



Third-Quarter 2018 Analyst Briefing

3Q 2018: Key Financial Metrics

(KRW in Billions)

	3Q 2018	3Q 2017	YoY Variance		2Q 2018	QoQ Variance	
Revenue	1,420	1,339	+81	+6.0%	1,518	-99	-6.5%
Gross Profit	198	217	-19	-8.6%	221	-23	-10.3%
Margin (%)	14.0%	16.2%			14.6%		
SG&A (Incl R&D)	116	116	0	0.0%	120	-4	-3.2%
% of Sales	8.2%	8.7%			7.9%		
EBITDA	149	152	-3	-1.7%	165	-15	-9.4%
Margin (%)	10.5%	11.3%			10.9%		
Operating Profit	82	101	-19	-18.6%	101	-19	-18.7%
Margin (%)	5.8%	7.5%			6.6%		
Net Income	55	76	-21	-27.3%	73	-17	-23.9%
Margin (%)	3.9%	5.7%			4.8%		

Sales Up on EV and diverse customers; OPM Down due to Depreciation and Unfavorable Product Mix

YTD 3Q 2018: Key Financial Metrics

(KRW in Billions)

	YTD 3Q 2018	YTD 3Q 2017	YoY Variance	
Revenue	4,325	4,161	+164	+3.9%
Gross Profit	631	673	-42	-6.2%
Margin (%)	14.6%	16.2%		
SG&A (Incl R&D)	353	342	+11	+3.1%
% of Sales	8.2%	8.2%		
EBITDA	474	480	-5	-1.1%
Margin (%)	11.0%	11.5%		
Operating Profit	278	331	-53	-15.9%
Margin (%)	6.4%	7.9%		
Net Income	194	220	-26	-11.8%
Margin (%)	4.5%	5.3%		

OPM Declines due to Depreciation, One-offs (2Q) and Unfavorable Product Mix

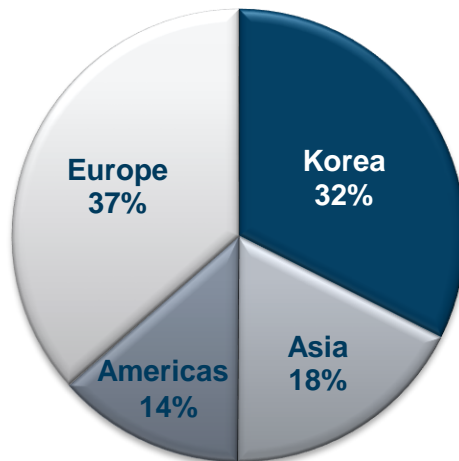
3Q 2018 Highlights

3Q 2018 Highlights

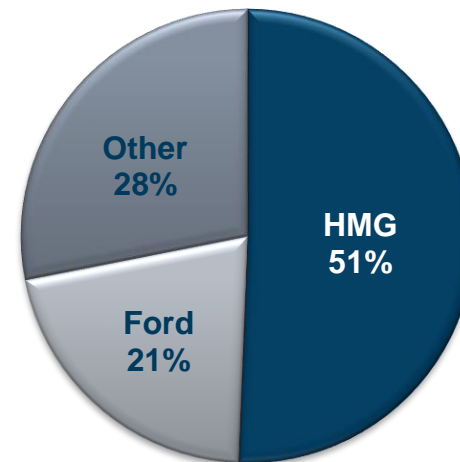
- ✓ Revenue increased on HMG, CAOEM and others; Revenue to Ford and VW declined
- ✓ 3Q EV sales was 8.7% of total revenue on successful ramp-up of an EV model
- ✓ New business wins consistent with annual guidance; EV orders are is 69% of New Wins

