



2Q 2020 Earnings Release

August 11, 2020

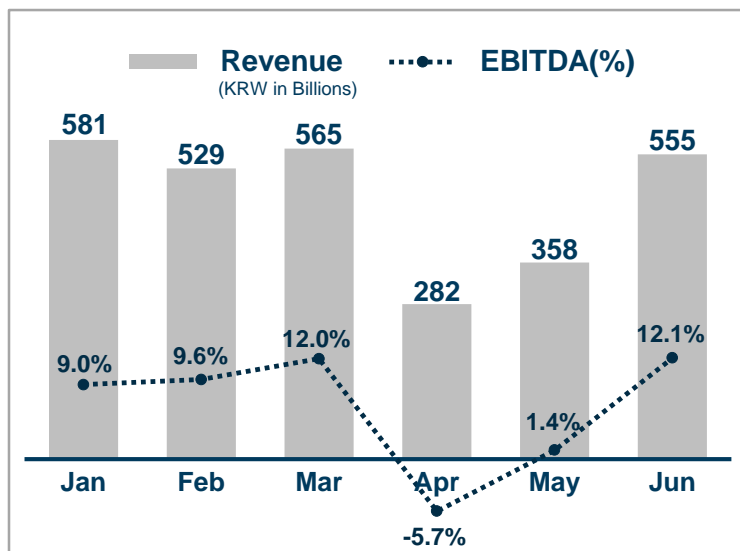
Disclaimer

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Utilization and Cost Actions On-Track

- **Plant utilization recovering after shutdowns due to COVID-19**
- **Cost actions successfully executed in 2Q; further actions in progress on track**
 - Most cost optimization actions implemented in 2Q
 - Lowered personnel costs through site restructuring and organizational efficiency actions
- **A significant portion of 2020 cost savings are permanent**
 - Permanent cost saving accounts for approximately 50% of 2020 operating expense reduction

2020 Monthly Revenue & EBITDA %



Operating Expense Reduction

	2020 Saving Target	Key Initiatives
Personnel Cost Saving	100 bW	<ul style="list-style-type: none"> - Flexible rescheduling of production plans (e.g. short-time working, furloughs) - Rationalization of compensation scheme
Organization Efficiency	50 bW	<ul style="list-style-type: none"> - Restructuring of sub scale sites - Organization streamlining - Executive headcount optimization (20%)
Other Operational Saving	100 bW	<ul style="list-style-type: none"> - Reduction of less essential service cost - Disciplined control of travel expenses - Realign focus on strategic sales and development
Total	250 bW	- Approx. 50% of savings are permanent

Guidance for 2020

(KRW in Billions)

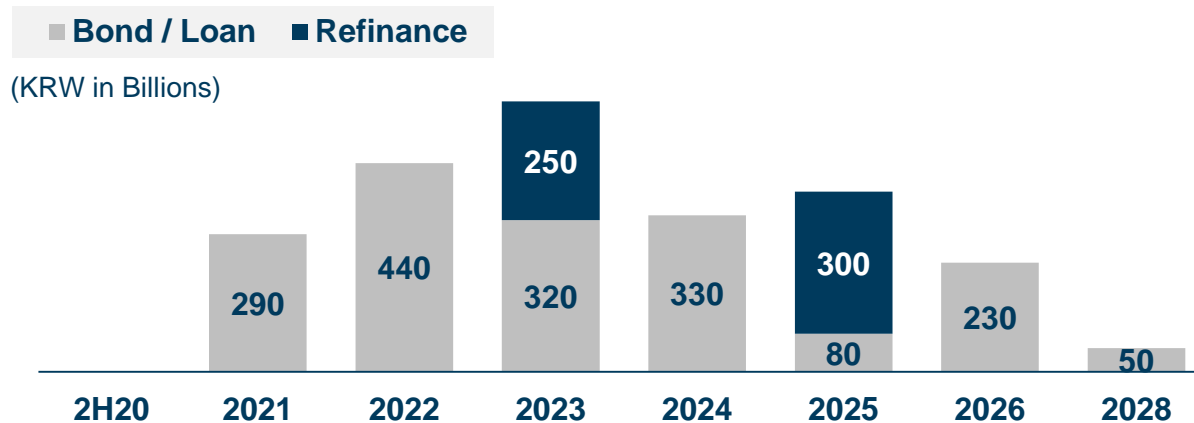
	2020 Guidance
Revenue	6,300
EBITDA *	750
Operating Profit *	280
Capital Spending	350

* Includes 20 bW of one-time restructuring cost

Liquidity Position

▪ Refinancing completed in 1H20

- Debt Maturity of Hanon Systems as of 1H20



- Weighted Average Interest Rate \approx 2.42%
- Weighted Average Duration \approx 3.60 Years
- Credit Ratings: AA (N) KR, KIS

▪ Available liquidity position is 840 bW as of the end of 1H20

- Company holds 580 bW cash and equivalents
- Additional and untapped credit lines of 260 bW secured from major international banks
- Plan to raise 300 bW in corporate bonds in 2H20 to further bolster liquidity position

▪ Other activities on-track to improve cash flow

- Expect operational cash flow to turn positive in 2H20 with production volume rebound and working capital management
- Target to maintain available liquidity position around 1.0 tW until the auto market returns to grow

- **Heat pump systems enter mainstream**
 - New EV platforms mostly adopt heat pump system to improve driving range in a cold weather
 - Hanon Systems is the leading player in heat pump solutions with its proprietary technologies









- **More eco-friendly products emerge**
 - Leading carmakers begin to use R744 refrigerant due to its low GWP (Global Warming Potential)
 - Hanon Systems will supply R744-based products for EVs in 2H20 for the first time in the industry

- **Competitive landscape changes amid COVID-19 and EV shift**
 - Hanon Systems is capitalizing its first mover advantage in EV thermal management market (technology, capacity, track records, etc.)
 - Hanon Systems is well-positioned to strengthen its position with innovative EV solutions

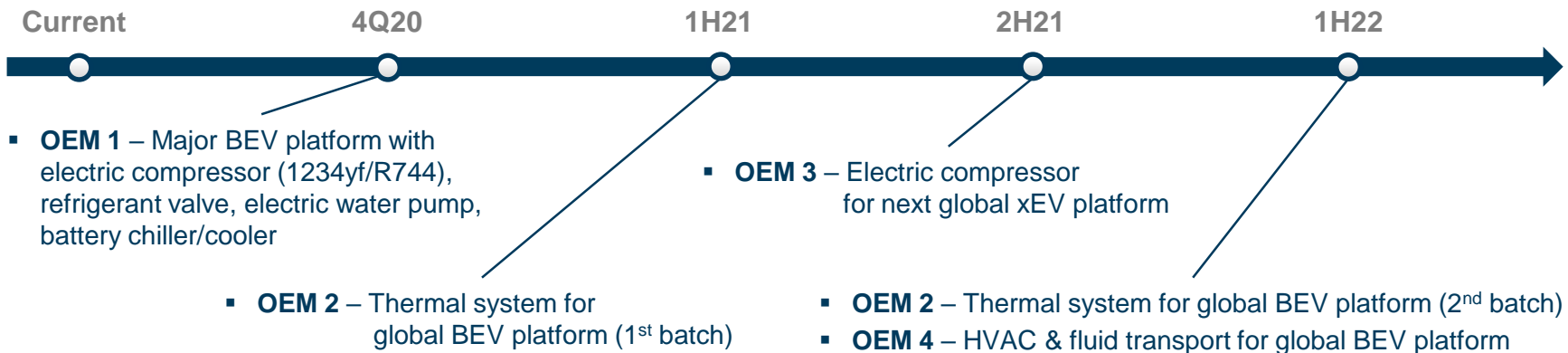
- **Demand for air quality provides a fresh opportunity**
 - Addresses consumer demand for improved in-vehicle air quality
 - Hanon Systems offers a range of in-cabin air quality solutions that remove harmful fine dust and odors in the vehicle cabin, and eliminate nearly all airborne viruses

