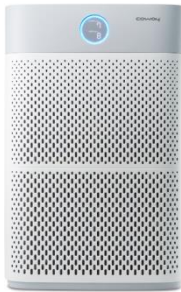


# 2Q'18 Earnings release

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coway



**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. 2Q'18 Earnings Release

- Consolidated Revenue / Profits
- Total accounts (domestic & overseas)
- Total rental gross adds / net adds

## 2. Business Review

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

## 3. 1H Review and 2H Plan

- 1H Review and 2H Plan

## 4. Appendix

- Consolidated financial reports
- Subsidiary results

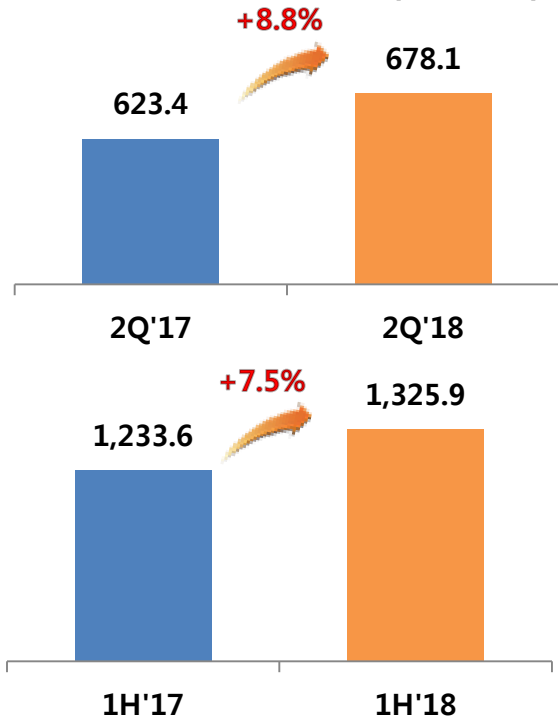
# 1-1. Consolidated Revenue and Profits

2Q'18 Revenue KRW 678.1bn (+8.8% YoY), due to historical high quarterly rental gross adds (509k)

Operating Profit KRW 129.3bn (+7.2% YoY), Net Profit KRW 90.7bn (-4.7% YoY),  
- Historical High Quarterly Revenue, Historical High 2Q Operating Profit

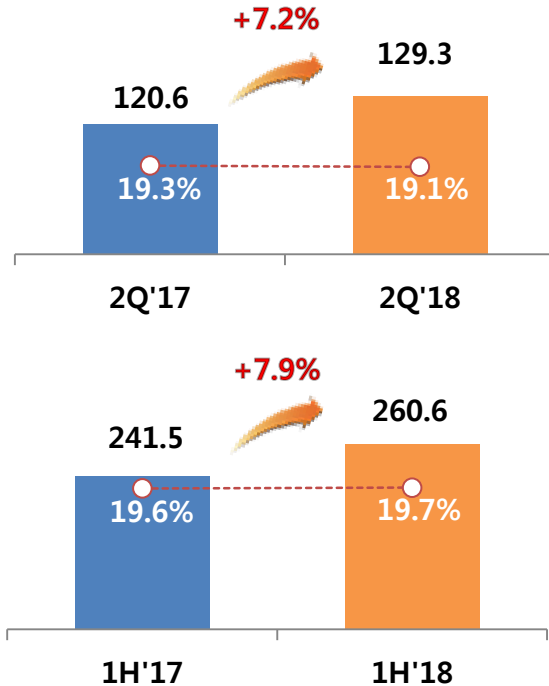
## Revenue

[Unit: KRW bn]



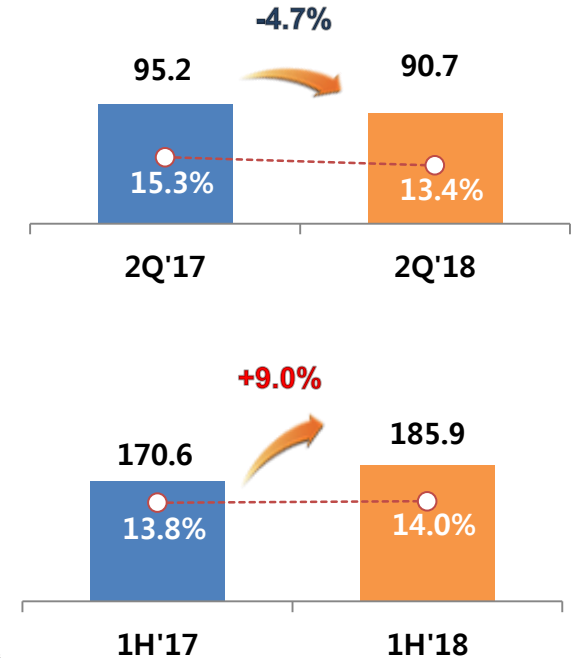
## Operating Profit

[Unit: KRW bn / ○: Margin]



