

2017 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.

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- Subsidiary Results

1-1. Revenue and Profits

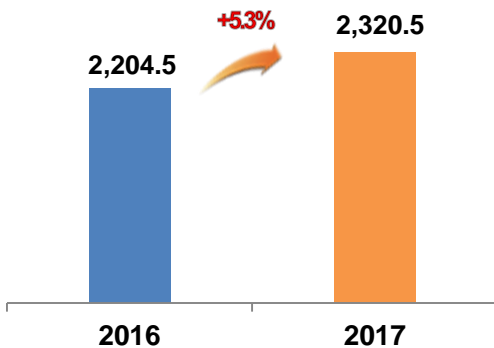
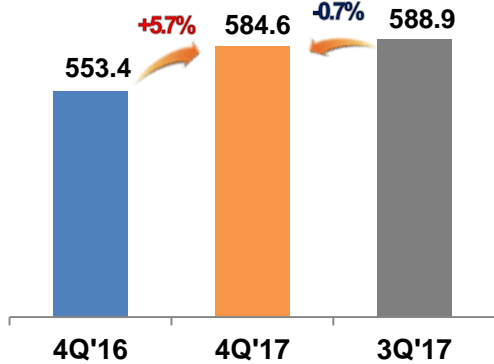
2017 Revenue KRW 2,320.5bn (+5.3% YoY)

Operating profit KRW 478.4bn (+29.8% YoY), Net profit KRW 322.4bn (+17.0% YoY)

- Historical high annual Revenue and Operating profit

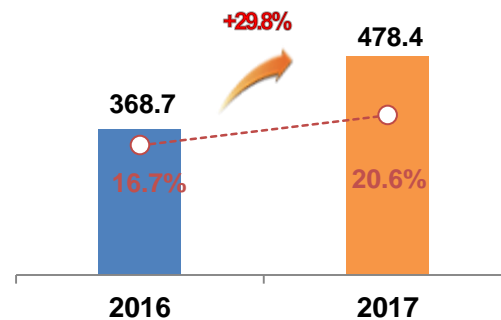
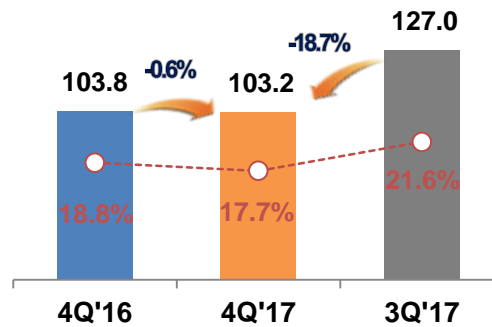
Revenue

[Unit: KRW bn]



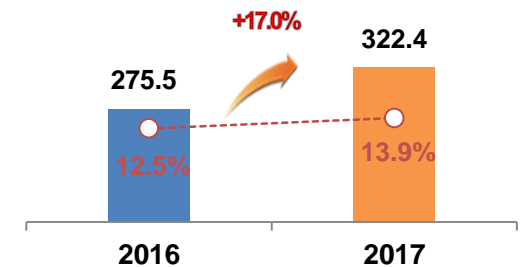
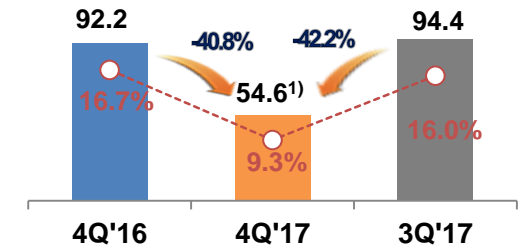
Operating Profit

[Unit: KRW bn / ○ : Margin]



Net Profit

[Unit: KRW bn / ○ : Margin]



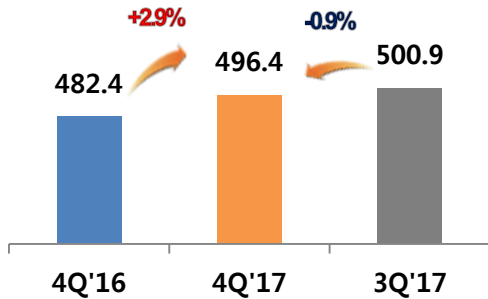
1) FX related loss of KRW 15bn

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

1-2. Health appliance business

Total accounts **5.75mn**, rental gross adds **317k**

[Unit: KRW bn]

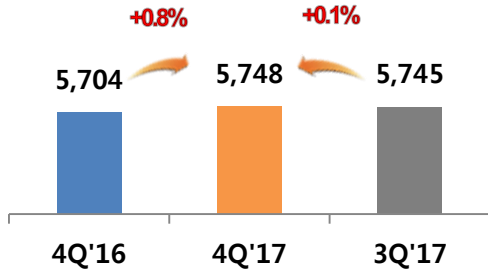


1

Health Appliance¹⁾

- Health appliance revenue KRW 496.4bn (+2.9% YoY, -0.9% QoQ)
- Rental and financial lease revenue KRW 410.2bn (+5.4% YoY, -0.8% QoQ)
- Lump-sum and other revenue 52.0bn (-2.2% YoY, +1.1% QoQ)

[Unit: accounts]

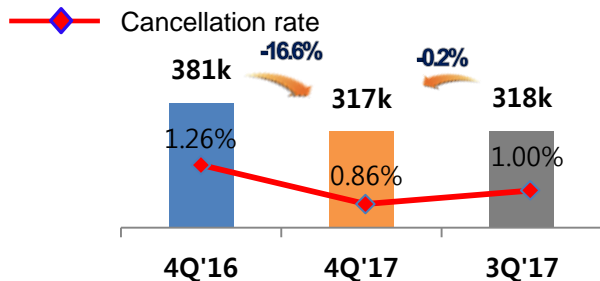


2

Accounts²⁾³⁾

- Total accounts 5.75mn (+0.8% YoY, +0.1% QoQ)
- Rental accounts 4.97mn (+2.5% YoY, +0.7% QoQ), Membership accounts 0.78mn (-8.9% YoY, -3.9% QoQ)

[Unit: EA]



3

Rental Gross Adds³⁾

- Rental gross adds 317k (-16.6% YoY, -0.2% QoQ)
- : Cancellation rate 0.86% (-0.4%p YoY, -0.14%p QoQ)