Beginning of New Wave EVs

- Hanon Systems is a leading thermal player for global EV platforms

Customer (Examples)	Start of Production	EV Presence in Future	Hanon Systems Products (Examples)			
OEM 1	4Q 2020	More than 20% of 2025 sales				
OEM 2	1H 2021	About 10% of 2025 sales				
OEM 3	2H 2021	15~25% of 2025 sales				
OEM 4	1H 2022	20 new EV models by 2023				

- Examples of major upcoming launches with Hanon Systems' key components



Upcoming EV Platform Launches Will Draw More Electrified Components From Hanon Systems

2Q 2020: Key Financial Metrics

(KRW in Billions)

	2Q20	2Q19	YoY %	1Q20	QoQ %
Revenue	1,195	1,904	-37.2%	1,675	-28.6%
COGS	1,121	1,642	-31.8%	1,477	-24.1%
% of Sales	93.7%	86.3%		88.2%	
SG&A (Incl. R&D)	133	150	-11.3%	138	-3.9%
% of Sales	11.1%	7.9%		8.3%	
EBITDA	56	212	-73.8%	171	-67.5%
Margin (%)	4.7%	11.2%		10.2%	
Operating Profit	-58	112	-151.5%	60	-196.8 %
Margin (%)	-4.8%	5.9%		3.6%	
Net Income	-60	71	-183.3%	33	-281.7%
Margin (%)	-5.1%	3.7%		2.0%	

2Q Loss Due to COVID-19 Related Plant Shutdowns; 13 bW One-Time Restructuring Cost

1H 2020: Key Financial Metrics

(KRW in Billions)

	1H 2020	1H 2019	YoY Variance	
Revenue	2,870	3,333	-463	-13.9%
COGS	2,597	2,870	-273	-9.5%
% of Sales	90.5%	86.1%		
SG&A (Incl. R&D)	271	257	14	5.4%
% of Sales	9.4%	7.7%		
EBITDA	227	378	-151	-39.9%
Margin (%)	7.9%	11.3%		
Operating Profit	2	206	-204	-99.1%
Margin (%)	0.1%	6.2%		
Net Income	-27	128	-155	-121.3%
Margin (%)	-0.9%	3.8%		

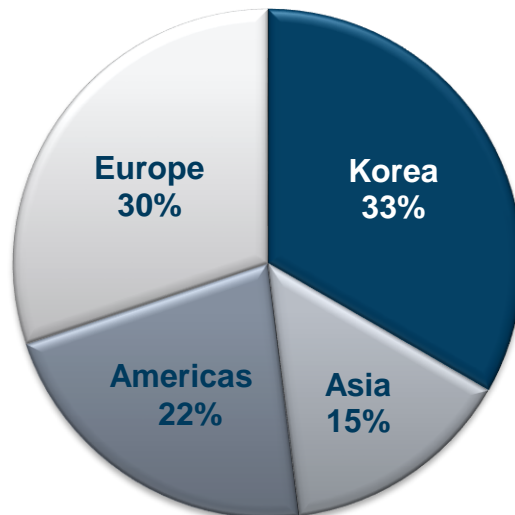
Low Profit Due to Plant Shutdowns and D&A Increase; 13 bW One-Time Restructuring Cost

2Q20 Highlights

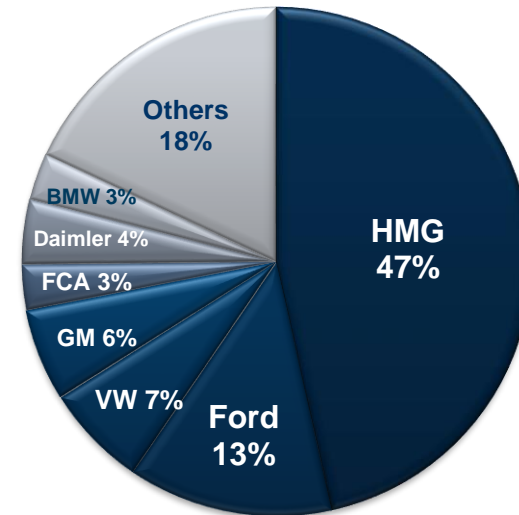
- Plant utilization recovering after shutdowns due to COVID-19
- Cost actions successfully executed in 2Q; further actions on track
- Eco-friendly / Electrified revenue portion accounts for 19% of 2Q20 revenues

Sales Breakdown (1H20)

By Region



By Customer

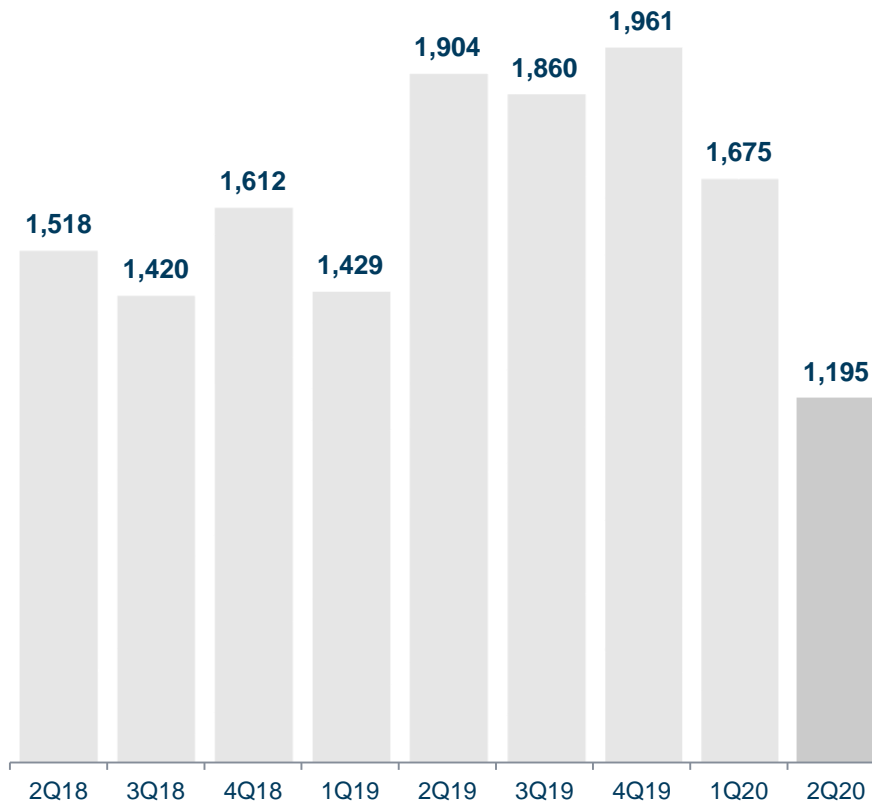


- Regional revenues classified based on locations of manufacturing entities

Quarterly Sales

Consolidated Sales

(KRW in Billions)



Comments

- 2Q20 revenue is the lowest since 2013 and the first operating loss in more than 20 years
- Americas, Europe and Korea revenues down by 61%, 51% and 7% YoY
- China revenue increased 11% YoY despite partial shutdown
- Hanon Systems as-before revenue declined by 35% YoY, while EFP revenue decreased 45% YoY
- HMG and Ford revenues decrease by 23% and 68% YoY
- VW (-40% YoY), GM (-20%), Daimler (-20%), FCA (-70%), BMW (-33%) decreased revenue on volumes

