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2Q 2019 Earnings Release

Aug 13, 2019

Disclaimer

Hanon Systems does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Any information expressed herein on this date is for understanding purposes before the audit, and may be subject to change without notice.

2Q 2019: Key Financial Metrics

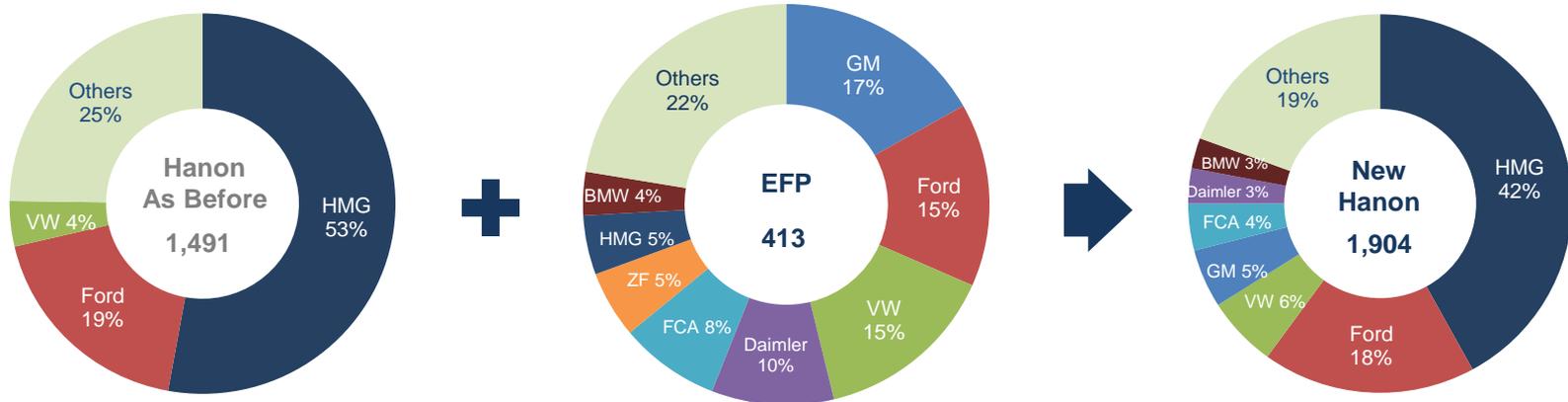
(KRW in Billions)

	2Q19	2Q18	YoY %	1Q19	QoQ %
Revenue	1,904	1,518	+25.4%	1,429	+33.2%
COGS	1,642	1,297	+26.6%	1,228	+33.7%
% of Sales	86.3%	85.4%		85.9%	
SG&A (Incl R&D)	150	120	+24.4%	108	+39.0%
% of Sales	7.9%	7.9%		7.5%	
EBITDA	212	165	+28.8%	165	+28.4%
Margin (%)	11.2%	10.9%		11.6%	
Operating Profit	112	101	+11.4%	93	+20.1%
Margin (%)	5.9%	6.6%		6.5%	
Net Income	71	73	-2.4%	57	+25.8%
Margin (%)	3.7%	4.8%		4.0%	

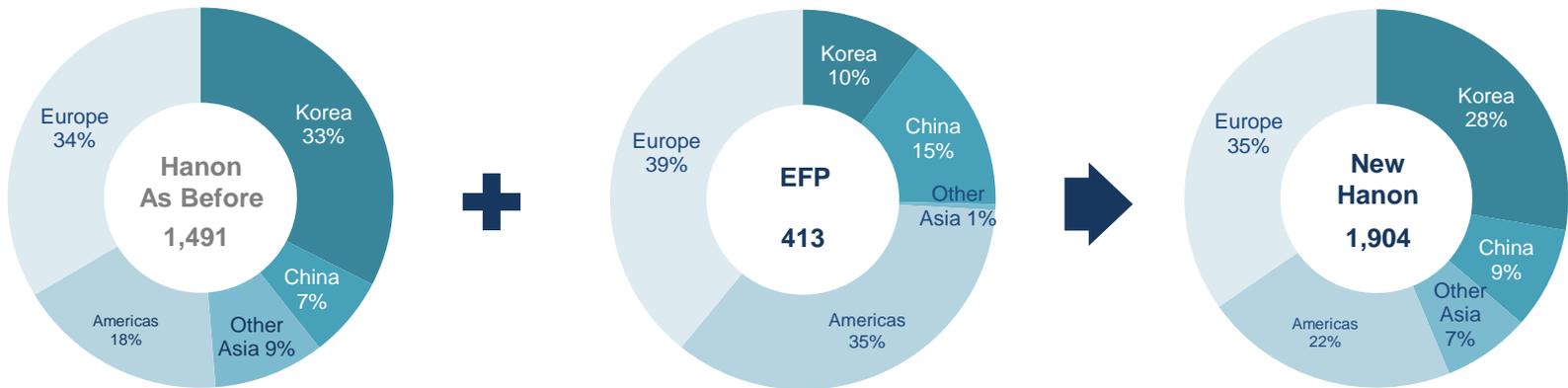
Revenue and EBITDA Jump thanks to EFP; Adjusted-OPM 6.5% before PPA

