



Hankook Technodome

# 2019 HANKOOK TIRE 2nd Quarter Results

 **HANKOOK** Tire & Technology

**The information in this presentation is based upon management forecasts and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, accuracy and completeness of all information available from public sources of which was provided by us or which was reviewed by us.**

**The information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.**

# 2019 1H Financial Highlights



## 2019 1H Global Performance (Consolidated)

[100 Million KRW, %]

	2018 1H	2019 1H	YoY
Sales	33,145	33,844	2.1%
COGS	22,695 <i>(68.5%)</i>	24,166 <i>(71.4%)</i>	6.5%
Operating Profit	3,701 <i>(11.2%)</i>	2,477 <i>(7.3%)</i>	-33.1%
Ordinary Profit	4,110 <i>(12.4%)</i>	2,929 <i>(8.7%)</i>	-28.7%
EBITDA	6,392 <i>(19.3%)</i>	5,537 <i>(16.4%)</i>	-13.4%

2019 1H tire market declined YoY due to global economic slowdown, lower consumer sentiment and decline in automotive industry  
→ 2H is expected to show slight improvement with low base effect and less auto inventory

- **US-China trade war having negative impacts on global economy**
- **Downturn in global auto sales and increased uncertainty**
  - Slowdown of auto sales continue in China and Europe
  - Decrease of utilization and increased pricing pressure for auto-parts
- **Higher trade barriers on Chinese Tires**
  - Antidumping duties on China imports in both USA and EU

# Our Challenges

- High fixed cost in low demand cycle
- Relatively high dependency on China
  - Approximately 30% of tire production and over 10% of sales from China
  - Tough business environment with US-china trade war, low consumer sentiment and continued tariff issues including anti-dumping and countervailing duties
- Tennessee Plant stabilization
  - High COGs from the slow stabilization progress of the high-inch focus plant
- Change of global tire distribution structure
  - Utilizing retail acquisitions and improving profits from distribution change in Korea

- 2019 guidance adjusted to 7 trillion KRW in sales and OPM level of over 8%
  - Lower than expected 2019 1H results; Sales at 3,384billion KRW (YoY 2.1%), Operating profit 247.7billion KRW (YoY -33.1%) and OPM 7.3%
- Downturn of China and Europe auto market and soft RE demand in major regions resulted to lower sales volume YoY
- Increased fixed costs and weak sales volume
- Difficulties including weak demand expected to continue into 2H, but positive estimates expected in some regions

## Positives

- Continued growth of  $\geq 17$ " segments\*
- Stabilization of Tennessee Plant
- Increased OE-RE synergy in US market

## Negatives

- Higher fixed cost in low demand cycle
- Soft demand from Europe
- North America growth driven by Tier 3

\* 2019 2Q sales ratio of  $\geq 17$ inch within PC/LT reached 54.9%, an increase of 2.8%p YoY

## 1 Margin improvement with focus on high inch segments

- Sales volume improvements in profitable areas
- Introducing more  $\geq 18$ " products
- Seizing opportunities of the OE Inch up Trend

## 2 Finding new distribution channels

- Developing new channels in USA
- Expanding TBR fleet business in Korea, China and Canada

## 3 Increasing business opportunities in the budget brand market

- Using Laufenn and associate brands as leverage to meet the growing demand of the budget brand segments in North America and Europe

## 4 Expanding OE Business for continued growth

- Realizing OE-RE synergies and increasing OE supplies for future growth
- Further R&D investment for future mobility such as EVs

# 2019 2<sup>nd</sup> Quarter Results



## 2019 2Q Global Performance (Consolidated)

[100 Million KRW, %]

