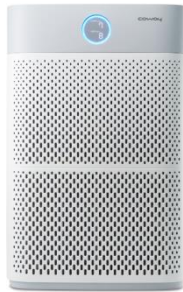


# 3Q'18 Earnings release

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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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- New products (domestic & overseas)

## 3. 3Q Review and 4Q Plan

- 3Q Review and 4Q Plan

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- Subsidiary results

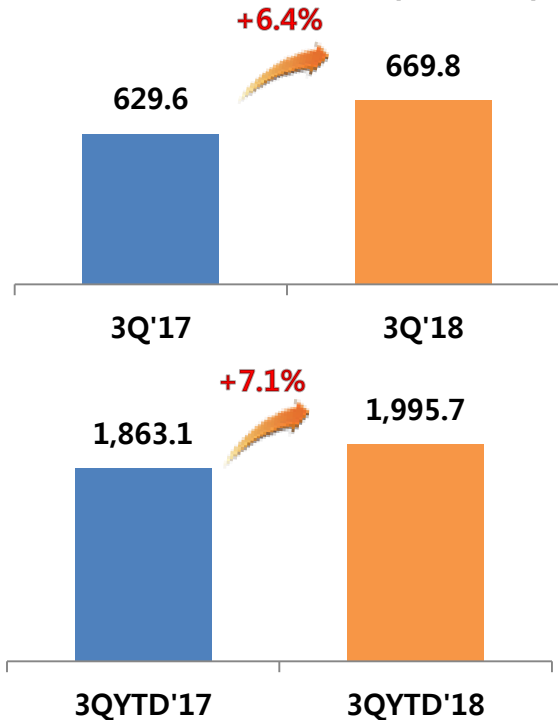
# 1-1. Consolidated Revenue and Profits

3Q'18 Revenue KRW 669.8bn (+6.4% YoY), driven by historical high 3Q rental gross adds (451k)

Operating Profit KRW 130.4bn (+5.0% YoY), Net Profit KRW 94.2bn (+0.9% YoY),  
 - Historical High 3Q Revenue, Operating Profit

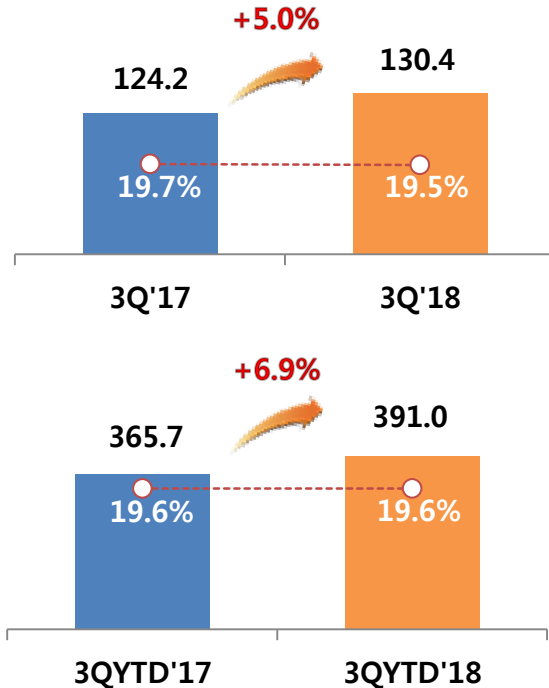
## Revenue

[Unit: KRW bn]



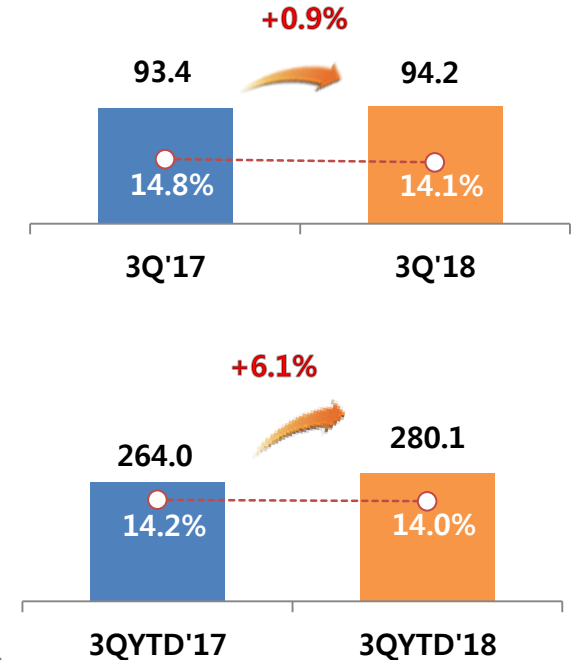
## Operating Profit

[Unit: KRW bn / ○: Margin]



