















# Hanon Systems

May 2017



# 1Q17 Financials

# Q1 2017 Key Financial Metrics

(KRW in Billions)	Q1 2017	YoY		QoQ	
		Q1 2016	B/(W)	Q4 2016	B/(W)
<b>Sales</b>	<b>1,449</b>	<b>1,428</b>	 <b>+1.5%</b>	<b>1,502</b>	 <b>-3.5%</b>
<b>Cost of Sales</b> <i>% of Sales</i>	<b>1,210</b> 83.5%	<b>1,195</b> 83.7%	 <b>+1.3%</b> -0.2%p	<b>1,258</b> 83.8%	 <b>-3.8%</b> -0.3%p
<b>SG&amp;A (Incl R&amp;D Exp)</b> <i>% of Sales</i>	<b>112</b> 7.7%	<b>129</b> 9.0%	 <b>-13.0%</b> -1.3%p	<b>128</b> 8.5%	 <b>-12.6%</b> -0.8%p
<b>EBITDA</b> <i>Margin (%)</i>	<b>176</b> 12.1%	<b>152</b> 10.6%	 <b>+15.8%</b> +1.5%p	<b>164</b> 10.9%	 <b>+7.4%</b> +1.2%p
<b>Operating Income</b> <i>Margin (%)</i>	<b>127</b> 8.8%	<b>105</b> 7.3%	 <b>+21.3%</b> +1.5%p	<b>116</b> 7.7%	 <b>+9.6%</b> +1.1%p
<b>Net Income</b> <i>Margin (%)</i>	<b>74</b> 5.1%	<b>72</b> 5.1%	 <b>+2.6%</b> +0.0%p	<b>94</b> 6.3%	 <b>-21.0%</b> -1.2%p

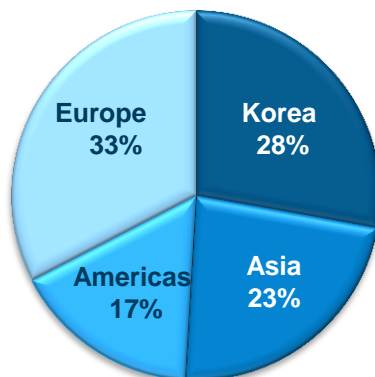
**Sales edged up despite of FX headwinds; OP increased on solid operations**

## Q1 Highlights

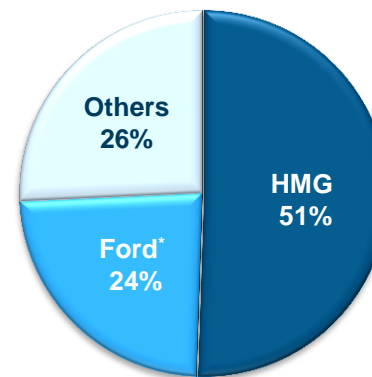
- ✓ OP increased by 21% YoY due to solid operation and cost saving activities
- ✓ New Business Wins on track: Diverse customer 76%, xEV portion 37%
- ✓ Quarterly dividends increased to 75 KRW per share (50% up YoY)

