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1Q 2020 Earnings Release

May 13, 2020

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.

Key Message (1) : Unprecedented Shutdown

- **Global auto production declines due to the crisis**

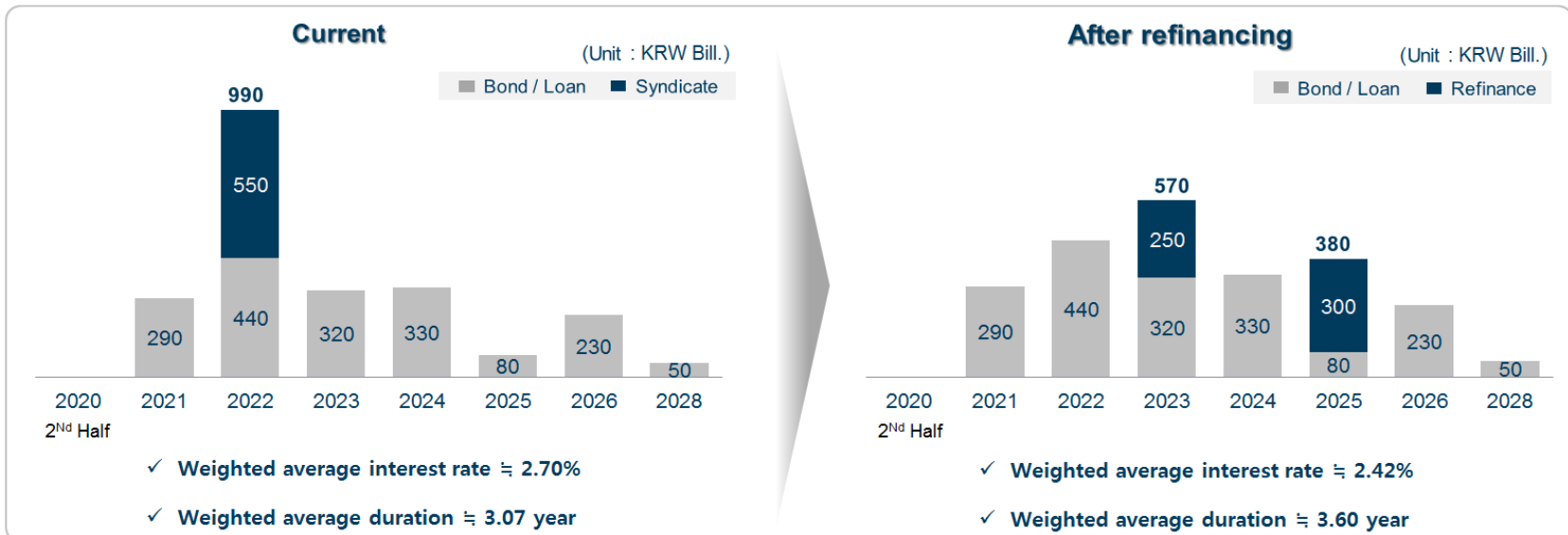
- . Global auto production is down 25% YoY in 1Q, expected to be down 45% YoY in 2Q and subsequently down 35% YoY in 1H20
- . OEM plants restart in May at a slow pace
- . Global auto production to be down 20~25% YoY in 2020

- **Utilization for global plants of Hanon Systems**

Korea	Almost fully utilized in March, but started to decline in April/May.
Europe	Operated at planned utilization (~80%) in Jan/Feb, but reduced to 60% in March and 20% in April. Expected to ramp up from May.
Americas	Operated at planned utilization (~80%) in Jan/Feb, but reduced to 50% in March and completely shutdown in April. Expected to restart from mid-May and recover to normal in July.
China	Utilized at 20% in February, but gradually started recovering from March and recovered to 70% of planned utilization in April.