Customer/Region Mix

2Q19 Sales by Customer with EFP



2Q19 Sales by Region with EFP



(KRW in Billions)

D&A Schedule

■ D&A on PPA (Purchase Price Allocation) after EFP acquisition

(KRW in Billions)	1Q19	2Q19	3Q19E	4Q19E	2019E
D&A — Hanon as before	72	75	83	95	325
D&A — EFP ordinary	-	17	17	17	52
D&A — EFP PPA	-	8	8	8	23
Total D&A of combined entity	72	100	108	120	400
EFP inventory impairment (as a part of PPA, one-time cost)	-	4	-	-	4

D&A on PPA Will Continue for 10 Years, But Will Not Impact EBITDA and Cash Flow

1H 2019: Key Financial Metrics

(KRW in Billions)

	1H 2019	1H 2018	YoY Variance	
Revenue	3,333	2,905	+428	+14.7%
Gross Profit	463	432	+30	+7.0%
Margin (%)	13.9%	14.9%		
SG&A (Incl R&D)	257	236	+21	+8.7%
% of Sales	7.7%	8.1%		
EBITDA	378	325	+53	+16.4%
Margin (%)	11.3%	11.2%		
Operating Profit	206	196	+10	+5.0%
Margin (%)	6.2%	6.7%		
Net Income	128	138	-11	-7.8%
Margin (%)	3.8%	4.8%		

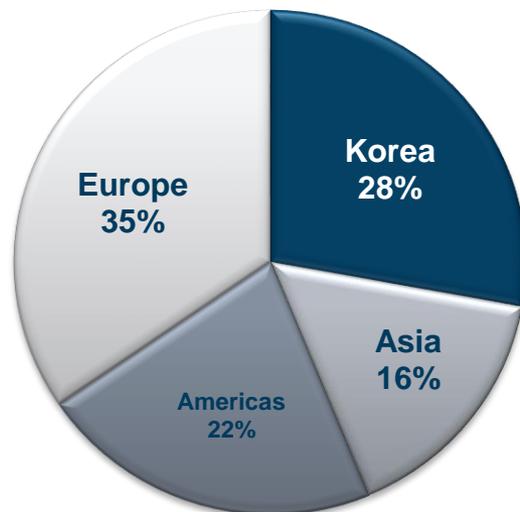
One-time Impacts in Non-OP are 32.0 bW in 1H19, Which Cover Most of M&A Related Costs

2Q19 Highlights

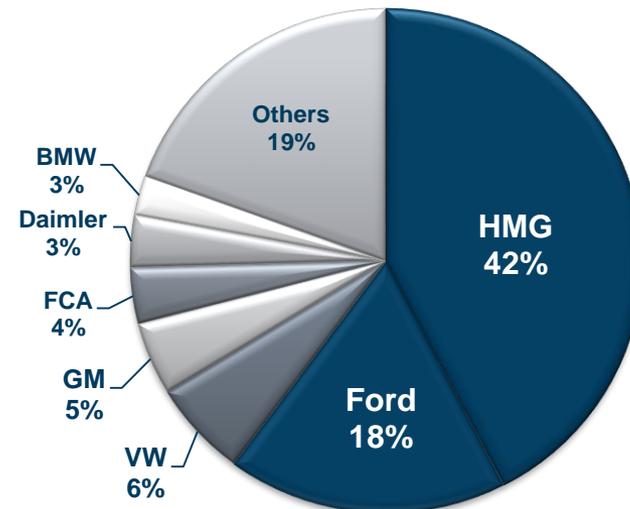
- ✓ Revenue and EBITDA jump on EFP; Adj-OPM is 6.5% before PPA
- ✓ Customer diversification accelerates with EFP; Largest customer accounts for 42%
- ✓ Eco-friendly/Electrified revenue jumps to 13% on EFP consolidation

Sales Breakdown (2Q19 Only)