## Net Profit

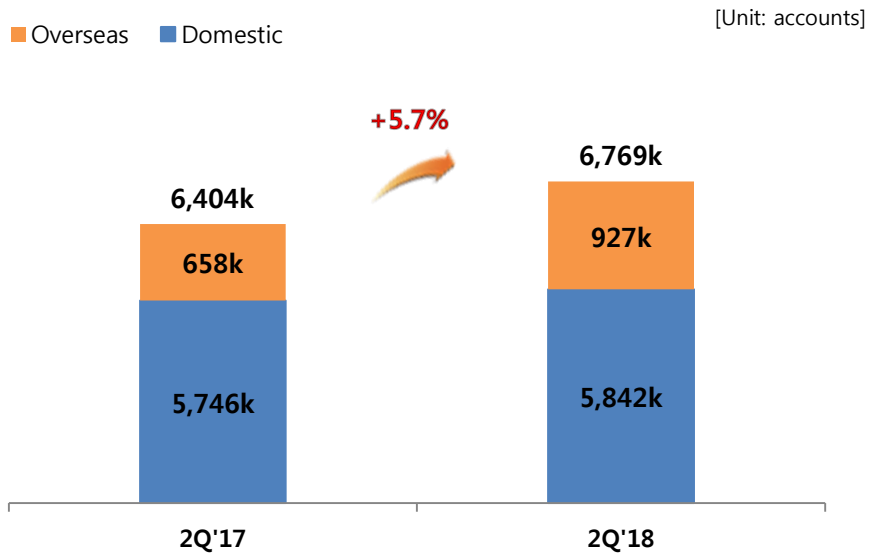
[Unit: KRW bn / ○: Margin]



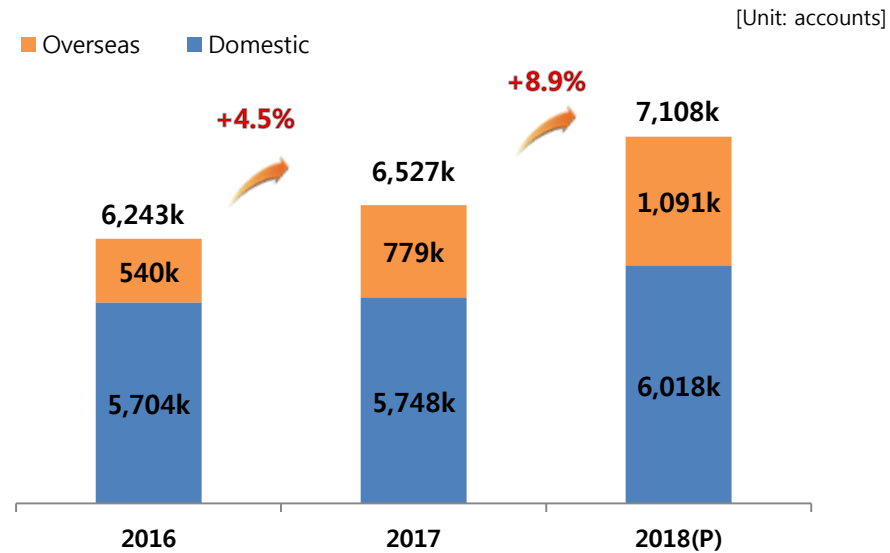
# 1-2. Total accounts (domestic & overseas)

2Q'18 Total accounts 6.77mn in 4 countries (Korea, Malaysia, U.S., Thailand)  
 - Plan to achieve 7mn accounts by 2018

## Total accounts (Quarter)



## Total accounts (Annual)



© 2Q'18 total accounts 6.77mn

- Domestic 5.84mn (+1.7% YoY)
- Overseas 927K (+40.8% YoY)
- : Malaysia 796K, U.S. 113K, Thailand 18K

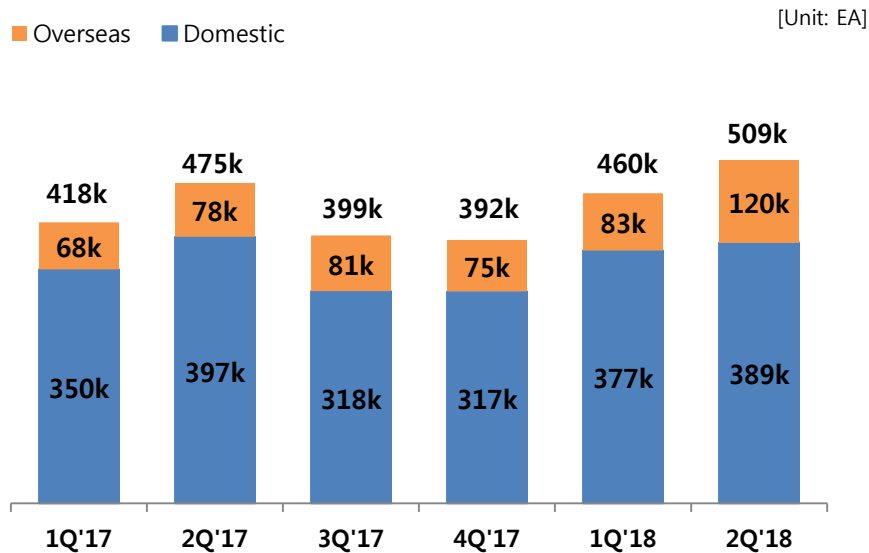
© Plan to achieve total accounts of 7mn by 2018