Key Message (2) : Contingency Measures

- **Hanon Systems' contingency plan assumes a worst case scenario that yearly production volume might decline by 25~30% from original guidance**
 - . Suspend 2020 guidance due to uncertain market conditions
 - . Reduce CapEx by 25% (300 bW from 400 bW of original guidance)
 - . Reduce yearly costs by 250 bW (Personnel cost, discretionary spending, service cost, and other less essential costs in the shutdown period)
- **Liquidity management to weather crisis**
 - . As of 1Q20E, Hanon Systems holds 800 bW cash and equivalents
 - . Secured additional liquidity up to 350 bW in May
 - . No major debt repayment is scheduled in 2020
- **Long-term debt maturities**



1Q 2020: Key Financial Metrics

(KRW in Billions)

	1Q20	1Q19	YoY %	4Q19	QoQ %
Revenue	1,675	1,429	+17.2%	1,961	-14.6%
COGS	1,477	1,228	+20.2%	1,638	-9.9%
% of Sales	88.2%	85.9%		83.5%	
SG&A (Inc. R&D)	138	108	+28.7%	152	-8.9%
% of Sales	8.3%	7.5%		7.7%	
EBITDA	171	165	+3.5%	276	-37.9%
Margin (%)	10.2%	11.6%		14.1%	
Operating Profit	60	93	-36.1%	171	-65.1%
Margin (%)	3.6%	6.5%		8.7%	
Net Income	33	57	-41.2%	119	-72.2%
Margin (%)	2.0%	4.0%		6.1%	

Revenue increased on E&FP consolidation, but profit margins deteriorated on volume drop

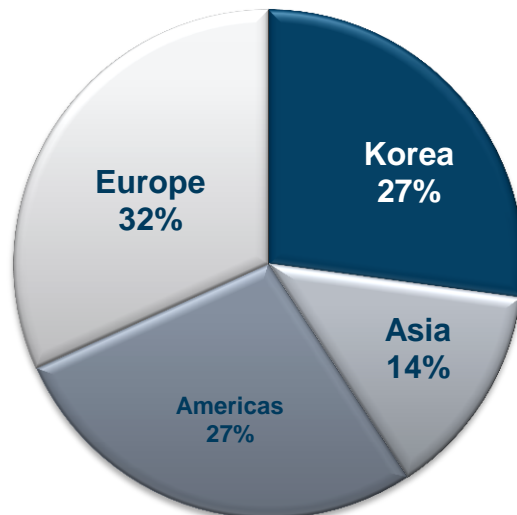
1Q 2020 Highlights

1Q20 Highlights

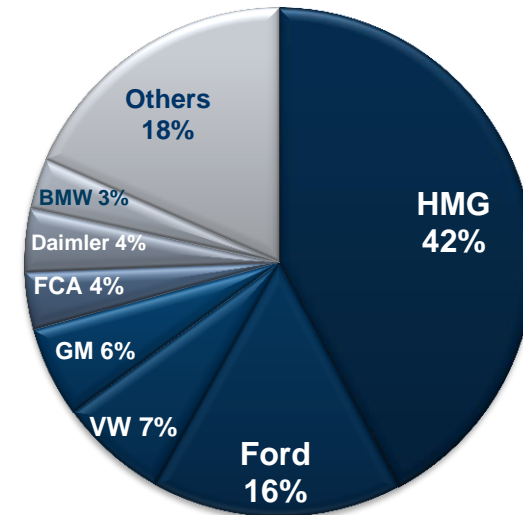
- ✓ Priority of contingency plan: Employee Safety, Business Continuity, Shareholder Value
- ✓ Cash holding is raised to a sufficient level to fund CapEx and R&D throughout the crisis
- ✓ Hanon Systems aims to position as a global leader for BEV thermal in post-pandemic era

Sales Breakdown (1Q20)