By Region



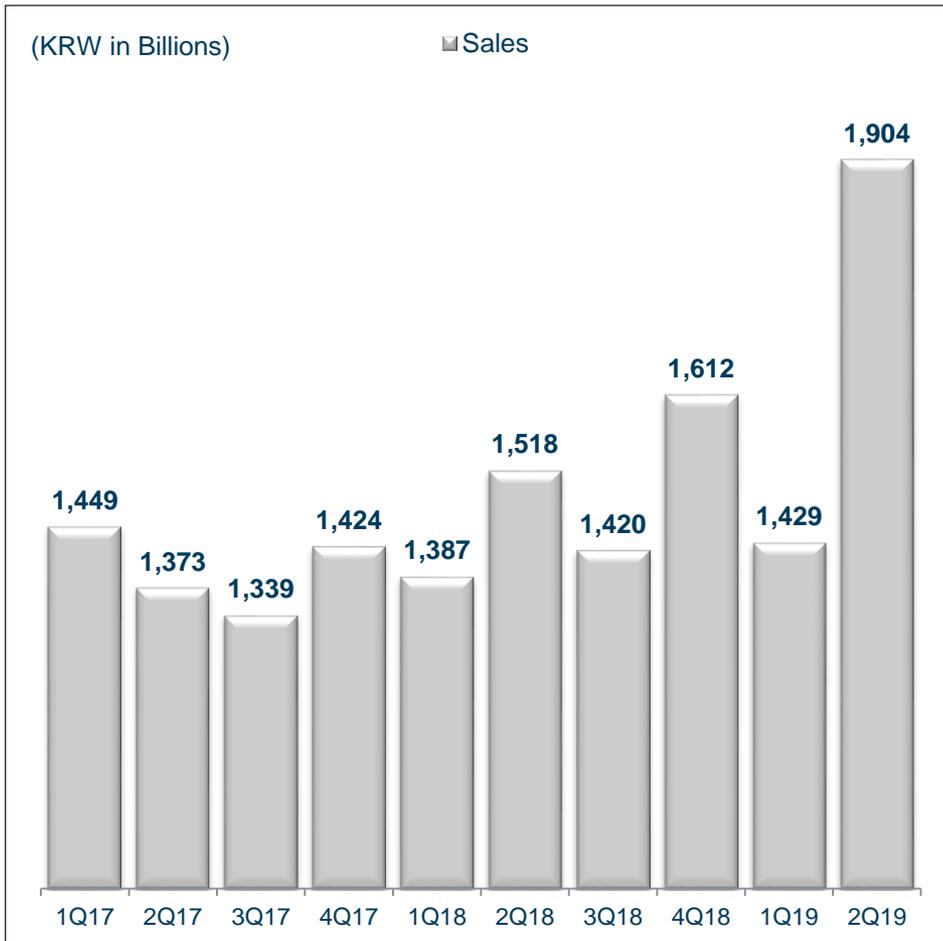
By Customer



• Ford: Incl. Changan Ford & Ford Otosan

Quarterly Sales

Consolidated Sales



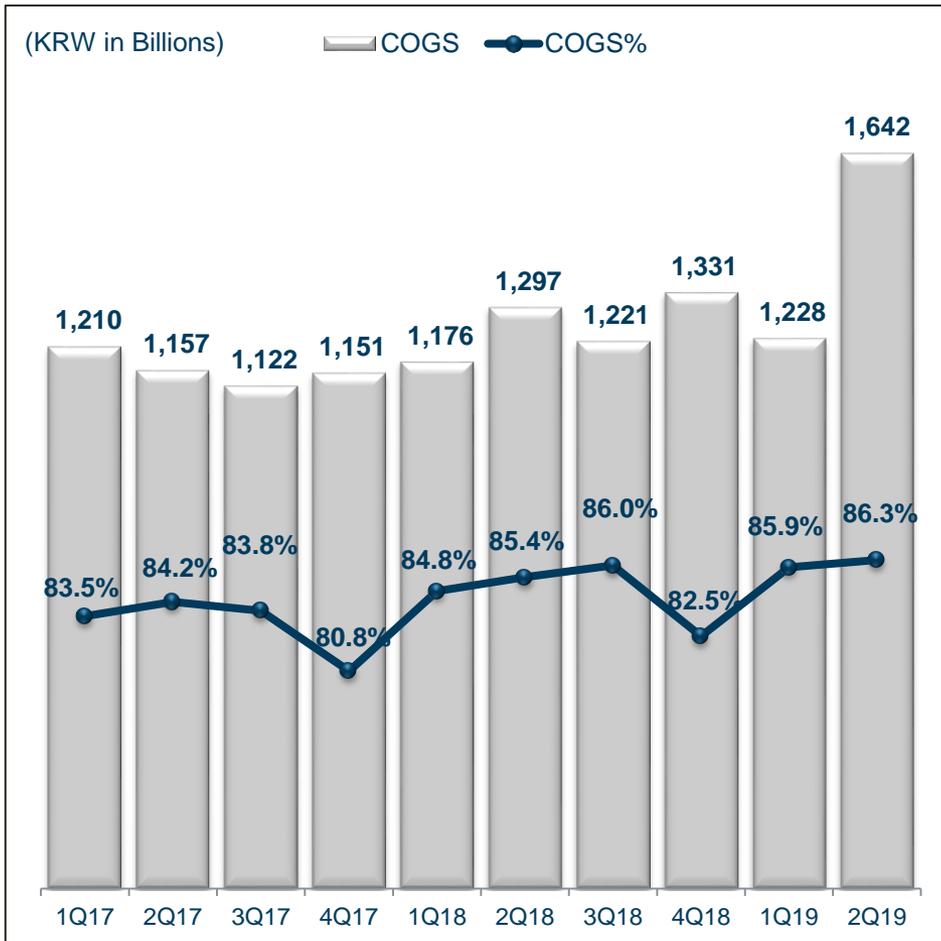
Comments

- 2Q19 Americas, Europe and Korea revenue up by 86%, 24% and 15%, respectively with E&FP consolidation
- 2Q19 China revenue remained flat after EFP consolidation while Hanon-as-before China revenue declined by 38%
- GM (+400%), Daimler(+360%), FCA (+120%), Renault (+100%) become sizable customers thanks to EFP
- 2Q19 HMG and Ford revenue increase by 8% and 11%, respectively
- 2Q19 CAOEM revenue solely decreases by 13% on mix change

