (+40.1% YoY)

2-1. Health appliance business

Health appliance revenue KRW 496.6bn (+2.8% YoY)
 Total accounts 5.78mn (+1.3% YoY)

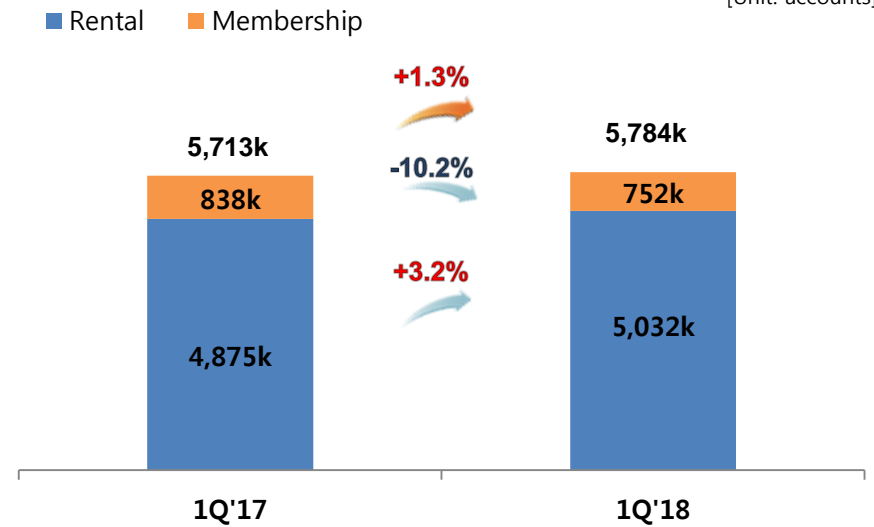
Health Appliance¹⁾

[Unit: KRW bn]



Accounts²⁾³⁾

[Unit: accounts]



① **1Q'18 Health appliance revenue KRW 496.6bn**

- Rental and financial lease : KRW 417.3bn (+5.6% YoY)
- : Strong revenue growth due to historical high 1Q rental gross adds
- Lump-sum and other : KRW 47.1bn (-5.5% YoY)
- : Focused on rental sales in January and February, but from March, lump-sum sales started to grow. New product launch such as drying machine is expected to increase 2Q lump-sum sales

① **1Q'18 Total accounts 5.78mn**

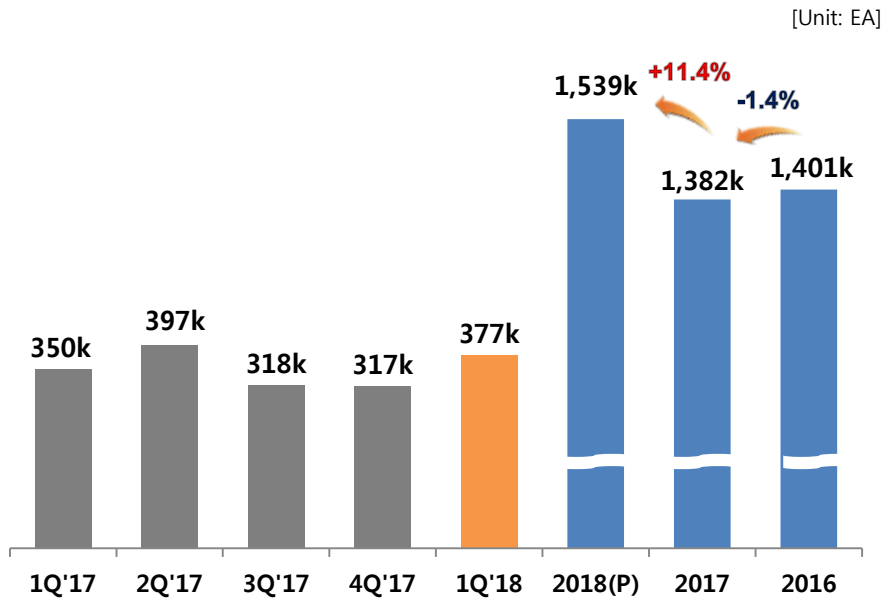
- Rental accounts : 5.03mn (+3.2% YoY)
- Membership accounts : 752k (-10.2% YoY)