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

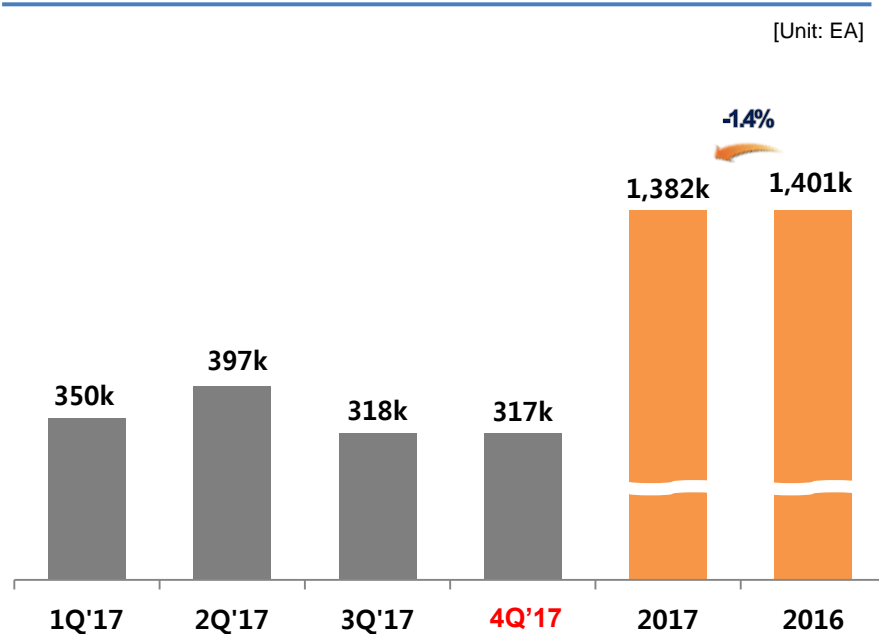
2) Excluding non-performing, 5 year maturity pending and free membership accounts: Applies to all accounts in this material

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

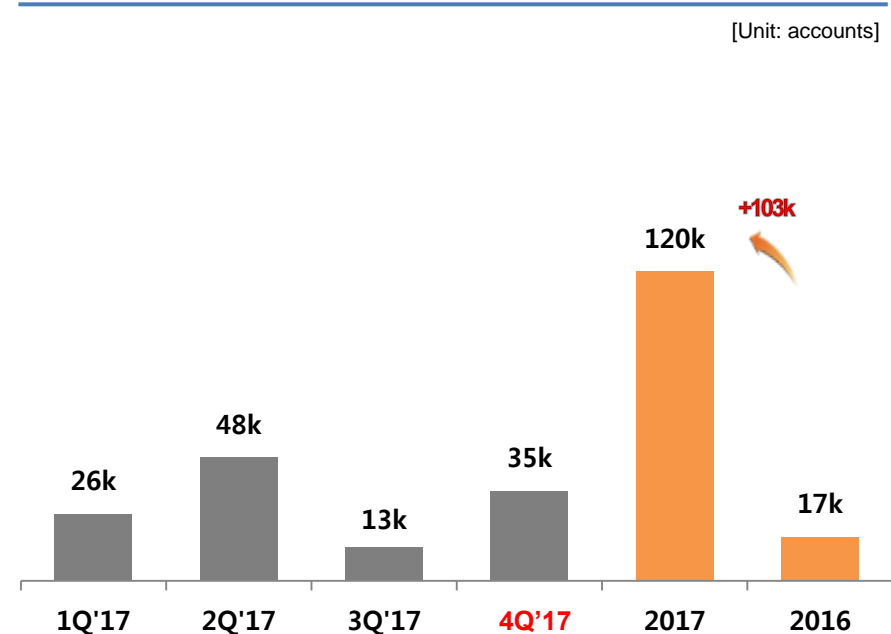
1-2. Health appliance business

Maintain rental gross adds as previous quarter level and increase of rental net adds in 4Q

Rental gross adds



Rental net adds



© 4Q Rental gross adds maintain previous quarter level

- 4Q'17 Rental gross adds 317k (-16.6% YoY, -0.2% QoQ)
- 2017 Rental gross adds 1,381k (-1.4% YoY)
- : Implemented a policy to increase net adds by improving cancellation rate in 2H. Significantly improved cancellation rate while maintaining rental gross adds at the previous quarter level.

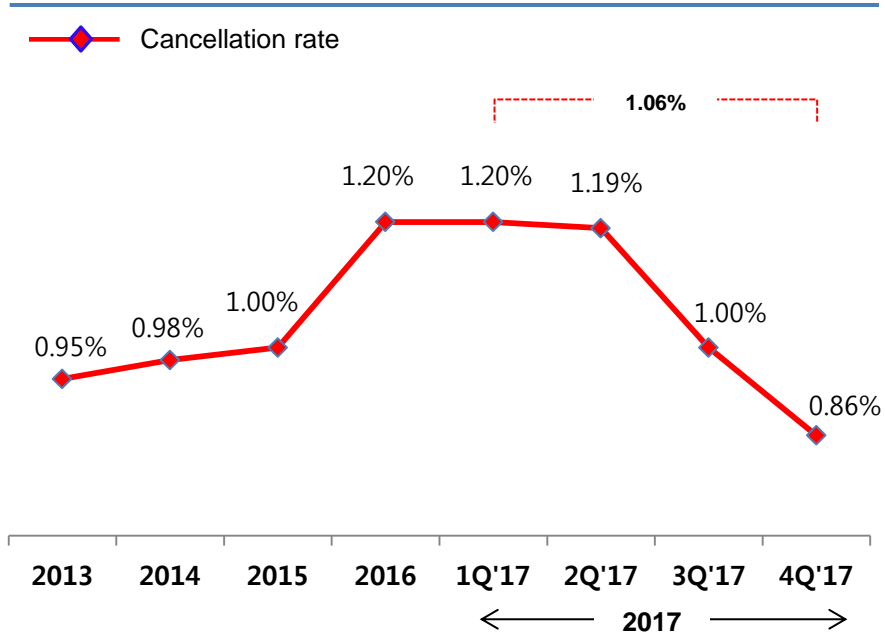
© Continued growth of rental net adds

- Rental net adds +35k in 4Q'17
- : Increase of rental net adds due to defense of cancellation
- Rental net adds +120k in 2017

1-2. Health appliance business

Improving trend of cancellation rate and stable management of rental asset disposal expense rate

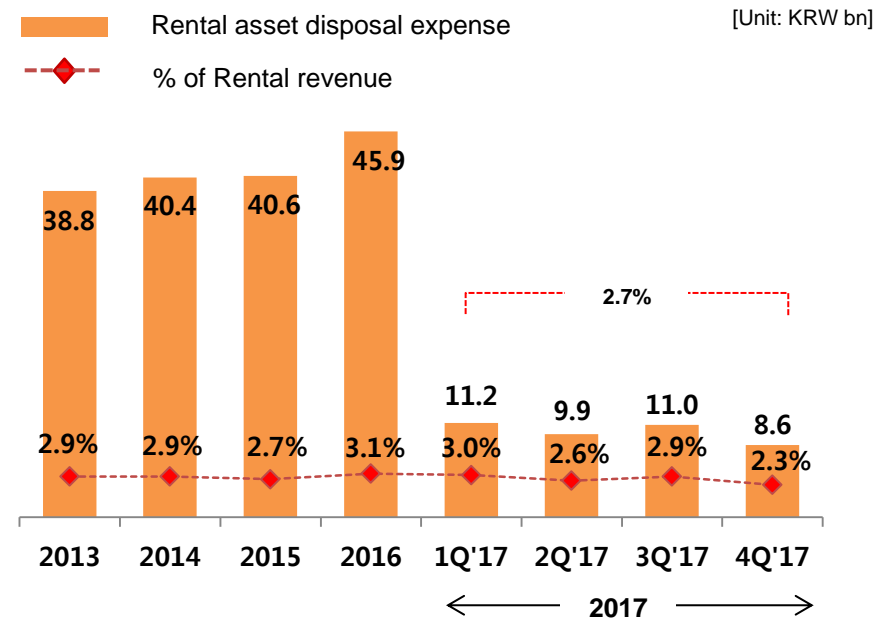
Cancellation rate



Ⓢ **Improving trend of cancellation rate**

- Cancellation rate 0.86% in 4Q'17, lowest level (last 5 years)
- Cancellation rate 1.06% in 2017