YTD 3Q18 Sales Breakdown

By Region



By Customer

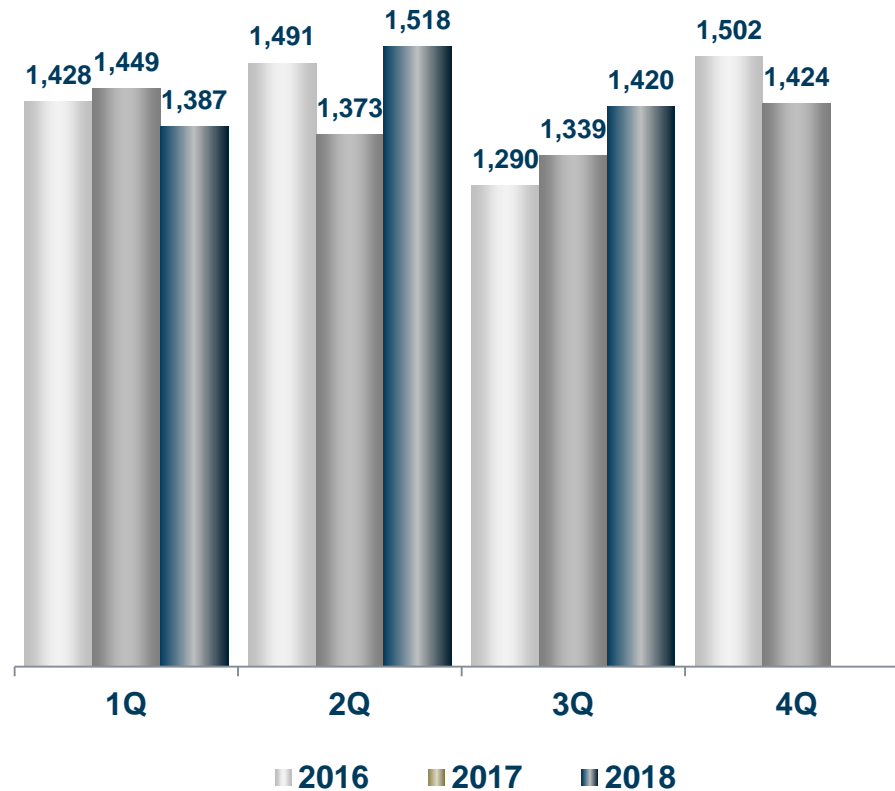


- Ford: Incl. Changan Ford & Ford Otosan

Quarterly Sales

Consolidated Sales

(KRW in Billions)



Comments

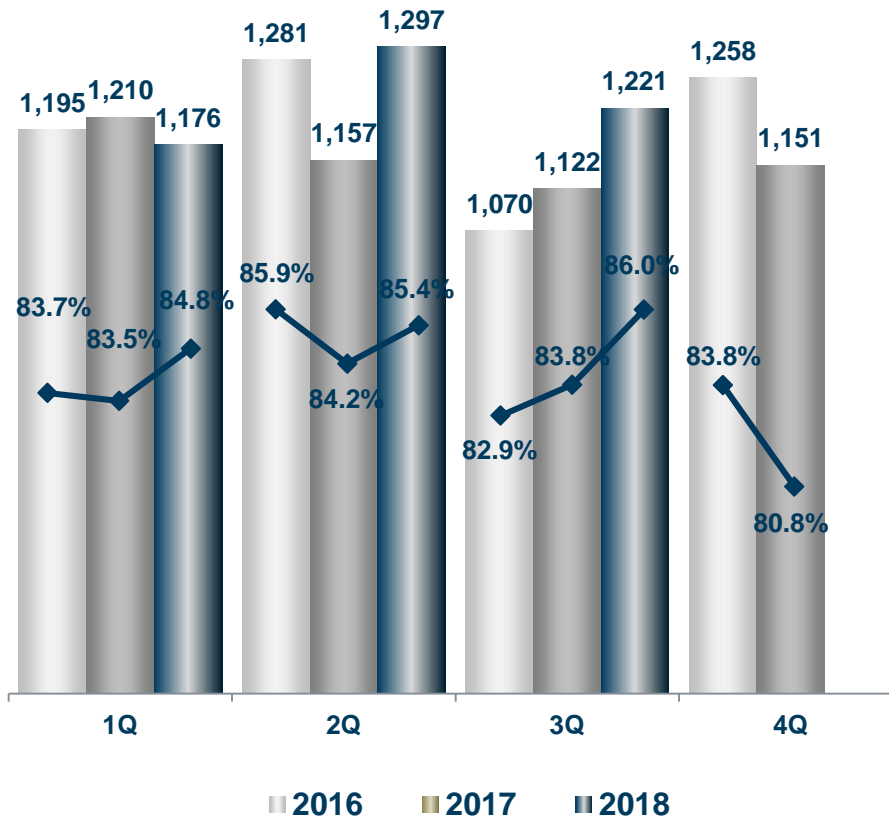
- Record high revenue as 3Q
- 3Q18 EU revenue flat on production delay due to WLTP. 3Q YTD EU revenue growth is 9.6%.
- 3Q18 China revenue up by 6% on low base of 3Q17; still 16% lower than 3Q16
- Sales to Ford down by 15% driven by Changan Ford; Sales to VW down 18% on production delay due to WLTP
- Sales to CAOEM is up by 60% on production volume increase
- Revenue to HMG is up by 10% on low base and SUV
- Sales to diverse customers (outside top 4 customers) is up by 16%