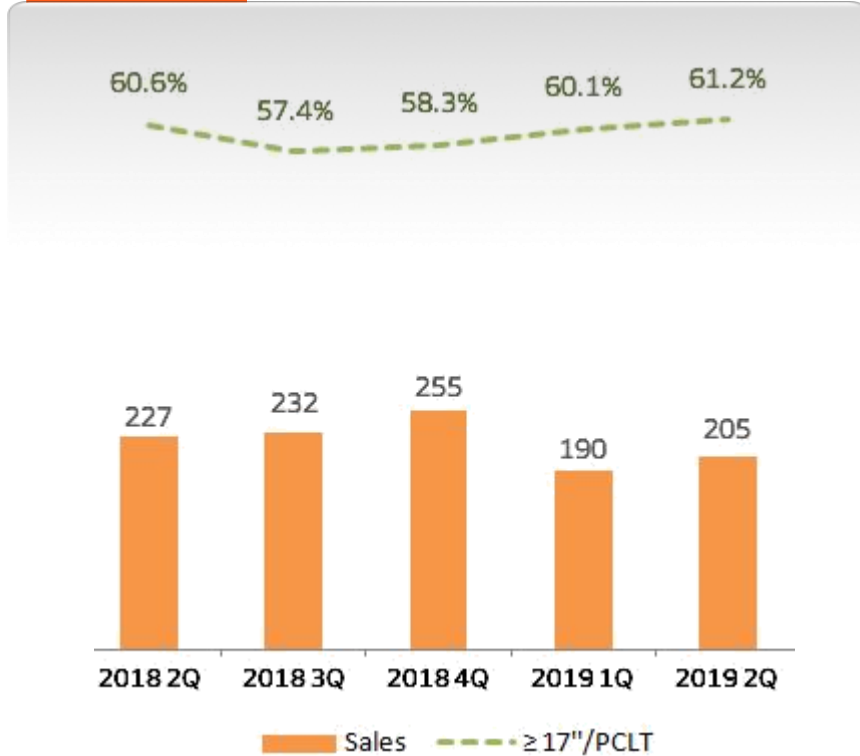
	<u>2018 2Q</u>	<u>2019 1Q</u>	<u>2019 2Q</u>	<u>QoQ</u>	<u>YoY</u>
Sales	17,054	16,425	17,419	6.1%	2.1%
COGS	11,577 (67.9%)	11,631 (70.8%)	12,535 (72.0%)	7.8%	8.3%
Operating Profit	1,853 (10.9%)	1,406 (8.6%)	1,071 (6.1%)	-23.8%	-42.2%
Ordinary Profit	2,257 (13.2%)	1,590 (9.7%)	1,339 (7.7%)	-15.8%	-40.7%
EBITDA	3,175 (18.6%)	3,034 (18.5%)	2,503 (14.4%)	-17.5%	-21.2%



# Regional Performance

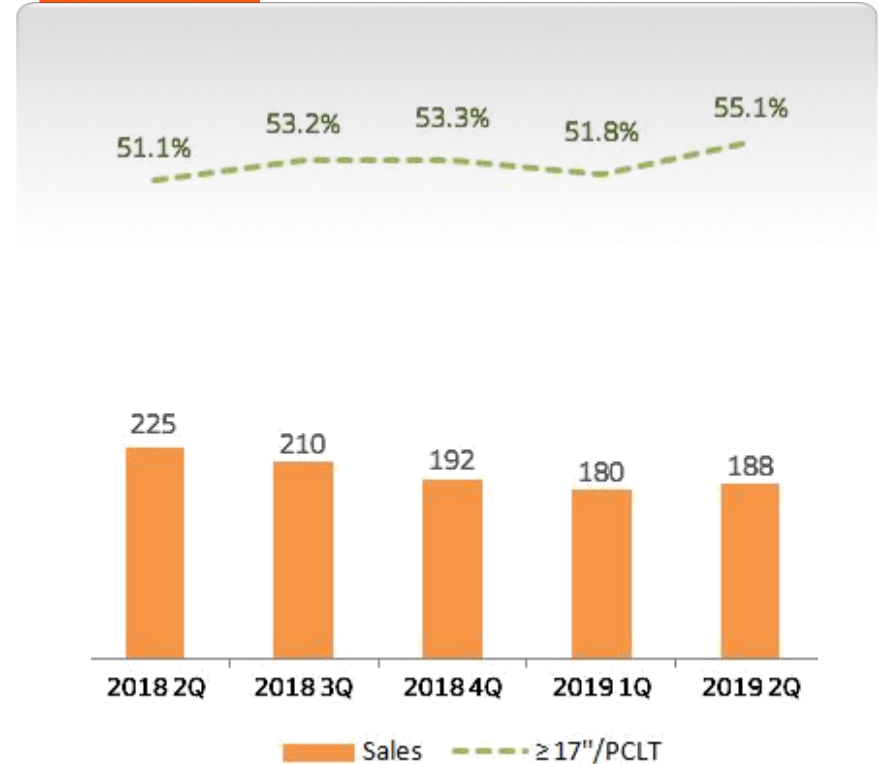
## Korea

[Unit: Billion KRW, %]



