

# 2Q'17 Earnings release

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coway



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**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.**

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- 1H'17 Review and 2H Plan

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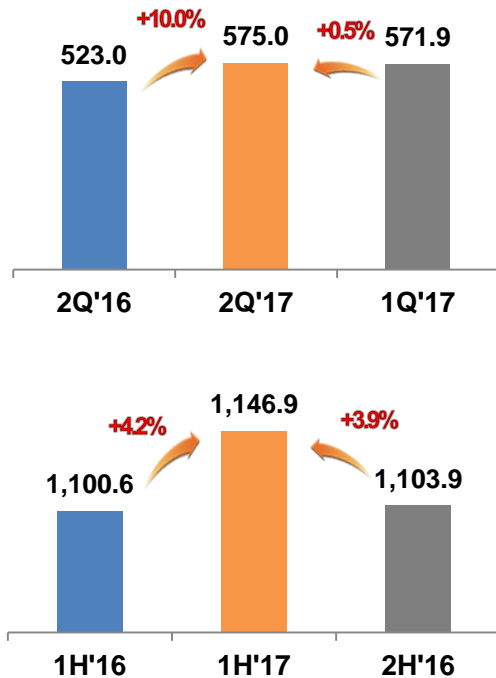
- Non-consolidated financial reports
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# 1. Revenue and Profits

2Q'17 Revenue KRW 575.0bn (+10.0% YoY),  
 Operating Profit KRW 125.2bn (+486.0% YoY), Net Profit KRW 95.9bn (+680.7% YoY)

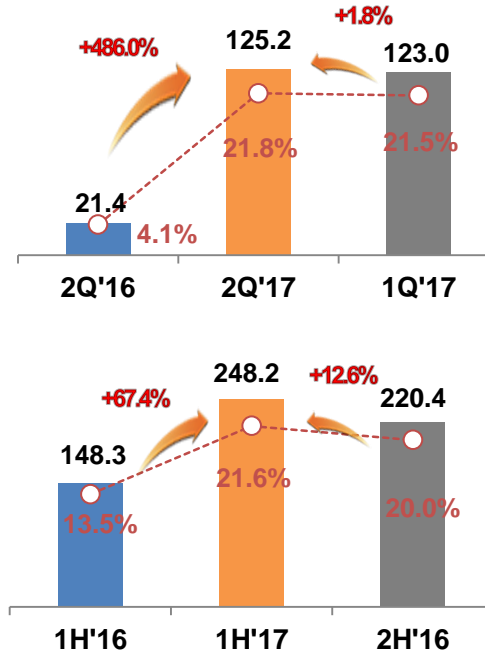
## Revenue

[Unit: KRW bn]



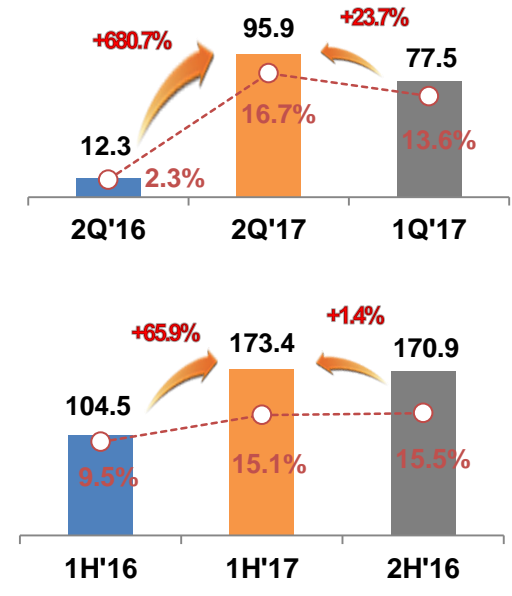
## Operating Profit

[Unit: KRW bn / ○: Margin]



## Net Profit

[Unit: KRW bn / ○: Margin]

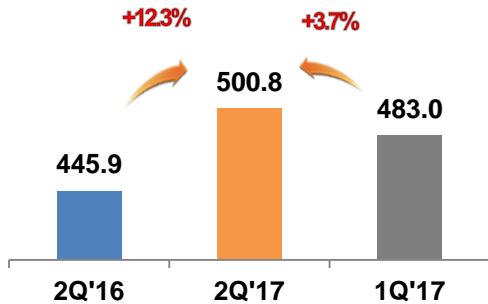


[Accounting standard: K-IFRS Non-consolidated financial reports]