3Q revenue is up 6% on EV growth and diverse customers

Quarterly COGS

Quarterly Cost of Goods Sold

(KRW in Billions, % of sales)



Comments

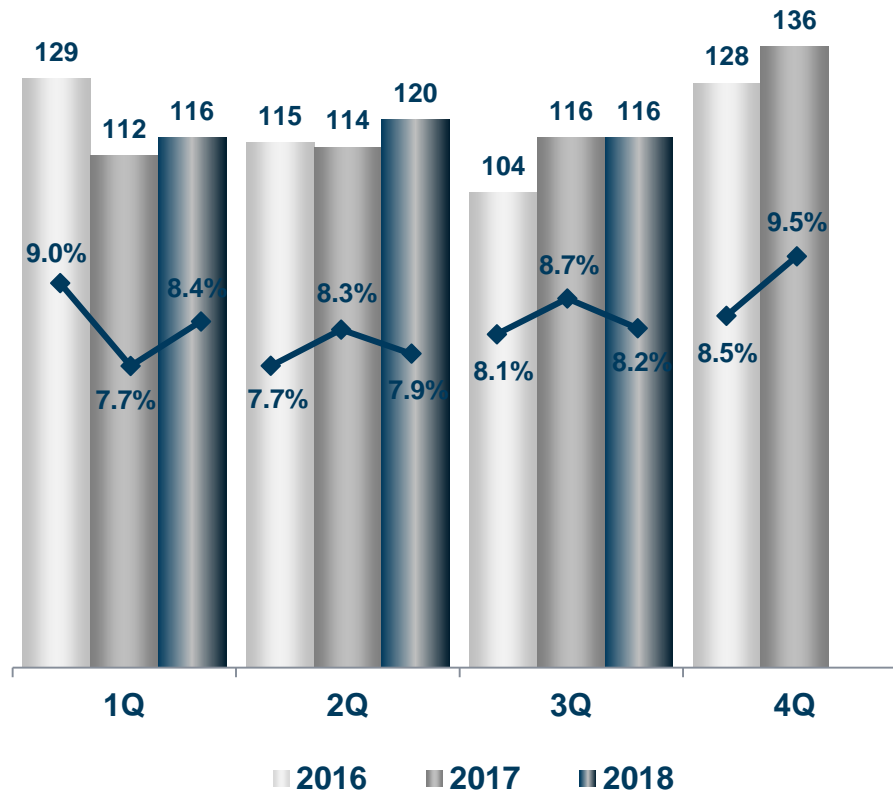
- Positive factors:
 - ✓ European profitability improves on a diverse customer base
- Negative factors:
 - ✓ D&A net increase: 6 bW
 - ✓ China utilization remains low
 - ✓ Eco-products are still lagging in profitability

3Q18 GPM Declines due to Depreciation, China and Unfavorable Product Mix

Quarterly SG&A

Quarterly SG&A Status

(KRW in Billions, % of sales)



