

# 3Q'17 Earnings release

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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.**

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## 4. 3Q'17 Review and 4Q Plan

- 3Q'17 Review and 4Q Plan

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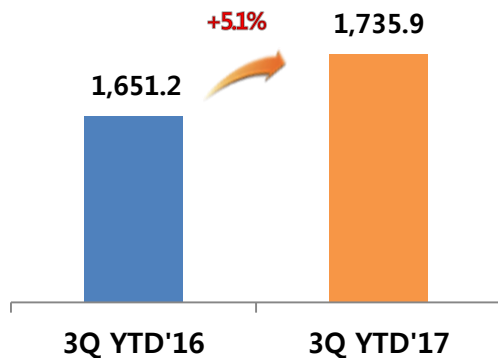
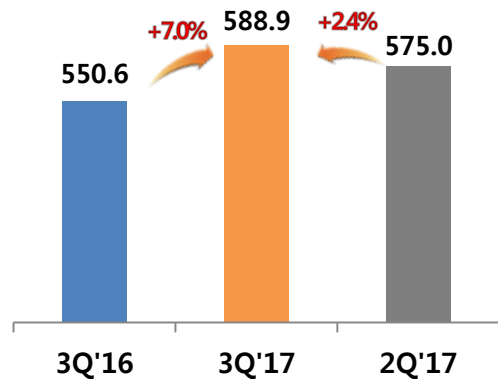
- Non-consolidated financial reports
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# 1. Revenue and Profits

3Q'17 Revenue KRW 588.9bn (+7.0% YoY),  
 Operating Profit KRW 127.0bn (+8.9% YoY), Net Profit KRW 94.4bn (+19.9% YoY)  
 - Historical high 3Q, 3Q YTD Revenue, Operating Profit

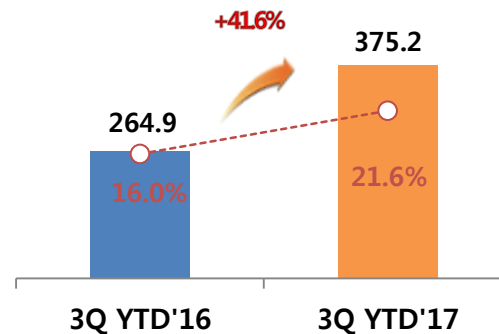
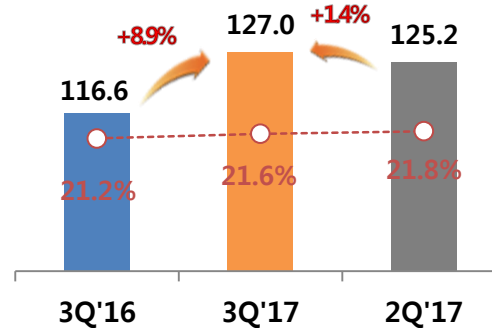
## Revenue

[Unit: KRW bn]



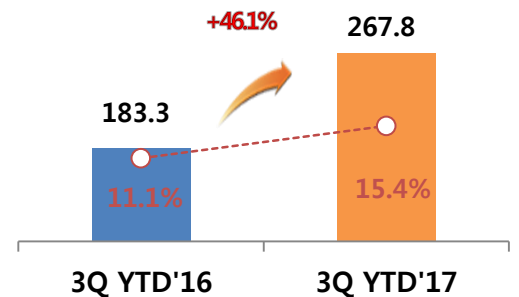
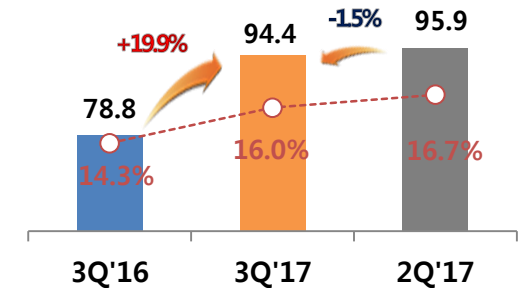
## Operating Profit

[Unit: KRW bn/○ : Margin]



## Net Profit

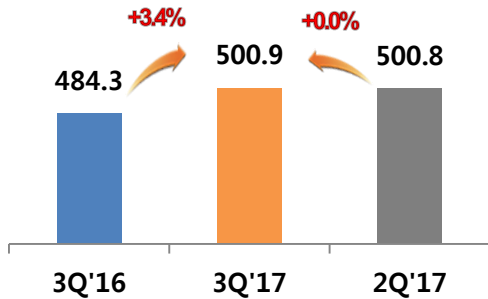
[Unit: KRW bn/○ : Margin]



# 2-1. Health appliance business

Total accounts **5.75mn**, rental gross adds **318k**

[Unit: KRW bn]