## Sales Breakdown

By Region



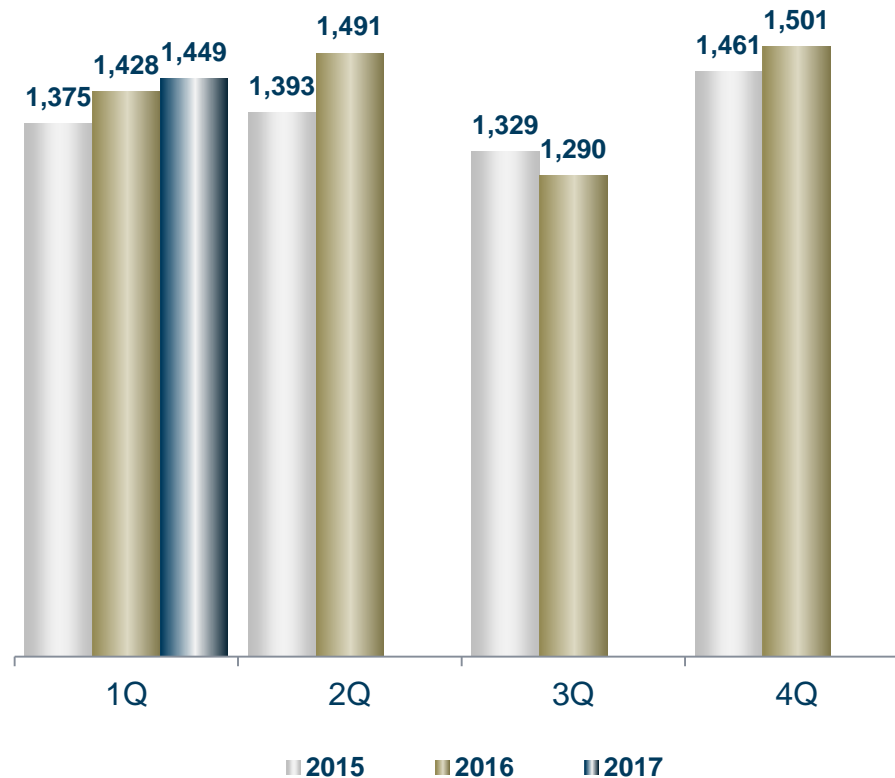
By Customer



- Based on Q1 2017 Sales, Total is 101% due to a rounding error
- Ford: Incl. Changan Ford & Ford Otosan

## Consolidated Sales

(KRW in Billions)



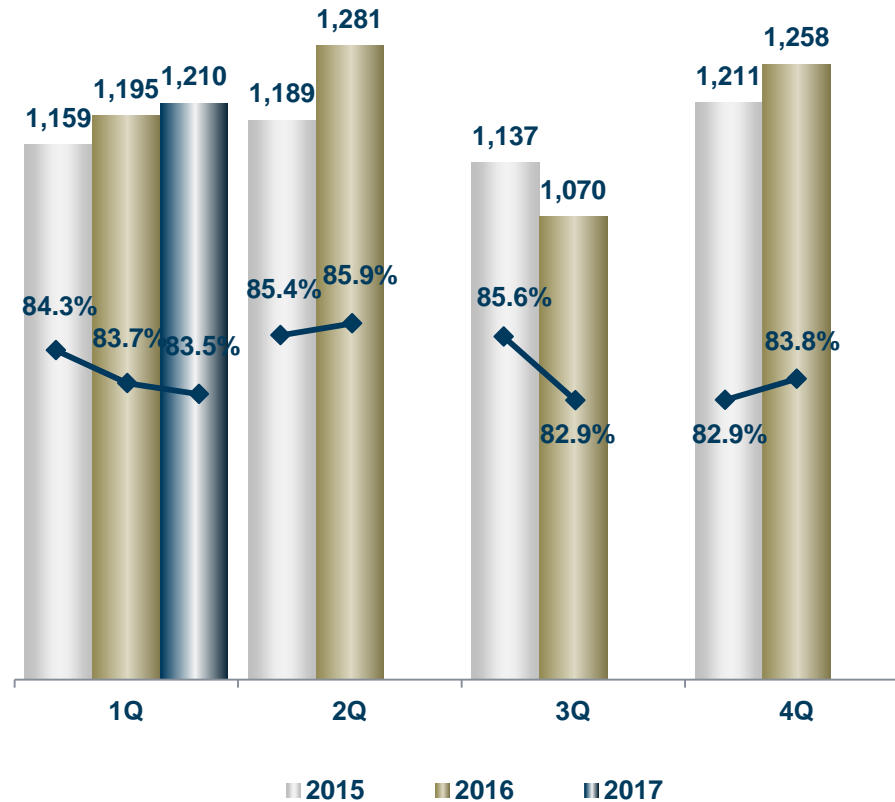
## Comments

- 1Q17 consolidated revenue increased by 1.5% YoY despite of FX headwinds (blended currency effect: -5.2% YoY)
- 1Q17 America revenue increased quickly due to Kia Mexico outputs
- 1Q17 Korea and Europe showed steady growth of revenue
- 1Q17 China revenue dropped to the lowest quarterly sales since 2014 due to sluggish sales of HMG in China and currency headwinds