Comments

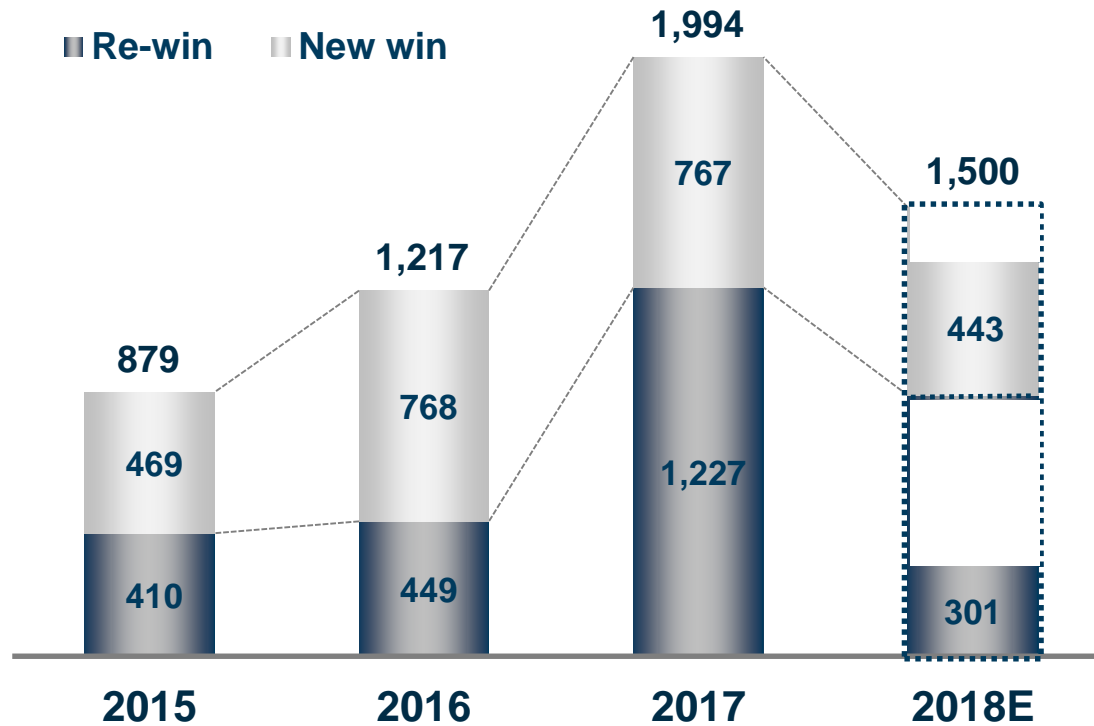
- 3Q18 SG&A spending on revenue remains at a stable level
- 3Q18YTD R&D spending: 5.0% of total revenue (+0.9%p YoY)

3Q18 SG&A Spending Remains at a Stable Level

New Business Wins Update

YTD 3Q18 New Business Wins

(USD in Millions)