1) Including other health appliance revenue (A/S, Installation and etc.): Applies to all health appliance revenue in this material
 2) Excluding non-performing, 5 year maturity pending and free membership accounts: Applies to all accounts in this material
 3) Including financial lease accounts: Applied to all accounts in this material

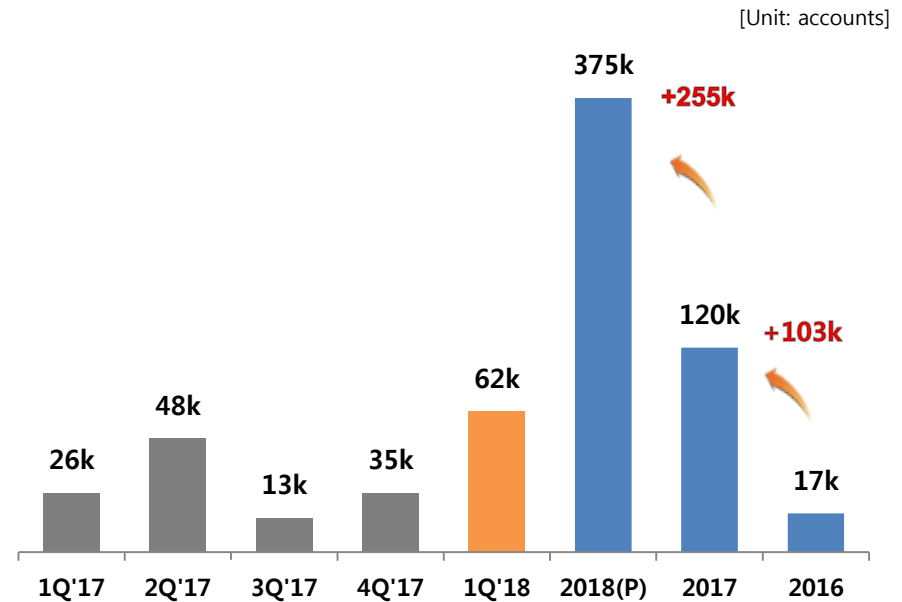
2-1. Health appliance business

Historical high 1Q rental gross adds
 Rental accounts exceeded 5.03mn boosted by rental net adds 62k

Rental gross adds¹⁾



Rental net adds



① Historical high 1Q rental gross adds

- 1Q'18 Rental gross adds 377k (+7.9% YoY, +18.8% QoQ)
- : Water purifier, air purifier and mattress sales increase due to strengthening product portfolio based on customer needs analysis.
- Rental gross adds expect to increase due to arrival of the peak season and release of new products.

① Continued growth of rental net adds

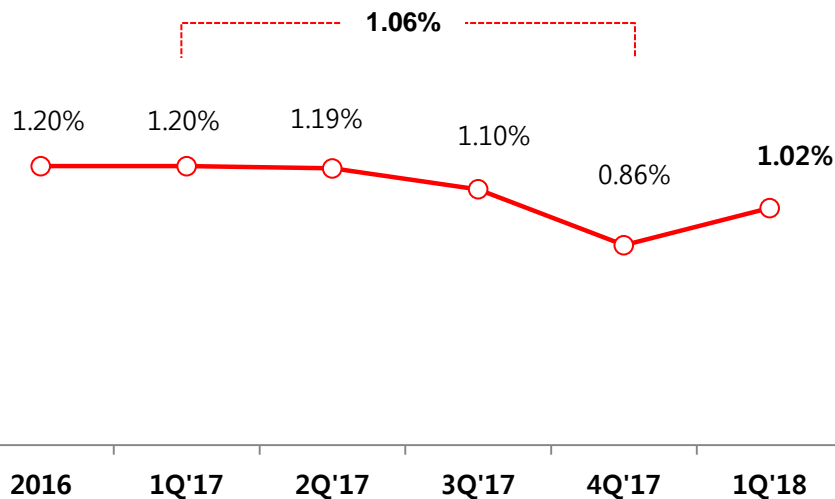
- Rental net adds +62k in 1Q'18
- : Increase of rental net adds due to stabilization of cancellation rate and increase of rental gross adds.
- Rental accounts exceed 5.03mn in 1Q'18.
- Enhancement of rental net adds by expanding rental gross adds and strengthening customer retention activities.