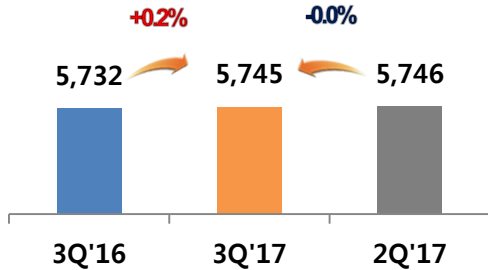


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## Health Appliance<sup>1)</sup>

- Health appliance revenue KRW 500.9bn (+3.4% YoY, +0.0% QoQ)
- Rental and financial lease revenue KRW 413.6bn (+4.8% YoY, +1.0% QoQ)
- Lump-sum and other revenue KRW 51.4bn (+7.6% YoY, -5.4% QoQ)

[Unit: accounts]

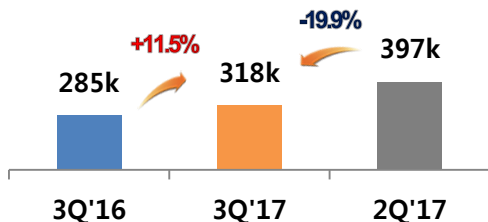


2

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

- Total accounts 5.75mn (+0.2% YoY, -0.0% QoQ)
- Rental accounts 4.94mn (+2.3% YoY, +0.3% QoQ), Membership accounts 0.81mn (-10.8% YoY, -1.6% QoQ)

[Unit: EA]



3

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

- Rental gross adds 318k (+11.5% YoY, -19.9% QoQ)
- : High YoY growth due to strong water purifier, air purifier, and mattress sales
- : However, QoQ decrease due to seasonality

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

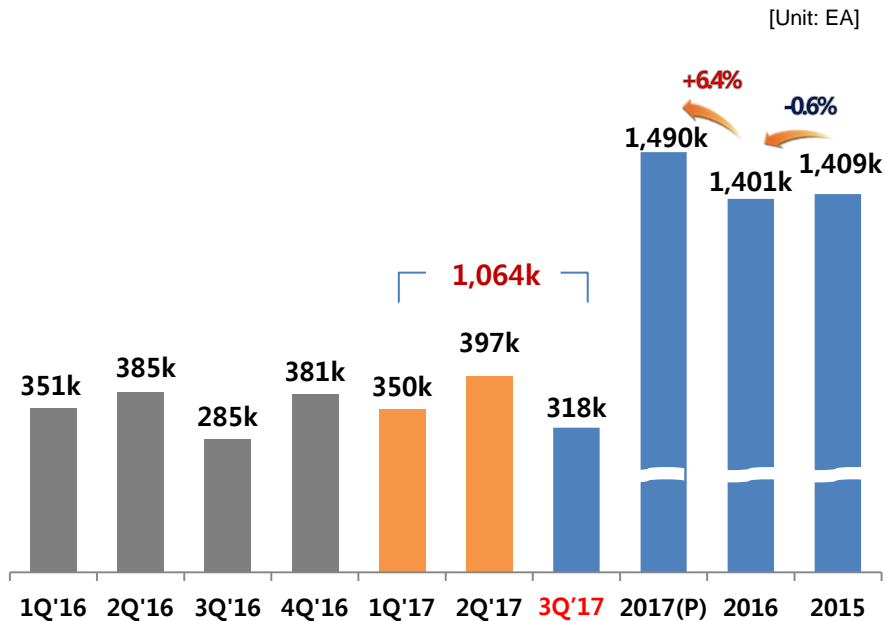
2) Excluding non-performing, 5 year maturity pending and free membership accounts: Applies to all accounts in this material