## China

[Unit: Billion KRW, %]



- Despite strong growth in the ≥17\"/>
- Decline in OE sales

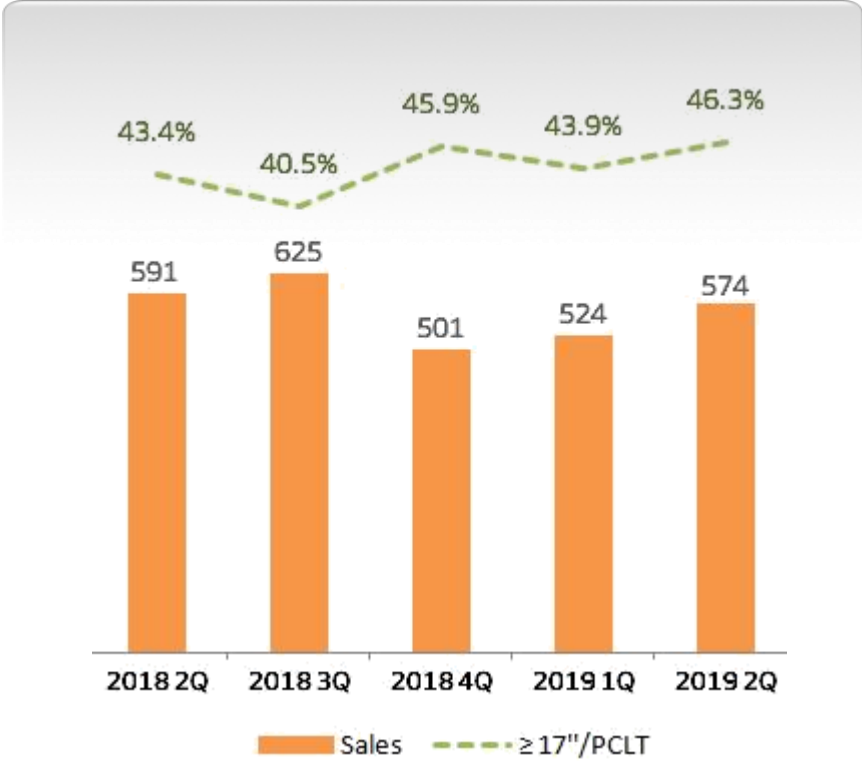
- Stable growth of RE sales especially in the ≥17\"/>
- Continued contraction of car sales with weak consumer sentiment resulted decline of OE sales