1) Including financial lease sales : Applied to all gross adds in this material

2-1. Health appliance business

Stable management of cancellation rate and rental asset disposal expense rate

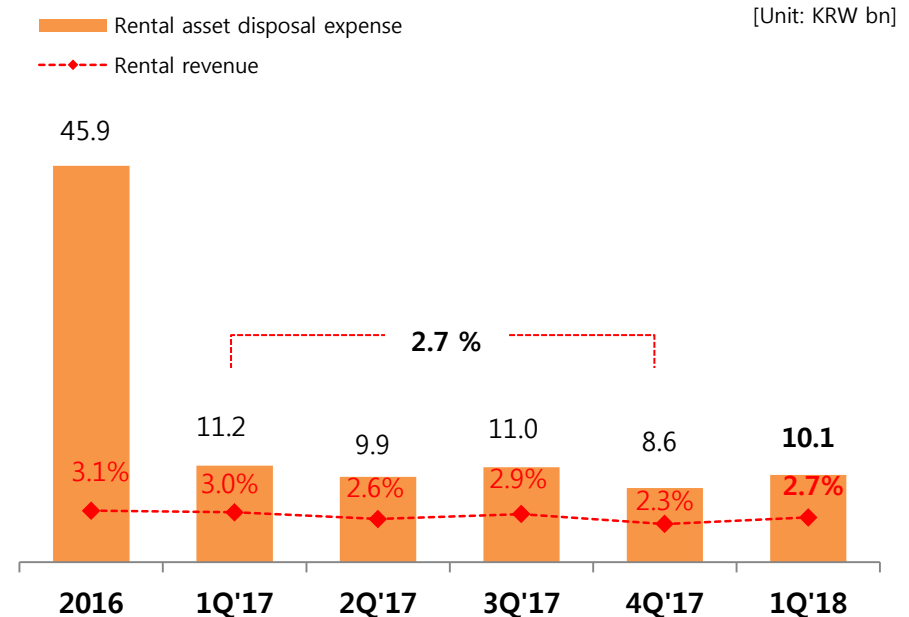
Cancellation rate



Ⓢ **Stable management of cancellation rate (1% level)**

- Cancellation rate 1.02% in 1Q'18
- : Continue to manage stabilized cancellation rate by strengthening product and service quality.

Rental asset disposal expense



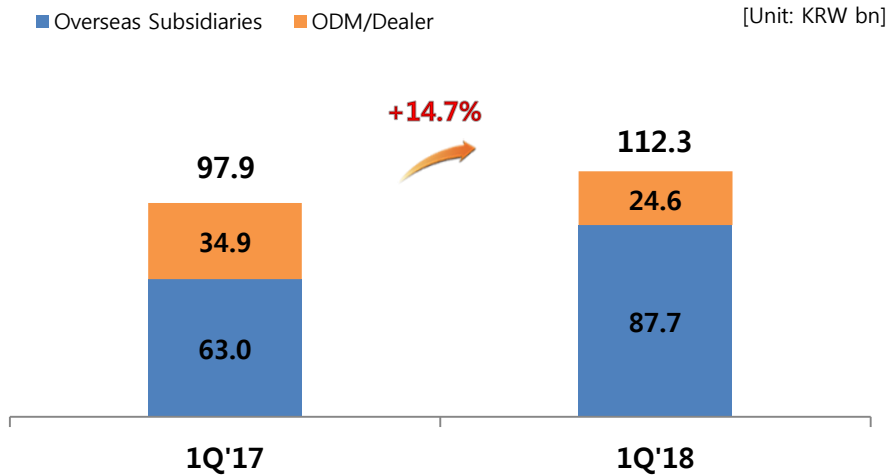
Ⓢ **Stable rental asset disposal expense rate**