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

# 1-3. Total rental gross adds / net adds

Historical high quarterly rental gross adds and net adds over the past 10 years

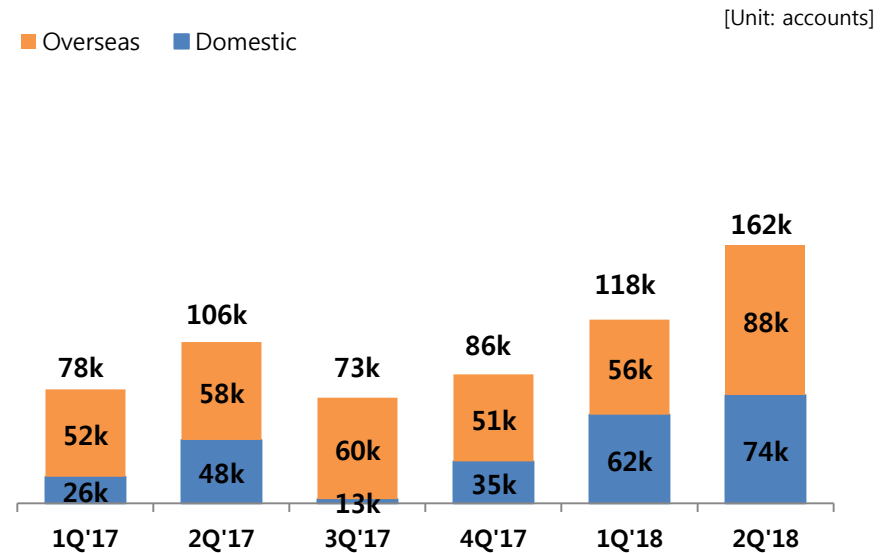
## Total rental gross adds



© **2Q total rental gross adds exceeded 500k**

- Domestic 389k (-2.0% YoY)
- Overseas 120k (+52.4% YoY)
- : Malaysia 111k, U.S. 6,919, Thailand 2,195

## Total rental net adds



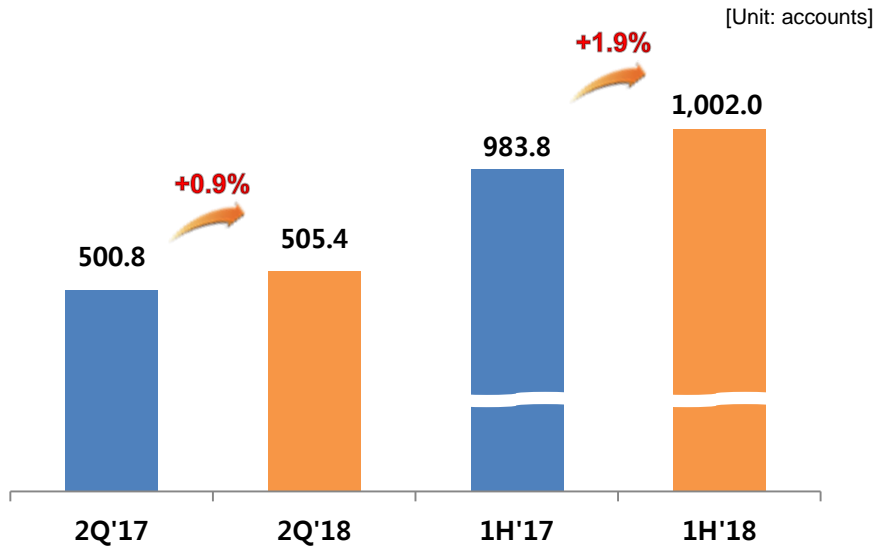
© **Continued growth of total rental net adds**

- Domestic 74k (+55.7% YoY, +26k)
- Overseas 88k (+52.7% YoY, +30k)
- : Malaysia 86k, U.S. 1,027, Thailand 1,418

# 2-1. Health appliance business

Health appliance revenue KRW 505.4bn (+0.9% YoY)  
 Total accounts 584mn (+1.7% YoY)