2Q Revenue is up 25% on EFP Consolidation

Quarterly COGS

Quarterly Cost of Goods Sold

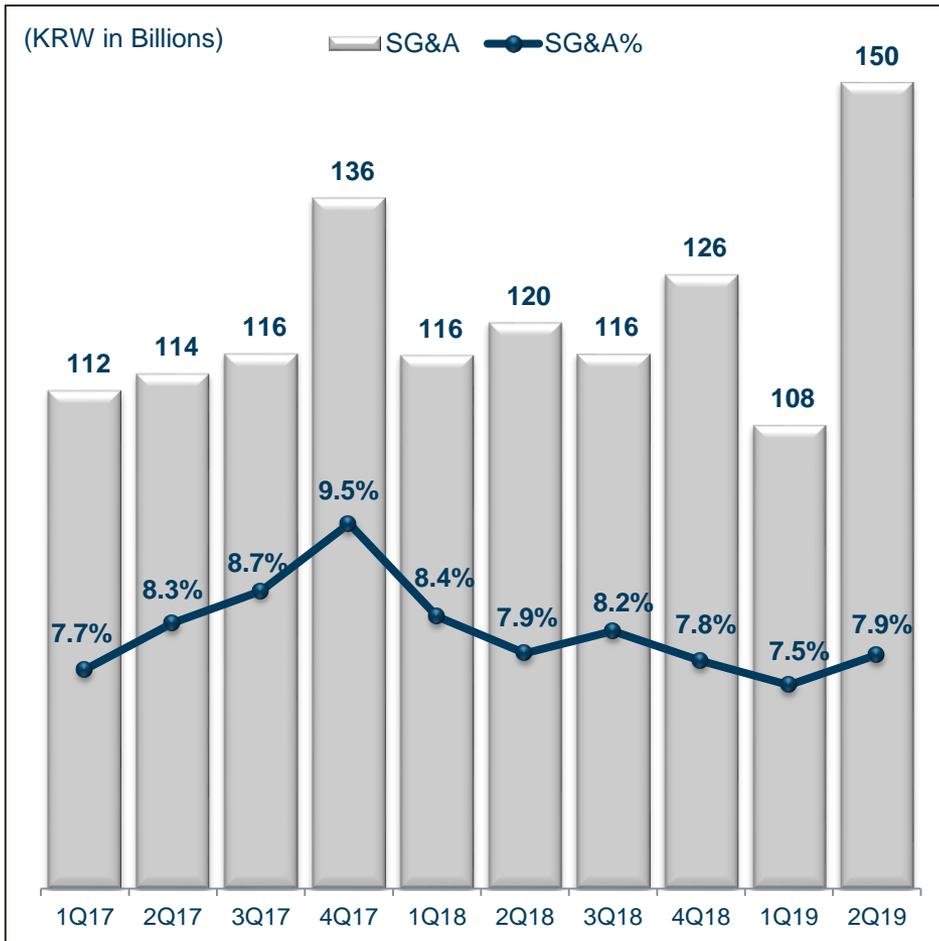


Comments

- Positive factors:
 - ✓ EFP shows strong profitability on higher portions of electrified components and diverse customer base
 - ✓ Hanon-as-before improves margins in Europe and Americas by cost cutting and restructuring
- Negative factors:
 - ✓ Weak volume in China
 - ✓ 2Q19 D&A 100 bW (+56% YoY)