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

# 2-1. Health appliance business

Rental gross adds and net adds expect to increase in 4Q'17

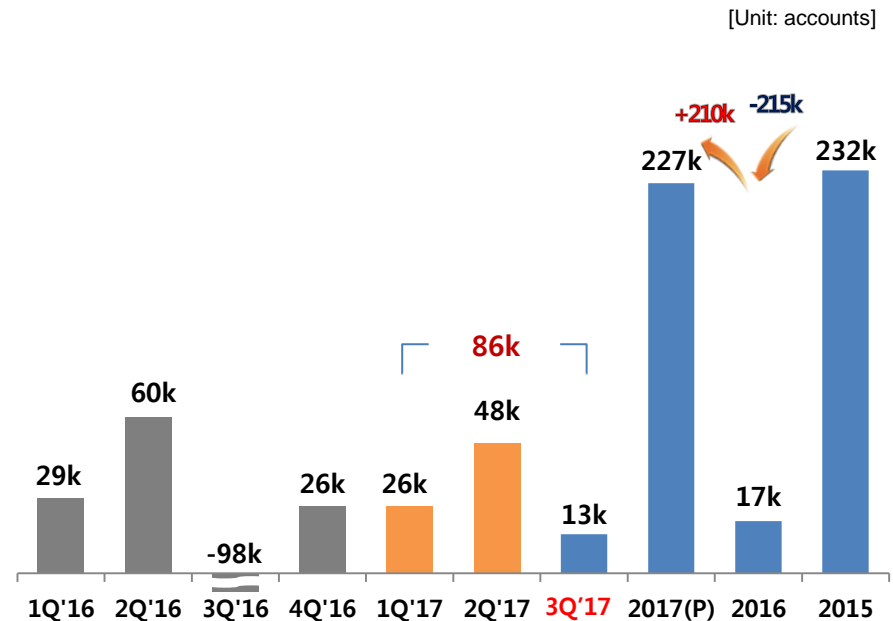
## Rental gross adds



Ⓢ **Plan to meet 2017 rental gross adds target**

- Rental gross adds 318k (+11.5% YoY, -19.9% QoQ)
- : Plan to achieve 2017 target by increasing rental sales in 4Q

## Rental net adds



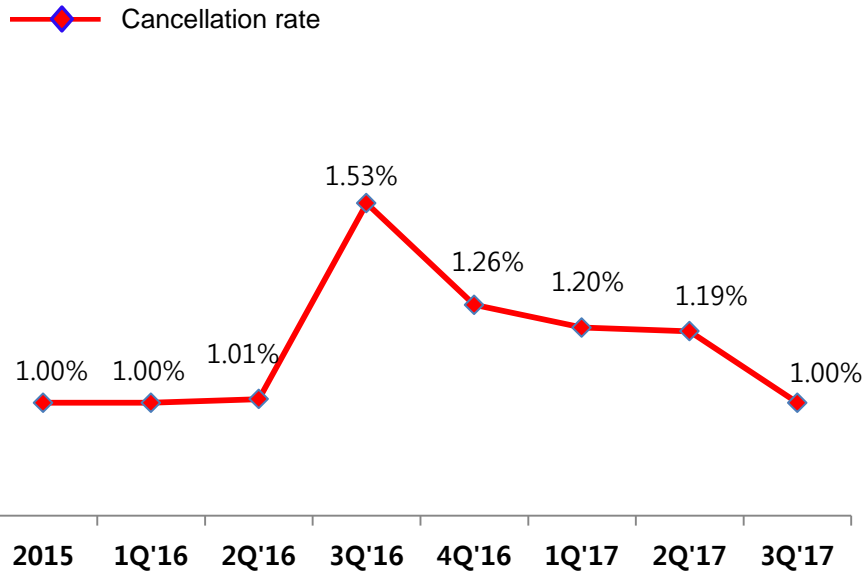
Ⓢ **Continued growth of rental net adds**

- Rental net adds +13k in 3Q'17
- : Expect to increase rental net adds by strong growth of rental gross adds and stable management of cancellation rate in 4Q

# 2-1. Health appliance business

Recovery of cancellation rate (1.00%) and stable management of rental asset disposal expense rate

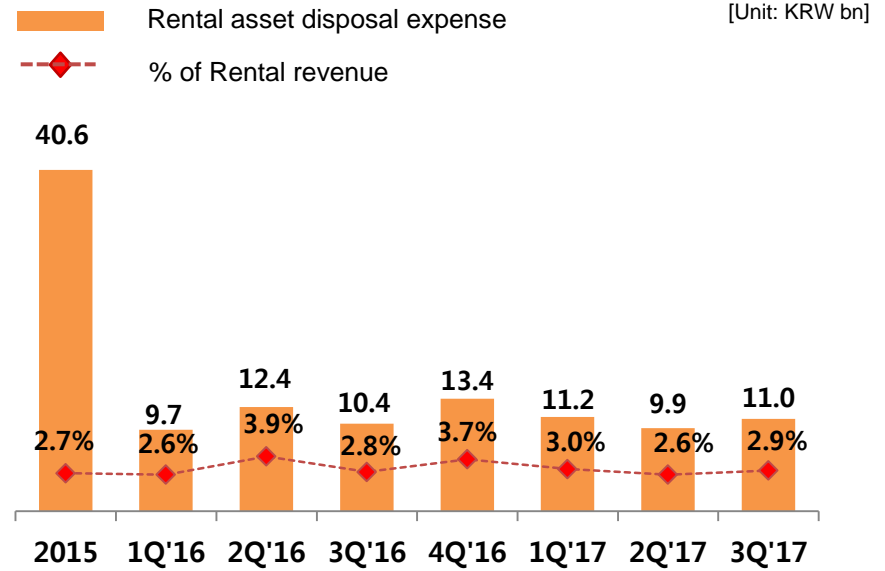
## Cancellation rate



④ **Continued downward trend of cancellation rate**

- Cancellation rate 1.00% in 3Q'17
- : Cancellation rate recovered to 1.00% by giving additional role of defending cancellation to CS doctors and call centers, and managing cancellation rate as a key criteria