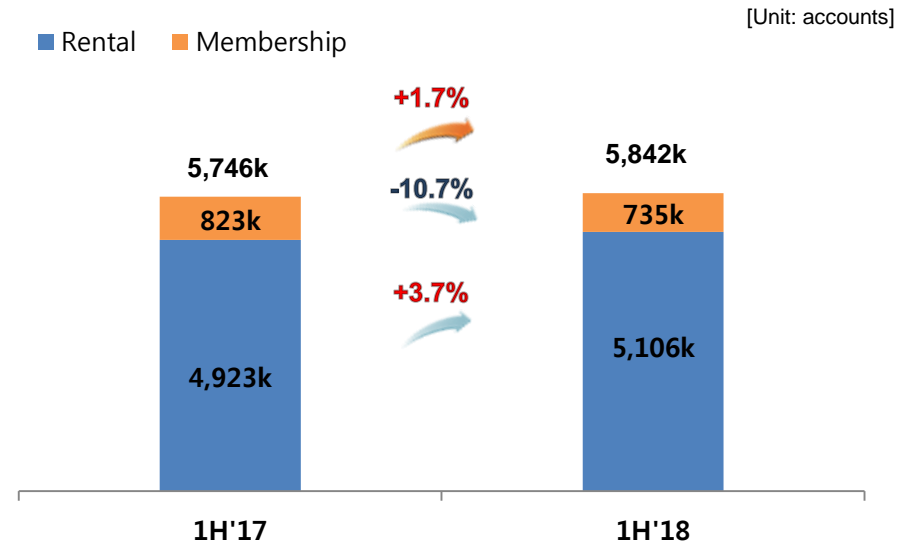
## Health Appliance<sup>1)</sup>



### 2Q'18 Health appliance revenue KRW 505.4bn

- Rental and Financial lease : KRW 423.6bn (+3.4% YoY)  
: Revenue growth driven by continuous account growth from major health appliance products
- Lump-sum and other : KRW 50.7bn (-6.7% YoY)  
: Although, revenue declined due to converting water softener lump-sum sales to rental sales, revenue expect to grow in 2H due to expansion of product line-ups and renewal

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



### 2Q'18 Total accounts 5.84mn

- Rental accounts : 5.11mn (+3.7% YoY)
- Membership accounts : 735k (-10.7% 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

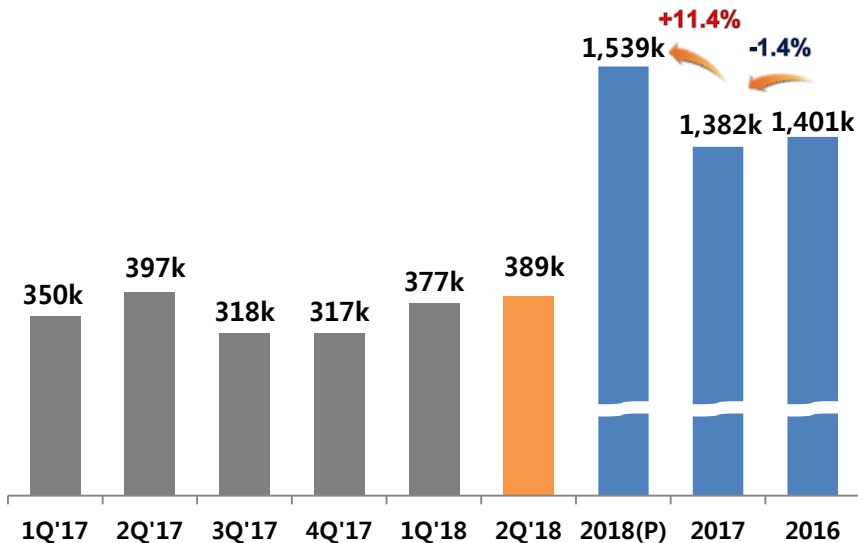
3) Including financial lease accounts: Applied to all accounts in this material

# 2-1. Health appliance business

Historical high 1H rental gross adds and rental net adds of 74k

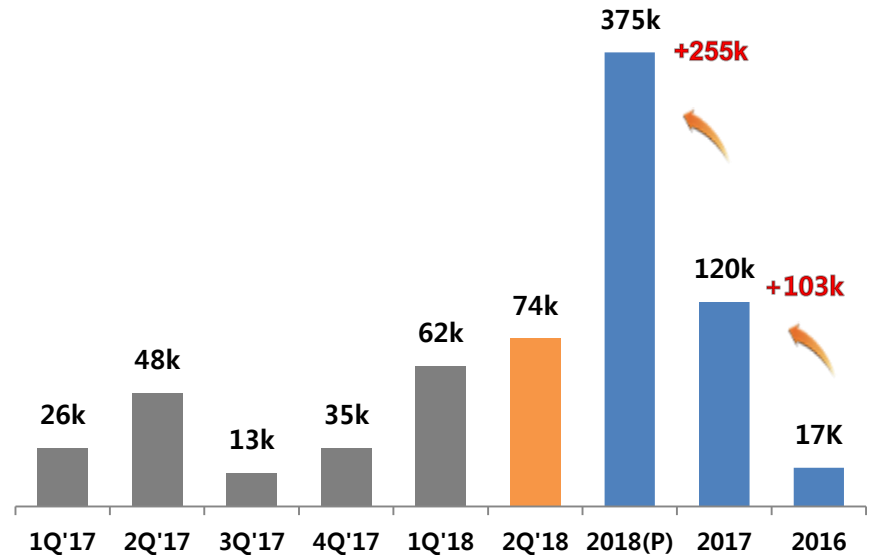
## Rental gross adds<sup>1)</sup>

[Unit: EA]



## Rental net adds

[Unit: accounts]



### ① Historical high 1H rental gross adds

- Rental gross adds 389k (-2.0% YoY, +3.1% QoQ) in 2Q'18 : Rental gross adds 766k in 1H'18 (1H'17 : 746k, +2.6% YoY/ 2H'17 635k, +20.6% HoH)
- Rental gross adds expect to increase in 2H due to newly released product such as CIROO<sup>2)</sup> direct flow water purifier, clothing air purifier and etc..