Gross Profit Margin In-line Despite Weak China Volume

Quarterly SG&A Status



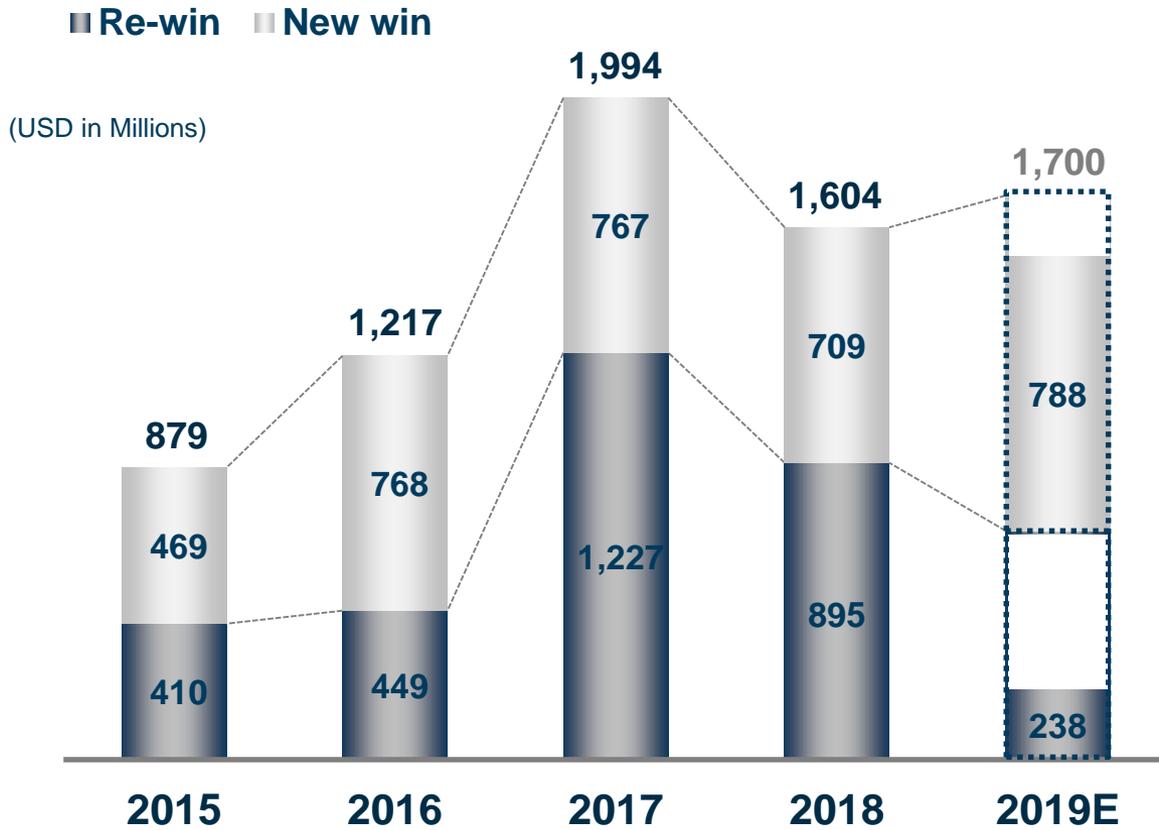
Comments

- 2Q19 SG&A spend: 7.9% of total revenue (flat YoY)
- 2Q R&D spend: 4.9% of total revenue(-0.2%p YoY)
- One-off transaction costs for EFP acquisition of 32 bW is reflected as non-operational expenses in 1H19, which covers most of acquisition costs.

Maintaining SG&A Spending at Previous Level

New Business Wins Update

July YTD 2019 New Business Wins



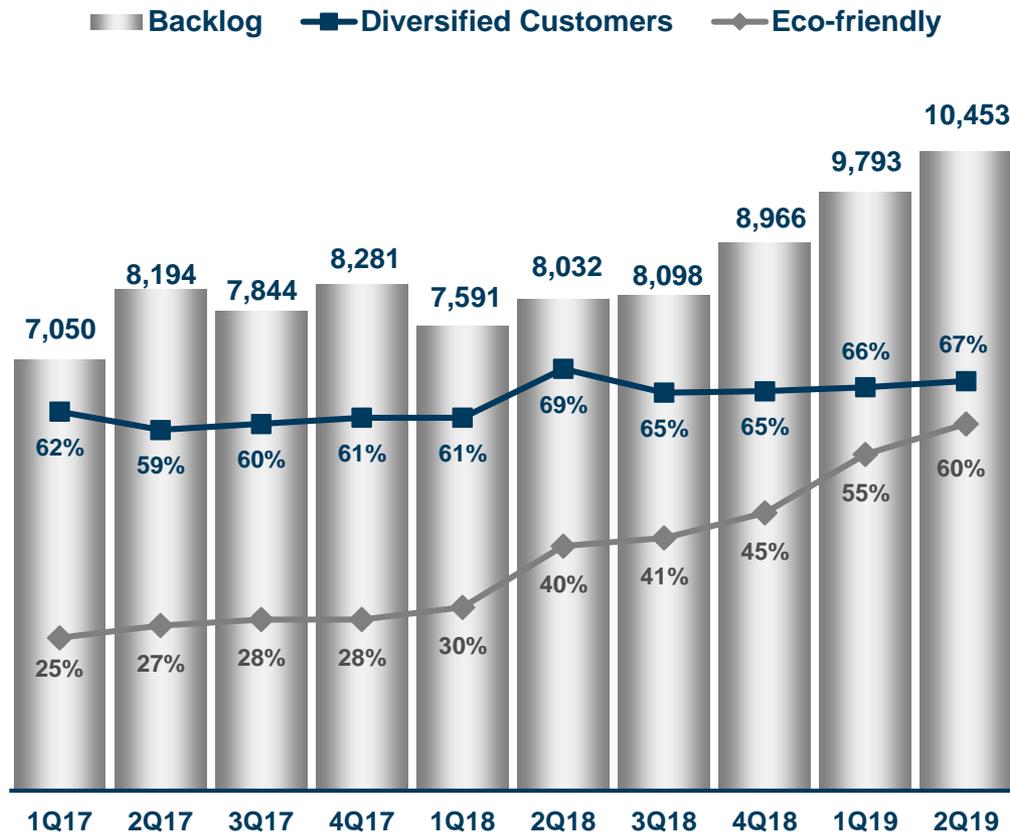
- New business wins represents average annual revenue (in USD million)
- Orders from diverse customers account for 49% of July YTD 2019 new wins
- Eco-friendly orders account for 78% of July YTD 2019 new wins