- Rental asset disposal expense KRW 10.1bn in 1Q'18
- : Rental asset disposal expense rate stayed stable at 2.7% of rental revenue

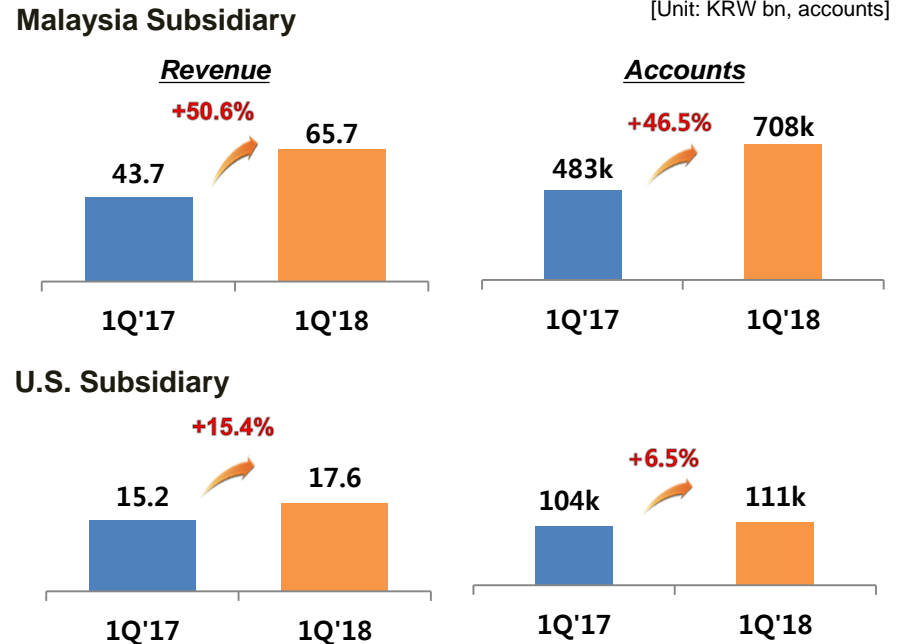
2-2. Overseas business

Overseas revenue KRW 112.3bn (+14.7% YoY) Continued growth of overseas subsidiaries revenue

Overseas revenue



Overseas subsidiaries revenue



© Overseas revenue KRW 112.3bn

- Overseas subsidiaries revenue KRW 87.7bn (+39.1% YoY)
: Strong growth from Malaysia and U.S. subsidiaries.
- ODM/Dealer revenue KRW 24.6bn (-29.3% YoY)
: China ODM partner export volume decreased due to exhaustion of secured inventory.
- Expect revenue to increase due to overseas subsidiaries sales increase, new product launch from ODM partners and expansion of brand partners.