Rental asset disposal expense



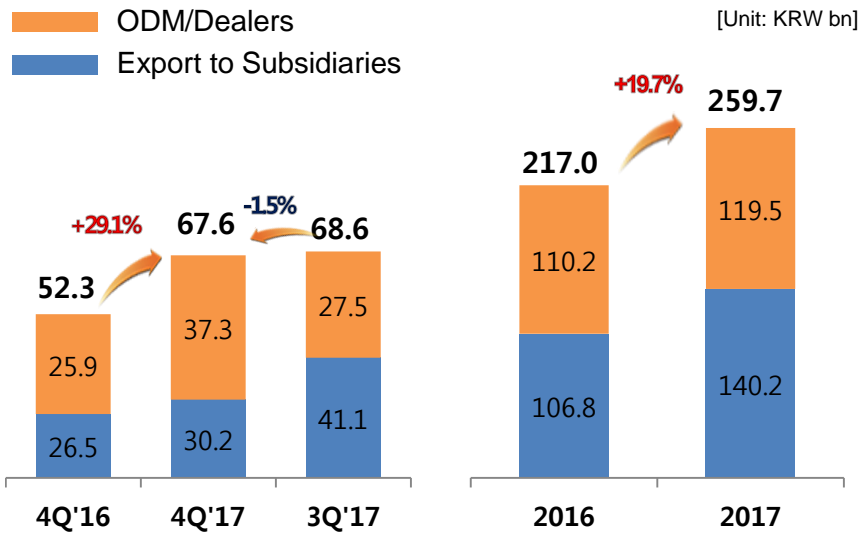
Ⓢ **Stable rental asset disposal expense rate**

- Rental asset disposal expense KRW 8.6bn in 4Q'17 : Decrease of cancellation and replacement
- Rental asset disposal expense KRW 40.7bn in 2017 : Rental asset disposal expense rate stayed stable at 2.7% of rental revenue

1-3. Overseas Business

Export revenue KRW 259.7bn (+19.7% YoY),
Continued growth of overseas subsidiaries revenue

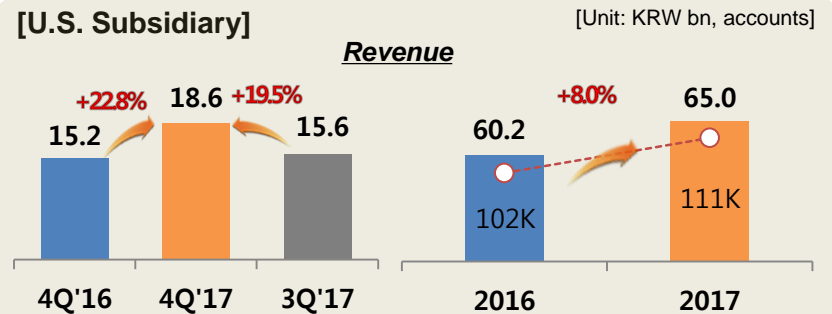
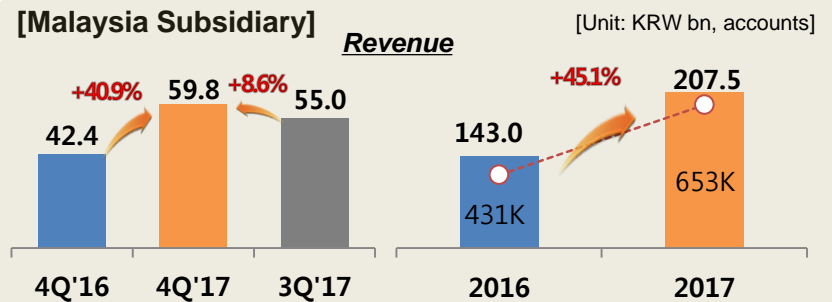
Export Revenue



© **Export revenue KRW 259.7bn (+19.7% YoY)**

- ODM/Dealers revenue KRW 119.5bn (+8.4% YoY)
 : 2H'17 sales increased 40.5% YoY due to strong growth from China ODM partner driven by new product release
- Export to subsidiaries revenue KRW 140.2bn (+31.3% YoY)
 : Strong sales driven by solid growth in Malaysia and other subsidiaries.

Overseas Subsidiaries Revenue



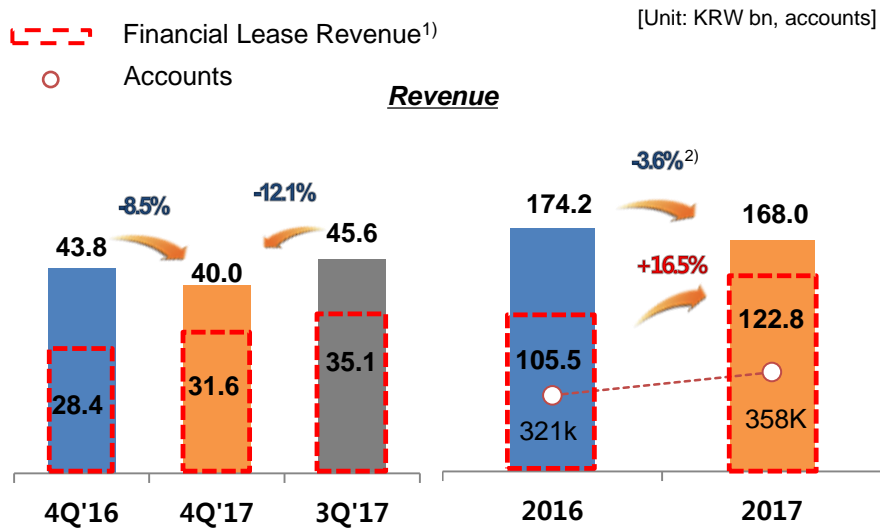
© **Continued growth from overseas subsidiaries**

- 2017 Malaysia: +54.7% YoY revenue growth in local currency
 : Revenue exceeded KRW 200bn, OPM of 8.4% (4Q OPM 11.7%)
- 2017 U.S.: +10.8% YoY revenue growth in local currency
 : Door-to-door revenue increased due to strong sales from water purifier
 : Retail revenue increased due to strong growth of air purifier sales in Amazon channel

1-4. Home-care & Cosmetics business

Home-care financial lease revenue KRW 122.8bn (+16.5% YoY)
 Cosmetics revenue KRW 79.8bn (+7.4% YoY)