Eco-friendly	2015	2016	2017	2018	2019E
	5%	35%	36%	63%	78% (July YTD 2019)

Backlog Status Update

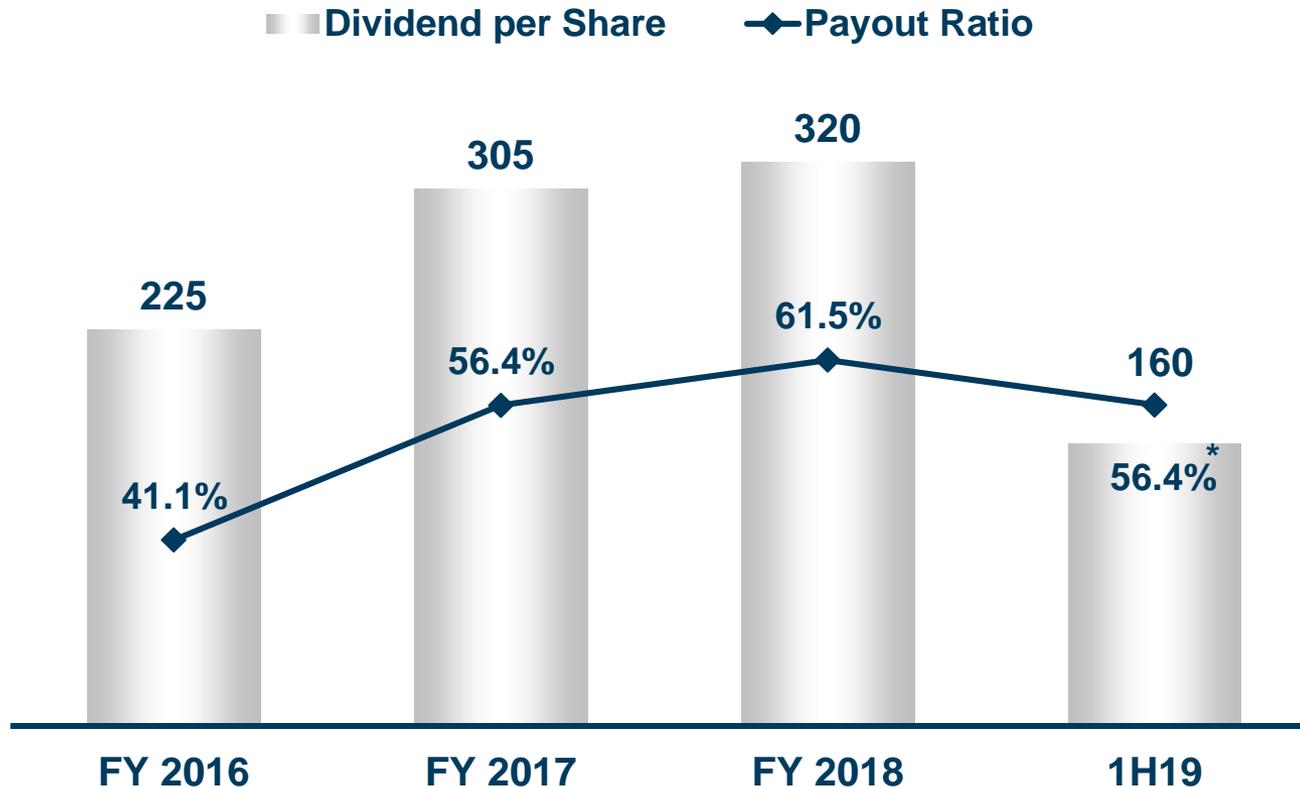
2Q 2019 Backlog (New Wins Only)

(USD in Millions)



- Backlog: defined as cumulative revenue for expected lifecycle of awards before start of production
- Orders from diverse customers account for 67%
- Eco-friendly orders account for 60%