## Net Profit

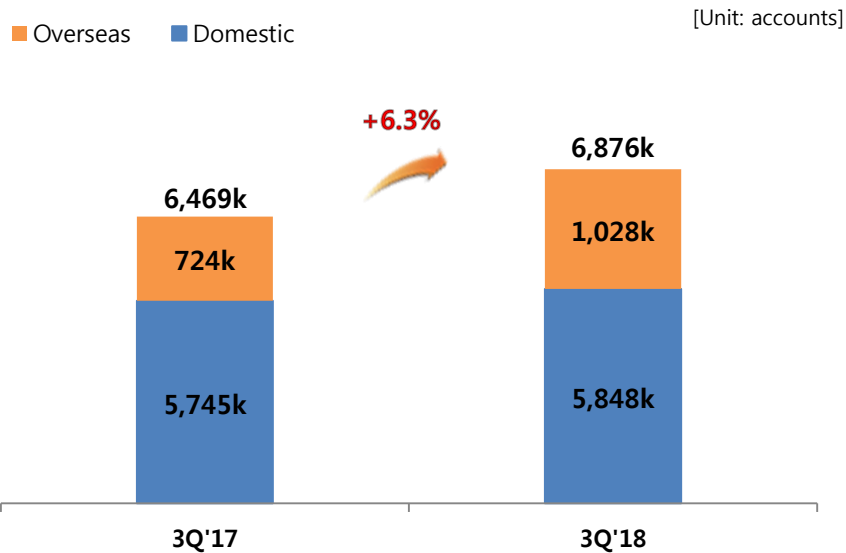
[Unit: KRW bn / ○: Margin]



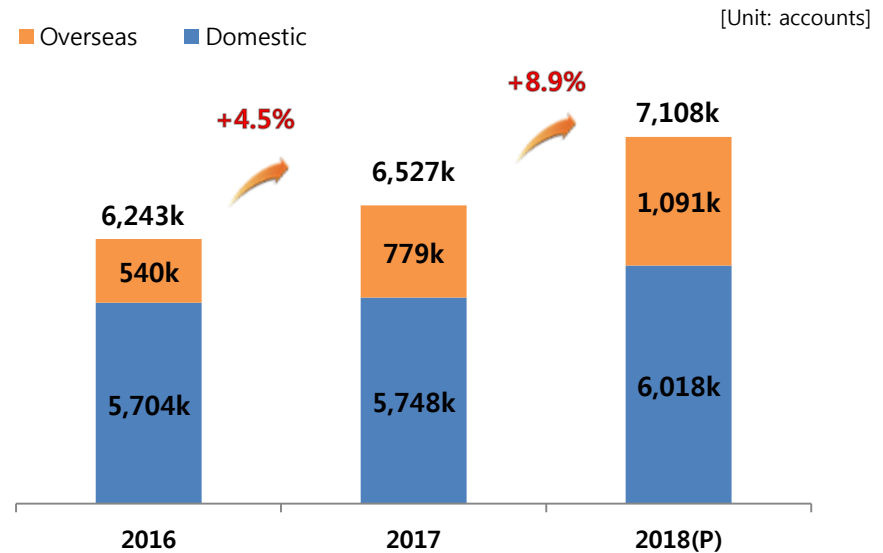
# 1-2. Total accounts (domestic & overseas)

3Q'18 Total accounts 6.88mn in 4 countries (Korea, Malaysia, U.S., Thailand)  
 - Overseas total accounts exceeded 1mn account in 3Q'18

## Total accounts (Quarter)



## Total accounts (Annual)



© **3Q'18 total accounts 6.88mn**

- Domestic 5.85mn (+1.8% YoY)
- Overseas 1.03mn (+42.1% YoY)
- : Malaysia 894K, U.S. 113K, Thailand 21K

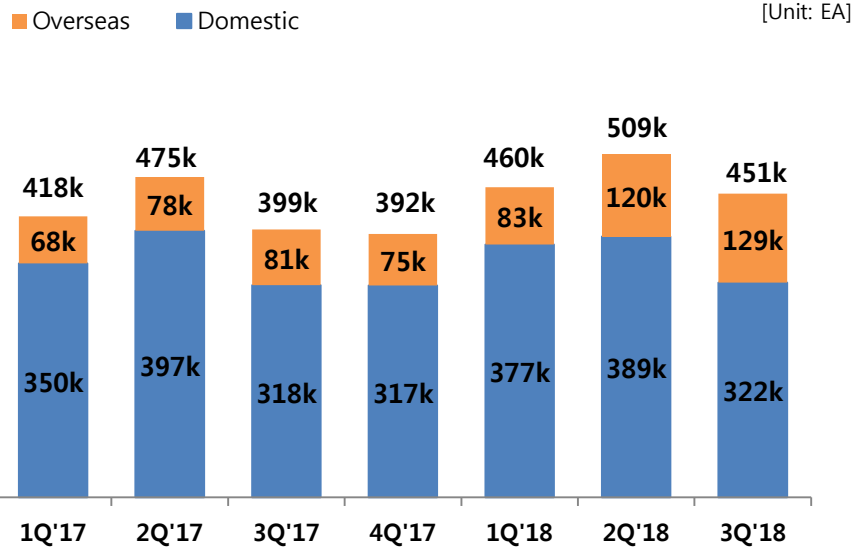
© **Plan to achieve total accounts of 7mn by 2018**

- 2018(P) 7.11mn
- Domestic 6.02mn (+4.7% YoY)
- Overseas 1.09mn (+40.1% YoY)
- Plan to achieve 7mn accounts by 2018