## Rental asset disposal expense



④ **Maintained stable rental asset disposal expense rate**

- Rental asset disposal expense KRW 11.0bn in 3Q'17
- : 2.9% of rental revenue

# 2-1. Health appliance business

Maintain premium strategy and strengthen product line-ups for mass market competition

Water Purifier



Ⓢ **Direct-flow Nano water purifier (August)**

- ALL direct-flow system to cope with direct-flow market trend
- : Direct-flow system for cold, room temperature, and hot water
- : Innovative square design for convenient installation and best space utilization



Ⓢ **Bottle-type RO water purifier (September)**

- Key function (room temperature water) and simple design with RO filter
- : Unique CIROO (Coway Intensive Reverse Osmosis) filter system
- : Service period alarm function and detachable faucet to enhance hygiene

Bidet



Ⓢ **Premium Intelligence-Care Bidet (October)**

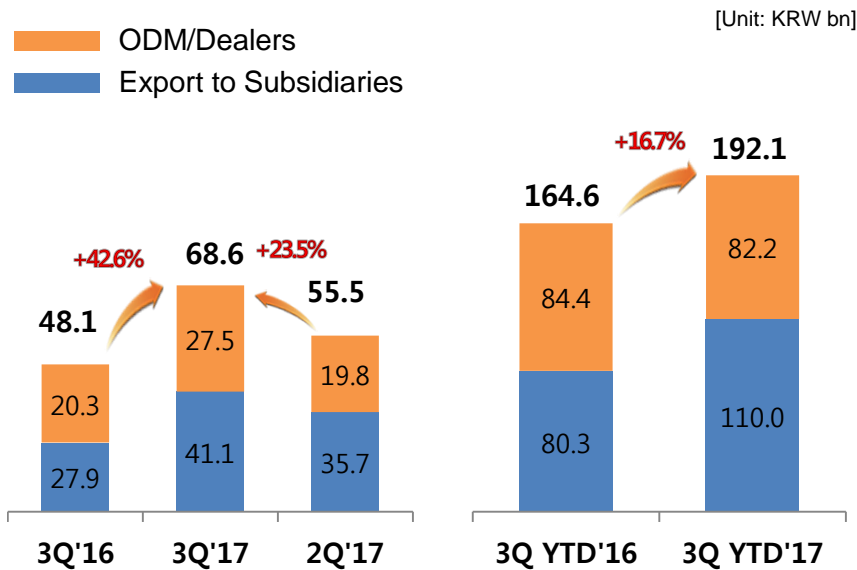
- Washing and hygiene function enhanced premium model
- : 4 step (Soft start>Pre-wash>Main-wash>Rinse-wash) washing functions
- : Revolving bubble sterilization function to enhance hygiene of toilet bowl



# 2-2. Overseas Business

Export revenue KRW 68.6bn (+42.6% YoY),  
Continued double digit growth from export and overseas subsidiaries revenue

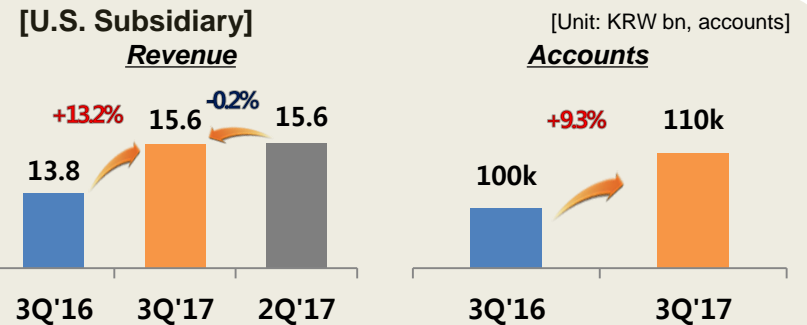
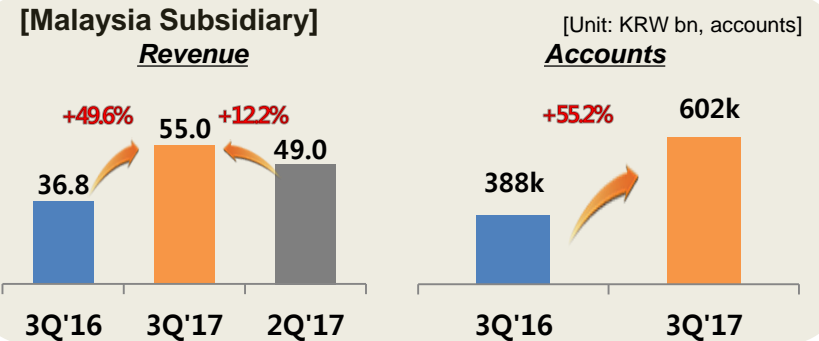
## Export Revenue