### ① Continued growth of rental net adds

- Rental net adds +74k in 2Q'18 : Rental accounts exceed 5.11mn
- Rental net adds expect to increase due to enlargement of rental gross adds driven by new product sales such as clothing air purifier, stabilization of cancellation rate and decrease of 5 year matured accounts.

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

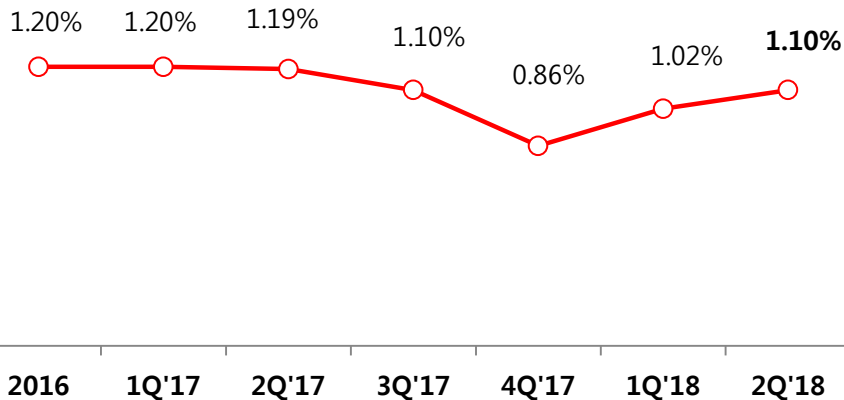
2) CIROO : Coway Intensive Reverse Osmosis filter system



# 2-1. Health appliance business

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

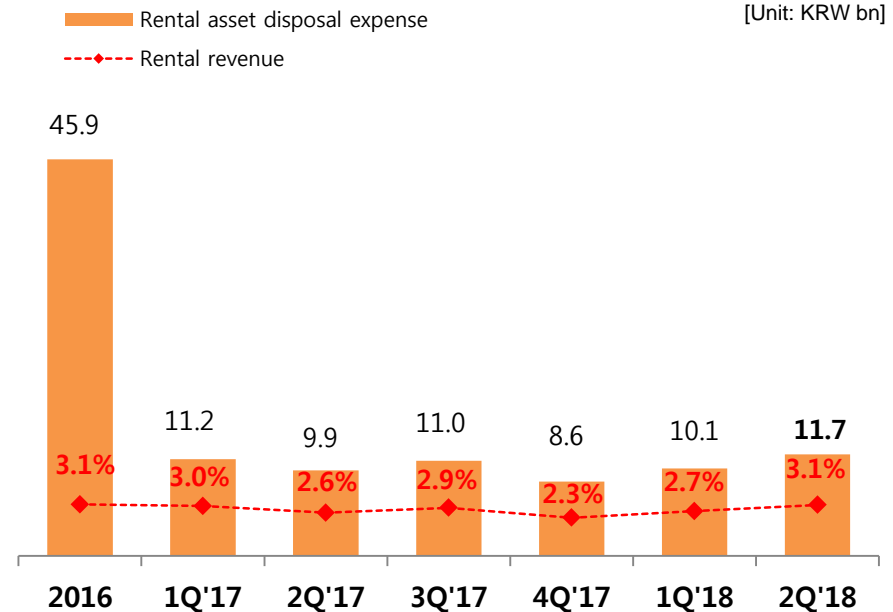
### Cancellation rate



④ **Stabilization efforts of cancellation rate**

- Cancellation rate 1.10% in 2Q'18
- : Stabilize cancellation rate by improving rental system to benefit long-term customers

### Rental asset disposal expense



④ **Stable management efforts of rental asset disposal expense rate**

- Rental asset disposal expense KRW 11.7bn in 2Q'18
- : 3.1% of rental revenue

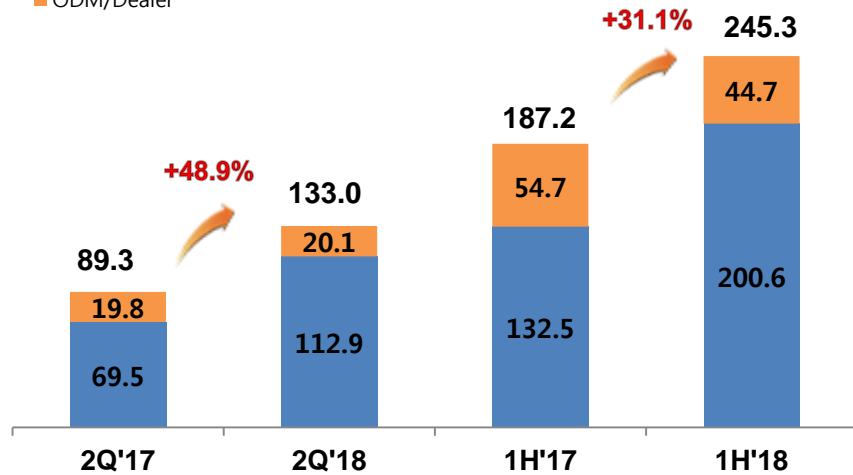
# 2-2. Overseas business

## Overseas revenue KRW 133bn (+48.9% YoY) Continued growth of overseas subsidiaries revenue

### Overseas revenue

[Unit: KRW bn]