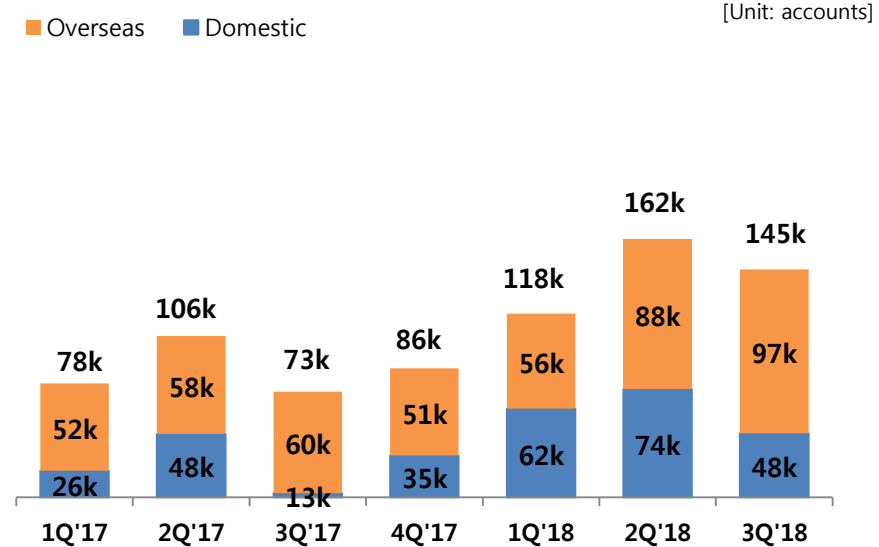
# 1-3. Total rental gross adds / net adds

## Historical high 3Q rental gross adds and net adds

### Total rental gross adds



### Total rental net adds



#### 3Q total rental gross adds 451k

- Domestic 322k (+1.3% YoY)
- Overseas 129k (+59.5% YoY)
- : Historical high quarterly rental gross adds from overseas
- : Malaysia 120k, U.S. 6,000, Thailand 2,809
- 3QYTD'18: 1.42mn (+9.9% YoY)

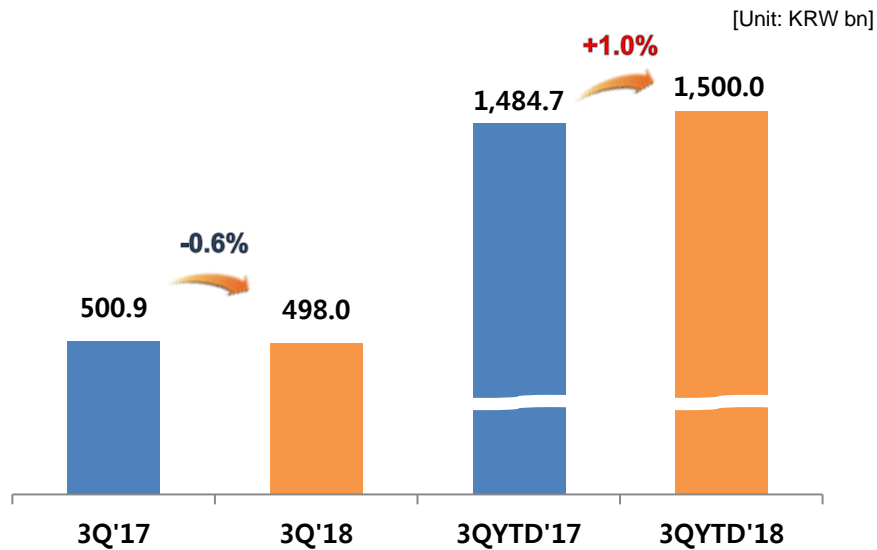
#### Continued growth of total rental net adds

- Domestic 48k (+281.7% YoY, +35k)
- Overseas 97k (+62.1% YoY, +37k)
- : Historical high quarterly rental net adds from overseas
- : Malaysia 94k, U.S. 699, Thailand 2,247
- 3QYTD'18: 425k (+66.8% YoY, +170k)

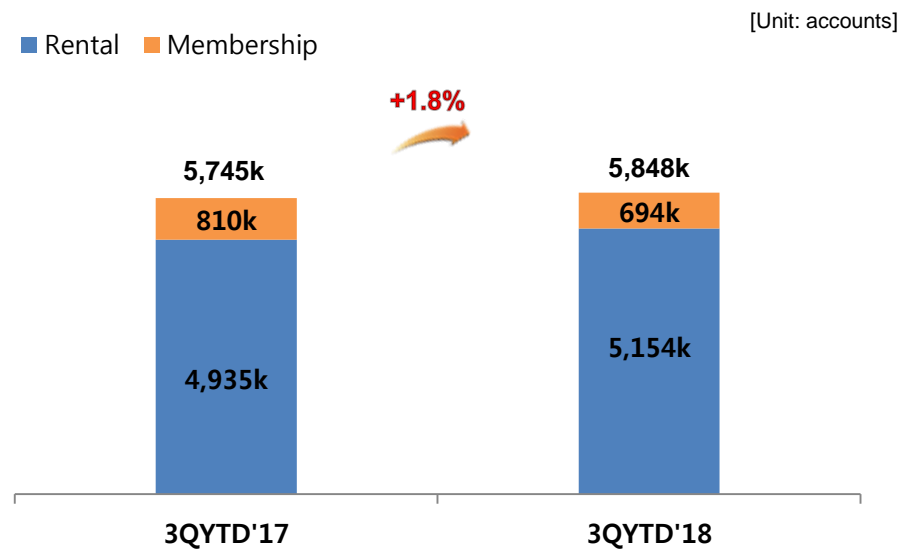
# 2-1. Health appliance business

Health appliance revenue **KRW 498.0bn (-0.6% YoY)**  
 Total accounts **585mn (+1.8% YoY)**