# Regional Performance



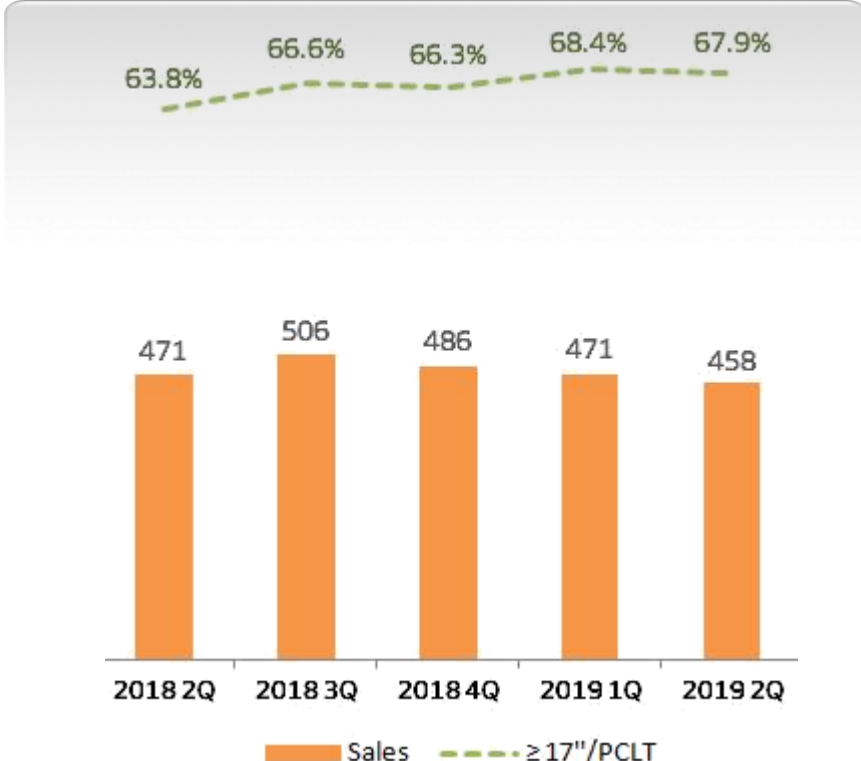
## Europe

[Unit: Billion KRW, %]



## North America

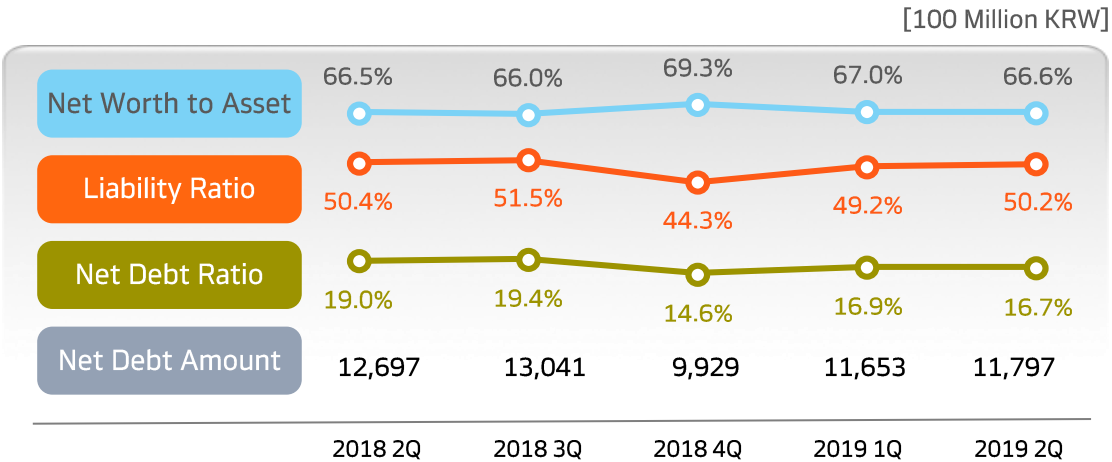
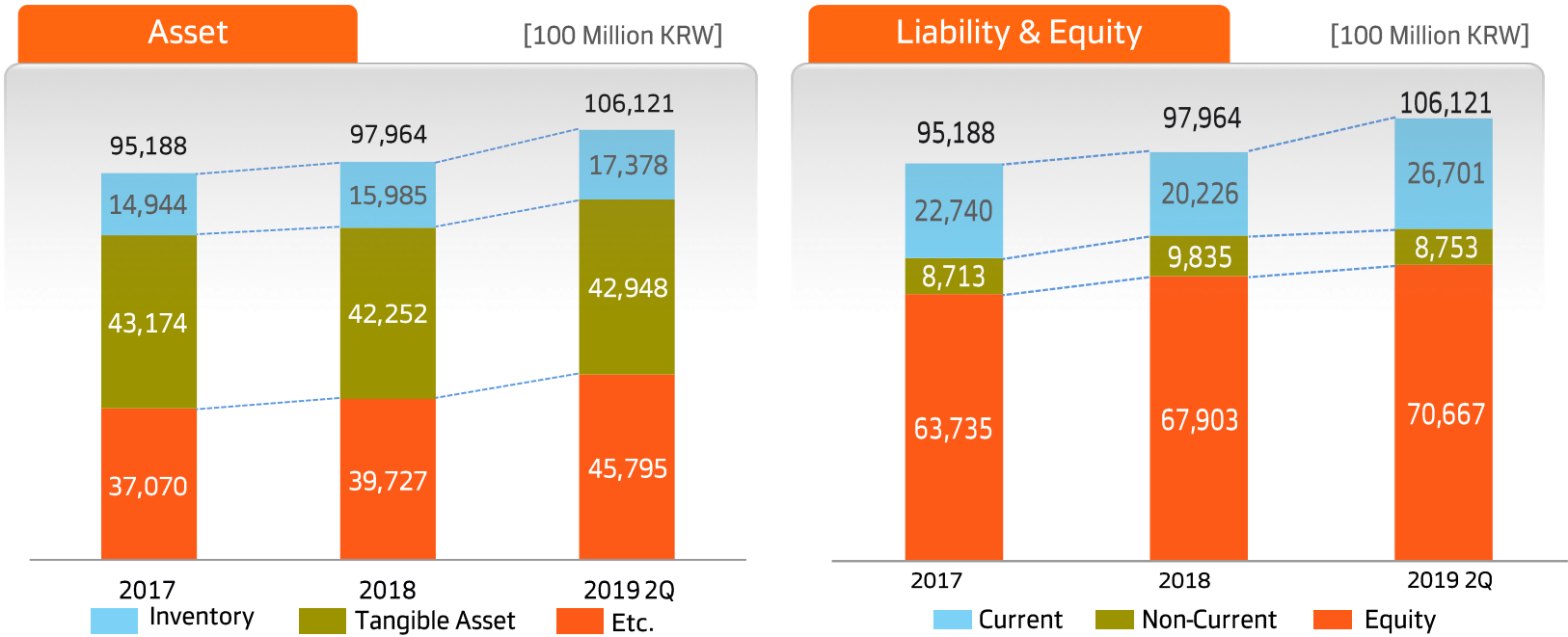
[Unit: Billion KRW, %]