# 2-1. Health appliance business

Total accounts 5.75mn, historical high rental gross adds 397k

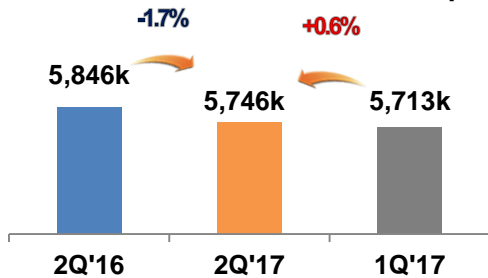
[Unit: KRW bn]



## 1 Health Appliance<sup>1)</sup>

- Health appliance revenue KRW 500.8bn (+12.3% YoY, +3.7% QoQ)
- Rental and financial lease revenue KRW 409.7bn (+18.8% YoY, +3.6% QoQ)  
: Rental KRW 379.5bn (+20.0% YoY), Financial lease KRW 30.2bn (+5.5% YoY)
- Lump-sum and other revenue KRW 54.3bn (-7.2% YoY, +9.1% QoQ)

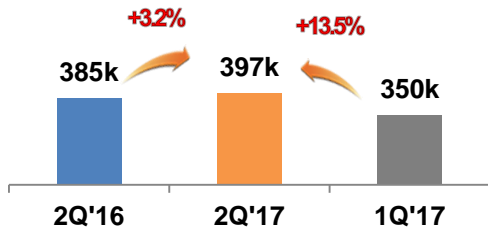
[Unit: accounts]



## 2 Accounts<sup>2)3)</sup>

- Total accounts 5.75mn (-1.7% YoY, +0.6% QoQ)
- Rental accounts 4.92mn (+0.0% YoY, +1.0% QoQ), Membership accounts 0.82mn (-11.0% YoY, -1.7% QoQ)

[Unit: EA]



## 3 Rental Gross Adds<sup>3)</sup>

- Rental gross adds 397k (+3.2% YoY, +13.5% QoQ)  
: Historical high rental gross adds due to strong water purifier, air purifier and mattress sales

1) Including other health appliance revenue (A/S, Installation and etc.): Applies to all health appliance revenue in this material

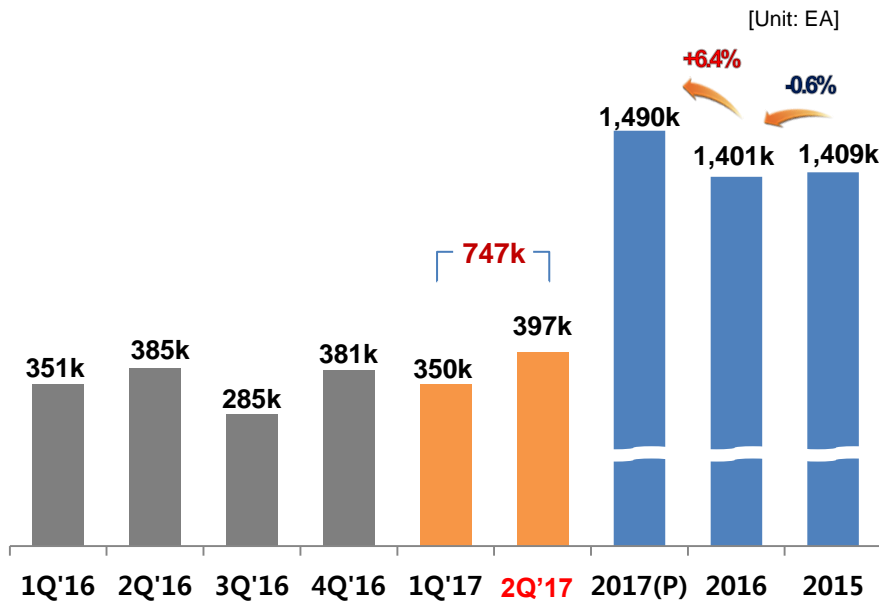
2) Excluding non-performing, 5 year maturity pending and free membership accounts: Applies to all accounts in this material

3) Including financial lease accounts & sales: Applied to all accounts and gross adds in this material