2Q19 Quarterly Dividend: 80 KRW per share



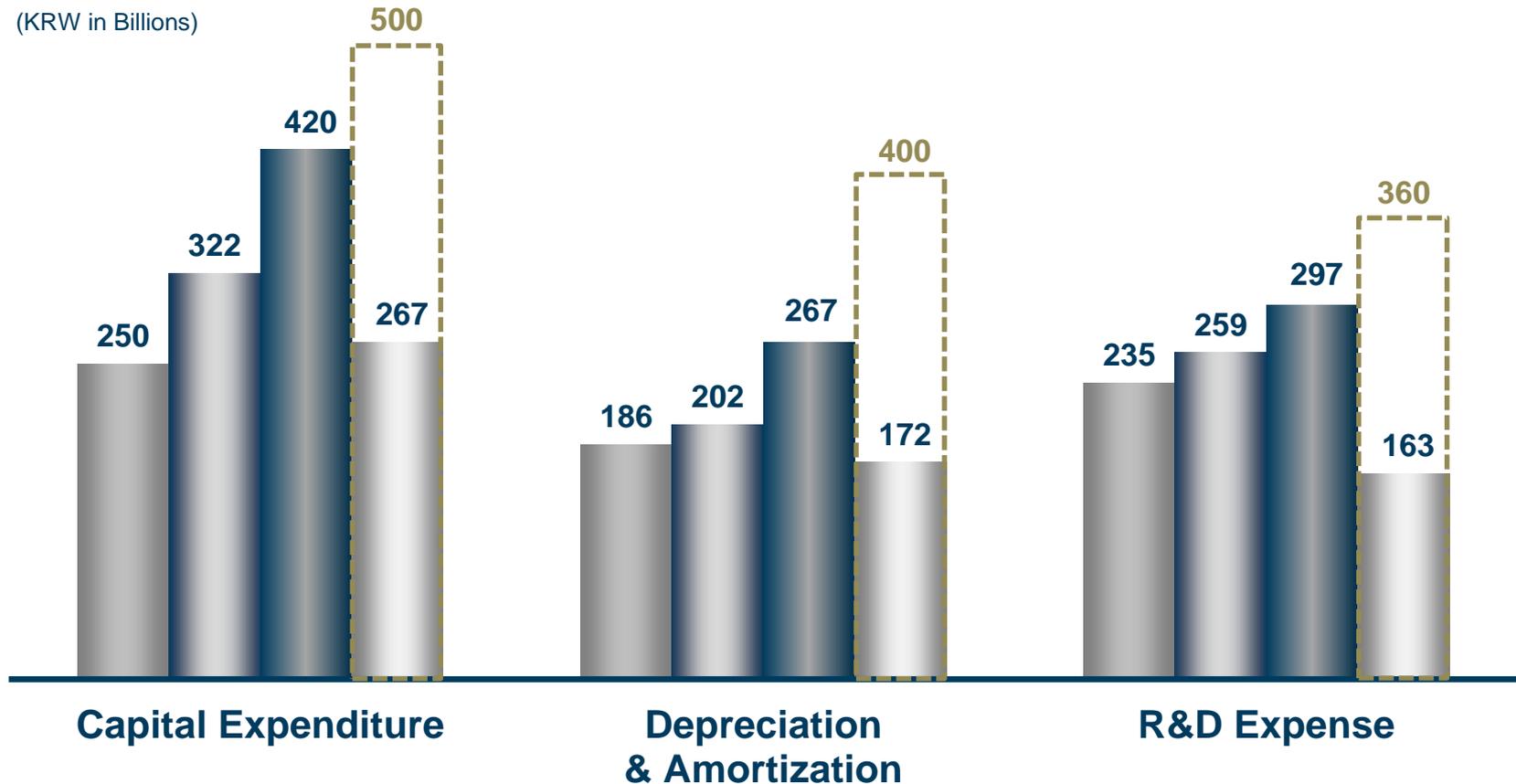
* Based on adjusted net income per share of 1H19

Maintaining Quarterly Dividend at Previous Level

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

■ FY2016 ■ FY2017 ■ FY2018 ■ FY2019

(KRW in Billions)



* FY2019 guidance includes EFP

CapEx, D&A and R&D Spend On-track to Meet Full-Year Target

Guidance for 2019

(KRW in Billions)

	2019 Guidance	
	New	Previous
Revenue	7,100	7,500
EBITDA	900	940
Operating Profit	500	540
Capital Spending	500	500

2Q19 Balance Sheet

(K-IFRS / KRW in Billions, x times)

Balance Sheet

	Jun 2019	Dec 2018	Dec 2017
Cash and cash equivalent	575	1,018	567
Account receivable	1,396	1,021	972
Inventories	720	506	469
Property and equipment	2,061	1,551	1,262
Intangible assets	1,465	564	438
Lease assets	224	181	-
Other assets	611	515	412
Total assets	7,052	5,356	4,120
Account payable	1,410	1,215	1,045
Debt	2,828	1,672	757
Other liabilities	562	337	286
Sharers' equity	2,135	2,037	1,979
Non-controlling	117	95	53
Total liabilities & shareholders' equity	7,052	5,356	4,120

Cash and Debt

Cash Balance	Jun 2019	Dec 2018	Dec 2017
Net Debt	2,252	654	190
Net Debt Ratio	1.0x	0.3x	0.1x
Debt to Equity	1.3x	0.8x	0.4x

- 'Debt' and 'Net Debt' **INCLUDE** Lease Debt in E2Q19 and YE2018 (KRW 218b, KRW 177b) respectively due to the change of KIFRS 1116.