2Q Revenue Lowest Since 2013 Due to Plant Shutdowns in Multiple Regions

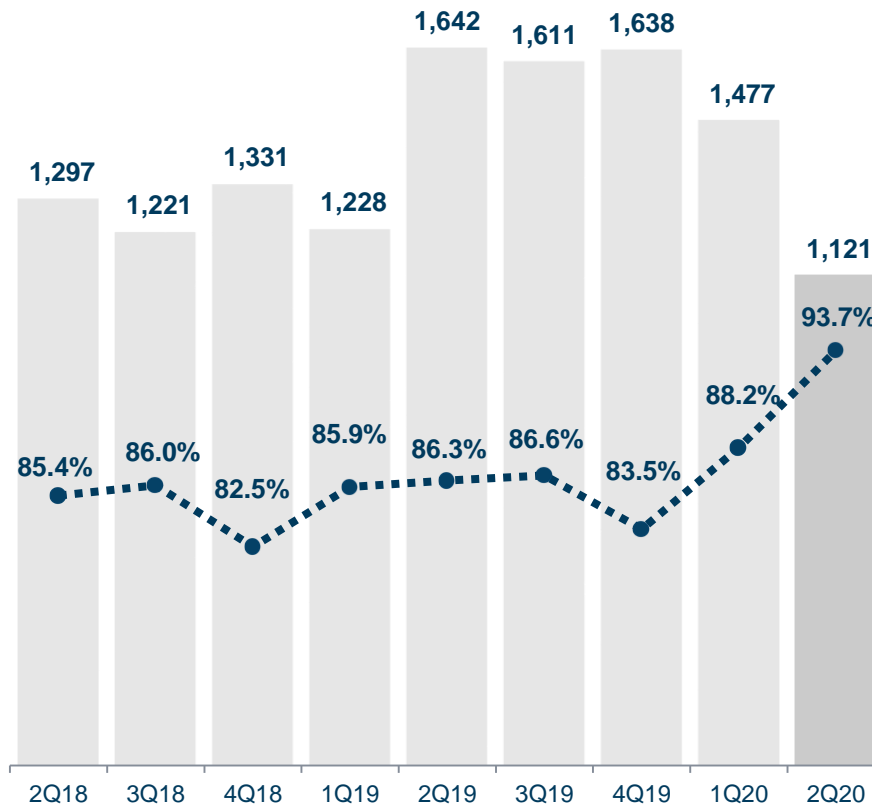
Quarterly COGS

Quarterly Cost of Goods Sold

Comments

(KRW in Billions)

COGS COGS%



- Positive factors:
 - Cost improvement actions
 - China volume recovered and turned profitable
- Negative factors:
 - Plant shutdowns in Europe and North America
 - Restructuring costs

Temporary Margin Deterioration Due to Plant Shutdowns

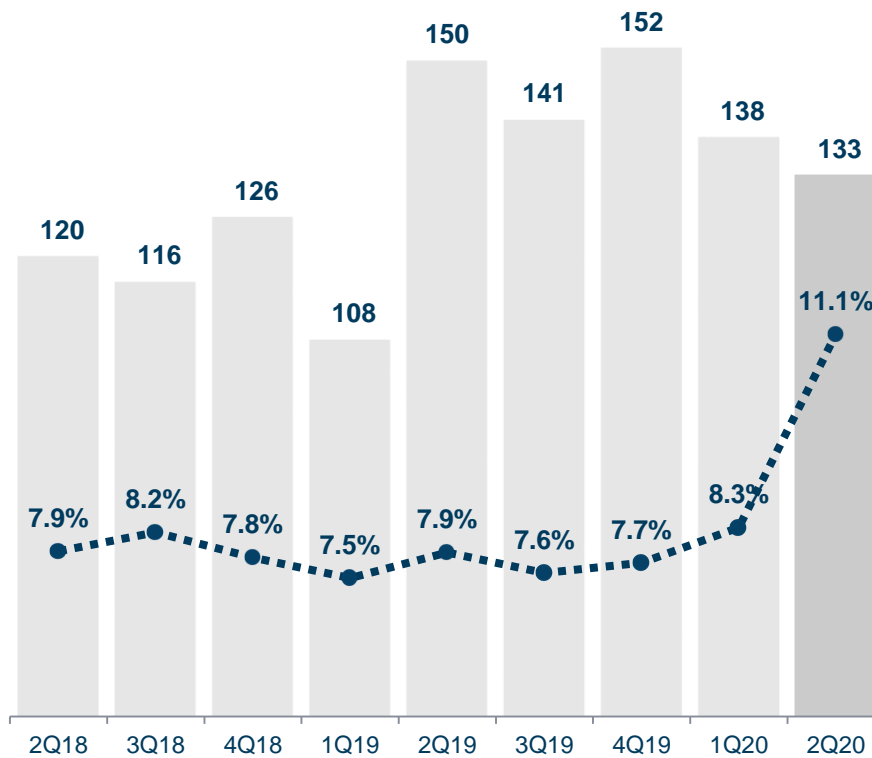
Quarterly SG&A

Quarterly SG&A Status

Comments

(KRW in Billions)

■ SG&A ●●● SG&A%



- 2Q20 SG&A expense: 11.1% of total revenue (+3.2%p YoY)
- 2Q20 R&D spending (incl. R&D capitalization): 6.4% of total revenue (+1.5%p YoY)
- Restructuring costs included

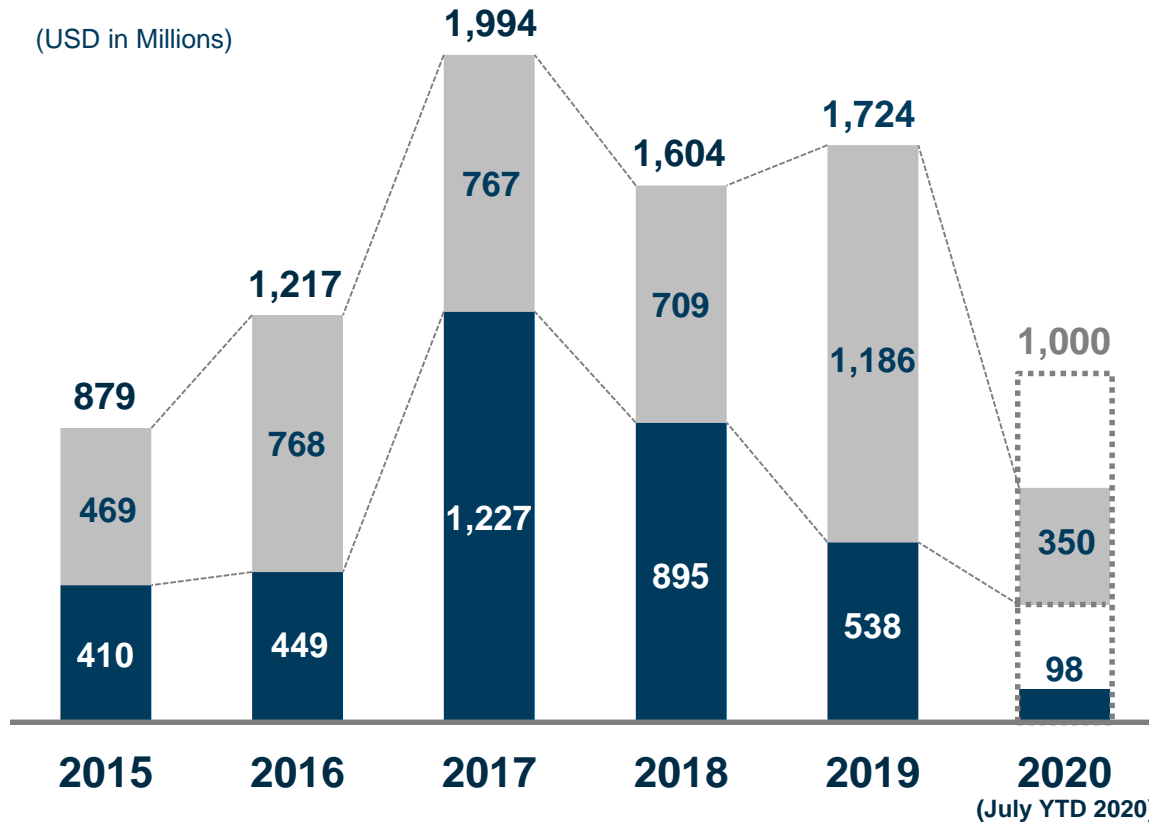
Fixed Cost Improvement Initiatives On-Track