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



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



- © **3Q'18 Health appliance revenue KRW 498.0bn**
- Rental and financial lease revenue : KRW 427.3bn (+3.3% YoY)  
: Driven by continuous account growth from major health appliance products (water purifier, air purifier, mattress) and new rental category (clothing purifier)
- Lump-sum and other revenue : KRW 41.2bn (-19.8% YoY)  
: Declined due to converting water softener to rental sales  
: Expect to improve in 4Q by expanding line-ups (massage chair, MD product)

- © **3Q'18 Total accounts 5.85mn**
- Rental accounts : 5.15mn (+219k, +4.4% YoY)
- Membership accounts : 694k (-116k, -14.3% YoY)

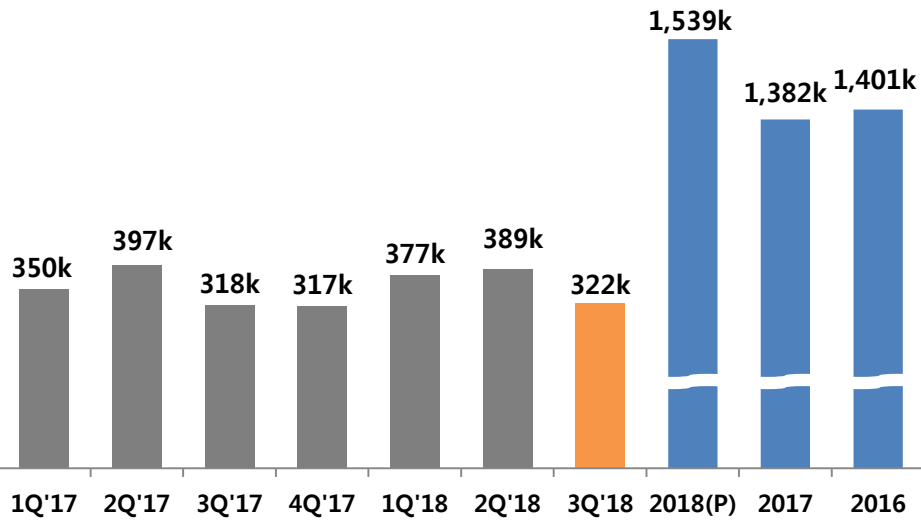
1) Including other health appliance revenue (A/S, installation and etc.): Applies to all health appliance revenue in this material  
 2) Excluding non-performing, 5 year maturity pending and free membership accounts: Applies to all accounts in this material  
 3) Including financial lease accounts: Applies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

# 2-1. Health appliance business

Historical high 3Q'18YTD rental gross adds and expect to improve rental net adds in 4Q

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

[Unit: EA]

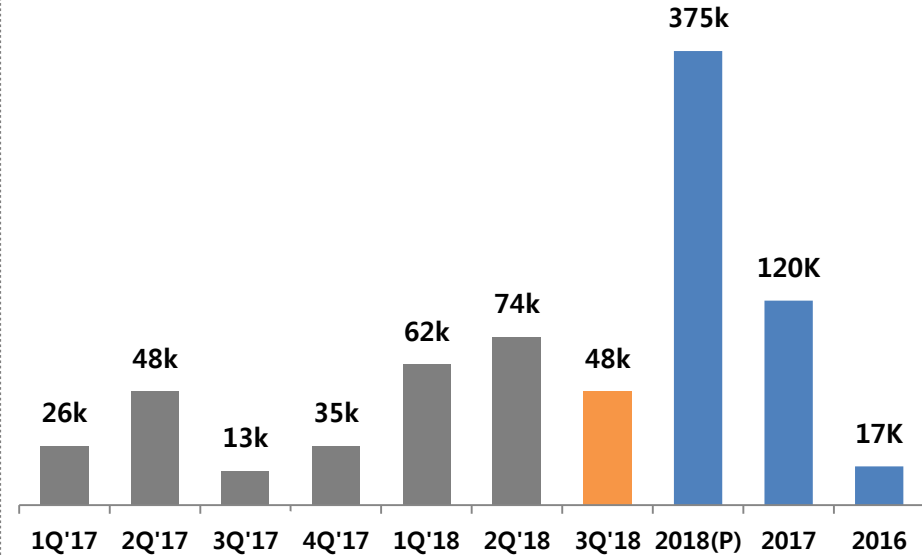


Ⓢ Historical high 3QYTD'18 rental gross adds (1.09mn)

- Rental gross adds 322k (+1.3% YoY, -17.2% QoQ)  
: Increase of sales in major products (water purifiers, mattresses) and new rental products such as clothing purifier
- Rental gross adds expect to increase in 4Q by arrival of fine dust season (air purifier and clothing purifier), increase of business days and enlargement of sales to B2G