**1Q17 revenue increased by 1.5% YoY despite of headwinds in FX and China**

## Quarterly COGS

(KRW in Billions)



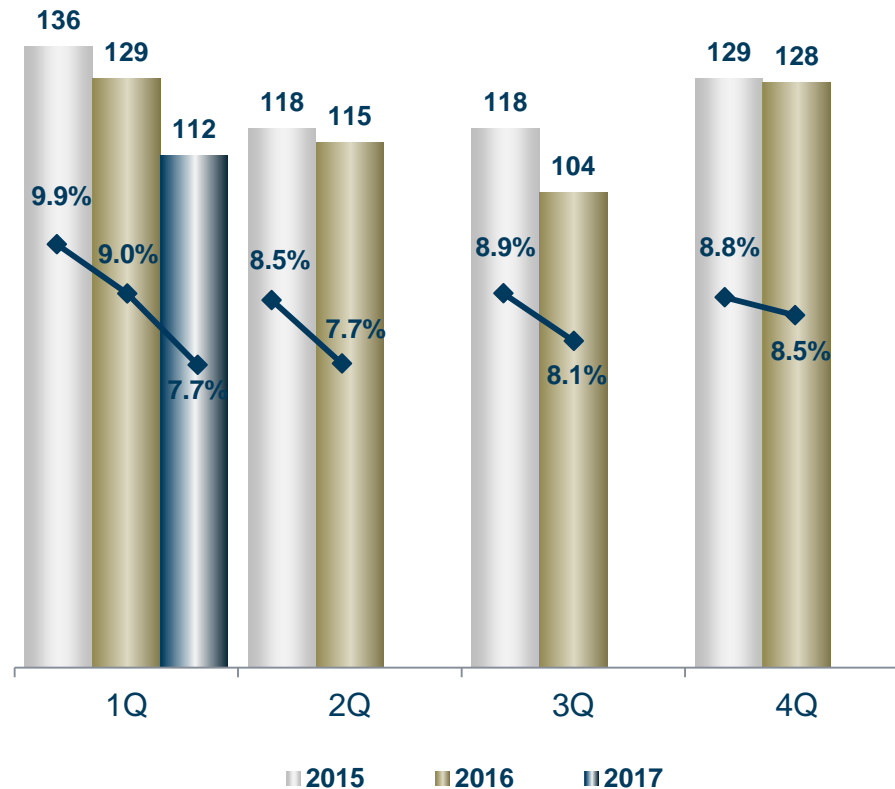
## Comments

- 1Q17 COGS ratio improved by 15 bp
- Positive factors:
  - . Volume growth
  - . xEV growth
- Negative factor:
  - . Low outputs in China

1Q17 COGS ratio improved slightly despite of China slowdown

## Quarterly SG&A Status

(KRW in Billions)