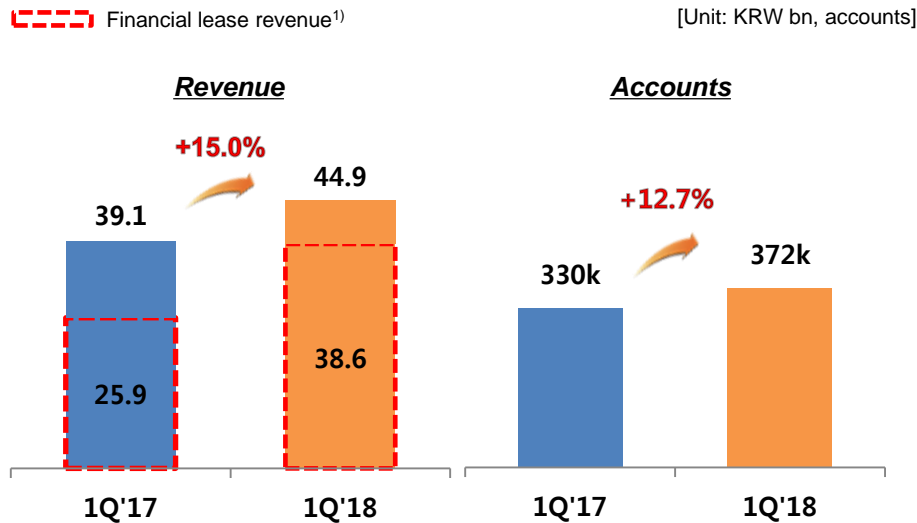
© Continued growth from overseas subsidiaries

- 1Q'18 Malaysia: +43.1% YoY revenue growth in local currency
: Quarterly revenue exceeded KRW 60.0bn, recorded historical high OPM of 14%
- 1Q'18 U.S. +24.2% YoY revenue growth in local currency
: Revenue growth driven by accounts increase in door-to door channel and strong sales of air purifier in retail channel.

2-3. Home-care & Cosmetics business

Home-care financial lease revenue KRW 38.6bn (+49.3% YoY)
 Cosmetics revenue KRW 20.6bn (-1.6% YoY)

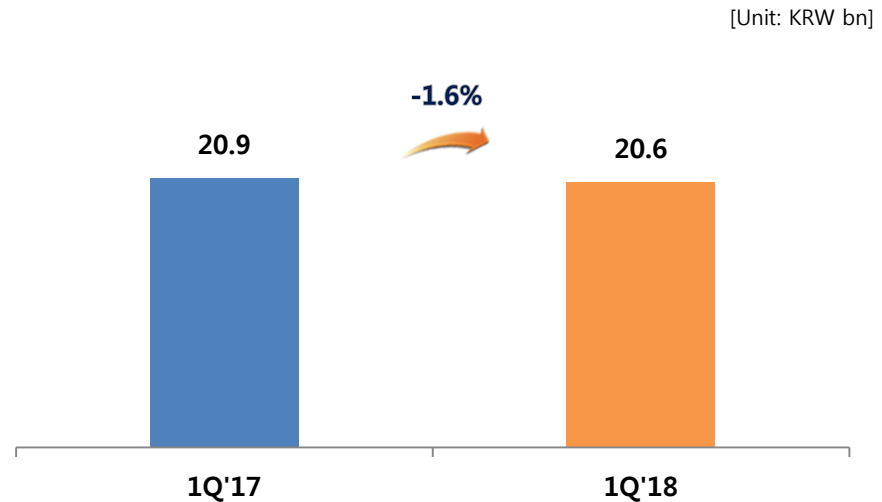
Home-care



⊙ **Financial lease revenue growth driven by increase of accounts**

- Mattress gross adds 33k in 1Q'18 (+20.7% YoY)
 : Increase of sales to existing health appliance subscribers.
- Financial lease revenue KRW 38.6bn in 1Q'18 (+49.3% YoY)
 : Sales expect to increase due to release of new product such as junior bed and others.

Cosmetics



⊙ **Cosmetics revenue KRW 20.6bn**

- Revenue maintained at 1Q'17 level, but plan to increase revenue through 1) activating door-to-door sales channel by holding recruiting session for business partners and introducing award ceremony, 2) increasing number of home-shopping broadcasts.