By Region



By Customer

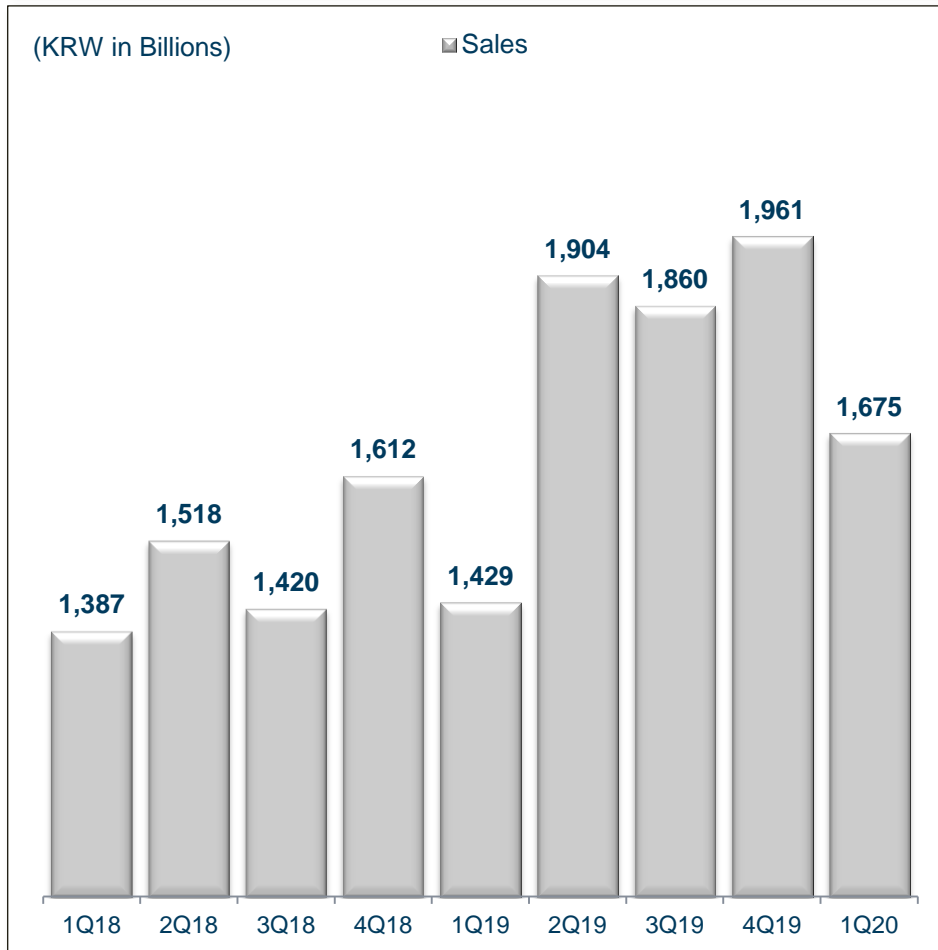


- Regional revenues classified based on locations of manufacturing entities

- Ford: Incl. Changan Ford & Ford Otosan

Quarterly Sales

Consolidated Sales



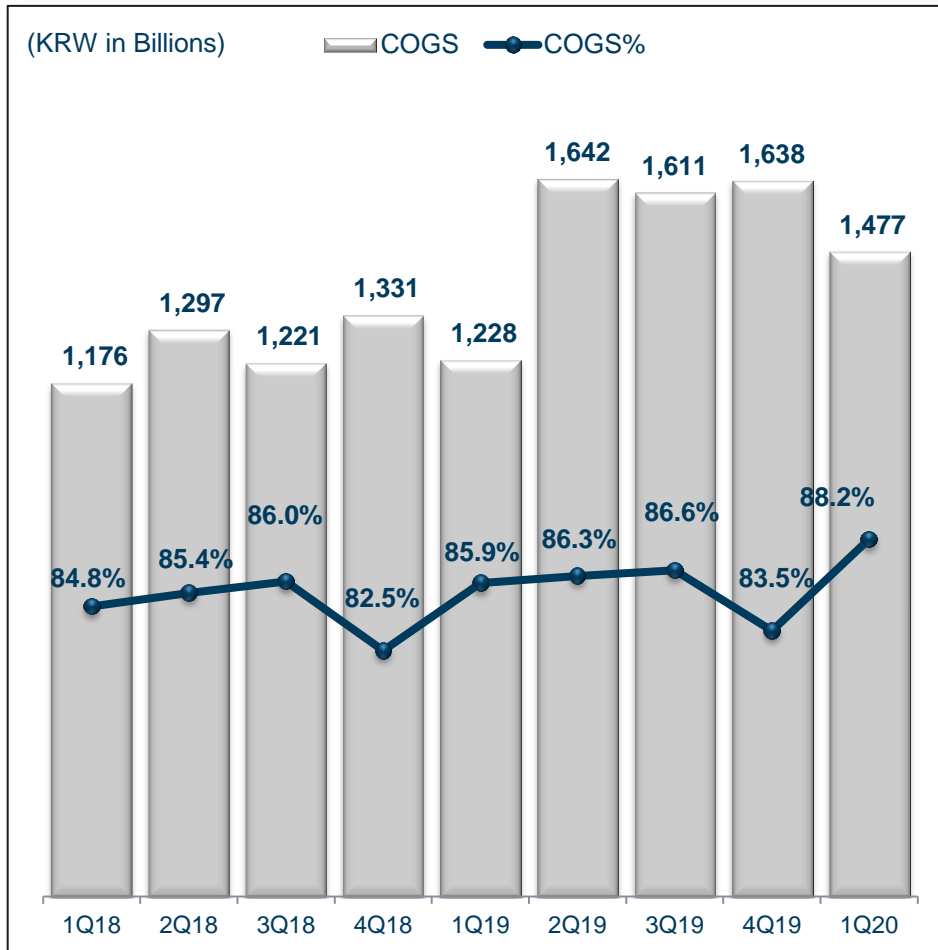
Comments

- 1Q20 Americas, Europe and Korea revenues are up by 43%, 27% and 4% YoY respectively on E&FP acquisition
- 1Q20 China revenue decreased by 21% YoY on partial shutdown
- Hanon Systems-as-before revenue declined by 8% YoY in 1Q20
- 1Q20 HMG and Ford revenues decrease by 2% and 10% YoY respectively