New Business Wins Update

1H20 New Business Wins

■ Re-win ■ New win

(USD in Millions)



- New business wins represents average annual revenue (in USD million)
- Orders from diverse customers account for 50% of 1H20 new wins
- 2020 New-win target is \$650m and Re-win target is \$350m for the consolidated entity
- New Business Wins are on track to achieve yearly target in 2020

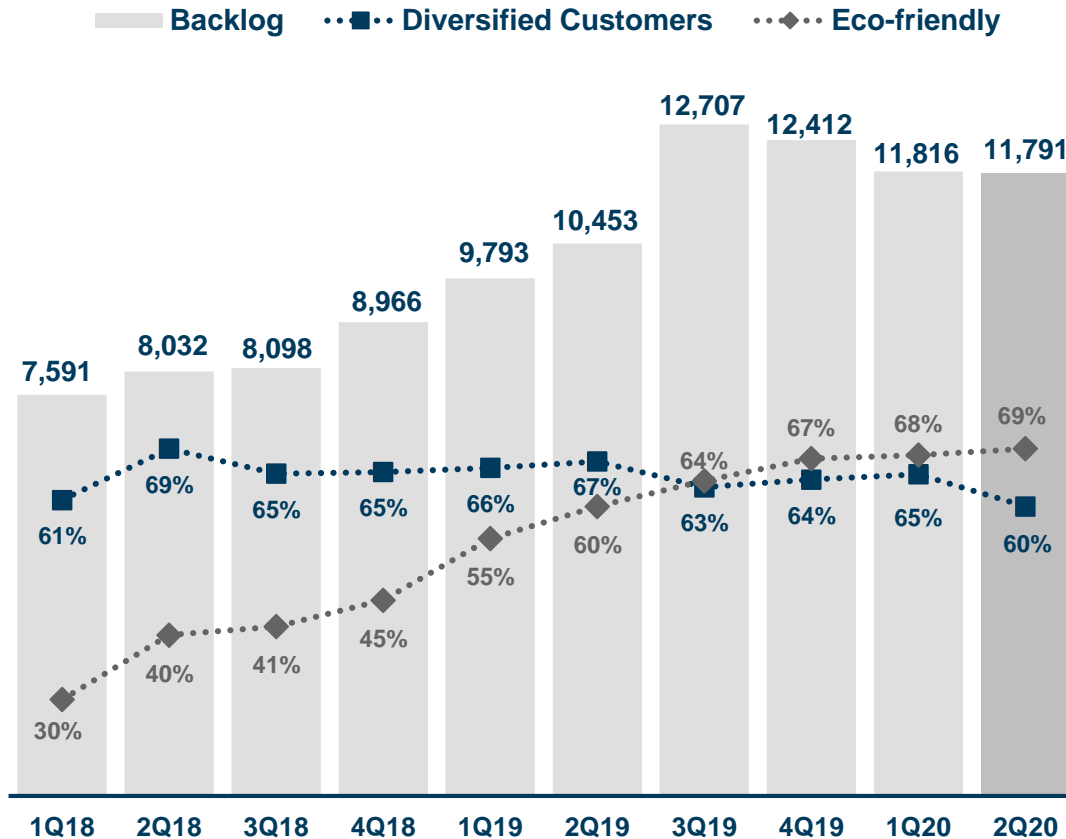
Eco-friendly
(% out of New win)

2015	2016	2017	2018	2019	2020
5%	35%	36%	63%	71%	80%

Backlog Status Update

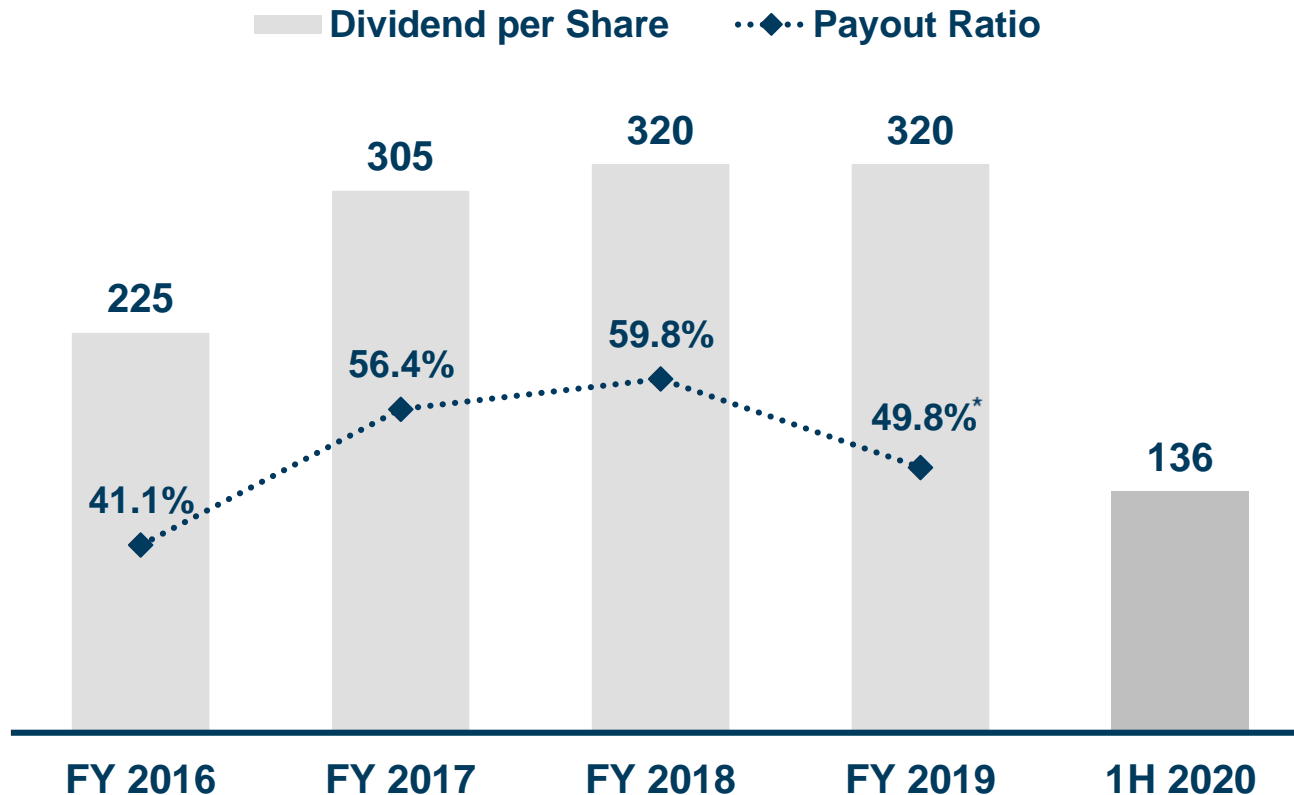
2Q20 Backlog (New Wins Only)

(USD in Millions)



- Backlog: Defined as cumulative revenue for expected lifecycle of awards before start of production
- Orders from diverse customers account for 60%
- Eco-friendly orders account for 69%