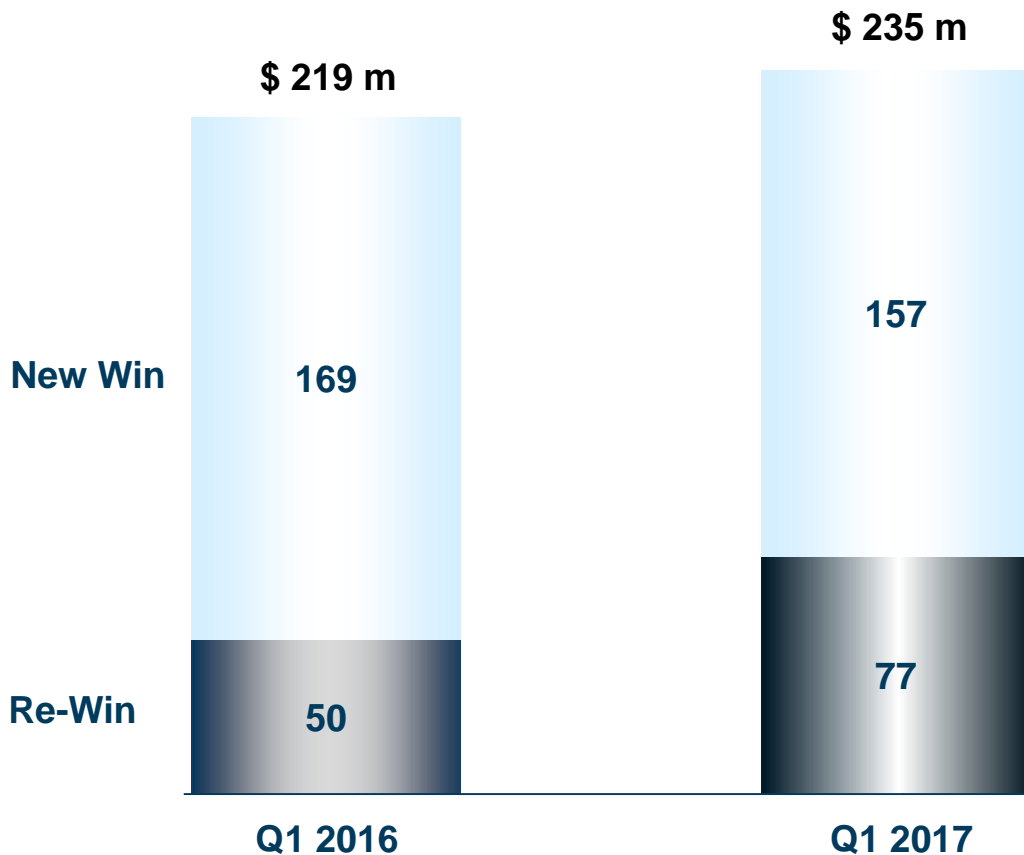
## Comments

- 1Q17 SG&A ratio improved by 130 bp
- Positive factors:
  - . Cost reduction in Europe
  - . Warranty and logistics cost reduction due to quality improvement