■ Overseas subsidiaries  
■ ODM/Dealer



#### ② 2Q Overseas revenue KRW 133bn

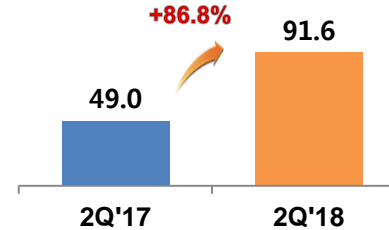
- Overseas subsidiaries revenue KRW 112.9bn (+62.5% YoY)  
: Strong growth from Malaysia and U.S. subsidiaries
- ODM/Dealer revenue KRW 20.1bn (+1.3% YoY)
- Expect revenue to increase due to overseas subsidiaries sales increase, 3 new product launch from China ODM partners and expansion of brand partners

### Overseas subsidiaries revenue

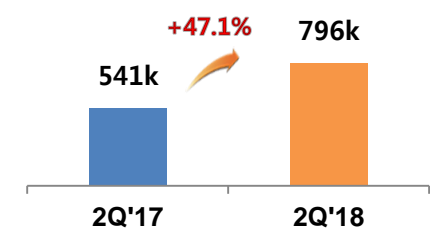
[Unit: KRW bn, accounts]

#### Malaysia subsidiary

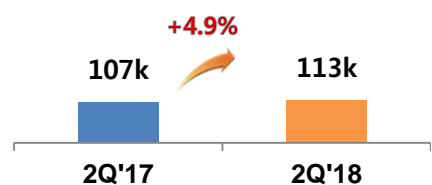
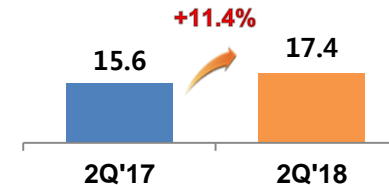
##### Revenue



##### Accounts



#### U.S. Subsidiary



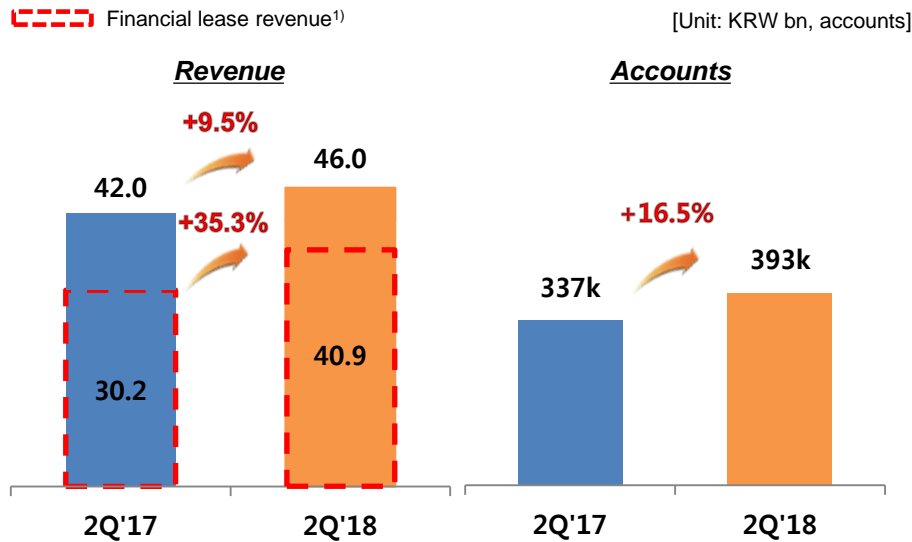
#### ② Continued growth from overseas subsidiaries

- 2Q'18 Malaysia: +78.0% YoY revenue growth in local currency  
: Quarterly revenue exceeded KRW 90bn, recorded historical high OPM of 17.4%
- New sales system adopted to expand customer base
- 2Q'18 U.S. +16.7% 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 40.9bn (+35.3% YoY)  
 Cosmetics revenue KRW 18.6bn (-0.7% YoY)