1) Financial lease: Record 5yr/ 6yr revenue at the time of the sales as present value

2-4. New products (domestic and overseas)

Increase sales by release of new water purifier, air purifier, Fresh Wear Styling System and other products

Domestic



Ⓢ **Ice water purifier AIS 2.0 (2Q)**

- Expansion of ice water purifier line-ups (AIS 2.0), CIROO¹⁾ filter and hygiene enhancement system applied.
- : Enhance hygiene system by applying auto flushing and detachable ice tank.
- : Produce hard and colorless ice by applying Wave Icing System(remove air bubbles)



Ⓢ **Active action air purifier (1Q)**

- Self-learning and purifying A.I. air purifier.
- : Purifies every corner by applying Up/Down/Left/Right rotating Active Swing Care function.
- : Automatically detects the polluted area and intensively purifies the air by applying Motion Recognition Care function.



Ⓢ **New product category Fresh Wear Styling System (2Q)**

- Next generation of clothe and space care (purifying, dehumidifying) system.
- : Remove over 90% of dust and odor by applying 3-Way Power Blowing system.
- : Straighten wrinkles without harming clothe by applying Air Shot hanger system.

Overseas



Ⓢ **U.S retail target water purifier Aquamega (1Q)**

- Cordless counter-top type direct flow water purifier.
- : Installation, filter change easily done by oneself.
- : Create synergy with Airmega (air purifier).

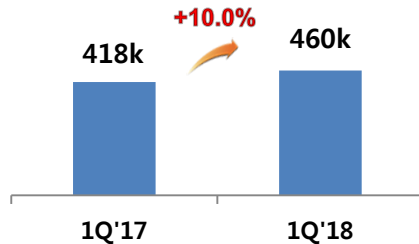
1) CIROO : Coway Intensive Reverse Osmosis filter system

3-1. 1Q Review & 2Q Plan

1Q'18 Review

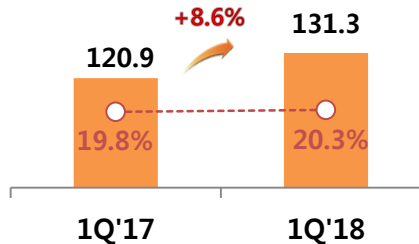
Historical high 1Q rental gross adds

[Unit: EA]



Historical high operating profit

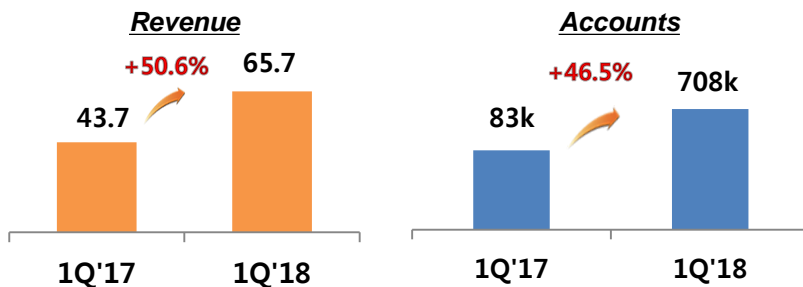
[Unit: KRW bn / Margin]



Historical high quarterly revenue of KRW 60bn with 708k accounts

Malaysia Subsidiary

[Unit: KRW bn/ accounts]



2Q'18 Plan

1 Health appliance business

Enhancement of product line-ups

- Increase sales by release of ice water purifier AIS 2.0, Korea first direct-flow CIROO¹⁾ water purifier and new product category Fresh Ware Styling System.
- Increase lump-sum sales by release of new product such as drying machine, hybrid electric range and spine heating massage chair and others.