# 2-1. Health appliance business

Historical high rental gross add 747k

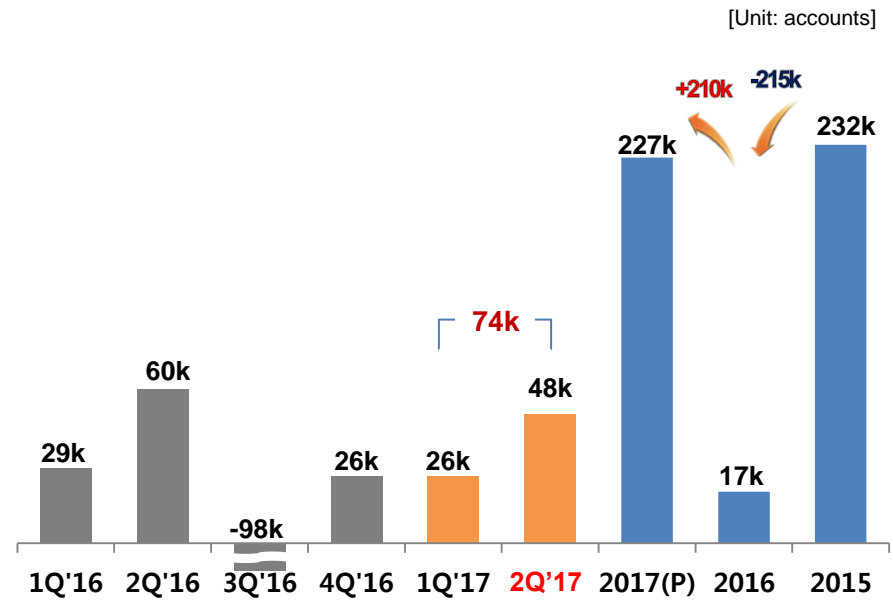
## Rental gross adds



Ⓢ **Continued growth of rental gross adds by recovery of sales network**

- Rental gross adds 397k (+3.2% YoY, +13.5% QoQ)
- Strong growth of air purifier sales (+28.1% YoY, +45.4% QoQ) due to deteriorated air pollution driven by yellow dust and fine dust issues in spring season

## Rental net adds



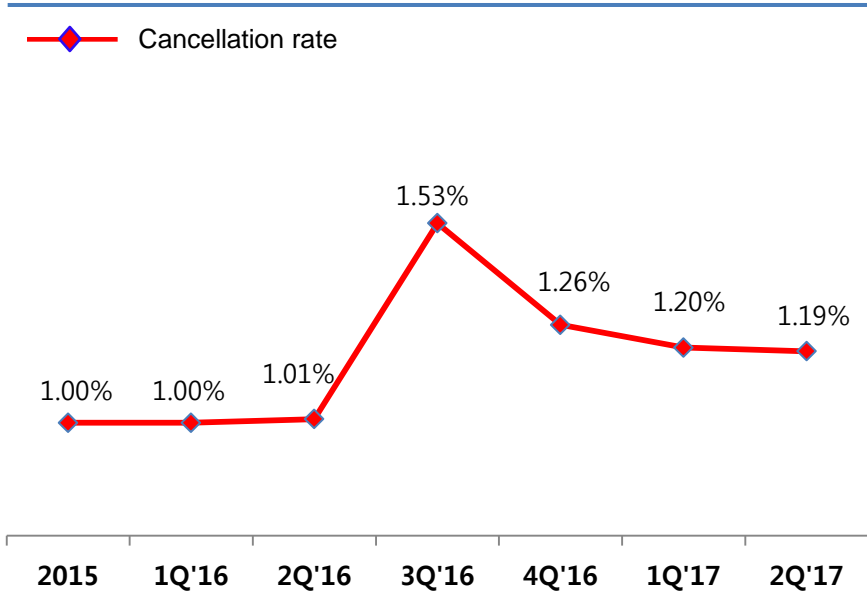
Ⓢ **Continued growth of rental net adds and enlargement of QoQ growth**

- Rental net adds +48k in 2Q'17
- Strong rental net adds due to increase of rental gross adds