Home-care

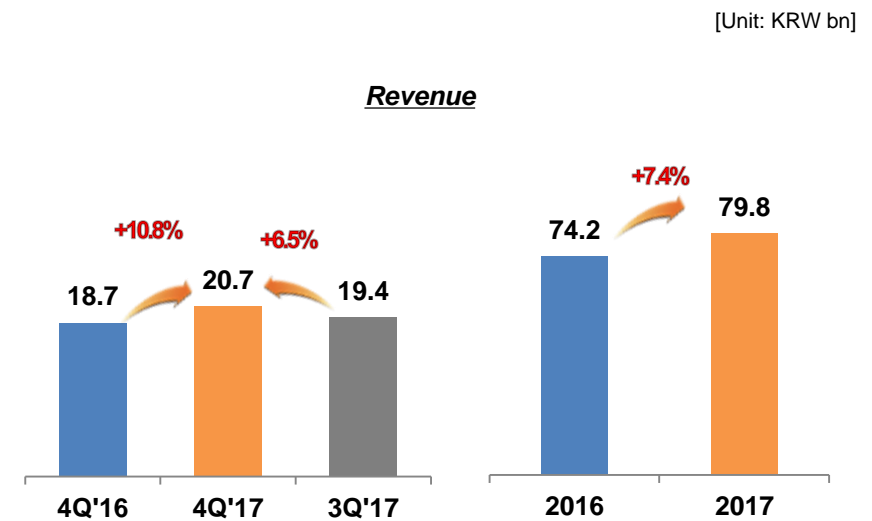


⊙ **Financial lease revenue growth driven by accounts increase**

- 2017 Mattress gross adds 137k (+5.1% YoY)
: Historical high annual mattress gross adds
- 2017 Financial lease revenue KRW 122.8bn (+16.5 YoY)
: Increase of number of Home-care doctors

1) Financial lease: Record 5yr/ 6yr revenue at the time of the sales as present value
 2) Total Home-care revenue dropped due to fading operating lease revenue

Cosmetics



⊙ **Cosmetics revenue KRW 79.8bn**

- Door-to-door revenue KRW 52.1bn (+8.9% YoY)
: Increase of BP salesforce productivity and release of new products
- Retail channel revenue KRW 27.7bn (+4.8% YoY)
: Increase of online channel and B2B sales

1-5. 2017 Key highlights

Activities to regain customers' trust for business recovery

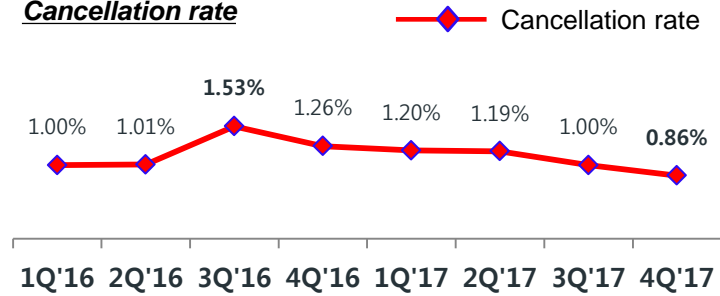
Ⓞ Prevention of churn

- Annual churn rate dropped to 1.06% (-0.14%p, YoY) due to efforts of defending customer cancellation (4Q Cancellation rate 0.86%)

Ⓞ Risk management

- Held weekly 'Unlimited Responsibility Committee' to respond to product and service issues

Cancellation rate



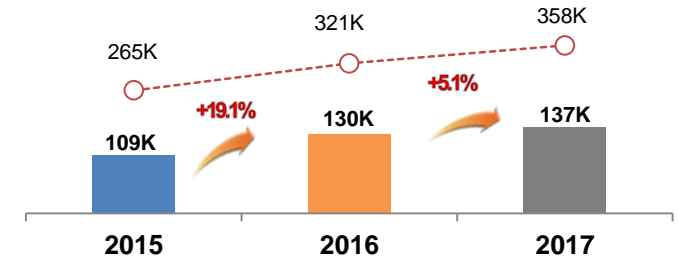
Continued growth from Home-care business

Ⓞ Continued growth in sales volume and accounts / increase of home-care doctors

- 2017 Historical high mattress gross adds 137k (+5.1% YoY)
- 2017 Mattress accounts 358k (+11.4% YoY)
- Home-care doctor increased from 940 in '16 to 1,170 in '17

Mattress gross adds and accounts

[Unit: accounts, EA]

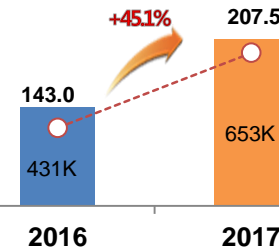


Continued growth of export and subsidiaries business

Ⓞ Strong growth from export and Malaysia subsidiary, increase of retail channel sales in U.S. subsidiary

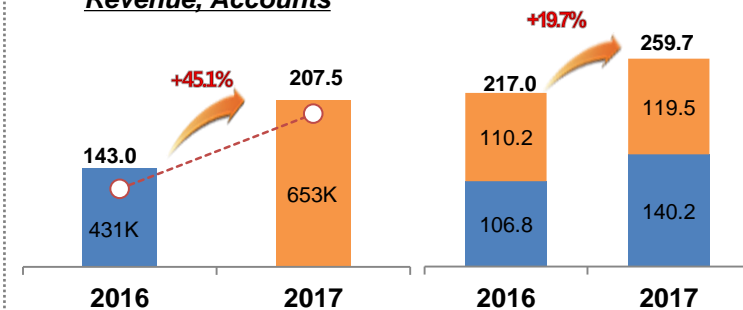
- Export revenue increased 19.7% YoY due to strong sales from China ODM partner as well as overseas subsidiaries
- Malaysia subsidiary revenue +45.1% YoY (+54.7% YoY in local currency)
: Exceeded annual revenue of KRW 200bn with 653k accounts
- Strong growth of retail channel revenue in U.S. subsidiary
(Partnering with Amazon from Apr, 17)

Malaysia Revenue, Accounts



Exports Revenue

[Unit: KRW bn, accounts]



1-6. Consolidated Revenue and Profits

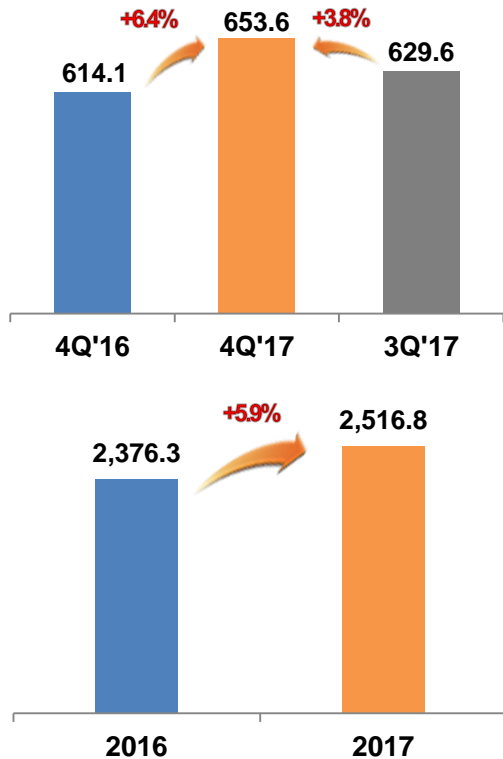
2017 Revenue KRW 2,516.8bn (+5.9% YoY)