Reinforcement of sales channel

- Expand door-to-door organization such as young sales organization BB²⁾ and home-care doctors
- Strengthen on-line channel by releasing new product and expanding vendors

2 Overseas business

Continued growth of overseas business

- Malaysia : Plan to reach 1 mil accounts in '18 by expanding number of salesforce and new lineups
- U.S. : Increase retail sales by strengthening partnership with Amazon, such as applying DRS system (auto filter deliver system) and expanding product categories (Aquamega)
- ODM and Brand : Expansion of brand partners (ex. Japan, Taiwan)

1) CIROO : Coway Intensive Reverse Osmosis filter system
 2) BB : Blue Bird, Coway's special sales organization (sales forces age under 32)

APPENDIX

- Consolidated financial reports
- Subsidiary results

Consolidated financial reports

② Balance Sheet

(Unit: KRW bn)	Mar. '18	Dec. '17
<Assets>	2,272.8	2,158.9
Current Assets	871.1	791.5
Cash and cash equivalents	183.2	110.3
Accounts receivable	328.9	314.6
Inventories	80.7	74.9
Non-Current Assets	1,401.7	1,367.4
Fixed assets	735.5	712.4
Intangible assets	183.6	183.9
<Liabilities>	1,256.1	1,176.6
Current Liabilities	1,191.9	1,124.8
ST Borrowings	671.3	670.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
Non-Current Liabilities	64.2	51.9
LT Borrowings	10.4	12.3
Corporate bond	-	-
<Shareholders' Equity>	1,016.7	982.3
Debt to Equity Ratio	123.5%	119.8%
Net Debt to Equity Ratio	49.0%	58.2%

② Income Statement

(Unit: KRW bn)	1Q'18	1Q'17	YoY
Revenue	647.8	610.2	6.2%
COGS	201.8	193.1	4.5%
Gross profits	446.0	417.1	6.9%
SG&A	314.7	296.2	6.2%
Operating profits	131.3	120.9	8.6%
Margin(%)	20.3%	19.8%	0.5%P
Other income	8.9	3.4	159.8%
Other expenses	9.3	22.0	-57.9%
Financial income	0.3	0.2	37.5%
Financial expenses	3.5	2.0	79.8%
Profit before tax	127.8	100.6	27.0%
Corporate tax	32.6	25.2	29.2%
Net income	95.2	75.4	26.2%
Margin(%)	14.7%	12.4%	2.3%P

Subsidiaries results

(Unit: KRW bn)	1Q'18	1Q'17	YoY
Malaysia			
Revenue	65.7	43.7	50.6%
Operating Profit	9.2	2.3	306.7%
Margin	14.0%	5.2%	
U.S.			
Revenue	17.6	15.2	15.4%
Operating Profit	0.6	0.2	247.9%
Margin	3.6%	1.2%	
China			
Revenue	1.3	2.1	-38.3%
Operating Profit	-0.7	-0.7	-
Margin	-	-	
Thailand			
Revenue	3.1	2.1	48.2%
Operating Profit	-0.3	-0.1	-
Margin	-	-	
Coway Entech			
Revenue	18.3	8.4	117.9%
Operating Profit	-1.4	-0.9	-
Margin	-	-	

Malaysia

- . 1Q'18 Revenue 65.7bn (+50.6% YoY), OPM 14.0%
- . 1Q'18 accounts 708K (1Q'17 483K, +46.5% YoY)
 - : Revenue +43.1% YoY in local currency
 - : Revenue increase driven by strong water and air purifier volume growth.

U.S.

- . 1Q'18 Revenue KRW 17.6bn (+15.4% YoY)
- . 1Q'18 accounts 111K (1Q'17 104K +6.5% YoY)
 - : Revenue +24.2% YoY in local currency
 - : Revenue increase due to accounts growth and increase of retail channel sales.

China

- . 1Q'18 Revenue KRW 1.3bn (-38.3% YoY)
 - : Revenue decrease due to weak air purifier sales in online channel.
 - : Review in process to operate online channel directly for air purifier.

Thailand

- . 1Q'18 Revenue KRW 3.1bn (+48.2% YoY)
 - : Revenue increase due to water purifier sales volume increase.

Coway Entech

- . 1Q'18 Revenue KRW 18.3bn (+117.9% YoY)
 - : Revenue increase driven by increase of existing orders.