2Q20 Quarterly Dividend: 68 KRW per share



* Based on adjusted net income per share of FY2019

- **Share Buyback initiated in March**

- Period: One year from March 20, 2020
- Fund: 40 bW

- **Objectives**

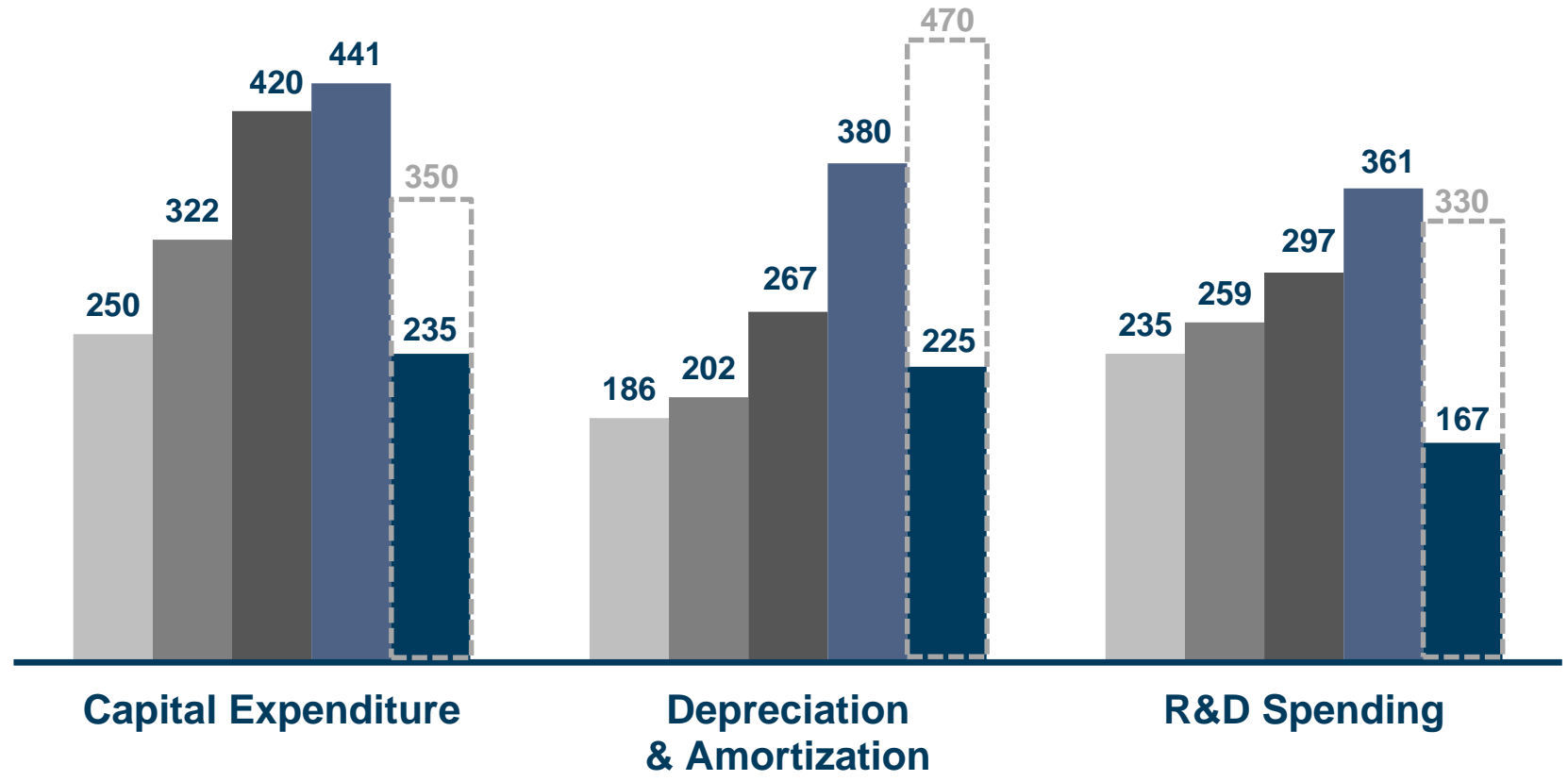
- Respond to stock market turmoil in March
- A defensive strategy to maintain shareholder value should the pandemic extend longer than anticipated

Less Than 3% of Total Fund Has Been Used for the First Four Months

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

■ FY2016 ■ FY2017 ■ FY2018 ■ FY2019 ■ FY2020

(KRW in Billions)



* E&FP consolidated since 2Q19

R&D and CapEx Will Be Balanced for Future Growth

2Q 2020 Balance Sheet

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

Balance Sheet

	Jun 2020	Dec 2019	Dec 2018
Cash and cash equivalent	580	687	1,018
Account receivable	1,013	1,254	1,021
Inventories	776	613	506
Property and equipment	2,174	2,130	1,551
Intangible assets	1,679	1,593	564
Lease assets	223	205	181
Other assets	641	601	515
Total assets	7,086	7,082	5,356
Account payable	996	1,459	1,215
Debt	3,274	2,734	1,672
Other liabilities	562	552	337
Shareholder's equity	2,134	2,217	2,037
Non-controlling	121	121	95
Total liabilities & shareholders' equity	7,086	7,082	5,356

Cash and Debt

Cash Balance	Jun 2020	Dec 2019	Dec 2018
Net Debt	2,694	2,047	654
Net Debt Ratio	1.2	0.9	0.3
Debt to Equity	1.5	1.2	0.8

- 'Debt' and 'Net Debt' includes Lease Debt since YE2018 due to the change of KIFRS 1116.

Leverage	2019	2018
EBITDA*	864	701
Debt / EBITDA*	3.0	2.4
Net Debt / EBITDA*	2.2	0.9
EBITDA* / Net Interest Expenses	14.7	39.7

- Annualized EBITDA including Q1 performance of E&FP business

Available Liquidity in 1H20 is 840 bW Including Untapped Credit Lines

A short, thick orange vertical bar.A long, thick dark blue vertical bar.