# 2-1. Health appliance business

## Stable management of cancellation rate and rental asset disposal expense rate

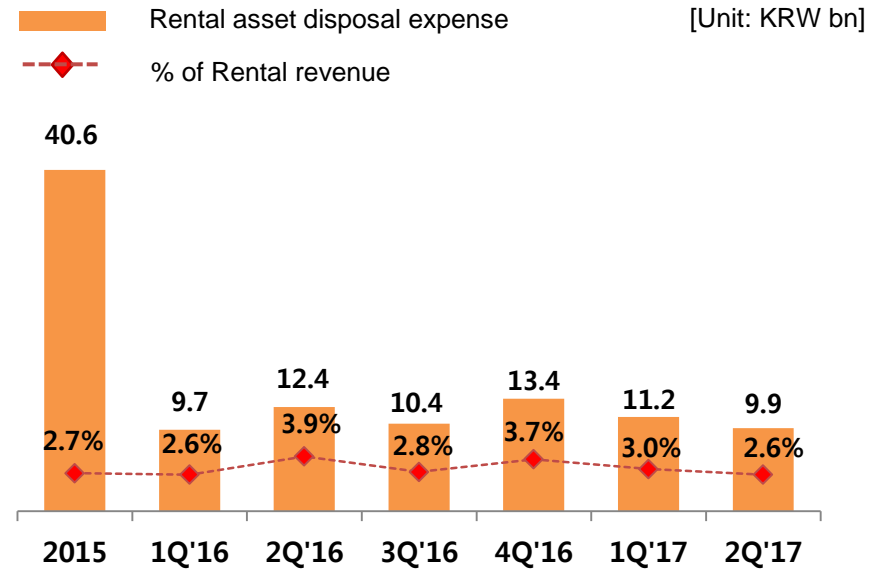
### Cancellation rate



Ⓢ **Continued downward trend of cancellation rate**

- Cancellation rate 1.19% in 2Q'17
- Quarterly cancellation rate continuously downward trend : 4Q'16: 1.26% → 1Q'17: 1.20% → 2Q'17: 1.19%

### Rental asset disposal expense



Ⓢ **Maintained stable rental asset disposal expense rate**

- Rental asset disposal expense KRW 9.9bn in 2Q'17 : 2.6% of rental revenue

# 2-1. Health appliance business

Maintain premium strategy by releasing new products such as AIS<sup>1)</sup> water purifier and Free Induction electric range

## Water Purifier



### Ⓢ Premium sparkling & ice water purifier “AIS” (June)

- Release innovative ice water purifier with new ice making technology
  - : First in market to introduce new ice making technology
  - : Stack crushed ice to produce ice stick
- Provide abundant ice by improving the ice making performance
  - : Produce around 1.8x more ice than conventional ice water purifier
- Lead premium market by releasing direct sparkling & ice water purifier
  - : Apply direct sparkling system which can control the sparkling concentration

## Electric Range



### Ⓢ High-end electric range “Free Induction” (July)

- Expand electric range product line-up to target high value full induction market
  - : Enhance convenience by Free Cooking Zone, fitting all size and shape of vessels
  - : Control temperature delicately by smart wheel function
- : Strengthen convenience by adding 5 voice support function (pan/ water boiling/ heat/ keep warm/ infuse) and etc.

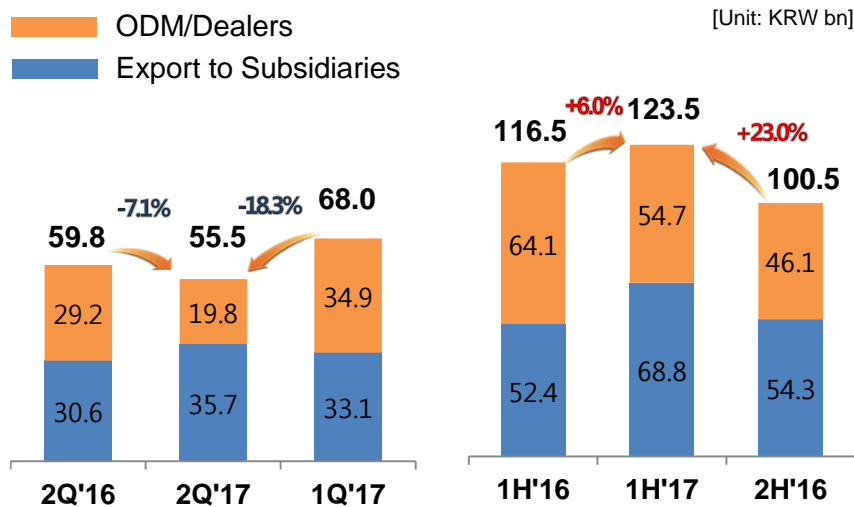
1) AIS : Aqua pure Ice Sparkling



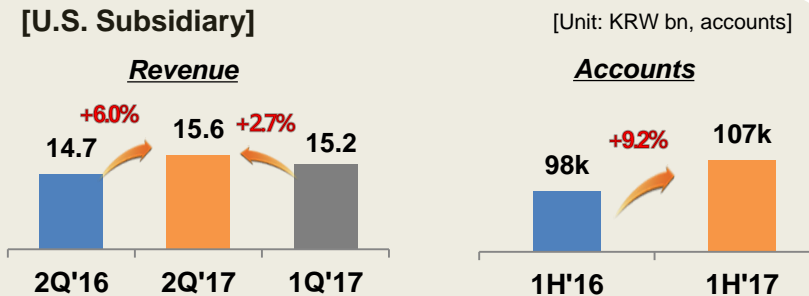
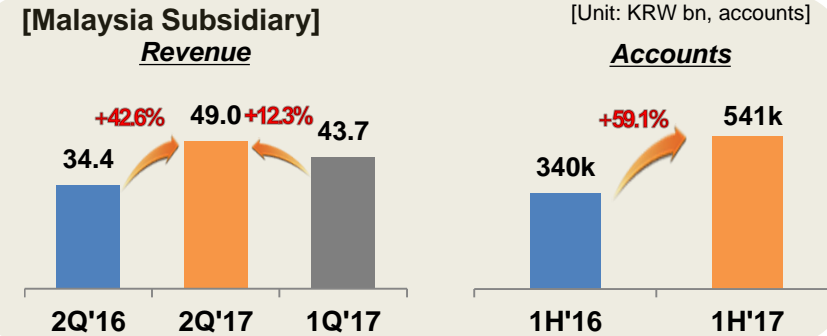
# 2-2. Overseas Business