Leverage	2019E	2018	2017
EBITDA	900*	701	670
Debt / EBITDA	3.1x	2.4x	1.1x
Net Debt / EBITDA	2.5x	0.9x	0.3x
EBITDA / Net Interest Expenses	12.6x	39.7x	60.2x

* 2019 EBITDA guidance

Net Debt Increases Due To Acquisition; EBITDA Coverage Ratio still Robust



Business Updates

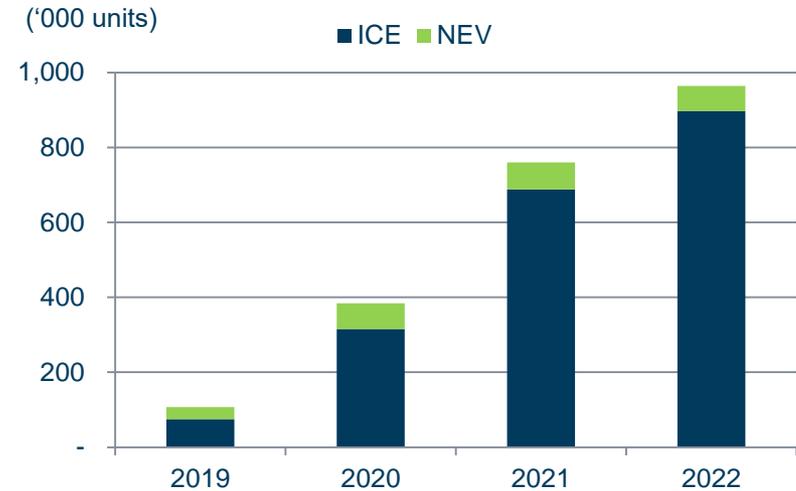
China JV Update – w/ ChangAn Group

Chongqing JV Plant goes on-line

- Product: Variable compressor, PHEV A/C systems
- Volume: Approx.900k/y in 2022
- Customers: ChangAn and GWM



JV Production Volume Projection



Vehicle Line-up



< ChangAn Eado XT >



< ChangAn CS75 PHEV >



< GWM Way >



< TBD >

(Source: Google image)

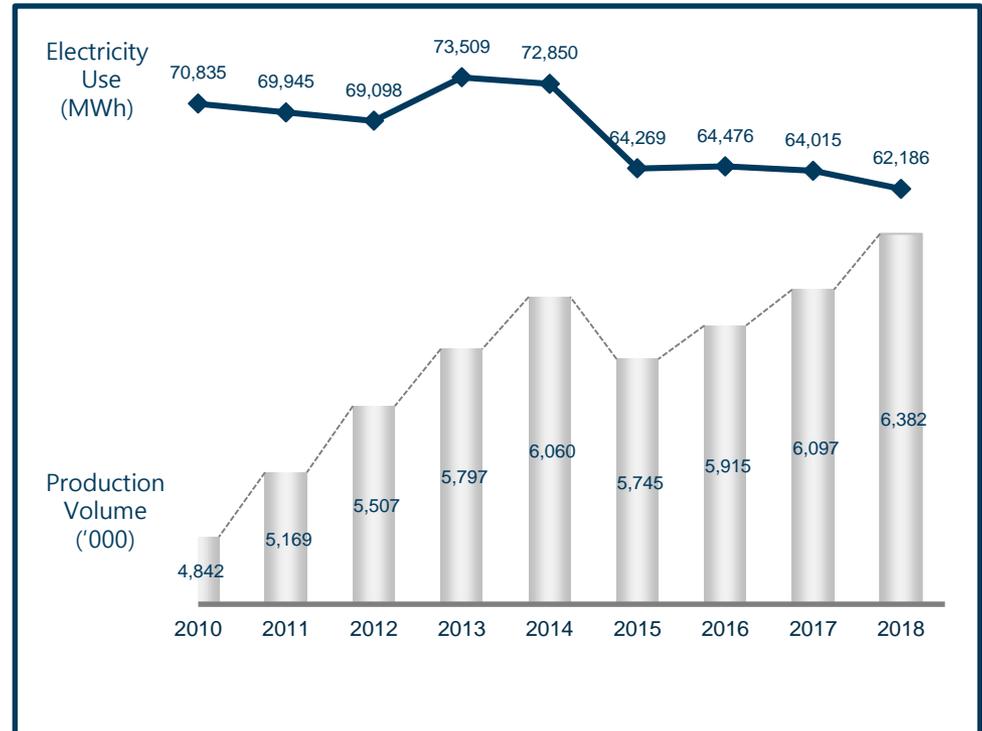
Ready for Flawless Launch of ChangAn's Major Programs

Hanon Systems wins government honor for Eco-Production

- ✓ Pyeongtaek Plant was awarded by Korean Ministry of Environment in 9th Green Company Award.
- ✓ The award recognized the plant's energy-saving operations as top of South Korea.



Energy Usage per Production Unit: -41% in 8 years





Thank You

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