- 1Q20 VW (+125% YoY), GM (+355%), Daimler(+310%), FCA (+75%), BMW (+45%) increase revenues on E&FP
- 1Q20 CAOEM revenue increased by 24% YoY on its Shanghai production

1Q20 revenue increased 17% YoY on E&FP consolidation

Quarterly COGS

Quarterly Cost of Goods Sold



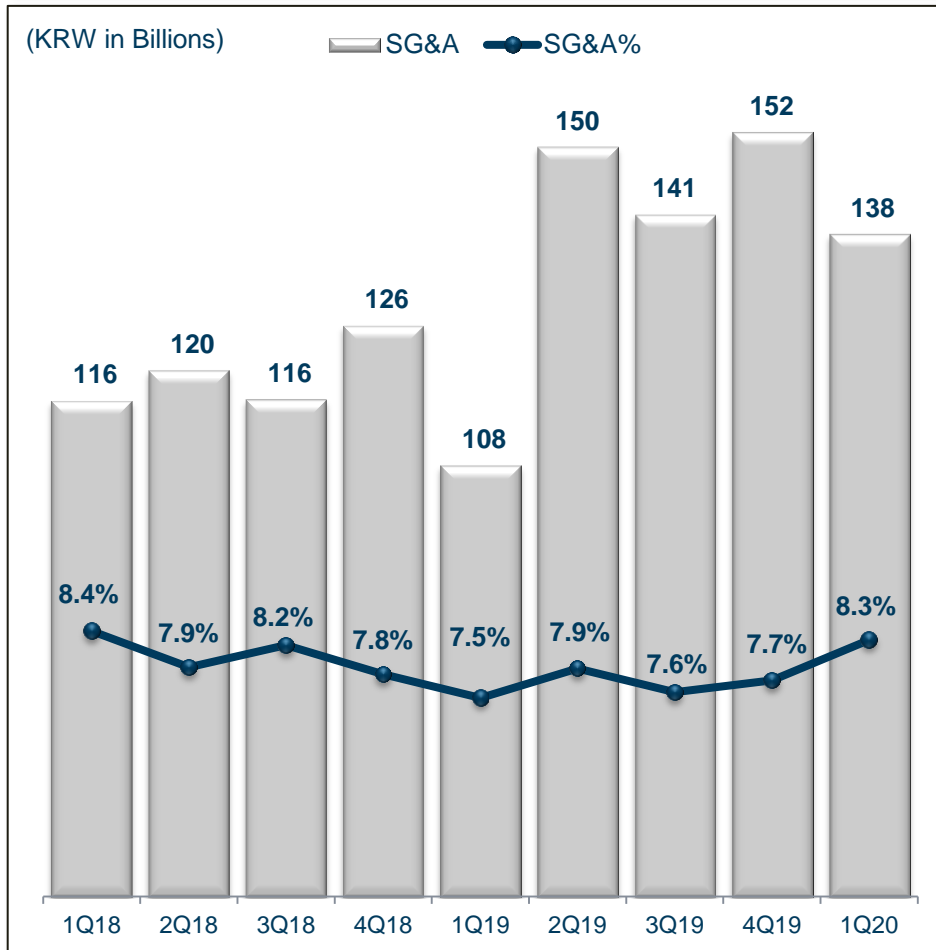
Comments

- Positive factors:
 - ✓ Favorable currency effect
 - ✓ New vehicles from HMG
- Negative factors:
 - ✓ Low utilization in China, Korea
 - ✓ Plant shutdown in Europe and Americas since late March