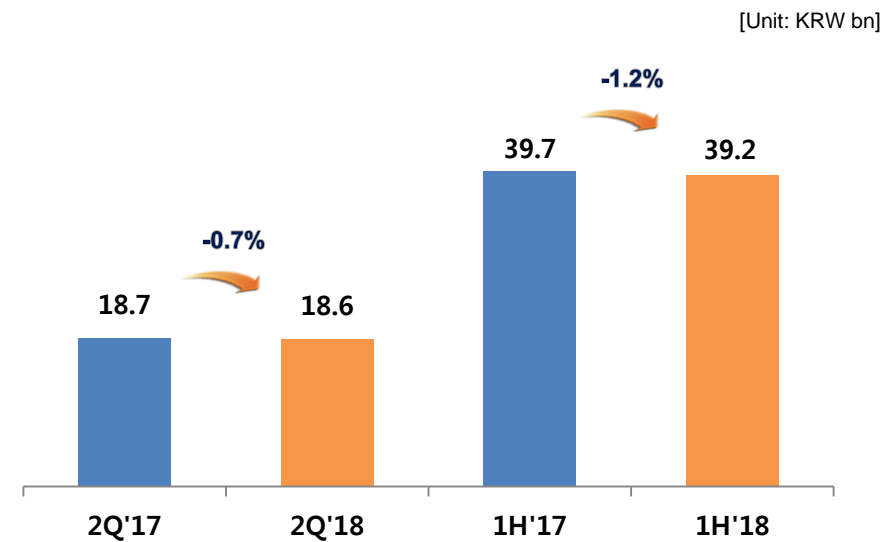
## Home-care



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

- Mattress gross adds 39k in 2Q'18 (+22.2% YoY)  
: Historical high quarterly rental gross adds
- Financial lease revenue KRW 40.9bn in 2Q'18 (+35.3% YoY)  
: Historical high financial lease revenue due to increase of rental gross adds

## Cosmetics



Ⓢ **Cosmetics revenue KRW 18.6bn**

- Revenue maintained at 2Q'17 level, but plan to increase revenue through 1) activating door-to-door sales channel by increasing productivity of BP, 2) focusing on cultivating hit products from home shopping

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 and clothes dryer

## Domestic



### Ⓢ CIROO<sup>1)</sup> direct flow water purifier (2Q)

- First time in Korea to release RO direct flow water purifier to lead direct flow market
- : Dispense Cold/ Hot/ Ambient temperature water directly (w/o tank) with superior filtration performance compared to competitors
- : Dispense water after removing remained water inside the tube to enhance hygiene



### Ⓢ Large-capacity air purifier (2Q)

- The most suitable air purifier for multi-use facilities to target B2B/ B2G market
- : Strengthen purifying performance by applying Dual Engine and Quattro Air Dynamic system (4x4 filter).
- : Enhance energy consumption efficiency by acquiring 1<sup>st</sup> grade of energy



### Ⓢ BOSCH Clothes dryer (2Q)

- Introduction of clothes dryer driven by changes in living environment such as air pollution
- : Improve safety by minimizing noise and vibration by applying high-strength side panels
- : Increase dryness and prevent clothes damage by applying DuoTronic (temperature, humidity) sensor

## Overseas



### Ⓢ The first ice water purifier in Malaysia (3Q)

- The first company to introduce ice water purifier in Malaysia
- : A preemptive move to create new markets and to maintain market leader position
- Expect to increase sales and profitability by introducing new premium product category

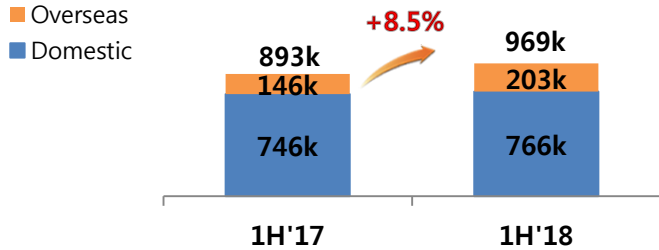
1) CIROO : Coway Intensive Reverse Osmosis filter system

# 3-1. 1H Review & 2H Plan

## 1H'18 Review

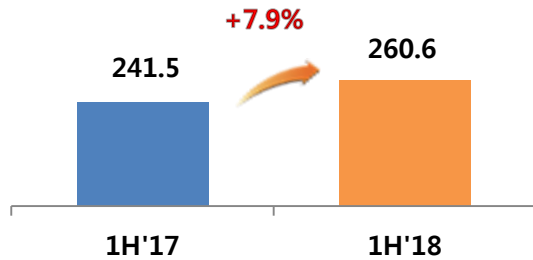
### Historical high half year rental gross adds

[Unit: EA]



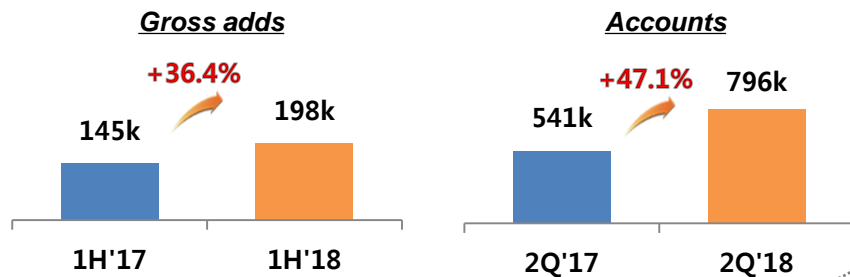
### Historical high half year operating profit

[Unit: KRW bn]