© **Export revenue KRW 68.6bn (+42.6% YoY)**

- ODM/Dealers revenue KRW 27.5bn (+35.7% YoY, +38.7% QoQ)
- : Revenue increased both YoY, QoQ due to strong sales from China ODM partner driven by marketing promotions
- Export to subsidiaries revenue KRW 41.1bn (+47.6% YoY, +15.0% QoQ)
- : Strong export driven by strong sales in Malaysia and other subsidiaries

## Overseas Subsidiaries Revenue



© **Maintain growth trend of revenue and accounts**

- 3Q'17 Malaysia revenue +56.9% YoY, +10.3% QoQ (local currency)
- : Continued revenue growth from air/water purifier products due to increase in 1) brand awareness, 2) door-to-door organization
- 3Q'17 U.S. revenue +11.6% YoY, -0.4% QoQ (local currency)
- : Revenue from door-to-door and retail sales channel increased YoY due to strong sales of air purifier

# 2-3. Home-care & Cosmetics business

Home-care business financial lease revenue KRW 35.1bn (+30.1% YoY)  
 Cosmetics business revenue KRW 19.4bn (+7.0% YoY)

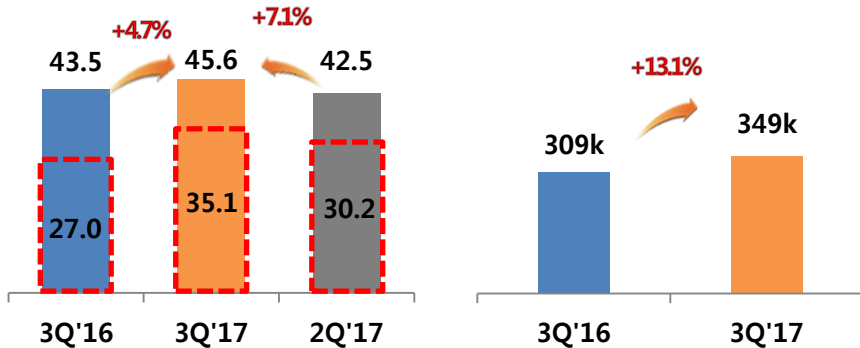
## Home-care

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

[Unit: KRW bn, accounts]

### Revenue

### Total accounts

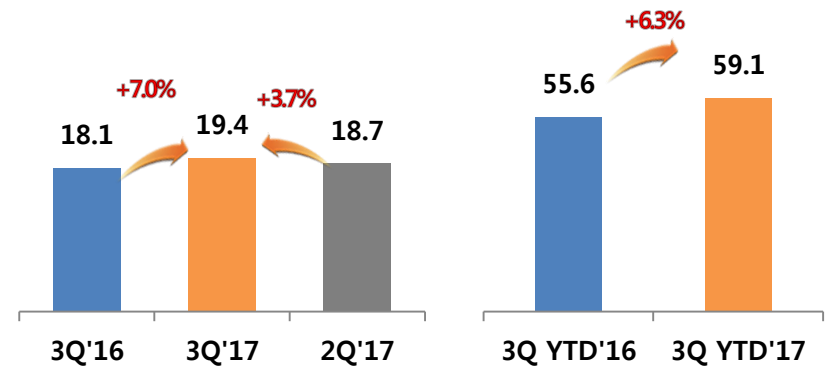


Ⓢ **Continued growth of financial lease revenue due to increase of accounts**

- Mattress gross adds 36k (+26.5% YoY, +12.7% QoQ)  
: Historically high mattress rental gross adds in 3Q
- Financial lease revenue KRW 35.1bn (+30.1% YoY, +16.2% QoQ)  
: Home-care revenue increased both YoY, QoQ due to increase of number of salesforces

## Cosmetics

[Unit: KRW bn]



Ⓢ **Cosmetics revenue KRW 19.4bn**

- Door-to-door sales channel revenue KRW 13.0bn (+0.1% YoY, +0.1% QoQ)  
: Revenue increased both YoY, QoQ driven by 1) improvement of BPs' productivity and 2) release of new products
- Retail sales channel revenue KRW 6.4bn (+24.3% YoY, +11.8% QoQ)  
: Revenue increased both YoY, QoQ due to TV home shopping and B2B sales increase