- RE sales decline due to lower demand and high level of inventory in distribution
- Weak automotive market continue to give negative impact on OE sales

- Weak RE sales due to change of tire distribution environment
- Stable OE business with major automotive partners

# Stability - Balance Sheet (Consolidated)



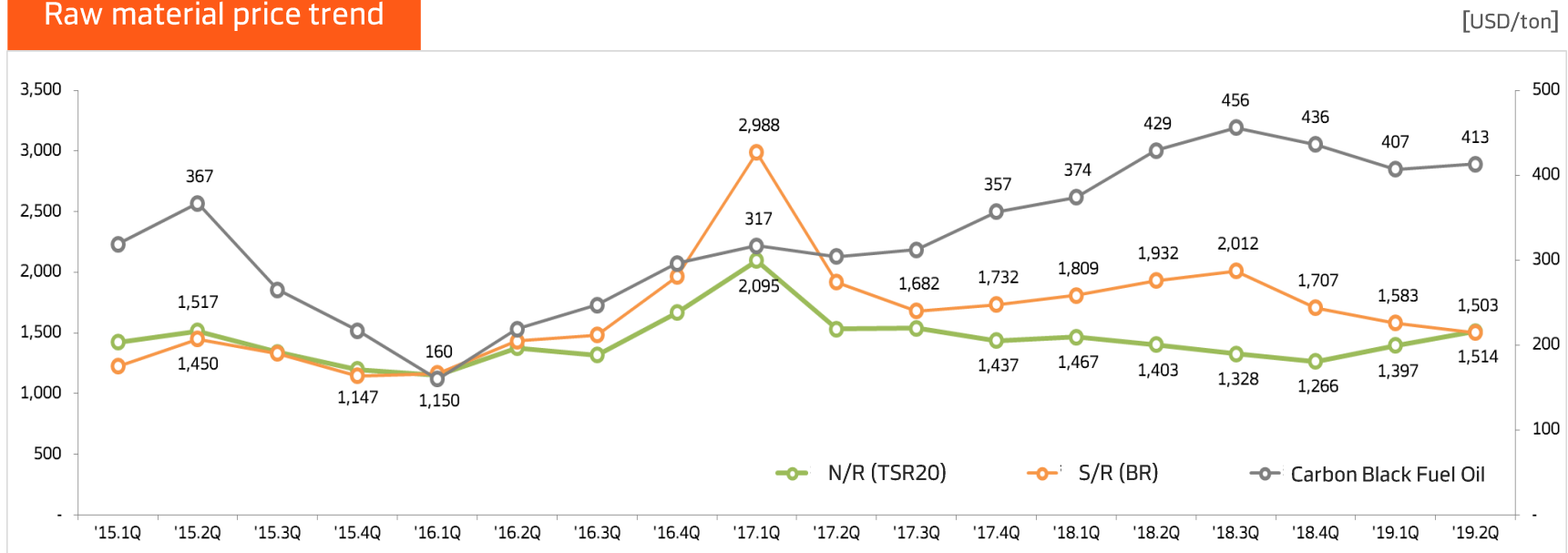


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# Appendix. Raw Material Trend