Appendix

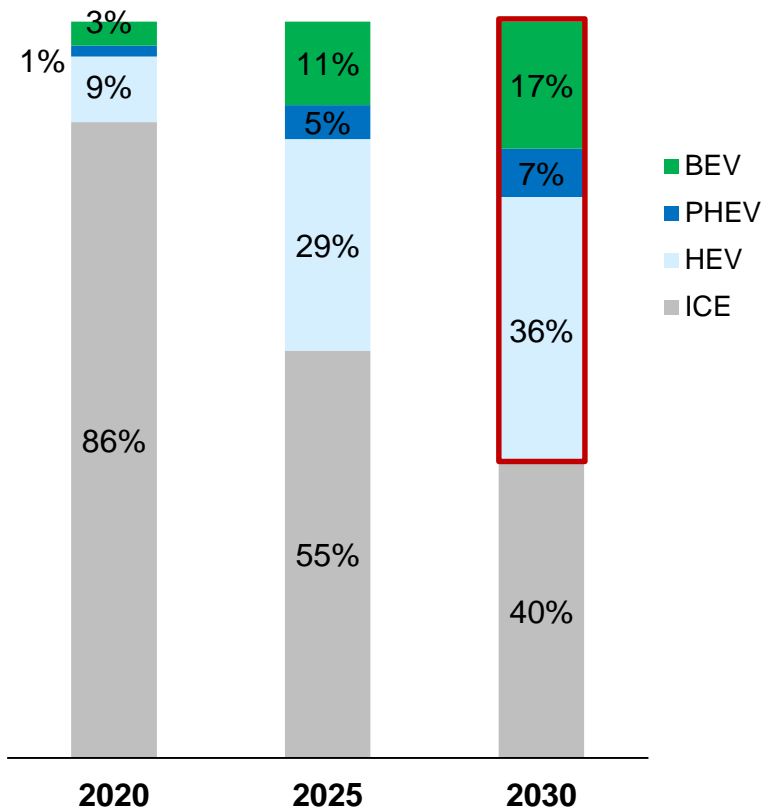
EV Technology & Air Quality

Disclaimer

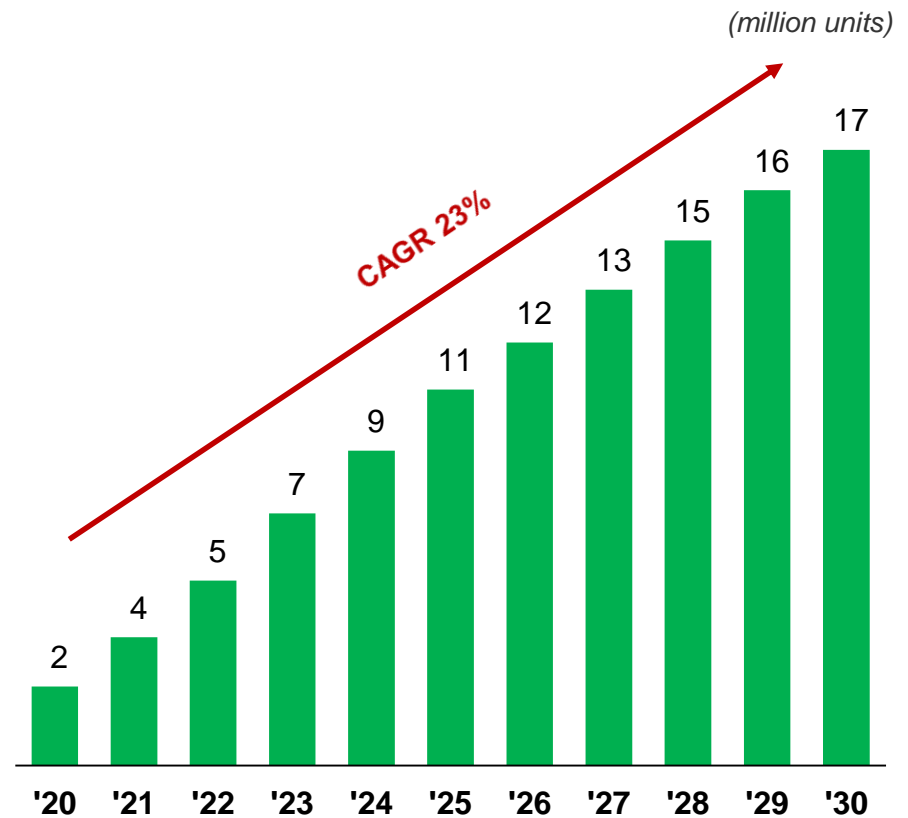
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EV Market Trend