Gross margin deteriorated on low utilization due to COVID-19 outbreak

Quarterly SG&A

Quarterly SG&A Status



Comments

- 1Q20 SG&A spend: 8.3% of total revenue (+0.8%p YoY)
- 1Q20 R&D spend: 5.4% of total revenue (+0.6%p YoY)
- One-off costs: 2 bW for premium freight

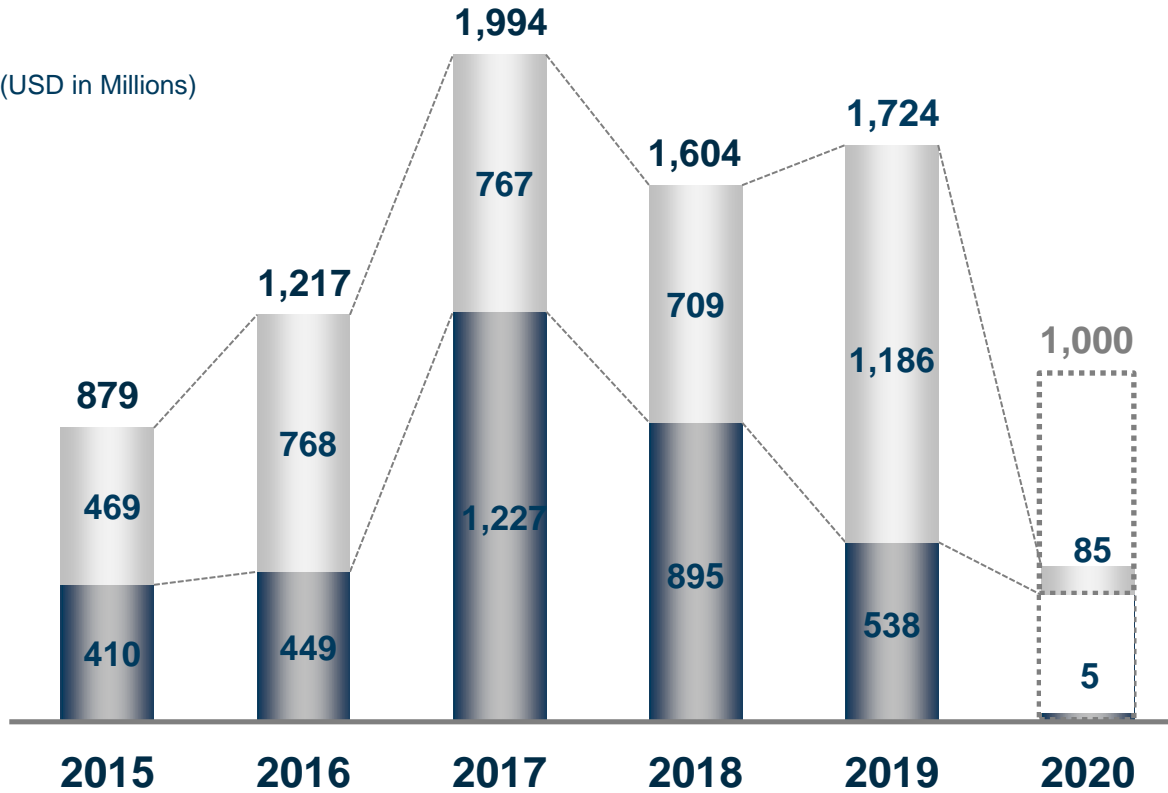
SG&A and R&D costs increased faster than revenue due to production loss

New Business Wins Update

1Q 2020 New Business Wins

■ Re-win ■ New win

(USD in Millions)