### Strong accounts increase from Malaysia

[Unit: EA, accounts]



## 2H'18 Plan

### 1 Health appliance business

#### Increase of new product sales

- Strengthen direct flow water purifier sales by releasing 2 type (B2C/ B2B) CIROO<sup>1)</sup> direct-flow water purifiers
- Star selling clothing air purifier in earnest in 2H by introducing financial lease rental (Completed 2m pilot test to analyzing customer needs)
- Enlarge lump-sum revenue by expanding sales of BOSCH clothes dryer and launching Philips wireless vacuum cleaner

#### Expansion of B2B/ B2G market

- Elevate bidding process by strengthening dedicated organization
- Secure competitiveness by introducing B2B/B2G exclusive product and pricing policies

### 2 Overseas business

#### Expansion of overseas subsidiaries

- Enlarge Malaysia subsidiary business by adding new sales system to expand the base of target customers
- Review to enter Southeast Asia countries to reproduce the success of Malaysia subsidiary

1) CIROO : Coway Intensive Reverse Osmosis filter system

# APPENDIX

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- Consolidated financial reports
- Subsidiary results

# Consolidated financial reports

## ② Balance Sheet

(Unit: KRW bn)	Jun. '18	Dec. '17
<Assets>	2,240.2	2,158.9
<b>Current Assets</b>	<b>776.3</b>	<b>791.5</b>
Cash and cash equivalents	65.0	110.3
Accounts receivable	312.1	314.6
Inventories	102.3	74.9
<b>Non-Current Assets</b>	<b>1,463.9</b>	<b>1,367.4</b>
Fixed assets	752.0	712.4
Intangible assets	182.5	183.9
<Liabilities>	1,197.7	1,176.6
<b>Current Liabilities</b>	<b>1,123.3</b>	<b>1,124.8</b>
ST Borrowings	671.3	670.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	<b>74.4</b>	<b>51.9</b>
LT Borrowings	10.4	12.3
Corporate bond	-	-
<Shareholders' Equity>	1,042.5	982.3
<b>Debt to Equity Ratio</b>	<b>114.9%</b>	<b>119.8%</b>
<b>Net Debt to Equity Ratio</b>	<b>59.2%</b>	<b>58.2%</b>

## ② Income Statement

(Unit: KRW bn)	2Q'18	2Q'17	YoY
Revenue	678.1	623.4	8.8%
COGS	218.0	194.9	11.9%
Gross profits	460.0	428.5	7.4%
SG&A	330.7	307.9	7.4%
Operating profits	129.3	120.6	7.2%
<b>Margin(%)</b>	<b>19.1%</b>	<b>19.3%</b>	<b>-0.3%P</b>
Other income	9.9	12.3	-19.4%
Other expenses	12.5	3.8	231.4%
Financial income	0.3	0.2	13.0%
Financial expenses	4.3	3.3	29.0%
Profit before tax	122.7	126.0	-2.6%
Corporate tax	32.0	30.8	3.8%
Net income	90.7	95.2	-4.7%
<b>Margin(%)</b>	<b>13.4%</b>	<b>15.3%</b>	<b>-1.9%P</b>

# Subsidiaries results

(Unit: KRW bn)	2Q'18	2Q'17	YoY
<b>Malaysia</b>			
Revenue	91.6	49.0	86.8%
Operating Profit	15.9	3.2	405.0%
Margin	17.4%	6.4%	
<b>U.S.</b>			
Revenue	17.4	15.6	11.4%
Operating Profit	-0.1	0.0	-
Margin	-	0.0%	
<b>China</b>			
Revenue	0.6	1.9	-66.4%
Operating Profit	-0.4	-0.6	-
Margin	-	-	
<b>Thailand</b>			
Revenue	3.3	2.9	13.5%
Operating Profit	-0.2	0.0	-
Margin	-	0.7%	
<b>Coway Entech</b>			
Revenue	21.4	14.9	43.9%
Operating Profit	-0.6	0.2	-
Margin	-	1.2%	

## Malaysia

- . 2Q'18 Revenue 91.6bn (+86.8% YoY), OPM 17.4%
- . 2Q'18 accounts 796K (2Q'17 541K, +47.1% YoY)
  - : Revenue +78.0% YoY in local currency
  - : Revenue increase driven by accounts growth and adopting new sales system (financial lease)

## U.S.

- . 2Q'18 Revenue KRW 17.4bn (+11.4% YoY)
- . 2Q'18 accounts 113K (2Q'17 107K +4.9% YoY)
  - : Revenue +16.7% YoY in local currency
  - : Revenue increase due to accounts growth and increase of retail channel sales.

## China

- . 2Q'18 Revenue KRW 0.6bn (-66.4% YoY)
- . Revenue decrease due to weak air purifier sales in online channel..

## Thailand

- . 2Q'18 Revenue KRW 3.3bn (+13.5% YoY)
- . Revenue increase due to air purifier sales volume increase.

## Coway Entech

- . 2Q'18 Revenue KRW 21.4bn (+43.9% YoY)
- . Revenue increase driven by increase of existing orders.