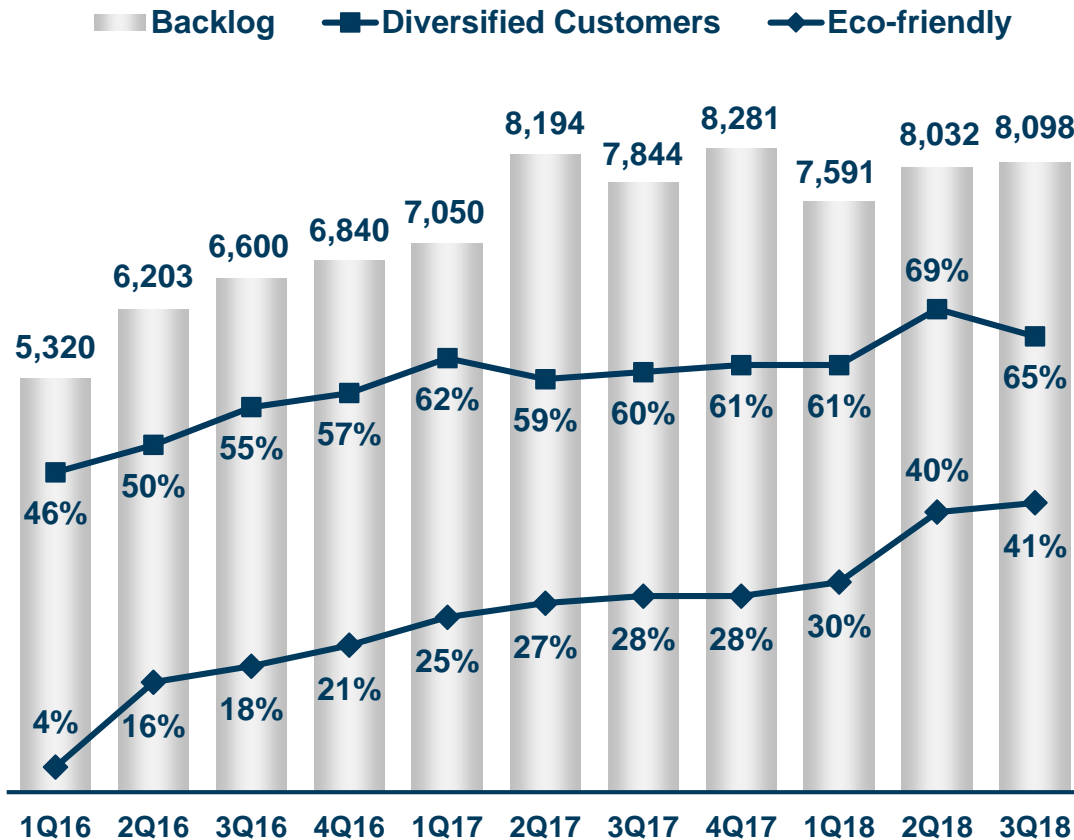
- New business wins represents average annual revenue (in USD million)
- Orders from diversified customers account for 74% of YTD 3Q18 new wins
- Eco-friendly vehicle orders account for 69% of YTD 3Q18 new wins

Eco-friendly	2015	2016	2017	2018E
	5%	35%	36%	69% (YTD 3Q18)

Backlog Status Update

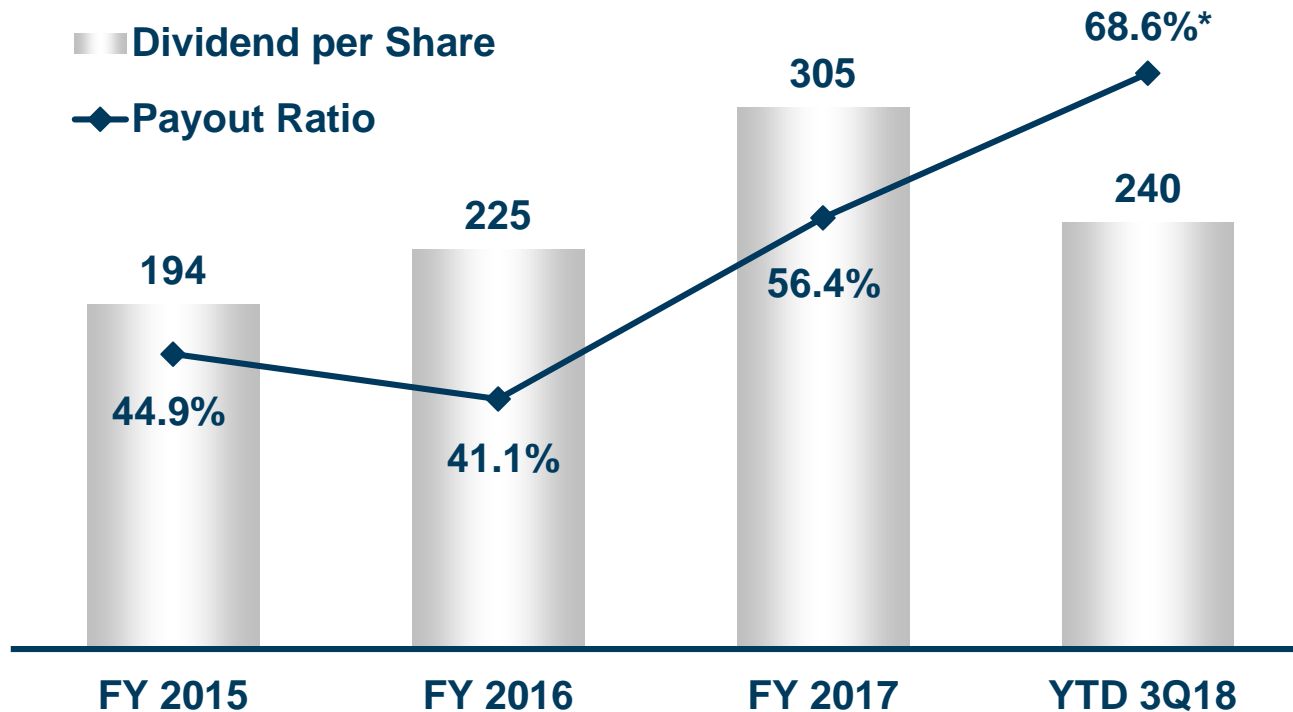
3Q18 YTD Backlog (New Wins Only)