## Rental net adds

[Unit: accounts]



Ⓢ Rental net adds expect to increase in 4Q

- Rental net adds +48k  
: Rental accounts exceed 5.15mn
- Rental net adds expect to improve with increase of rental gross adds, stabilization of cancellation rate and diminishing 5 year matured accounts

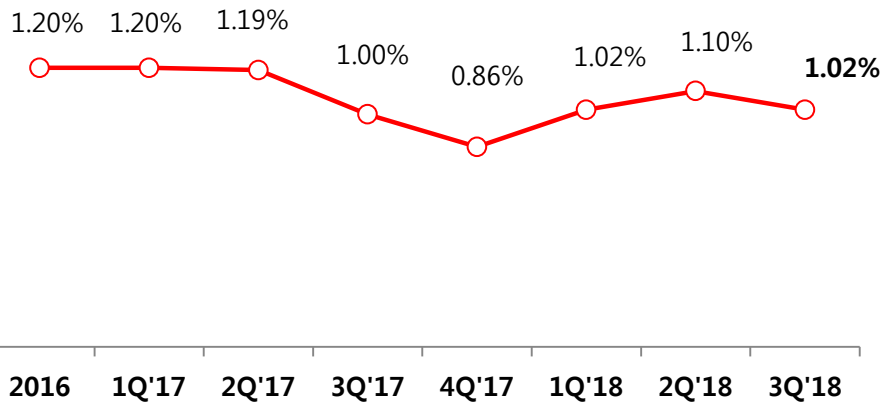
1) Including financial lease sales : Applies to all gross adds in this material



# 2-1. Health appliance business

## Stabilized cancellation rate and efforts to stabilize rental asset disposal expense

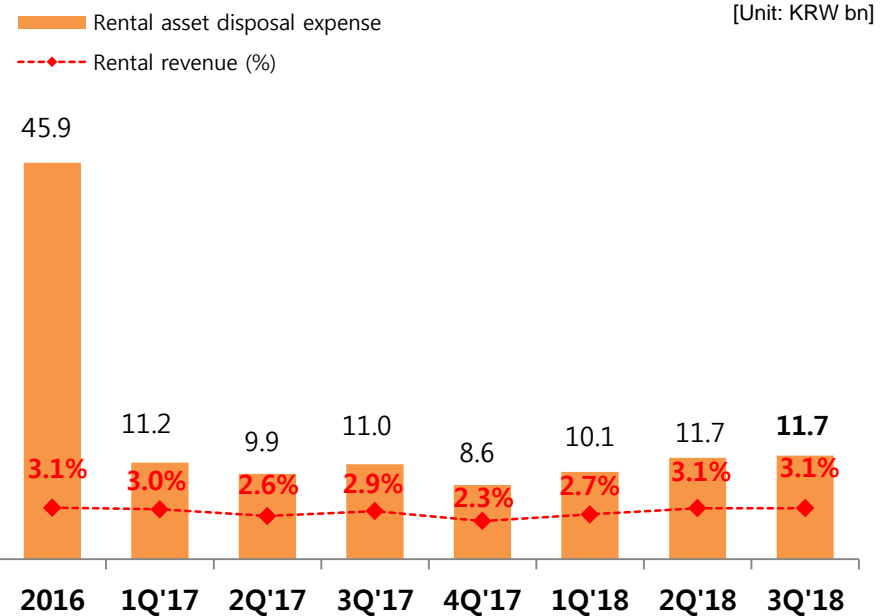
### Cancellation rate



Ⓢ **Efforts to maintain stabilized cancellation rate**

- Cancellation rate 1.02% in 3Q'18
- : Maintain stabilized cancellation rate by improvement of customer oriented service and enhancement of product quality

### Rental asset disposal expense



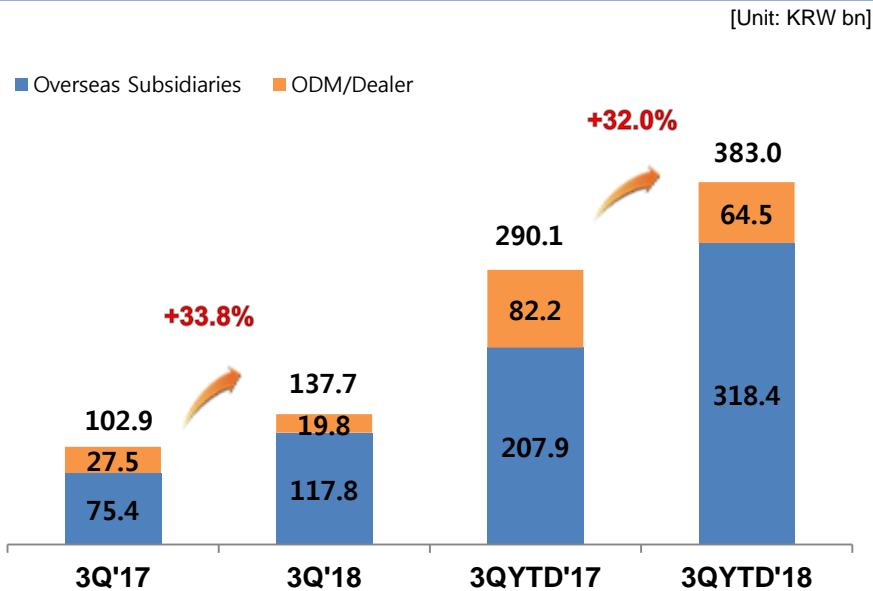
Ⓢ **Making efforts to stabilize rental asset disposal expense rate**