Operating profit KRW 472.7bn (+39.5% YoY), Net profit KRW 325.6bn (+33.8% YoY)

- Historical high annual Revenue and Operating profit

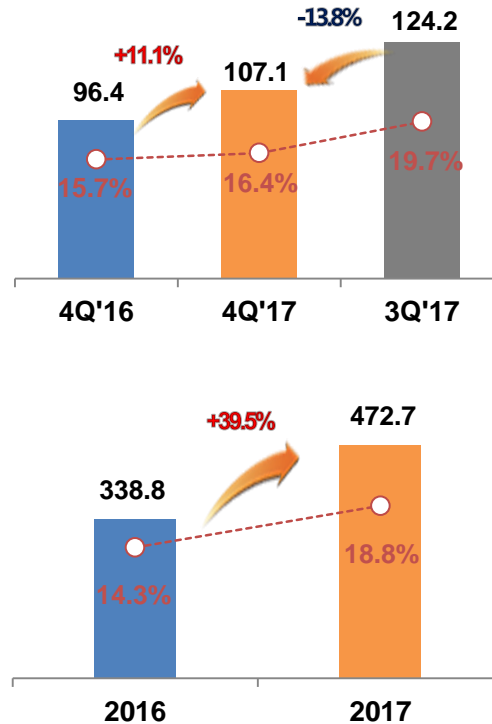
Revenue

[Unit: KRW bn]



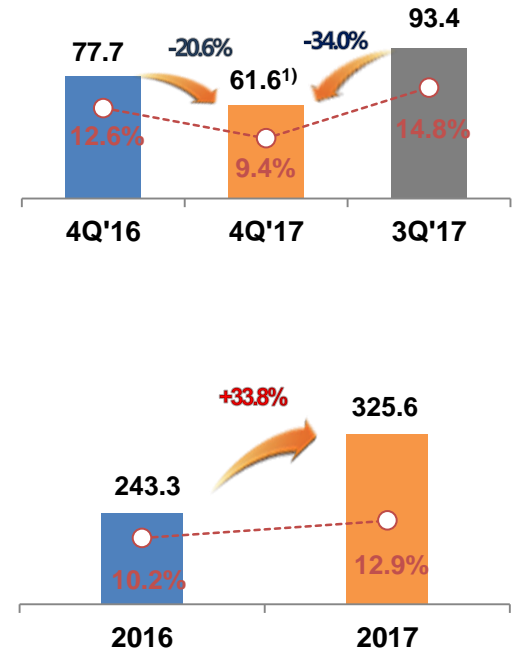
Operating Profit

[Unit: KRW bn/○ : Margin]



Net Profit

[Unit: KRW bn/○ : Margin]



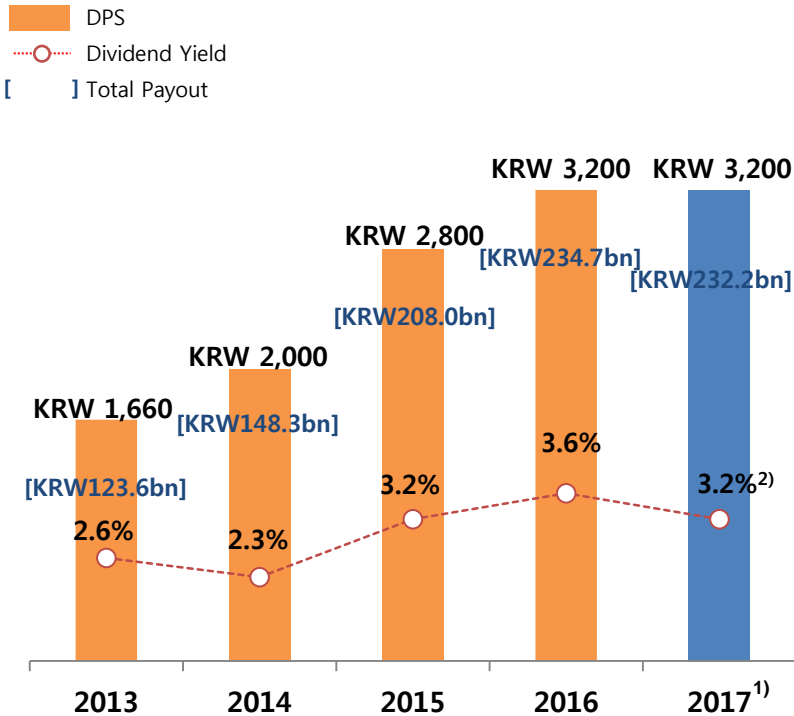
1) FX related loss of KRW 12.4bn

[Accounting standard: K-IFRS Consolidated financial reports]

1-7. Shareholder Return Policy

4Q DPS KRW 800 (2017 DPS KRW 3,200)
Plan to cancel KRW 100bn of treasury shares in 2018

2017 Dividend



¹⁾ Paid a quarterly dividends in 2017

²⁾ 2017 Dividend Yield based on weighted average share price of Dec 20th ~ 26th : KRW 98,631

Shareholder Return Policy

- Ⓢ Paid quarterly dividend in 2017 (1Q~4Q)
: DPS of KRW 800 each quarter
- Ⓢ Maintained high payout ratio in 2017
: Parent 72%, Consolidated 71%
- Ⓢ Cancelled KRW 70bn treasury shares in Jun 2017
- Ⓢ Executed buyback KRW 100bn treasury shares in May~Sep. 2017
- Ⓢ Plan to cancel KRW 100bn of treasury shares in Feb 2018

2. 2018 Business Plan

- **2018 Business Strategy**
 - Health appliance business
 - Overseas and Cosmetics business
- **2018 Revenue / Profits**

2-1. 2018 Business plan

Secure market leadership via strategic marketing and recovery of sales competitiveness, and expand global business



Re:BLUETION

Slogan

Coway Trust Re:BLUETION

Coway's unique innovation for clean environment and healthy life

Concept

Coway Trust

Unlimited responsibility for cleanness

Revolution

Change, innovation, and challenge

Blue

Pure and clean Identity

Key Initiatives

- ✓ Continue to pursue unlimited responsibility of hygiene through service, R&D, and quality innovation

- ✓ Actively respond to market competition by innovating core business through strategic product release and online marketing enhancement

- ✓ Promote new growth of overseas and cosmetics business

- ✓ Grow and stabilize door-to-door organization by having CODYs, Home-care doctors, and HPs to concentrate on fundamental roles

2-1. 2018 Business plan – Health appliance business

Secure market leadership by enhancing competitiveness

Water Care



Air Care



Living Care



Cody, Codoc



Home-care Dr.