Export revenue KRW 55.5bn (-7.1% YoY),  
 Increase of export to subsidiaries due to strong sales in overseas subsidiaries

## Export Revenue



## Overseas Subsidiaries Revenue



### Export revenue KRW 55.5bn (-7.1% YoY)

- ODM/Dealers revenue KRW 19.8bn (-32.1% YoY, -43.2% QoQ)
- : 2017 annual revenue of China ODM business expect to increase in YoY
- However, 1H'17 revenue decreased due to high base effect in 1H'16
- : ODM partners revenue decreased in YoY due to sluggish sales of juicer
- Export to subsidiaries revenue KRW 35.7bn (+16.7% YoY, +8.0% QoQ)
- : Strong export driven by strong sales in Malaysia and other subsidiaries

### Maintain growth trend of revenue and accounts

- 2Q'17 Malaysia revenue +58.8% YoY, +11.9% QoQ (local currency)
- : Strong revenue growth due to 1) increase in brand awareness, 2) release of new products
- 2Q'17 U.S. revenue +8.9% YoY, +4.9% QoQ (local currency)
- : Door-to-door channel revenue increased due to strong sales of air and water purifier
- : Retail channel revenue increased due to strong sales of air purifier

# 2-3. Home-care & Cosmetics business

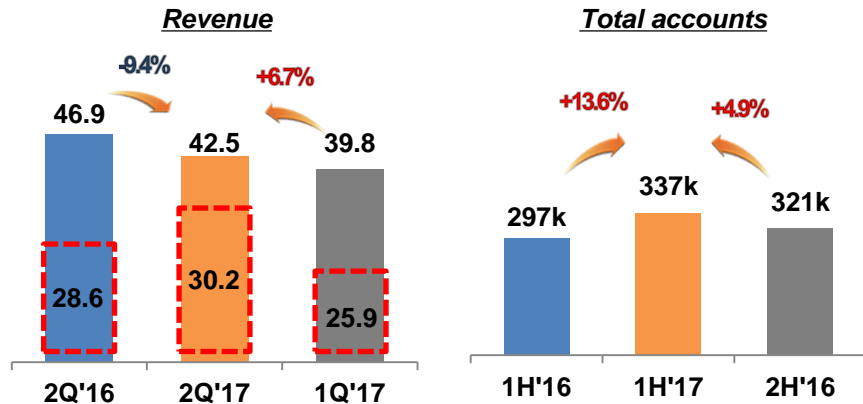
Home-care business financial lease revenue KRW 30.2bn (+5.5% YoY)

Cosmetics business revenue KRW 18.7bn (+8.3% YoY)

## Home-care

Financial Lease Revenue<sup>1)</sup>

[Unit: KRW bn, accounts]



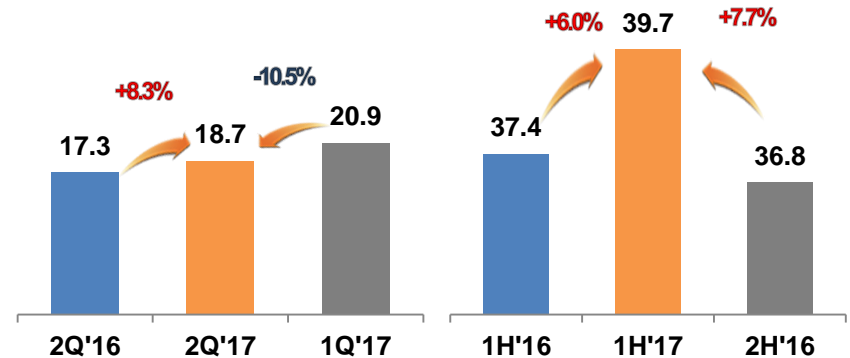
Ⓢ **Continued growth of financial lease revenue due to increase of accounts**