Global Powertrain Forecast



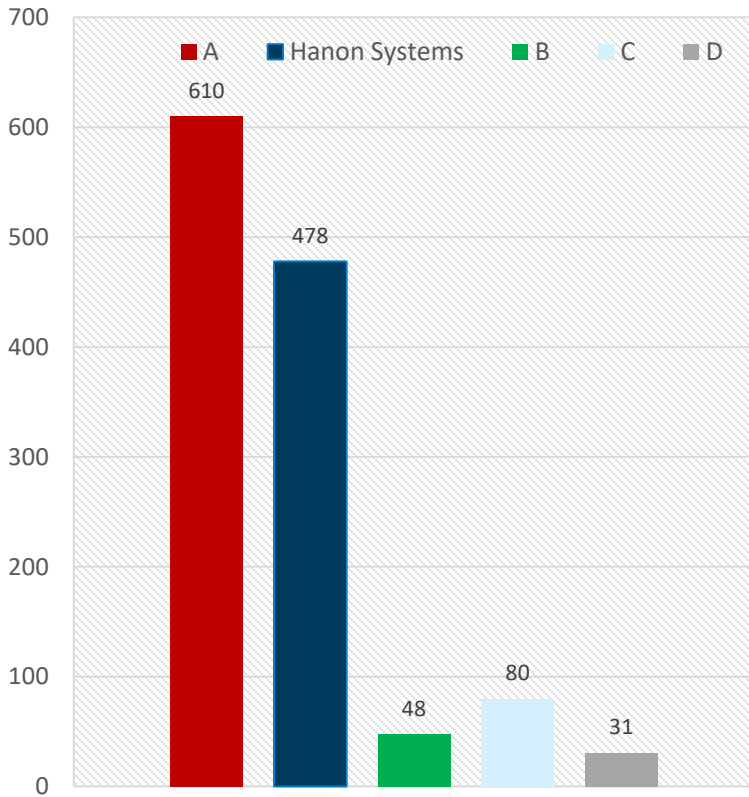
BEV Production Forecast



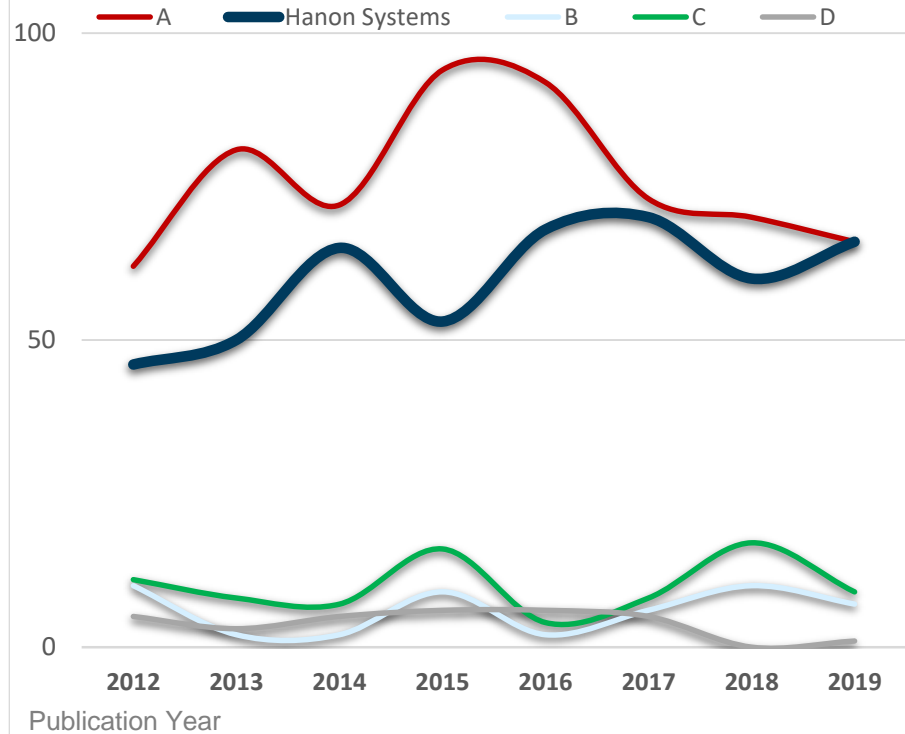
Source: IHS, June 2020

xEV Will Account for 60% of Total Vehicle Production in 2030

The Number of Patents Filed for EV Thermal Management Field in 2010~2018

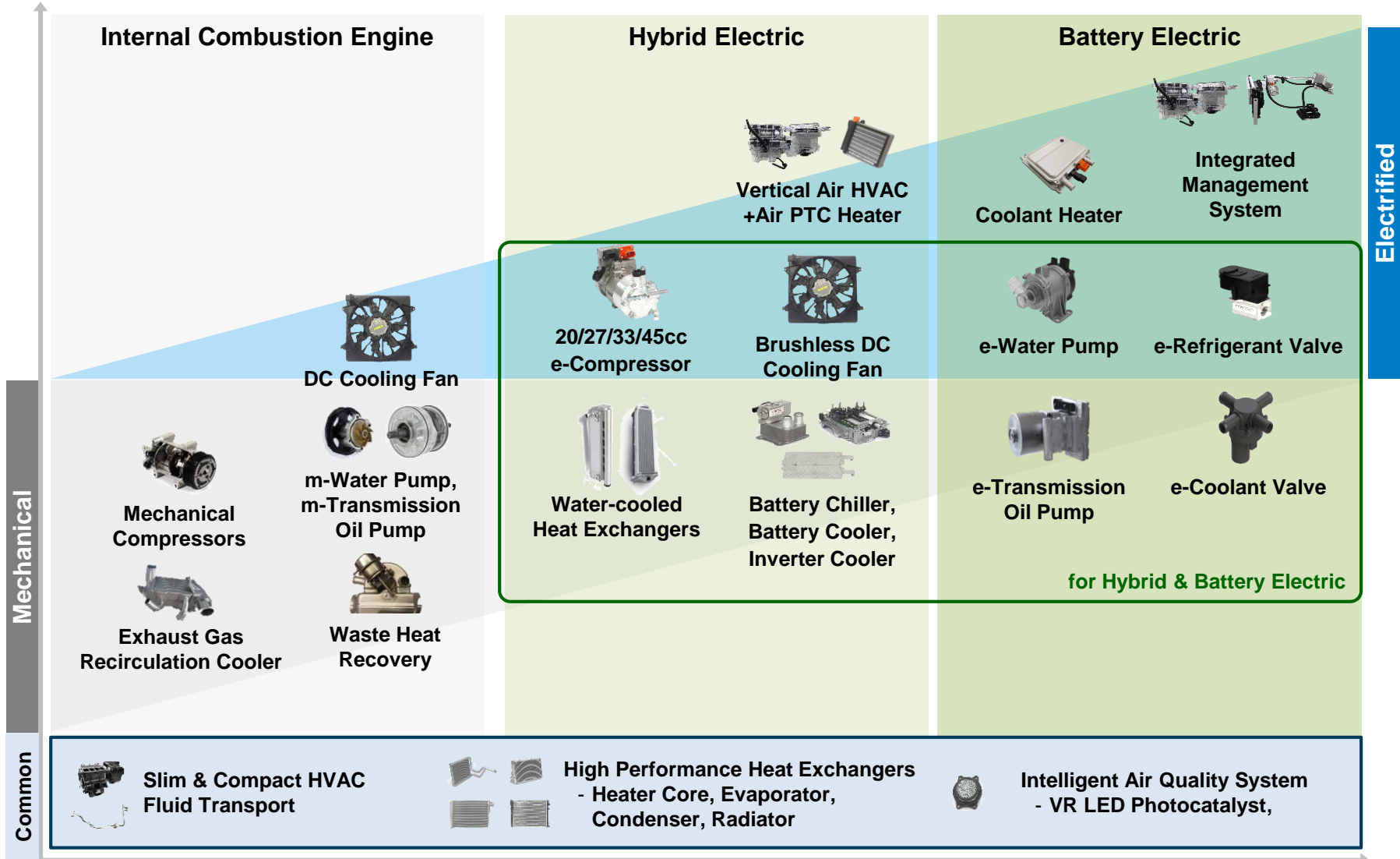


Patent Application Trend in EV Thermal Management Field



Global Top 2 of Intellectual Property Portfolios in EV Thermal Management

Product Portfolio

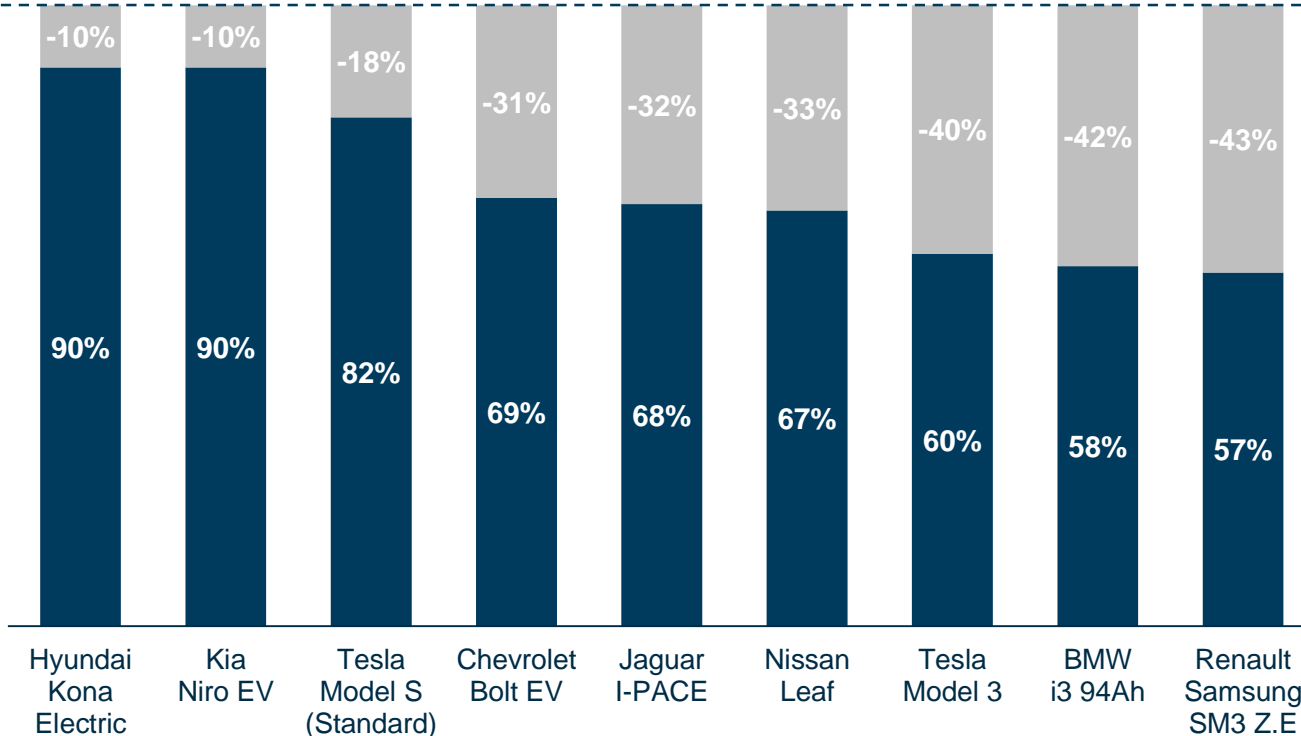


Full-Suite of Thermal and Energy Management Solutions

Heat Pump Technical Excellence

Comparison of EV Driving Range on Heating Mode

Range w/
Heating OFF
(%) = 100



Source: Korea Ministry of Environment

Examples of EV Technology Awards



NET Certificate



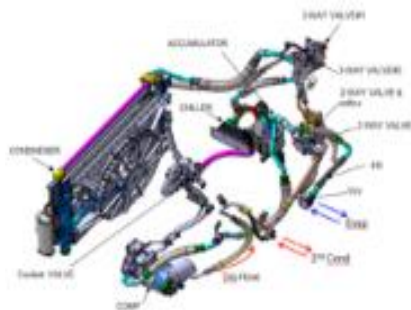
IR52 Jang Young-Shil Award



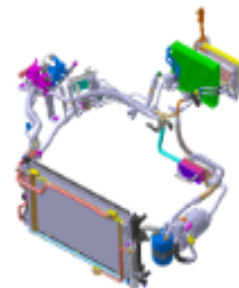
PACE AWARD (Finalist)