Bluebird



<Enhance customer service>



<Water purifier filter technology>

① Marketing strategies to proactively respond to competition

- Release products to respond head-on with competition
 - : Launch new product category (Fresh Wear Styling System) and products responding to market trend with better performance
- Strengthen marketing promotion strategies
 - : Strengthen brand marketing by expanding advertisement and campaign
 - : Enhance marketing by structuring brand communication by products

② Strategic expansion of sales channel

- Expand door-to-door organization
 - : Expand sales by increasing CODYs' income level and expanding Home-care, Direct sales and BB¹⁾ organization
- Actively respond to online channel
 - : Enhance competitiveness to respond to expanding online channels

③ Enhancement of service, R&D and quality competitiveness

- Improve customer services satisfaction level
 - : Improve service satisfaction by providing differentiated service experience and expanding IoCARE²⁾
- Innovate product, technology and quality
 - : Innovate R&D and quality by enhancing innovative technology and enhancing quality system

1) BB (Blue Bird) : Young direct sales channel

2) IoCARE : IoT (Internet of Things) + Care

2-1. 2018 Business Plan – Overseas and Cosmetics Business

Continued growth of overseas business, stabilization of cosmetics business



- ④ **Malaysia: Maintain growth by enhancing product lineups and expanding organization**
 - Secure product competitiveness by expanding new lineups
 - Plan to achieve double digit OPM with 1 mil accounts in '18
 - Sales volume growth driven by number of salesforce increase and improvement of productivity



- ④ **U.S.: Recover door-to-door business growth and grow retail sales by partnering with amazon, etc**
 - Door-to-Door revenue growth from salesforce increase
 - Increase retail sales by strengthening partnership with Amazon and expanding product categories
- ④ **ODM/ Brand Strategy**
 - ODM Partner: Expand air purifier sales and secure business sustainability, increasing new product orders
 - Brand: Promote large partners by strengthen marketing support for key partners, and expanding new lineups



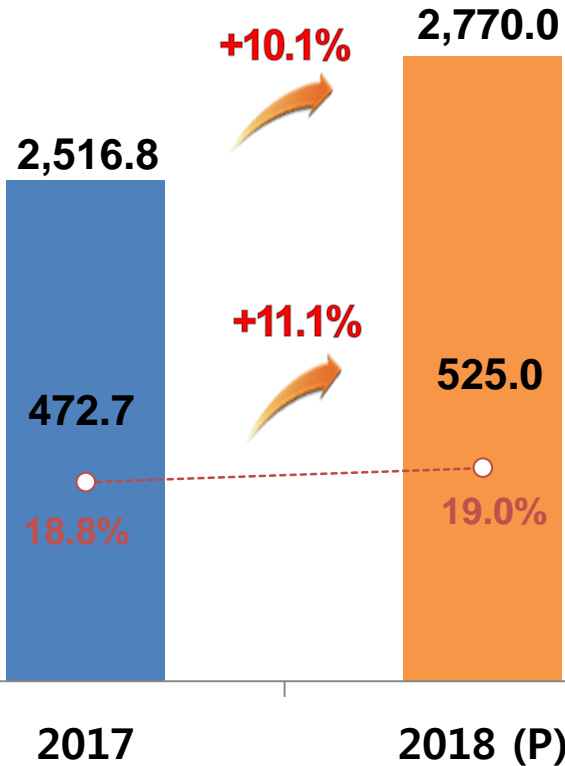
- ④ **Continued growth of door-to-door sales**
 - Increase productivity by enlarging top performing organizations
 - Increase BP settlement rate via operating companion programs

2-2. 2018 Revenue / Profits

Consolidated Revenue **+10.1%**, OP **+11.1%**, YoY

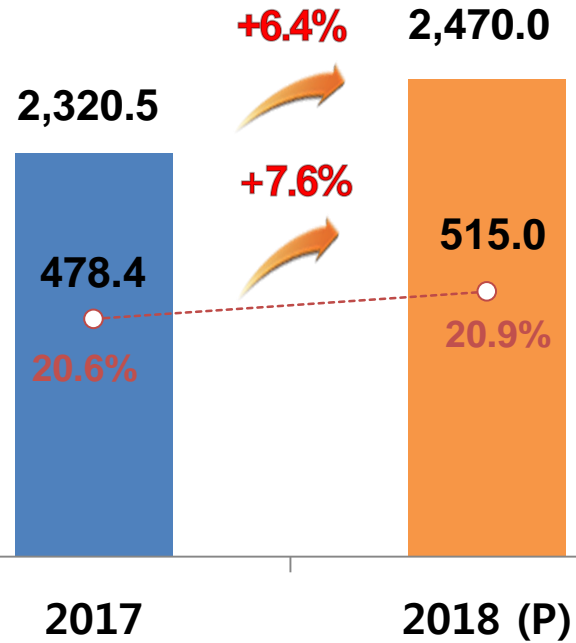
Consolidated base

[Unit: KRW bn/○ : Margin]



Non-consolidated base

[Unit: KRW bn/○ : Margin]

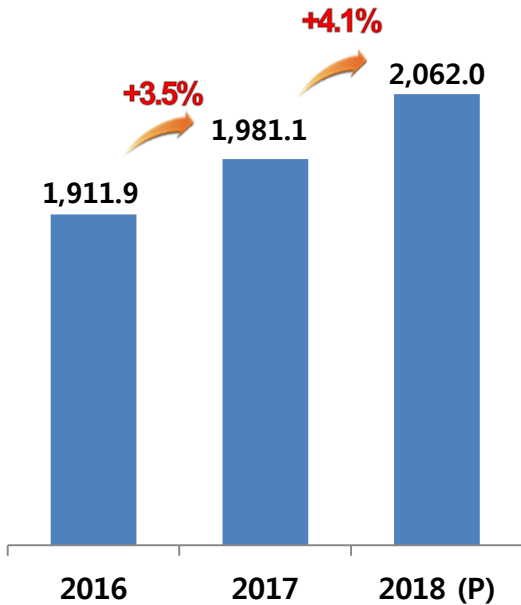


2-3. 2018 Revenue/ Key index – Health appliance business

Target rental net adds 375k, rental gross adds 1,539k

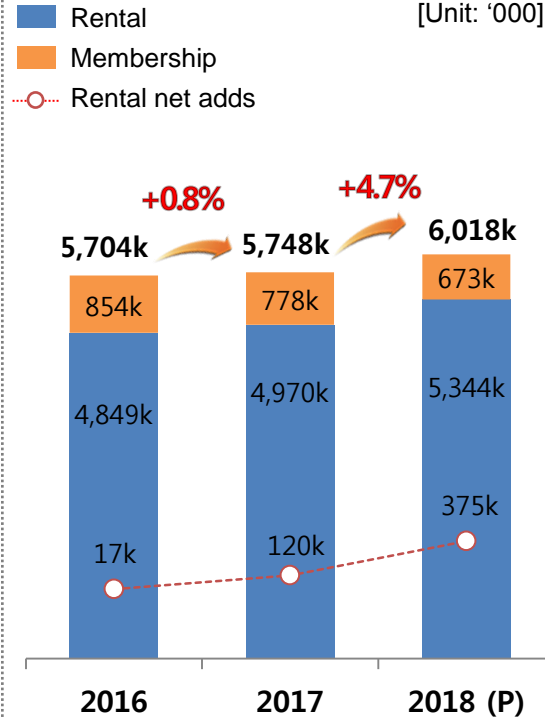
Revenue

[Unit: KRW bn]