- Mattress gross adds 32k (-5.6% YoY, +19.3% QoQ)
- : Total accounts 337k (+13.6% YoY, +4.9% QoQ)
- Financial lease revenue KRW 30.2bn (+5.5% YoY, +16.8% QoQ)
- : Financial lease revenue increased due to growth of service profit
- Home-care revenue decreased due to decrease of operational lease accounts

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

## Cosmetics

[Unit: KRW bn]



Ⓢ **Cosmetics revenue KRW 18.7bn**

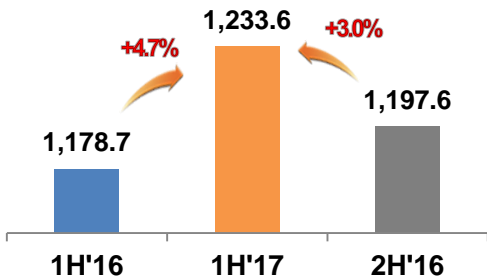
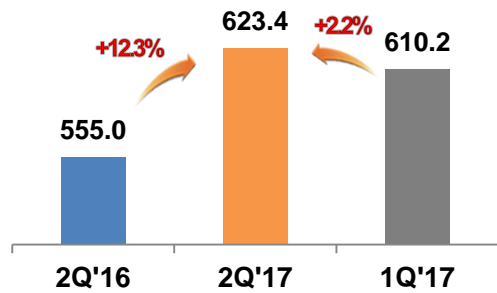
- Door-to-door sales channel revenue KRW 13.0bn (+4.1% YoY, +0.7% QoQ)
- : YoY, QoQ revenue increased due to increase of salesforce numbers, productivity and release of new products
- Retail sales channel revenue KRW 5.7bn (+19.4% YoY, -28.6% QoQ)
- : YoY revenue increased due to increase of number of TV home shopping channel broadcasts
- : QoQ revenue decreased due to seasonality effect

# 3. Consolidated Revenue and Profits

2Q'17 Revenue KRW 623.4 bn (+12.3% YoY),  
 Operating Profit KRW 120.6 bn (+919.4% YoY), Net Profit KRW 95.2bn (+3,331.5 % YoY)

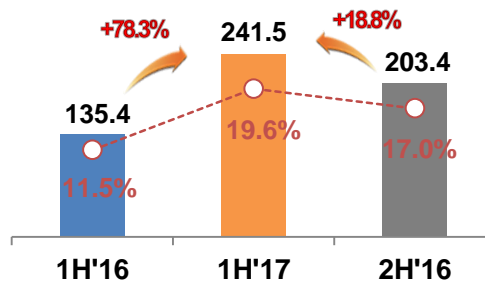
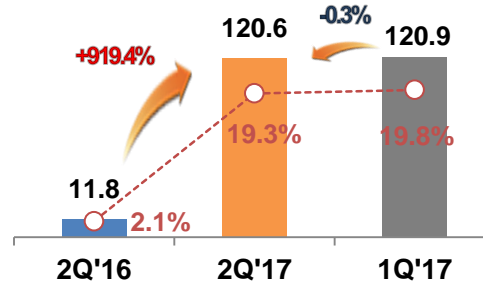
## Revenue

[Unit: KRW bn]



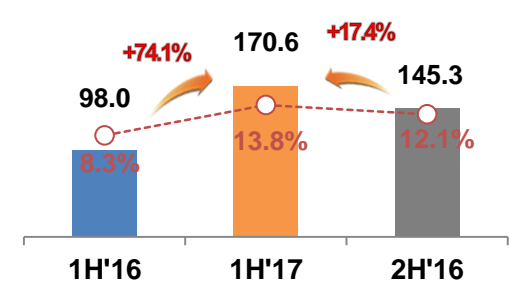
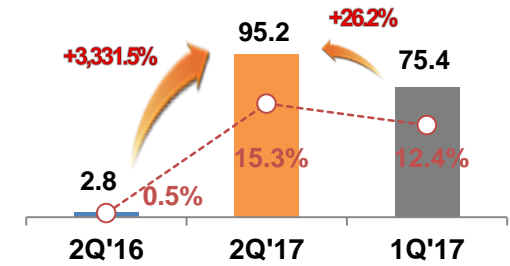
## Operating Profit

[Unit: KRW bn/○ : Margin]



## Net Profit

[Unit: KRW bn/○ : Margin]



[Accounting standard: K-IFRS Consolidated financial reports]

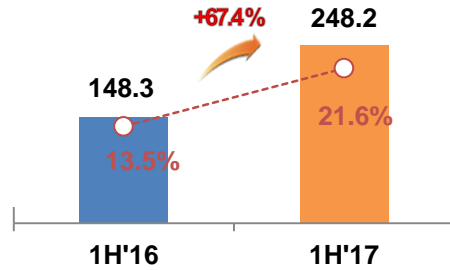
# 4. 1H'17 Review & 2H Plan

## 1H'17 Review

### ① Improvement of profitability

[Unit: KRW bn]