(USD in Millions)



- Backlog: defined as cumulative revenue for expected lifecycle of awards before start of production
- Orders from diversified customers account for 65% of backlog
- Eco-friendly vehicle orders account for 41% of backlog

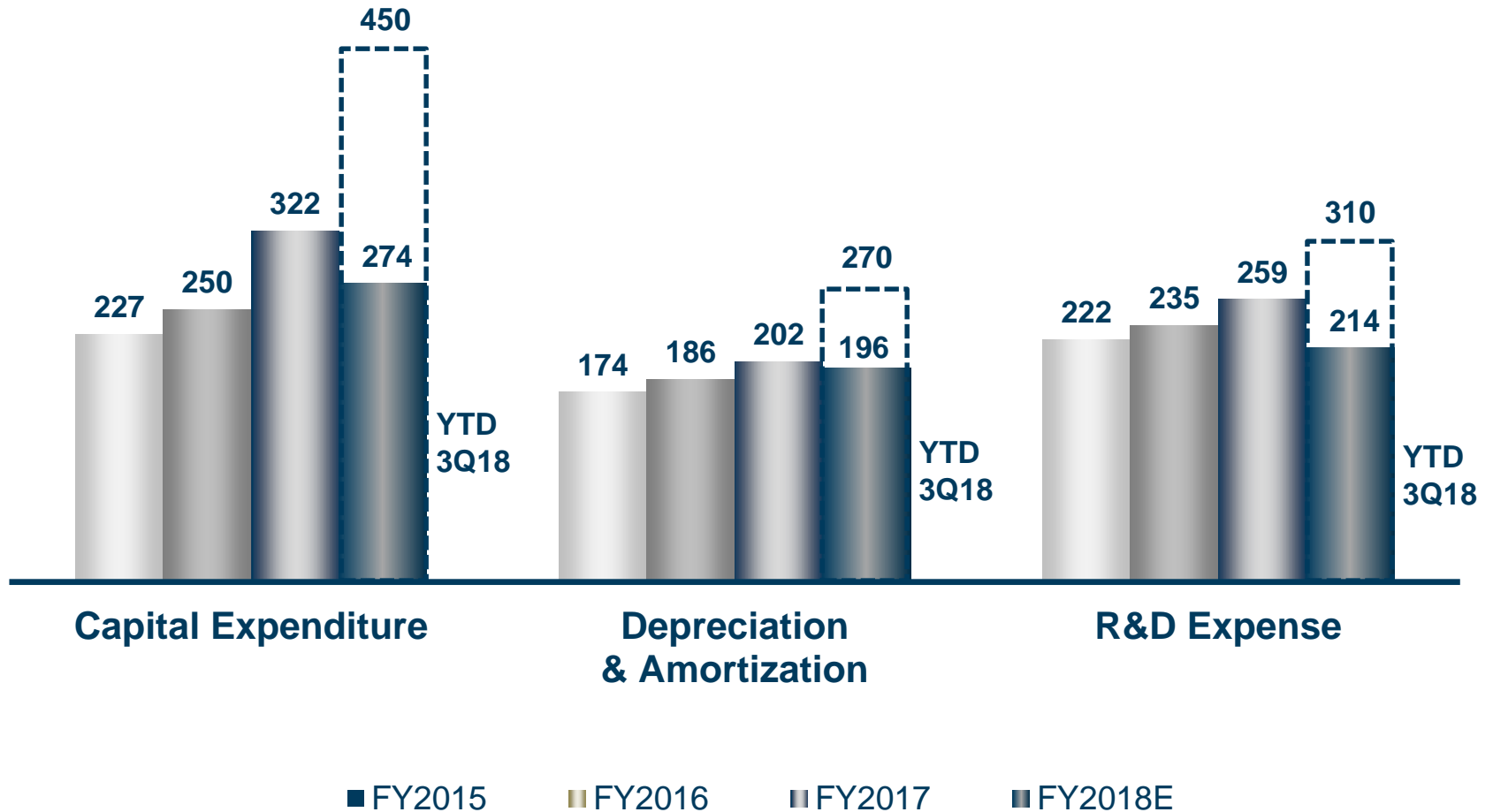
3Q18 Quarterly Dividends: 80 KRW per share