- Rental asset disposal expense KRW 11.7bn in 3Q'18
- : 3.1% of rental revenue

# 2-2. Overseas business

## Overseas revenue KRW 137.7bn (+33.8% YoY) Continued growth of overseas subsidiaries revenue

### Overseas revenue



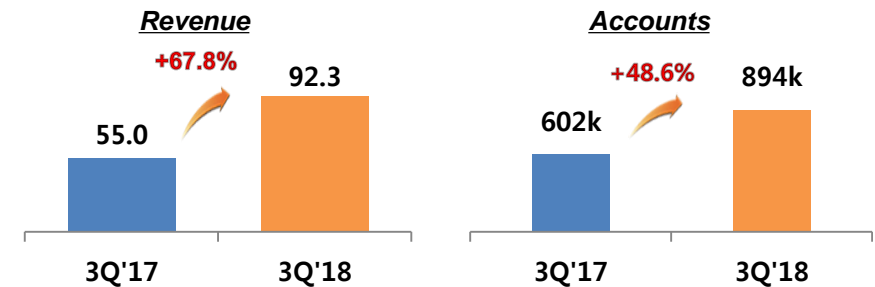
#### ③ 3Q Overseas revenue KRW 137.7bn

- Overseas subsidiaries revenue KRW 117.8bn (+56.3% YoY)  
: Strong growth from Malaysia and U.S. subsidiaries
- ODM/Dealer revenue KRW 19.8bn (-27.8% YoY)
- Expect revenue to increase due to overseas subsidiaries sales increase, 3 new product from China ODM partners and expansion of brand partners

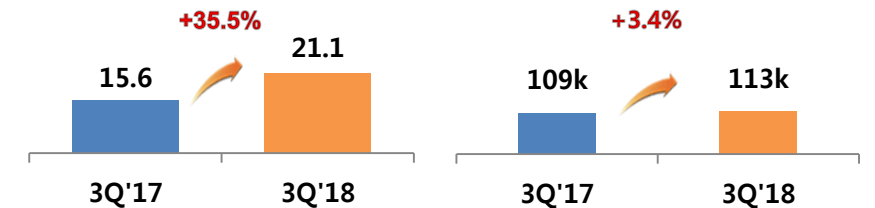
### Overseas subsidiaries revenue

#### Malaysia subsidiary

[Unit: KRW bn, accounts]



#### U.S. Subsidiary



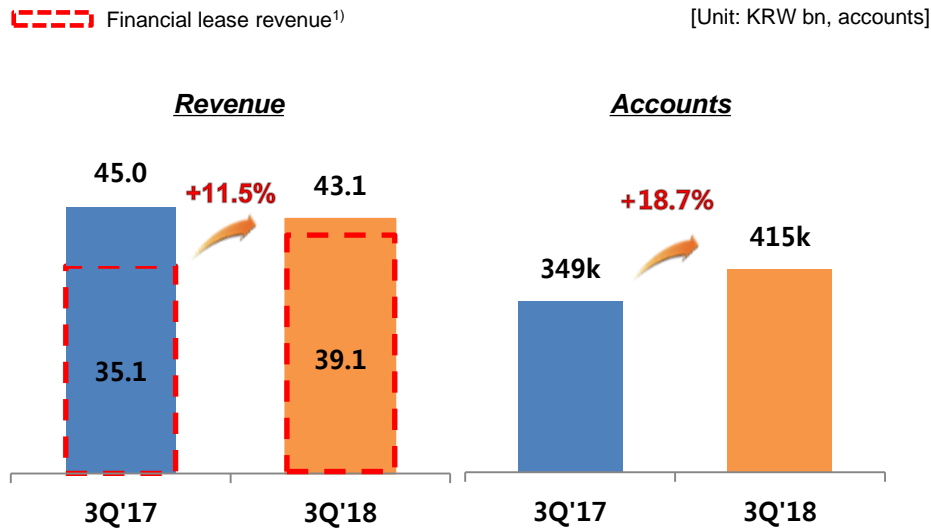
#### ③ Continued growth from overseas subsidiaries

- 3Q'18 Malaysia: +62.3% YoY revenue growth in local currency  
: Strong growth from new sales system (first adopted in 2Q to expand customer base) in 3Q
- 3Q'18 U.S. +37.1% 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 39.1bn (+11.5% YoY)  
 Cosmetics revenue KRW17.5bn (-9.7% YoY)