**1Q17 SG&A ratio improved by 130 bp mainly due to improvements in Europe**

# New Business Wins Update (Slide #1)

## Q1 2017 New Business Wins Status

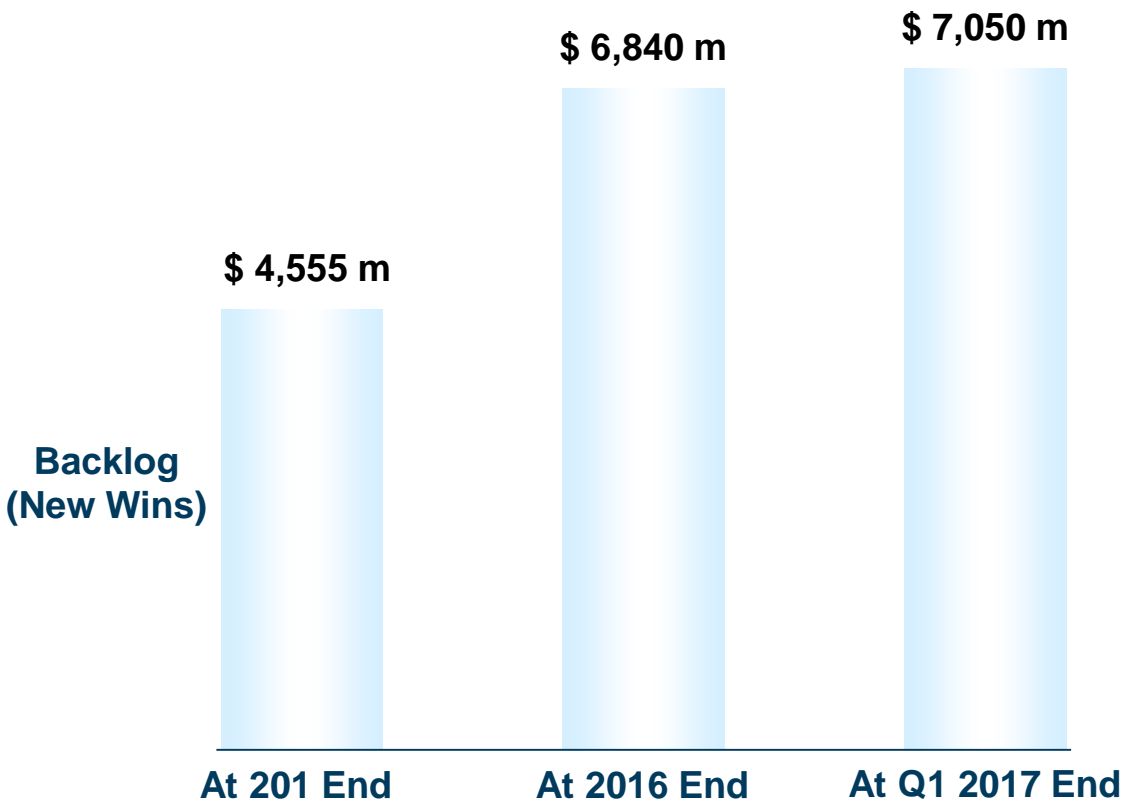


- NBW represents annual average revenue (in Mills. USD).
- Order from Growth and Tech Customers accounts for 76% of New Wins.
- Order for eco-friendly vehicles account for 37% of New Wins in Q1 2017.



# Backlog Status Update (Slide #2)

## Q1 2017 Backlog Status (New Wins Only)



- Definition of Backlog : Cumulative revenue for expected lifecycle of awards before SOP.
- Order from Growth and Tech Customers accounts for 62% of backlog.
- Order for eco-friendly vehicles account for 25% of backlog.

- **1Q17 Quarterly Dividends: 75 KRW per share**
- **Dividends Trend**

	<b>FY 2015</b>	<b>FY 2016</b>	<b>Q1 2017</b>
Yearly Dividends per Share (KRW)	194	225	75
Payout Ratio	44.9%	41.1%	54.1%*

\* Based on quarterly net income per share of 1Q17

# Key Highlight

- **On track to 2017 guidance of EBITDA 680 bW**
- **Continued profitability improvement in Europe**
- **China slowdown continues to impact in 2Q17**
- **Solid order flow will lead for a long term growth**
- **Increasing dividends to maximize shareholder value**



# Appendix.

# Q1 2017 Balance Sheet

(K-IFRS / KRW in Billions)

## Balance Sheet

	Q1E 2017	YE 2016
Cash and cash equivalent	732	425
Account receivable	991	1,054
Inventories	415	430
Property and equipment	1,139	1,178
Intangible assets	365	350
Other assets	384	422
<b>Total assets</b>	<b>4,026</b>	<b>3,860</b>
Account payable	1,004	1,017
Debt	827	646
Other liabilities	254	312
Shareholders' equity	1,884	1,828
Non-controlling interests	57	57
<b>Total liabilities &amp; shareholders' equity</b>	<b>4,026</b>	<b>3,860</b>

## Cash and Debt

Cash Balance	Q1E 2017	YE 2016	YE 2015
Net Debt	95	221	(46)
Net Debt Ratio	4.9%	11.7%	(2.6%)
Debt to Equity	42.6%	34.3%	22.3%

Leverage	Q1E 2017	YE 2016
Last 12 months EBITDA	633	609
Debt / EBITDA	1.308	1.062
Net Debt / EBITDA	0.150	0.363

**Better cash flows leading to strong balance sheet**



**Thank You**