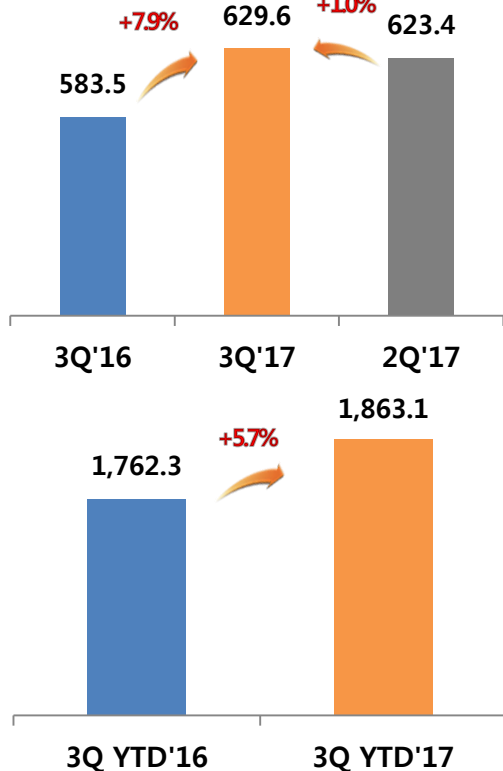
1) Financial lease: Record 5yr/ 6yr revenue at the time of the sales as present value

# 3. Consolidated Revenue and Profits

3Q'17 Revenue KRW 629.6 bn (+7.9% YoY),  
 Operating Profit KRW 124.2 bn (+16.1% YoY), Net Profit KRW 93.4 bn (+38.0% YoY)

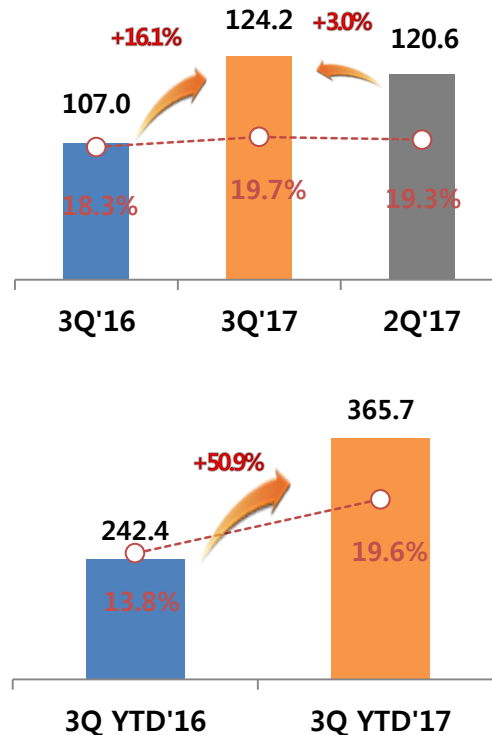
## Revenue

[Unit: KRW bn]



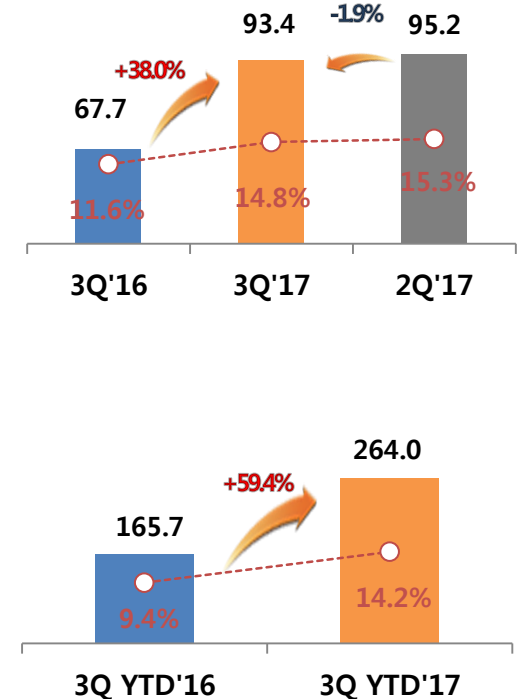
## Operating Profit

[Unit: KRW bn/○ : Margin]



## Net Profit

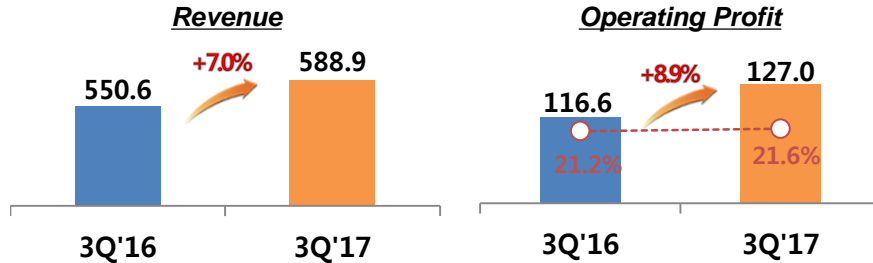
[Unit: KRW bn/○ : Margin]