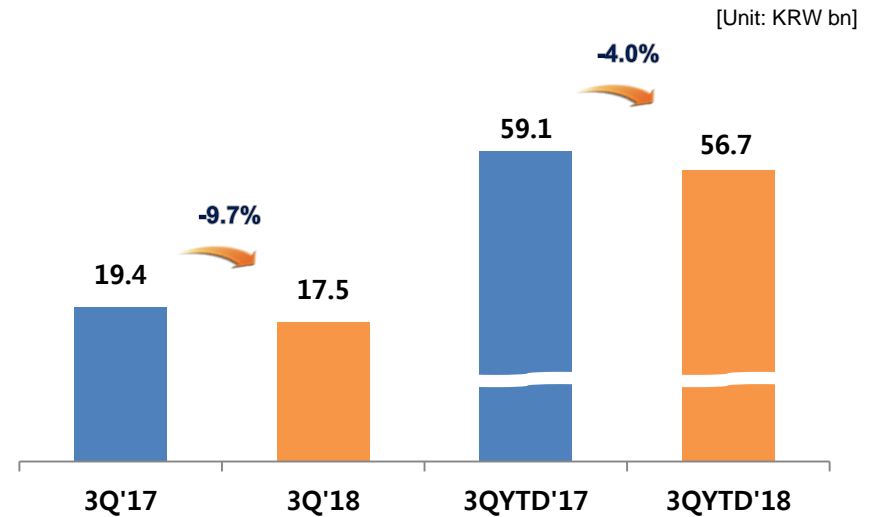
## Home-care



⊙ **Continued growth of financial lease revenue driven by account increase**

- Mattress gross adds 38k in 3Q'18 (+3.5% YoY)  
: Historical high 3Q rental gross adds
- Financial lease revenue KRW 39.1bn in 3Q'18 (+11.5% YoY)  
: Historical high 3Q financial lease revenue

## Cosmetics



⊙ **Cosmetics revenue KRW 17.5bn**

- Enhance door-to-door and retail sales channel to increase cosmetics revenue in 4Q  
: Increase door-to-door sales organization (Recruitment session, etc.)
- : Enlarge home shopping sales channel (entered Shinsegae 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)

## Expanding sales by releasing new water purifier and electric range

Domestic



### Ⓢ B2B/B2G CIROO<sup>1)</sup> direct flow water purifier (3Q)

- Release of B2B/B2G market target CIROO direct flow water purifier model
- : Suitable for high water consuming facility by having unlimited ambient water and 7L cold water capacity
- : Enhance convenience by applying 3 step(1ℓ, 1.5ℓ, etc.) dispensing function and wide water tray



### Ⓢ Large-capacity ice water purifier (3Q)

- Introduction of stand-type ice water purifier with large ice and cold water capacity
- : Strengthen cold water and ice making performance by applying dual cooling system
- : Enhance convenience and hygiene by applying 3 step dispensing and sterilization function



### Ⓢ Coway's hyper electric range (3Q)

- First time in Korea to introduce hyper highlight applied electric range
- : Save cooking time with 2.7kW high power and enhance installation convenience
- : Strengthen product quality and profitability through self-production

Overseas



### Ⓢ Premium RO type water purifier in Malaysia (4Q)

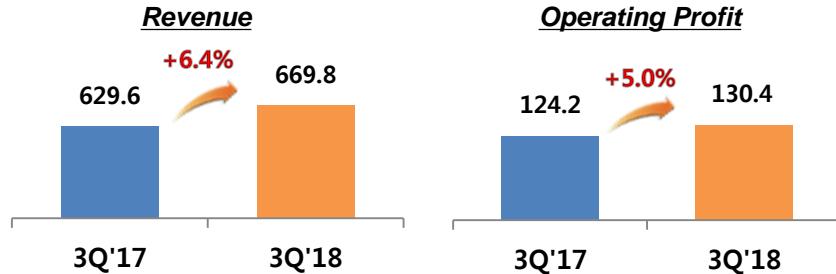
- Launch premium RO type water purifier for early preemption of premium water purifier market in Malaysia
- : Customized water purifier that maximizes the capacity of the tank and the usage rate of hot water compared to the existing best seller water purifier in Malaysia.

# 3-1. 3Q Review & 4Q Plan

## 3Q'18 Review

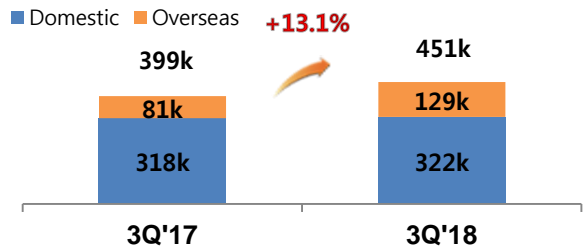
### Historical high 3Q Revenue & Operating Profit

[Unit: KRW bn]



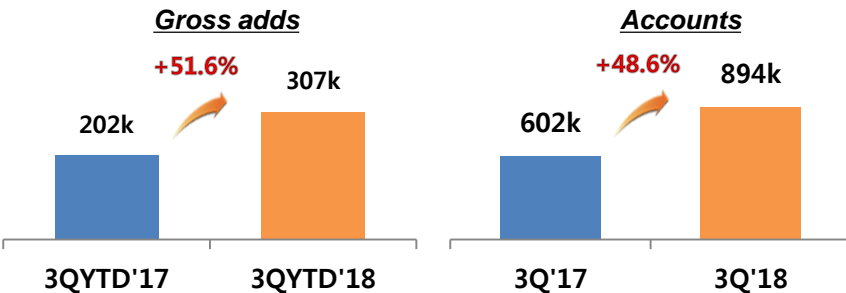
### Historical high 3Q rental gross adds