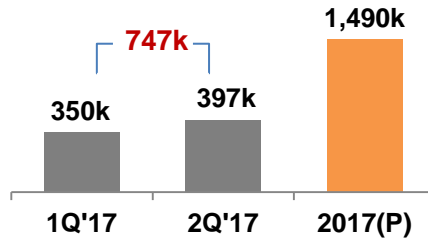
- 1H'17 Operating profit margin reached 21.6%



### ② Reinforcement of health appliance sales capability

- Rental gross adds recorded historical high in 2Q'17 and 1H'17

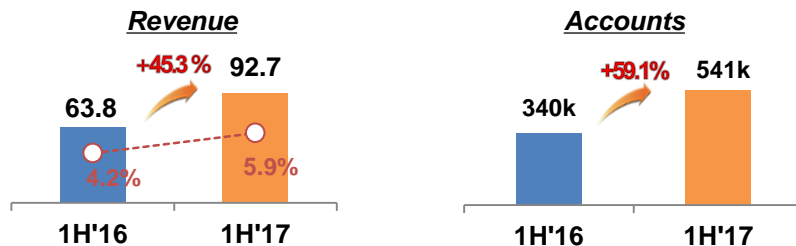
[Unit: EA]



### ③ Continued growth and profitability improvement in Malaysia

- 1H'17 Revenue increased +45.3% YoY (local currency: +61.1% YoY)

[Unit: KRW bn, accounts]



## 2H'17 Plan

### 1 Health appliance business

#### ① Key strategy by product categories (Rental/Lump-sum)

##### [Rental]

Water Purifier - Enhance premium strategy and product competitiveness by new ice making technology applied water purifier

Air Purifier - Expand sales by responding proactively to 1) change in consumers' perception of air quality due to severe fine dust issues and 2) government's plan of mandatory use of air purifiers

Mattress - Expand sales to new and existing customers by motivating CODYs through releasing new product with enhanced service elements and offering a free trial

##### [Lump-sum]

Increase sales by launching new products such as massage chair and electric range and implementing financing programs

#### ② Strengthen customer relationship management

- Increase PPC by providing benefits when cross selling to existing customer
- Actively prevent cancellations by utilizing call center and CS professionals
- Strengthen prompt and proactive customer response by operating dedicated organization (RED CAP<sup>1)</sup>)

### 2 Overseas business

#### ① Continued growth of overseas subsidiaries

- Continue to expand air purifier and water purifier sales by releasing new products and increasing brand awareness
- Expand door-to-door channel sales by releasing new water purifier products and expand retail channel air purifier sales by marketing with Amazon Alexa

1) Organization responsible for customer care (handling Coway's customer health and safety related accidents within 24 hours)

# APPENDIX

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- **Non-consolidated financial reports**
- **Consolidated financial reports**
- **Subsidiary results**

# Non-consolidated financial reports

## ② Balance Sheet

(Unit: KRW bn)	Jun. '17	Dec. '16
<Assets>	2,129.4	1,972.6
<b>Current Assets</b>	<b>896.5</b>	<b>777.5</b>
Cash and cash equivalents	87.6	41.1
Accounts receivable	537.8	444.8
Inventories	61.6	46.5
<b>Non-Current Assets</b>	<b>1,232.8</b>	<b>1,195.1</b>
Fixed assets	592.1	590.9
Affiliates & Subsidiaries	84.5	84.5
Intangible assets	147.7	147.7
<Liabilities>	1,038.9	724.5
<b>Current Liabilities</b>	<b>978.8</b>	<b>682.3</b>
ST Borrowings	630.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	<b>60.1</b>	<b>42.3</b>
LT Borrowings	-	-
Corporate bond	-	-
<Shareholders' Equity>	1,090.5	1,248.1
<b>Debt to Equity Ratio</b>	<b>95.3%</b>	<b>58.0%</b>
<b>Net Debt to Equity Ratio</b>	<b>49.7%</b>	<b>23.9%</b>

## ② Income Statement

(Unit: KRW bn)	2Q'17	2Q'16	YoY
Revenue	575.0	523.0	10.0%
COGS	185.3	192.6	-3.7%
Gross profits	389.7	330.4	17.9%
SG&A	264.5	309.0	-14.4%
Operating profits	125.2	21.4	486.0%
<b>Margin(%)</b>	<b>21.8%</b>	<b>4.1%</b>	<b>17.7%P</b>
Other income	2.4	2.4	0.2%
Other expenses	-2.2	4.0	-
Financial income	0.2	0.3	-46.3%
Financial expenses	3.1	2.0	52.4%
Profit before tax	126.8	18.0	602.8%
Corporate tax	31.0	5.8	437.0%
Net income	95.9	12.3	680.7%
<b>Margin(%)</b>	<b>16.7%</b>	<b>2.3%</b>	<b>14.3%P</b>