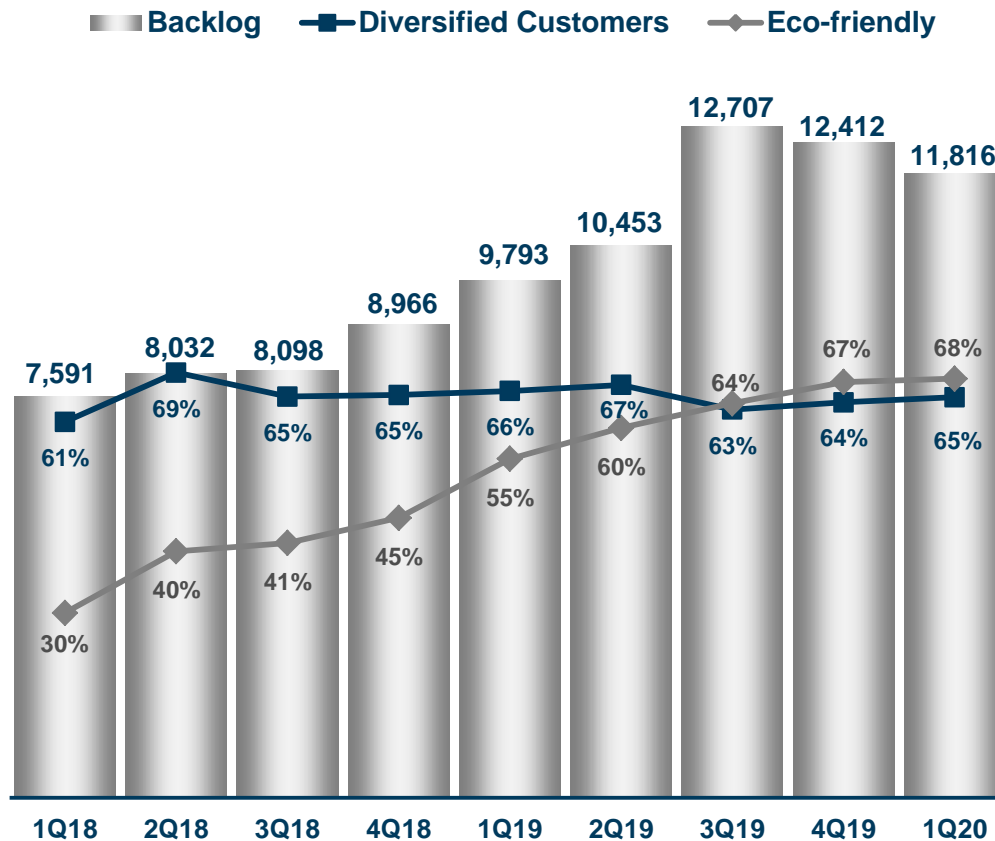
Year	Eco-friendly (%)
2015	5%
2016	35%
2017	44%
2018	63%
2019	71%
2020 (1Q)	66%

- New business wins represents average annual revenue (in USD million)
- Orders from diverse customers account for 84% of 1Q20 new wins
- 2020 New-win target is \$650m and Re-win target is \$350m for the consolidated entity
- Annual target may change due to customer sourcing schedule and current market situation