[Unit: EA]



### Strong accounts increase from Malaysia

[Unit: EA, accounts]



## 4Q'18 Plan

### 1 Health appliance business

#### Historical high 3Q rental gross adds

- Implement bundling plan to benefit additional purchasing and multi-product purchasing customer
  - : Increase customer value (increase PPC) and enhance retention
- Expand air purifiers and clothing purifiers in 4Q due to winter season
  - : In particular, sales of clothing purifiers due to introduction of rental system (August, September sales approximately 2,400 and 3,000)
- Increase rental sales through new product release
  - : 3 step self-sterilization bidet, mattress foundations (2 model) and modular family bed
- Expansion of B2B/B2G market
  - : Completion of orders from ministry of education by dedicated products and bidding strategies, additional bidding in progress

### 2 Overseas business

#### Expansion of overseas subsidiaries

- Enlarge Malaysia subsidiary business by new product launch, such as premium water purifier, continue with new sales system to expand the base of target customers
  - : Plan to exceed 1mn accounts 4Q
- 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)	Sep. '18	Dec. '17
<Assets>	2,304.7	2,158.9
<b>Current Assets</b>	<b>800.3</b>	<b>791.5</b>
Cash and cash equivalents	70.9	110.3
Accounts receivable	316.4	314.6
Inventories	104.9	74.9
<b>Non-Current Assets</b>	<b>1,504.4</b>	<b>1,367.4</b>
Fixed assets	765.0	712.4
Intangible assets	180.6	183.9
<Liabilities>	1,224.9	1,176.6
<b>Current Liabilities</b>	<b>1,155.4</b>	<b>1,124.8</b>
ST Borrowings	731.3	670.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
<b>Non-Current Liabilities</b>	<b>69.5</b>	<b>51.9</b>
LT Borrowings	10.3	12.3
Corporate bond	-	-
<Shareholders' Equity>	1,079.8	982.3
<b>Debt to Equity Ratio</b>	<b>113.4%</b>	<b>119.8%</b>
<b>Net Debt to Equity Ratio</b>	<b>62.1%</b>	<b>58.2%</b>

## ② Income Statement

(Unit: KRW bn)	3Q'18	3Q'17	YoY
Revenue	669.8	629.6	6.4%
COGS	214.0	195.0	9.8%
Gross profits	455.8	434.6	4.9%
SG&A	325.4	310.5	4.8%
Operating profits	130.4	124.2	5.0%
<b>Margin(%)</b>	<b>19.5%</b>	<b>19.7%</b>	<b>-0.3%P</b>
Other income	1.1	5.7	-81.2%
Other expenses	8.8	2.7	233.3%
Financial income	0.3	0.3	34.8%
Financial expenses	4.7	3.3	44.1%
Profit before tax	118.2	124.2	-4.8%
Corporate tax	24.0	30.8	-22.2%
Net income	94.2	93.4	0.9%
<b>Margin(%)</b>	<b>14.1%</b>	<b>14.8%</b>	<b>-0.8%P</b>

# Subsidiaries results

(Unit: KRW bn)	3Q'18	3Q'17	YoY
<b>Malaysia</b>			
Revenue	92.3	55.0	67.8%
Operating Profit	17.0	5.0	238.3%
Margin	18.4%	9.1%	
<b>U.S.</b>			
Revenue	21.1	15.6	35.5%
Operating Profit	1.3	0.4	248.9%
Margin	6.4%	2.5%	
<b>China</b>			
Revenue	0.4	1.1	-67.3%
Operating Profit	-0.8	-0.8	-
Margin	-	-	
<b>Thailand</b>			
Revenue	4.0	3.7	9.4%
Operating Profit	-0.1	0.1	-
Margin	-	2.9%	
<b>Coway Entech</b>			
Revenue	16.9	6.7	152.0%
Operating Profit	-0.6	-1.7	-
Margin	-	-	

## Malaysia

- . 3Q'18 Revenue 92.3bn (+67.8% YoY), OPM 18.4%
- . 3Q'18 accounts 894K (3Q'17 602K, +48.6% YoY)
  - : Revenue +62.3% YoY in local currency
  - : Revenue increase driven by accounts growth and adopting new sales system (financial lease)

## U.S.

- . 3Q'18 Revenue KRW 21.1bn (+35.5% YoY)
- . 3Q'18 accounts 113K (3Q'17 109K +3.4% YoY)
  - : Revenue +37.1% YoY in local currency
  - : Revenue increase due to accounts growth and increase of retail channel sales.

## China

- . 3Q'18 Revenue KRW 0.4bn (-67.3% YoY)
- . Revenue decrease due to weak air purifier sales in online channel.

## Thailand

- . 3Q'18 Revenue KRW 0.4bn (+9.4% YoY)
- . Revenue increase due to accounts increase.

## Coway Entech

- . 3Q'18 Revenue KRW 16.9bn (+152.0% YoY)
- . Revenue increase driven by increase of existing orders.