# Consolidated financial reports

## ② Balance Sheet

(Unit: KRW bn)	Jun. '17	Dec. '16
<Assets>	2,124.6	1,967.7
<b>Current Assets</b>	839.2	733.1
Cash and cash equivalents	120.6	66.3
Accounts receivable	364.0	292.8
Inventories	89.2	70.2
<b>Non-Current Assets</b>	1,285.4	1,234.6
Fixed assets	685.1	669.4
Intangible assets	182.8	183.0
<Liabilities>	1,101.6	784.4
<b>Current Liabilities</b>	1,034.2	735.4
ST Borrowings	630.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	67.5	49.0
LT Borrowings	12.4	11.8
Corporate bond	-	-
<Shareholders' Equity>	1,023.0	1,183.3
Debt to Equity Ratio	107.7%	66.3%
Net Debt to Equity Ratio	51.0%	24.1%

## ② Income Statement

(Unit: KRW bn)	2Q'17	2Q'16	YoY
Revenue	623.4	555.0	12.3%
COGS	194.9	199.2	-2.1%
Gross profits	428.5	355.9	20.4%
SG&A	307.9	344.1	-10.5%
Operating profits	120.6	11.8	919.4%
<b>Margin(%)</b>	<b>19.3%</b>	<b>2.1%</b>	<b>17.2%P</b>
Other income	12.3	1.7	606.5%
Other expenses	3.8	6.6	-42.6%
Financial income	0.2	0.3	-29.5%
Financial expenses	3.3	2.1	57.4%
Profit before tax	126.0	5.2	2,308.1%
Corporate tax	30.8	2.5	1,153.8%
Net income	95.2	2.8	3,331.5%
<b>Margin(%)</b>	<b>15.3%</b>	<b>0.5%</b>	<b>14.8%P</b>

# Subsidiaries results – 5 entities (4 overseas subsidiaries, Coway Entech)

(Unit: KRW bn)	2Q'17	2Q'16	YoY	1Q'17	QoQ
<b>Malaysia</b>					
Revenue	49.0	34.4	42.6%	43.7	12.3%
OP	3.2	1.5	114.7%	2.3	39.5%
Margin	6.4%	4.3%		5.2%	
<b>U.S.</b>					
Revenue	15.6	14.7	6.0%	15.2	2.7%
OP	0.0	0.1	-99.2%	0.2	-99.4%
Margin	0.0%	1.0%		1.2%	
<b>China</b>					
Revenue	1.9	3.0	-35.3%	2.1	-6.9%
OP	-0.6	-0.4	-	-0.7	-
Margin	-	-		-	
<b>Thailand</b>					
Revenue	2.9	1.2	133.6%	2.1	38.7%
OP	0.0	-0.3	-	-0.1	-
Margin	0.7%	-		-	
<b>Coway Entech</b>					
Revenue	14.9	1.9	698.3%	8.4	76.6%
OP	0.2	-0.7	-	-0.9	-
Margin	1.2%	-		-	

## Malaysia

- 2Q'17 Revenue KRW 49.0bn (+42.6% YoY, +12.3% QoQ)
- 1H'17 Accounts 541k ('16.1H: 340k +59.1% YoY)
- Local currency basis : +58.8% YoY, +11.9% QoQ
- Water and air purifier revenue increased due to new product releases

## U.S.

- 2Q'17 Revenue KRW 15.6bn (+6.0% YoY, +2.7% QoQ)
- 1H'17 Accounts 107k ('16.1H: 98k +9.2% YoY)
- Local currency basis: +8.9% YoY, +4.9% QoQ
- Rental and membership revenue increased due to accounts growth

## China

- 2Q'17 Revenue KRW 1.9bn (-35.3% YoY, -6.9% QoQ)
- Revenue decreased driven by external environment effects such as air quality improvement in China and etc.

## Thailand

- 2Q'17 Revenue KRW 2.9bn (+133.6% YoY, +38.7% QoQ)
- Door-to-door sales increased due to water purifier sales growth driven by introduction of new rental system

## Coway Entech

- 2Q'17 Revenue KRW 14.9bn (+698.3% YoY, +76.6% QoQ)
- Revenue increased due to exceeding the progress rate of existing orders