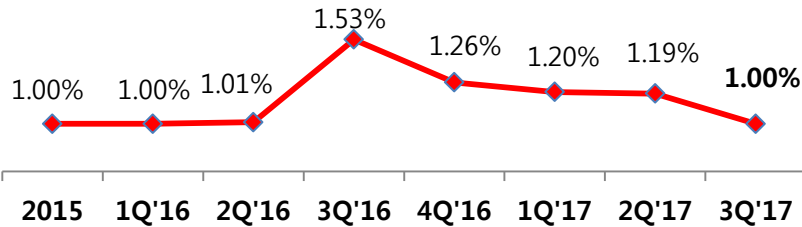
# 4. 3Q'17 Review & 4Q Plan

## 3Q'17 Review

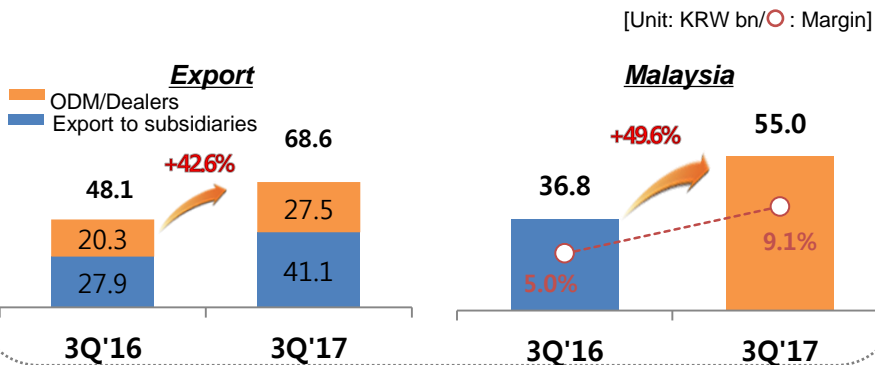
### Historically high Revenue and OP (3Q) [Unit: KRW bn]



### Stable management of cancellation rate



### Historically high export revenue, Malaysia revenue of KRW 55bn with 602k accounts



## 4Q'17 Plan

### 1 Health appliance business

#### Enhancement of product line-ups

- Release B2B specialized products to expand target customer
  - 1) Water purifier: Increase 30% tank capacity for B2B customers
  - 2) Air purifier: Release B2B model for public offices and schools
- Release premium products
  - 1) Water softener: Release premium model with enhanced usability and hygiene
  - 2) MD products: Expand small appliance premium line-ups (premium steam iron, pressure rice cooker, etc.)

#### Increase of rental sales

- Promote mattress sales program for existing health appliance customers
- Increase package programs which provide benefits to customers buying 2 or more products

### 2 Overseas business

#### Continued growth of overseas subsidiaries

- Malaysia: continue to expand air/water purifier sales by expanding door-to-door organization and increasing brand awareness
- U.S.: Expect to expand retail sales through strengthening partnerships with local distributors such as Amazon
  - 1) Plan to launch Amazon DRS<sup>1)</sup> from November
  - 2) Expand PR activities on Amazon website during the holiday shopping season in 4Q



1) Amazon Dash Replenishment—the smart home service that automatically reorders your products before you even know you're running low

# APPENDIX

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

# Non-consolidated financial reports

## ② Balance Sheet

(Unit: KRW bn)	Sep. '17	Dec. '16
<Assets>	2,123.7	1,972.6
<b>Current Assets</b>	<b>870.7</b>	<b>777.5</b>
Cash and cash equivalents	64.8	41.1
Accounts receivable	526.1	444.8
Inventories	62.4	46.5
<b>Non-Current Assets</b>	<b>1,253.0</b>	<b>1,195.1</b>
Fixed assets	595.6	590.9
Affiliates & Subsidiaries	84.5	84.5
Intangible assets	146.8	147.7
<Liabilities>	1,084.3	724.5
<b>Current Liabilities</b>	<b>1,027.5</b>	<b>682.3</b>
ST Borrowings	690.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	<b>56.8</b>	<b>42.3</b>
LT Borrowings	-	-
Corporate bond	-	-
<Shareholders' Equity>	1,039.4	1,248.1
<b>Debt to Equity Ratio</b>	<b>104.3%</b>	<b>58.0%</b>
<b>Net Debt to Equity Ratio</b>	<b>60.2%</b>	<b>23.9%</b>