Backlog Status Update

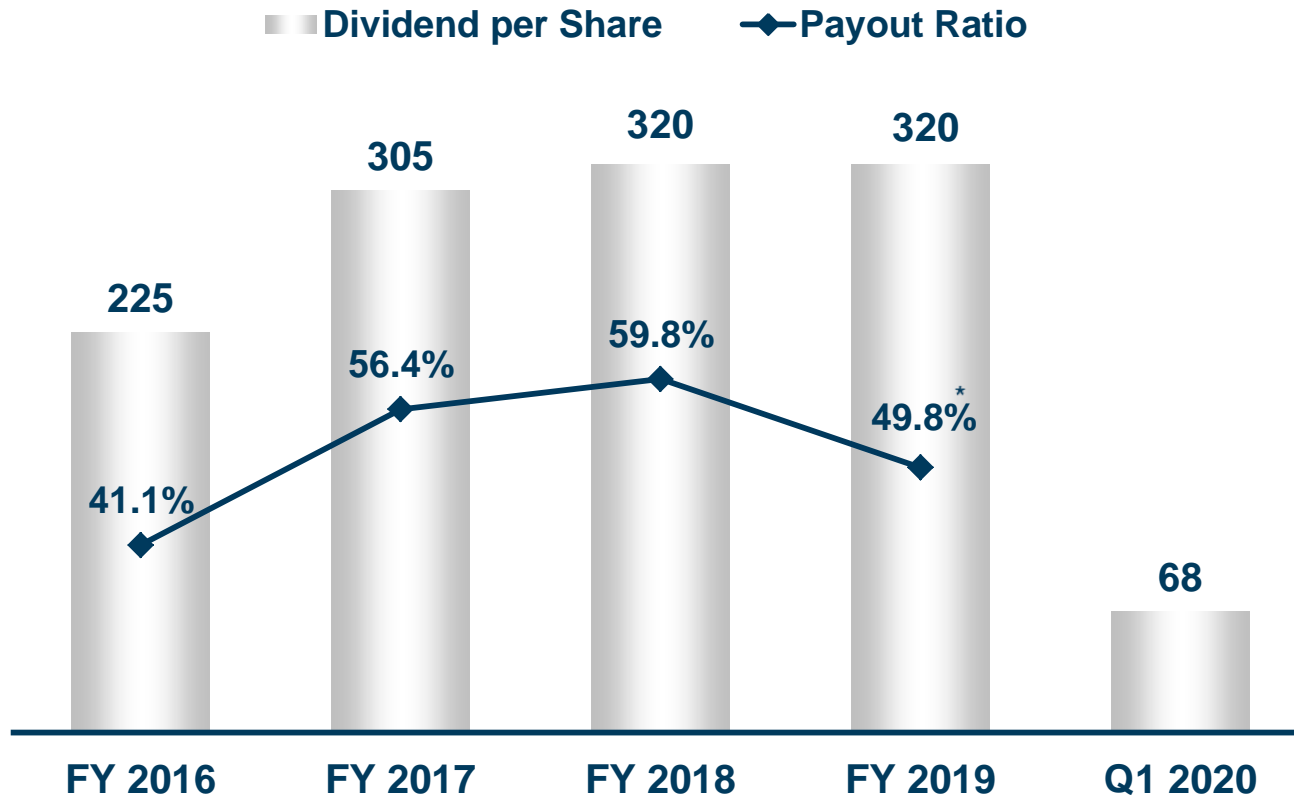
1Q 2020 Backlog (New Wins Only)

(USD in Millions)



- Backlog: Defined as cumulative revenue for expected lifecycle of awards before start of production
- Orders from diverse customers account for 68%
- Eco-friendly orders account for 65%