Heat pump system with waste heat of PE module



Integrated TMS* (Cabin + PE + Battery)



* Thermal Management System



Cost effective 1-Way iTEMS**



** Intelligent Thermal Energy Management System



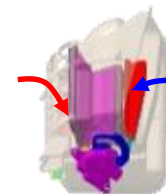
A/C with condenser using multi-heat sources



Electronic Expansion /Shutoff Valve



Smart Intake-door control system for EV

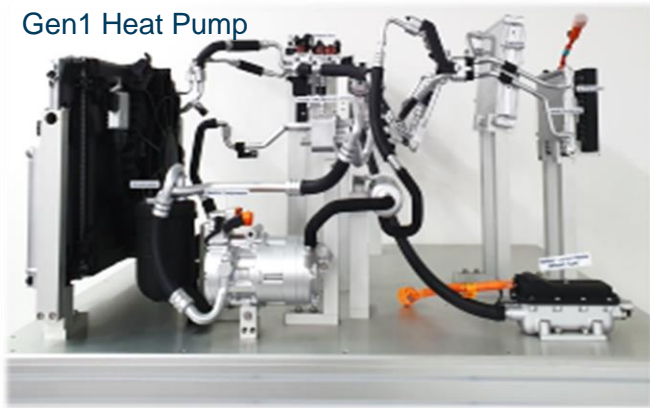


Hanon Systems is Receiving Industry Recognition for EV Technologies

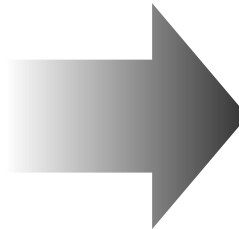
Hanon Systems iTEMS (Intelligent Thermal Energy Management System)



Gen1 Heat Pump

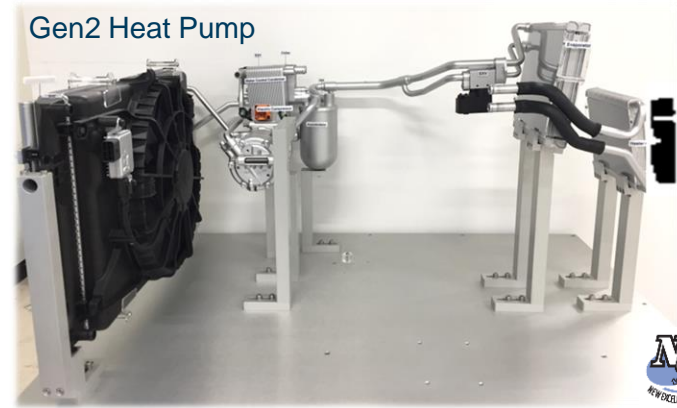


Conventional heat pump



Simple 1-Way
heat pump

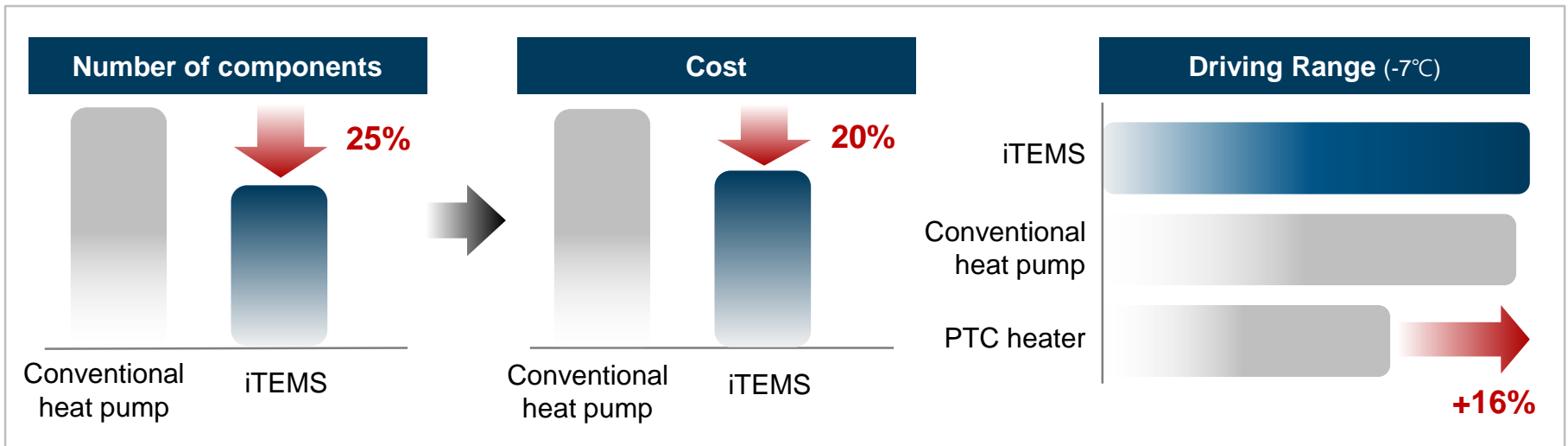
Gen2 Heat Pump



iTEMS



2020 NET Winner



Efficient and Cost Competitive EV Thermal Management Solution

VR LED Photocatalyst Module

Technical Description

Next-generation air quality module that uses visible ray (VR) LED technology to eliminate viruses and odor-causing substances (e.g., bacteria, allergens, mold, etc.) in the HVAC module

Purpose

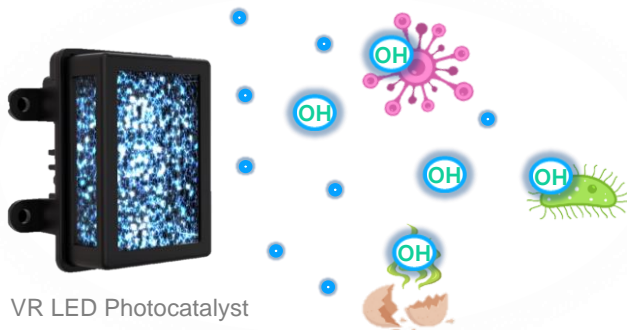
- To address customer demand for a virus- and odor-reduction technology in vehicle air quality
- To offer consumers an in-cabin air disinfection, deodorization and purification experience
- To Support the company's suite of comfort solutions which improve cabin air quality

Development Status

- Target customer: Global OEMs
- Milestone: Application ready

Technology

The patented VR photocatalyst mounts easily to the HVAC module and encapsulates a titanium oxide catalyst that creates a hydroxyl radical when activated to disinfect, deodorize and purify the vehicle's interior air quality.



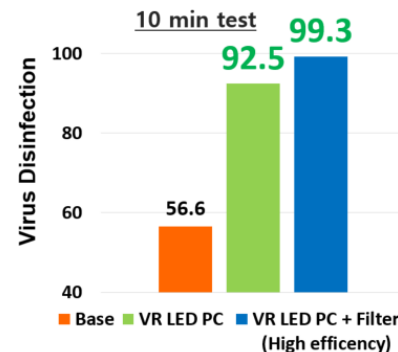
VR LED Photocatalyst
❖ 4 Global patents

Benefits

- Eliminate nearly all airborne viruses and odors in the vehicle cabin
- Offers a flexible application that can be combined or integrated separately into the HVAC module

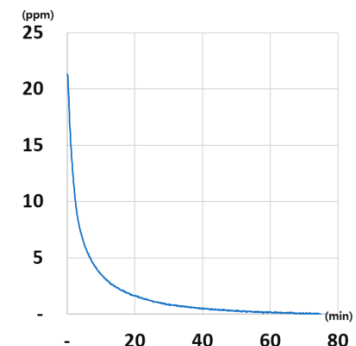
❖ Disinfection (%)

(Phi-X174 virus)



❖ Deodorization (%)

(NH₃ gas)





Thank You

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