## ② Income Statement

(Unit: KRW bn)	3Q'17	3Q'16	YoY
Revenue	588.9	550.6	7.0%
COGS	197.6	185.7	6.4%
Gross profits	391.3	364.9	7.2%
SG&A	264.3	248.3	6.5%
Operating profits	127.0	116.6	8.9%
<b>Margin(%)</b>	<b>21.6%</b>	<b>21.2%</b>	<b>0.4%P</b>
Other income	2.2	2.2	3.1%
Other expenses	1.3	14.0	-90.4%
Financial income	0.2	0.2	-26.4%
Financial expenses	3.1	1.0	205.4%
Profit before tax	125.0	104.0	20.2%
Corporate tax	30.5	25.2	21.0%
Net income	94.4	78.8	19.9%
<b>Margin(%)</b>	<b>16.0%</b>	<b>14.3%</b>	<b>1.7%P</b>

# Consolidated financial reports

## ⊗ Balance Sheet

(Unit: KRW bn)	Sep. '17	Dec. '16
<Assets>	2,119.9	1,967.7
<b>Current Assets</b>	<b>784.1</b>	<b>733.1</b>
Cash and cash equivalents	102.8	66.3
Accounts receivable	322.9	292.8
Inventories	95.7	70.2
<b>Non-Current Assets</b>	<b>1,335.8</b>	<b>1,234.6</b>
Fixed assets	702.4	669.4
Intangible assets	181.7	183.0
<Liabilities>	1,148.8	784.4
<b>Current Liabilities</b>	<b>1,083.2</b>	<b>735.4</b>
ST Borrowings	690.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	<b>65.6</b>	<b>49.0</b>
LT Borrowings	12.4	11.8
Corporate bond	-	-
<Shareholders' Equity>	971.1	1,183.3
<b>Debt to Equity Ratio</b>	<b>118.3%</b>	<b>66.3%</b>
<b>Net Debt to Equity Ratio</b>	<b>61.7%</b>	<b>24.1%</b>

## ⊗ Income Statement

(Unit: KRW bn)	3Q'17	3Q'16	YoY
Revenue	629.6	583.5	7.9%
COGS	195.0	192.5	1.3%
Gross profits	434.6	391.0	11.1%
SG&A	310.5	284.1	9.3%
Operating profits	124.2	107.0	16.1%
<b>Margin(%)</b>	<b>19.7%</b>	<b>18.3%</b>	<b>1.4%P</b>
Other income	5.7	2.0	183.1%
Other expenses	2.7	18.0	-85.3%
Financial income	0.3	0.3	-10.2%
Financial expenses	3.3	1.2	170.4%
Profit before tax	124.2	90.0	37.9%
Corporate tax	30.8	22.4	37.7%
Net income	93.4	67.7	38.0%
<b>Margin(%)</b>	<b>14.8%</b>	<b>11.6%</b>	<b>3.2%P</b>

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

(Unit: KRW bn)	3Q'17	3Q'16	YoY	2Q'17	QoQ
<b>Malaysia</b>					
Revenue	55.0	36.8	49.6%	49.0	12.2%
OP	5.0	1.8	174.9%	3.2	59.5%
Margin	9.1%	5.0%		6.4%	
<b>U.S.</b>					
Revenue	15.6	13.8	13.2%	15.6	-0.2%
OP	0.4	-0.2	-	0.0	-
Margin	2.5%	-		0.0%	
<b>China</b>					
Revenue	1.1	1.7	-36.1%	1.9	-42.0%
OP	-0.8	-0.6	-	-0.6	-
Margin	-	-		-	
<b>Thailand</b>					
Revenue	3.7	1.2	+212.7%	2.9	+27.4%
OP	0.1	-0.4	-	0.0	-
Margin	2.9%	-		0.7%	
<b>Coway Entech</b>					
Revenue	6.5	7.7	-15.4%	14.9	-56.2%
OP	-1.6	-0.9		0.2	-
Margin		-		1.2%	

## Malaysia

- 3Q'17 Revenue KRW 55.0bn (+49.6% YoY, +12.2% QoQ)
- 3Q'17 Accounts 602k (3Q'16: 388k +55.2% YoY)
- Local currency basis : +56.9% YoY, +10.3% QoQ
- Revenue increased due to strong water and air purifier sales

## U.S.

- 3Q'17 Revenue KRW 15.6bn (+13.2% YoY, -0.2% QoQ)
- 3Q'17 Accounts 110k (3Q'16: 100k +9.3% YoY)
- Local currency basis: +11.6% YoY, -0.4% QoQ
- Rental and membership revenue increased due to accounts growth

## China

- 3Q'17 Revenue KRW 1.1bn (-36.1% YoY, -42.0% QoQ)
- Air purifier sales decreased due to discontinue of main model driven by exchange of new models

## Thailand

- 3Q'17 Revenue KRW 3.7bn (+212.7% YoY, +27.4% QoQ)
- Door-to-door sales increased due to water purifier sales growth driven by introduction of new rental system

## Coway Entech

- 3Q'17 Revenue KRW 6.5bn (-15.4% YoY, -56.2% QoQ)
- Revenue decreased due to difference in progress of orders