1Q20 Quarterly Dividend: 68 KRW per share



* Based on adjusted net income per share of FY2019

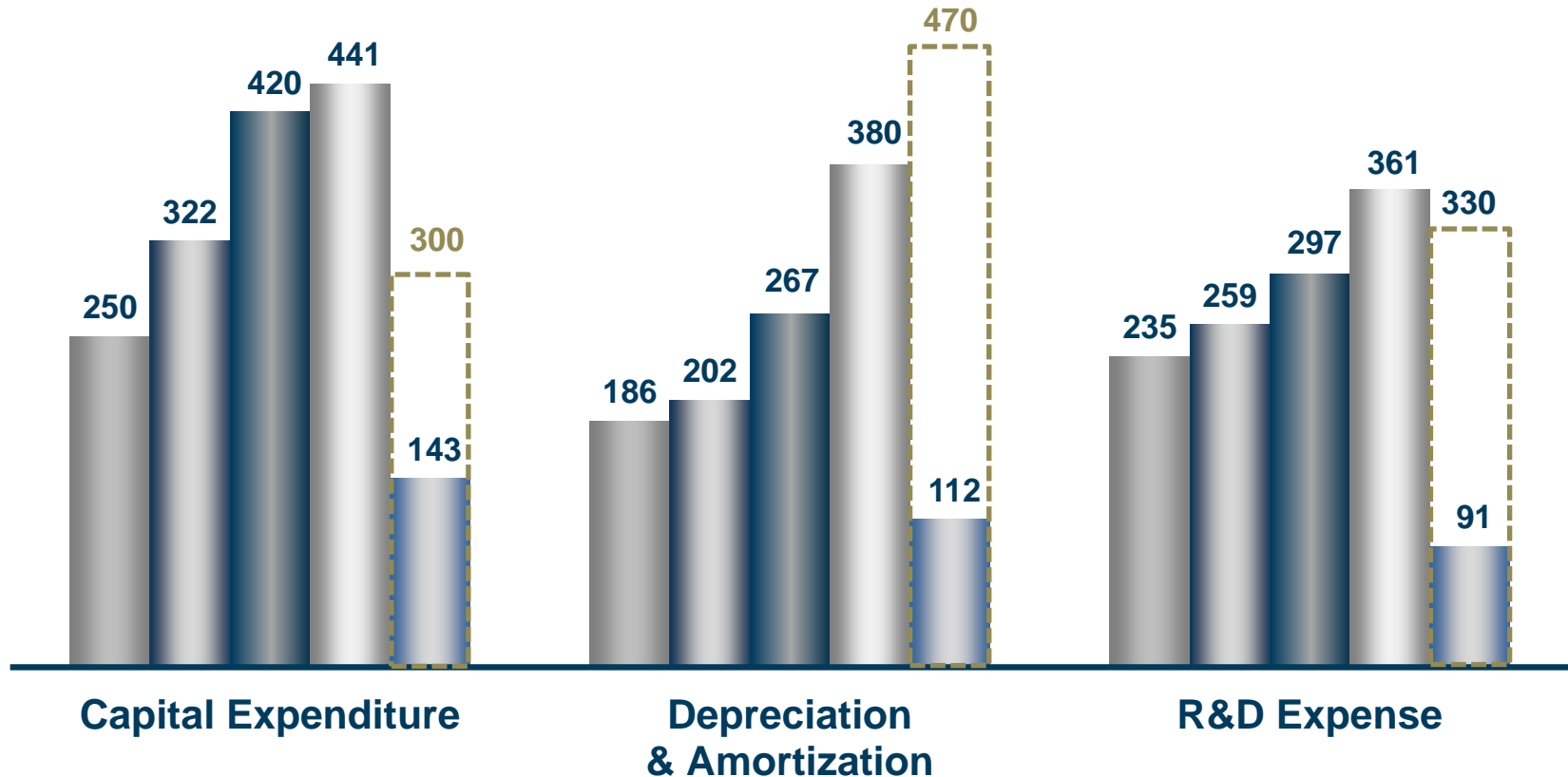
- **Share Buyback was initiated in March**
 - . Period: One year from Mar 20, 2020
 - . Fund: 40 bW

- **Objectives**
 - . To respond the stock market turmoil in March
 - . A defensive method to maintain shareholder value in case the pandemic lingers longer than generally anticipated
 - . Less than 3% of total fund has been used for the first two months.

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

■ FY2016 ■ FY2017 ■ FY2018 ■ FY2019 ■ FY2020

(KRW in Billions)



* E&FP consolidated since 2Q19

In 2020, R&D and CapEx will be balanced for business continuity and future growth

1Q 2020 Balance Sheet

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

Balance Sheet

	Mar 2020	Dec 2019	Dec 2018
Cash and cash equivalent	816	687	1,018
Account receivable	1,186	1,254	1,021
Inventories	758	613	506
Property and equipment	2,182	2,130	1,551
Intangible assets	1,708	1,593	564
Lease assets	234	205	181
Other assets	608	601	515
Total assets	7,491	7,082	5,356
Account payable	1,364	1,459	1,215
Debt	3,164	2,734	1,672
Other liabilities	602	552	337
Shareholder's equity	2,236	2,217	2,037
Non-controlling	124	121	95
Total liabilities & shareholders' equity	7,491	7,082	5,356

Cash and Debt

Cash Balance	Mar 2020	Dec 2019	Dec 2018
Net Debt	2,349	2,047	654
Net Debt Ratio	1.0x	0.9x	0.3x
Debt to Equity	1.3x	1.2x	0.8x

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

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

- Annualized EBITDA including Q1 performance of E&FP business

Hanon Systems has a cash holding that is sufficient to weather the crisis

Thank You

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