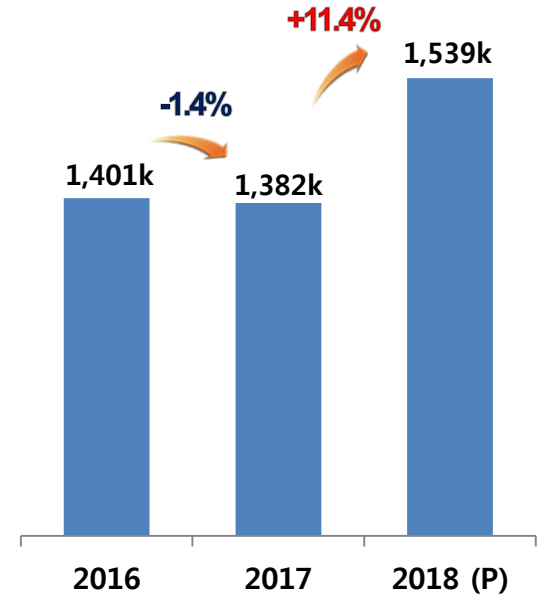
Accounts

[Unit: '000]



Rental gross adds

[Unit: '000]

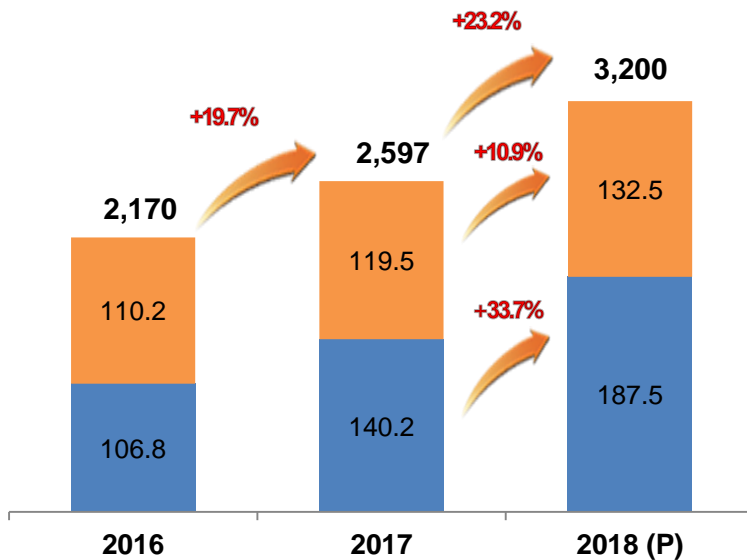


2-4. 2018 Revenue — Overseas & Cosmetics Business

Export Revenue KRW 320bn (+23.2 YoY)
 Cosmetics Revenue KRW 88bn (+10.3% YoY)

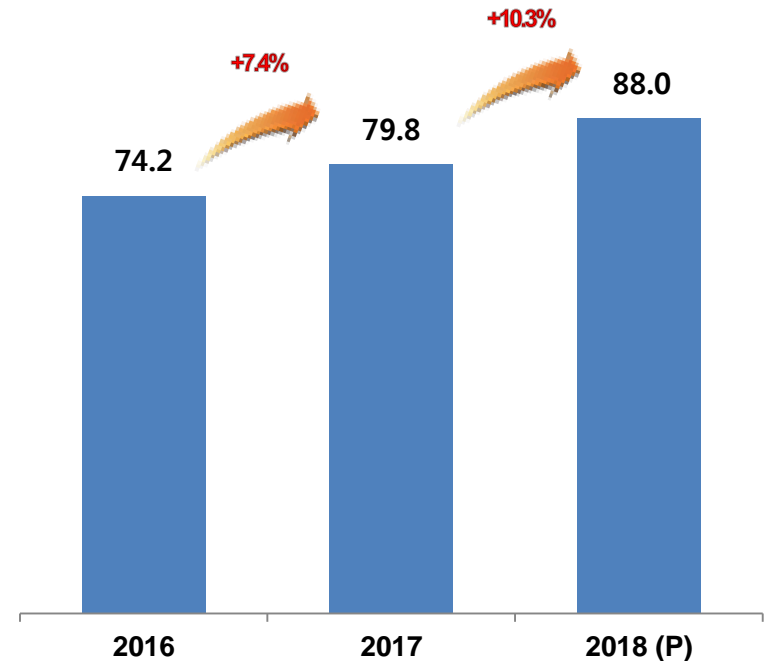
Export Revenue

■ ODM/Dealers [Unit: KRW bn]
■ Export to Subsidiaries



Cosmetics Revenue

[Unit: KRW bn]

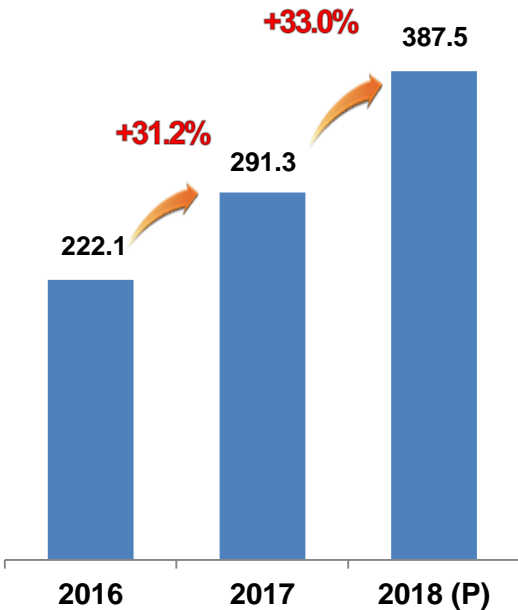


2-5. 2018 Revenue — Overseas Subsidiaries Business

Overseas Subsidiaries Revenue KRW 387.5bn (+33.0 YoY)
 Malaysia +36.9% YoY / U.S. +14.6% YoY

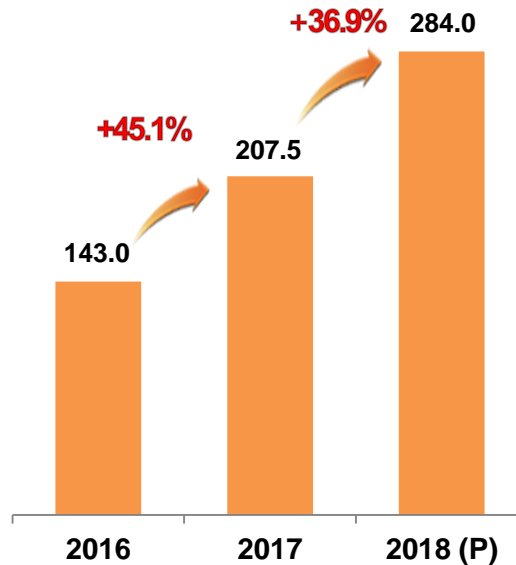
Overseas Subsidiaries

[Unit: KRW bn]



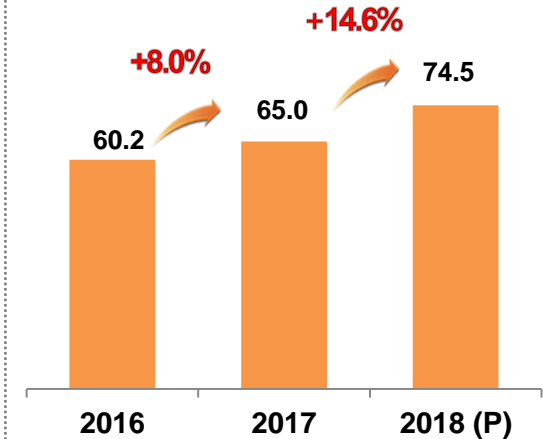
Malaysia

[Unit: KRW bn]



U.S.