* Based on net income per share of YTD 3Q18

YTD 3Q18 Dividend Increases by 6.7%YoY

Trend of CapEx, D&A and R&D Expense



CapEx, D&A and R&D Spending Rise Following Strong Order Intake

3Q 2018 Balance Sheet

(K-IFRS / KRW in Billions)

Balance Sheet

	Q3E 2018	YE 2017
Cash and cash equivalent	524	567
Account receivable	1,014	972
Inventories	488	469
Property and equipment	1,339	1,262
Intangible assets	510	438
Lease assets	168	-
Other assets	470	412
Total assets	4,512	4,120
	-	-
Account payable	1,095	1,045
Debt	824	757
Other liabilities	510	286
Sharers' equity	2,002	1,979
Non-controlling	81	53
Total liabilities & shareholders' equity	4,512	4,120

Cash and Debt

Cash Balance	Q3E 2018	YE 2017
Net Debt	301	190
Net Debt Ratio	14.4%	9.3%
Debt to Equity	39.6%	37.3%

- 'Debt' and 'Net Debt' of Q3E does not include Lease Debt (KRW 170b).

Leverage	Q3E 2018	YE 2017
Last 12M EBITDA	664	670
Debt / EBITDA	124.1%	113.0%
Net Debt / EBITDA	45.3%	28.3%

Balance Sheet is Ready to Raise gear for FP&C acquisition

Update On FP&C Acquisition

Timeline	Activities
Sept 20, 2018	Announcement of FP&C purchase agreement
Oct 1, 2018	Hanon Systems Corporate Day
Oct 2018 ~Feb, 2019	PMI Steering Committee (Monthly)
Nov 30, 2018	Issue of Corporate bonds
Dec 31, 2018	Finalize Funding & Hedging for buyout
Jan~Feb, 2019	Pre-purchase activities (legal, accounting, tax, HR)
Mar, 2019	Stock/Asset Transfer
2Q 2019	Consolidation begins between Hanon Systems and FP&C

Guidance for 2018

(KRW in Billions)

	2018 Guidance	
	New	Previous
Revenue	5,900	5,900
EBITDA	700 ~ 710	750
Operating Profit	430 ~ 440	480
Capital Spending	450	450

3Q 2018 Earnings Release Summary

- Revenue increased on EV and diverse customers despite revenue to a couple of major customers declined on China and WLTP disruption.
- Revenue related to eco-friendly vehicles is 8.7% in 3Q18 as the revenue from CAOEM jumped on the mass-produced EV model.
- However, product mix was not favorable for profitability as two major customers' revenue declined by double-digit.
- NBW is on track to yearly target and 69% of New Wins are for eco-friendly.
- 2018 yearly earnings guidance is lowered due to unexpectedly slow 3Q results, yet 4Q earnings is likely to end in a high note on rollover volume from 3Q, new programs in Europe and more working days in Korea.
- FP&C acquisition is on track to finalize within 1Q19.

Guidance for 2019

(KRW in Billions)

	2019 Guidance	
	w/o FP&C	with FP&C
Revenue	6,200	7,500
EBITDA	810	940
Operating Profit	480	540
Capital Spending	400 ~ 450	450 ~ 500

- 2018 Guidance with FP&C includes transaction expenses as well as one-time separation and standalone costs such as IT separation, which are estimated to be KRW 35bn in total.

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Thank You

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