- N/R : Southeast Asia's heatwave and drought tightened N/R supply raising SICOM prices  
2019 2Q TSR20 price up 7.9% YoY, up 8.4% QoQ
- S/R : S/R prices continued to show weakness with continued downturn of global auto market  
2019 2Q BR prices down 22.2% YoY, down 5.0% QoQ
- C/B : Fuel oil prices showed a slight upturn in 2Q with rising oil prices, current price level expected to continue into 2H  
2019 2Q Carbon black fuel oil prices down 3.7% YoY, up 1.5% QoQ

## Raw material price trend



Note1) TSR20 : SICOM Price (Natural Rubber)  
Note2) BR(Butadiene Rubber) : ICIS CFR NE/SE Asia average price

Note3) Carbon Black Fuel Oil : Index price of refined oil

# Appendix. F/S - Consolidated B/S

[100 Million KRW, %]

	2018		2019 2Q		Diff.	
	Amt.	%	Amt.	%	Amt.	%
Assets	97,964	100.0%	106,121	100.0%	8,157	8.3%
Current Assets	36,532	37.3%	43,695	41.2%	7,163	19.6%
Cashable Assets	6,396	6.5%	10,358	9.8%	3,962	61.9%
Accounts Receivable	13,327	13.6%	14,780	13.9%	1,453	10.9%
Inventories	15,985	16.3%	17,378	16.4%	1,393	8.7%
Non-current Assets	61,433	62.7%	62,427	58.8%	994	1.6%
Tangible Assets	42,252	43.1%	42,948	40.5%	696	1.6%
Liabilities	30,061	30.7%	35,454	33.4%	5,393	17.9%
Current Liabilities	20,226	20.6%	26,701	25.2%	6,475	32.0%
Non-Current Liabilities	9,835	10.0%	8,753	8.2%	-1,082	-11.0%
Shareholder's Equity	67,903	69.3%	70,667	66.6%	2,764	4.1%
Debt	16,324		21,553			
Net Debt	9,929		11,797			
Liability Ratio		44.3%		50.2%		
Net Worth to Assets		69.3%		66.6%		
Net Debt Ratio		14.6%		16.7%		

# Appendix. F/S - Consolidated I/S

[100 Million KRW, %]

	2018 2Q		2019 1Q		2019 2Q		YoY	QoQ
	Amt.	%	Amt.	%	Amt.	%	(%)	(%)
Sales	17,054	100.0%	16,425	100.0%	17,419	100.0%	2.1%	6.1%
COGS	11,577	67.9%	11,631	70.8%	12,535	72.0%	8.3%	7.8%
Gross Profit	5,477	32.1%	4,794	29.2%	4,884	28.0%	-10.8%	1.9%
SG&A	3,624	21.3%	3,388	20.6%	3,813	21.9%	5.2%	12.5%
Operating Profit	1,853	10.9%	1,406	8.6%	1,071	6.1%	-42.2%	-23.8%
Other Revenue	757	4.4%	696	4.2%	800	4.6%	5.7%	15.0%
Other Expense	363	2.1%	298	1.8%	242	1.4%	-33.4%	-18.8%
Financial Revenue	324	1.9%	205	1.2%	276	1.6%	-14.8%	34.6%
Financial Expense	410	2.4%	488	3.0%	567	3.3%	38.2%	16.1%
Equity-method gain(loss)	96	0.6%	69	0.4%				
Income before income tax	2,257	13.2%	1,590	9.7%	1,339	7.7%	-40.7%	-15.8%
EBITDA	3,175	18.6%	3,034	18.5%	2,503	14.4%	-21.2%	-17.5%
Depreciation	1,322	7.8%	1,628	9.9%	1,432	8.2%	8.3%	-12.0%

\* '19. 2Q Investments in associates is currently included in Other Revenue and will be re-classified after the audit