[Unit: KRW bn]



APPENDIX

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

Non-consolidated financial reports

② Balance Sheet

(Unit: KRW bn)	Dec. '17	Dec. '16
<Assets>	2,150.4	1,972.6
Current Assets	774.3	777.5
Cash and cash equivalents	77.0	41.1
Accounts receivable	413.1	444.8
Inventories	44.6	46.5
Non-Current Assets	1,376.1	1,195.1
Fixed assets	603.0	590.9
Affiliates & Subsidiaries	180.8	84.5
Intangible assets	149.2	147.7
<Liabilities>	1,107.3	724.5
Current Liabilities	1,063.1	682.3
ST Borrowings	670.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
Non-Current Liabilities	44.2	42.3
LT Borrowings	-	-
Corporate bond	-	-
<Shareholders' Equity>	1,043.1	1,248.1
Debt to Equity Ratio	106.1%	58.0%
Net Debt to Equity Ratio	56.9%	23.9%

② Income Statement

(Unit: KRW bn)	4Q'17	4Q'16	YoY
Revenue	584.6	553.4	5.7%
COGS	201.1	184.0	9.3%
Gross profits	383.6	369.3	3.8%
SG&A	280.3	265.5	5.6%
Operating profits	103.2	103.8	-0.6%
Margin(%)	17.7%	18.8%	-1.1%P
Other income	2.3	11.9	-80.7%
Other expenses	19.5	-7.6	흑자전환
Financial income	0.1	0.2	-24.5%
Financial expenses	3.5	1.8	91.9%
Profit before tax	80.9	121.7	-33.5%
Corporate tax	26.3	29.5	-10.8%
Net income	54.6	92.2	-40.8%
Margin(%)	9.3%	16.7%	-7.3%P

Consolidated financial reports

② Balance Sheet

(Unit: KRW bn)	Dec. '17	Dec. '16
<Assets>	2,157.5	1,967.7
Current Assets	791.5	733.1
Cash and cash equivalents	110.3	66.3
Accounts receivable	314.6	292.8
Inventories	74.9	70.2
Non-Current Assets	1,366.1	1,234.6
Fixed assets	712.4	669.4
Intangible assets	183.9	183.0
<Liabilities>	1,175.3	784.4
Current Liabilities	1,124.8	735.4
ST Borrowings	670.0	340.0
Current portion of bonds	-	-
Current portion of LT borrowings	-	-
Non-Current Liabilities	50.5	49.0
LT Borrowings	12.3	11.8
Corporate bond	-	-
<Shareholders' Equity>	982.3	1,183.3
Debt to Equity Ratio	119.7%	66.3%
Net Debt to Equity Ratio	58.2%	24.1%

② Income Statement

(Unit: KRW bn)	4Q'17	4Q'16	YoY
Revenue	653.6	614.1	6.4%
COGS	215.6	213.5	1.0%
Gross profits	438.1	400.6	9.3%
SG&A	331.0	304.2	8.8%
Operating profits	107.1	96.4	11.1%
Margin(%)	16.4%	15.7%	0.7%P
Other income	6.4	13.0	-51.1%
Other expenses	20.9	4.4	371.1%
Financial income	0.3	0.3	-9.1%
Financial expenses	3.8	2.0	84.6%
Profit before tax	89.1	103.2	-13.7%
Corporate tax	27.4	25.6	7.3%
Net income	61.6	77.7	-20.6%
Margin(%)	9.4%	12.6%	-3.2%P

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

(Unit: KRW bn)	4Q'17	4Q'16	YoY	3Q'17	QoQ	2017	2016	YoY
Malaysia								
Revenue	59.8	42.4	40.9%	55.0	8.6%	207.5	143.0	45.1%
OP	7.0	2.2	218.4%	5.0	39.1%	17.4	6.7	160.2%
Margin	11.7%	5.2%		9.1%		8.4%	4.7%	
U.S.								
Revenue	18.6	15.2	22.8%	15.6	19.5%	65.0	60.2	8.0%
OP	-0.1	0.0	-	0.4	-	0.5	0.1	407.9%
Margin	-	0.1%		2.5%		0.7%	0.2%	
China								
Revenue	1.3	4.2	-70.1%	1.1	12.7%	6.4	14.0	-54.7%
OP	-0.9	-0.2	-	-0.8	-	-2.9	-0.8	-
Margin	-	-		-		-	-	
Thailand								
Revenue	3.7	1.2	206.4%	3.7	-0.0%	12.4	4.8	156.4%
OP	0.1	-0.4	-	0.1	9.6%	0.1	-1.2	-
Margin	3.2%	-		2.9%		1.0%	-	
Coway Entech								
Revenue	15.9	23.6	-32.5%	6.5	144.7%	45.8	37.0	23.6%
OP	1.5	4.0	-63.7%	-1.6	-	-0.9	3.6	-
Margin	9.2%	17.1%		-		-	9.8%	

Malaysia

- 4Q'17 Revenue KRW 59.8bn (+40.9% YoY, +8.6% QoQ), OPM 11.7%
: +43.5% YoY, +8.6% QoQ in local currency
- 2017 Revenue KRW 207.5bn (+45.1% YoY), OPM 8.4%
: +54.7% YoY in local currency
- Strong water and air purifier volume growth

U.S.

- 4Q'17 Revenue KRW 18.6bn (+22.8% YoY, +19.5% QoQ)
: +27.8% YoY, +21.6% QoQ in local currency
- 2017 Revenue KRW 65bn (+8.0% YoY)
: +10.8% YoY in local currency
- Revenue increased due to accounts growth and increase of retail channel sales

China

- 4Q'17 Revenue KRW 1.3bn (-70.1% YoY, +12.7% QoQ)
- 2017 Revenue KRW 6.4bn (-54.7% YoY)
- Due to weak air purifier sales in online channel

Thailand

- 4Q'17 Revenue KRW 3.7bn (+206.4% YoY, -0.0% QoQ)
- 2017 Revenue KRW 12.4bn (+156.4% YoY)
- Water purifier sales increased due to introduction of new rental system

Coway Entech

- 4Q'17 Revenue KRW 15.9bn (-32.5% YoY, +144.7% QoQ)
- 2017 Revenue KRW 45.8bn (+23.6% YoY)
- Revenue increased due to new orders