



Hankook Technodome

# 2019 HANKOOK TIRE 2nd Quarter Results

 **HANKOOK** Tire & Technology

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**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 (68.5%)	24,166 (71.4%)	6.5%
Operating Profit	3,701 (11.2%)	2,477 (7.3%)	-33.1%
Ordinary Profit	4,110 (12.4%)	2,929 (8.7%)	-28.7%
EBITDA	6,392 (19.3%)	5,537 (16.4%)	-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, %]

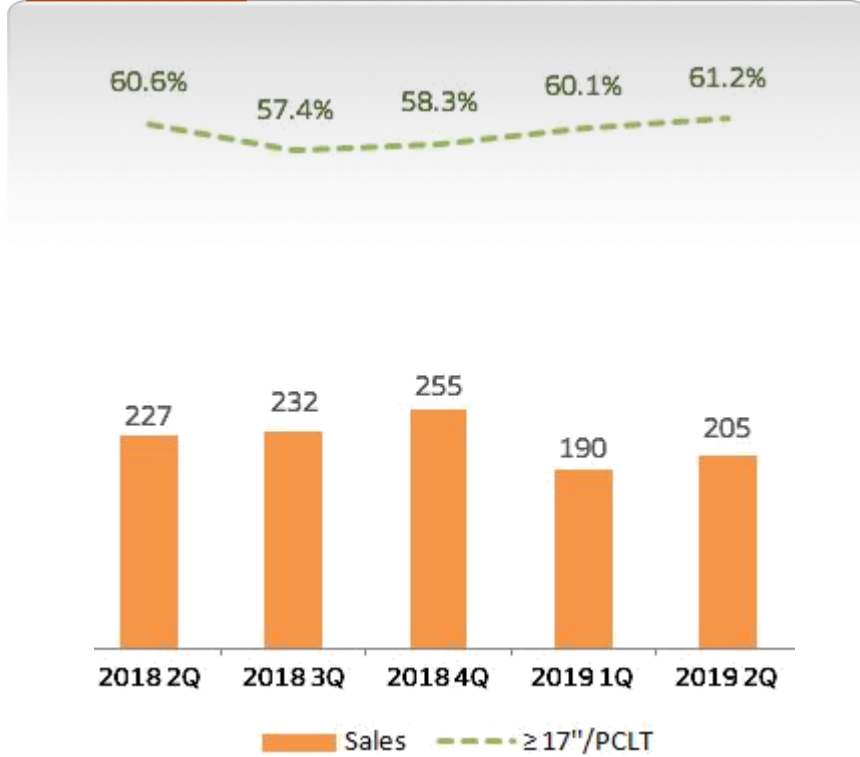
	<u>2018 2Q</u>	<u>2019 1Q</u>	<u>2019 2Q</u>	<u>QoQ</u>	<u>YoY</u>
Sales	17,054	16,425	17,419	6.1%	2.1%
COGS	11,577 (67.9%)	11,631 (70.8%)	12,535 (72.0%)	7.8%	8.3%
Operating Profit	1,853 (10.9%)	1,406 (8.6%)	1,071 (6.1%)	-23.8%	-42.2%
Ordinary Profit	2,257 (13.2%)	1,590 (9.7%)	1,339 (7.7%)	-15.8%	-40.7%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



# Regional Performance

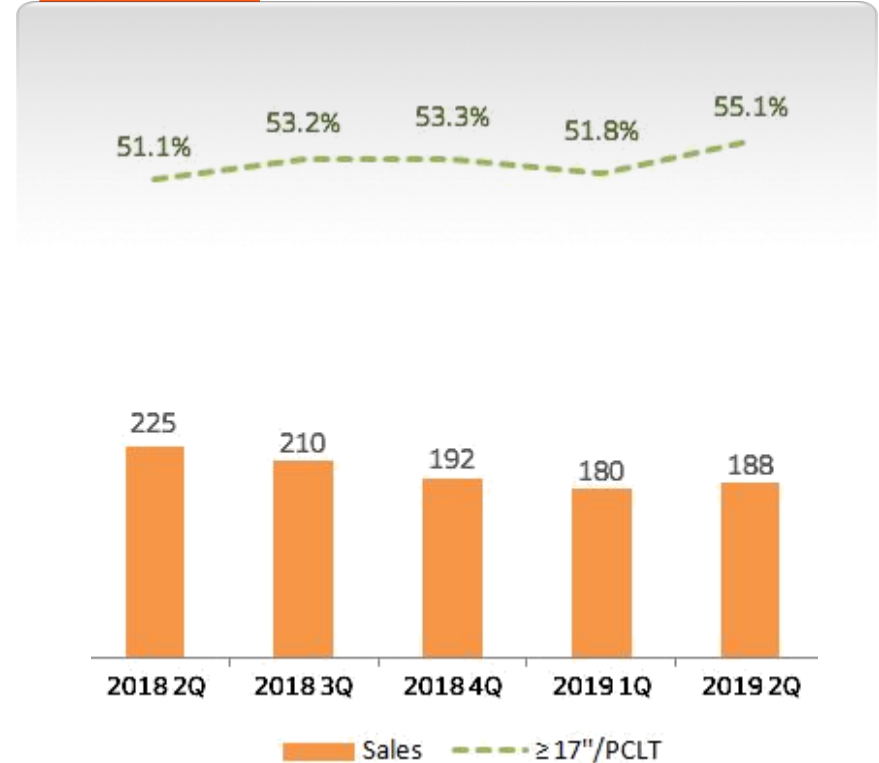
## Korea

[Unit: Billion KRW, %]



## China

[Unit: Billion KRW, %]



- Despite strong growth in the ≥17" segment, RE sales decline YoY due to high levels of retail stock
- Decline in OE sales

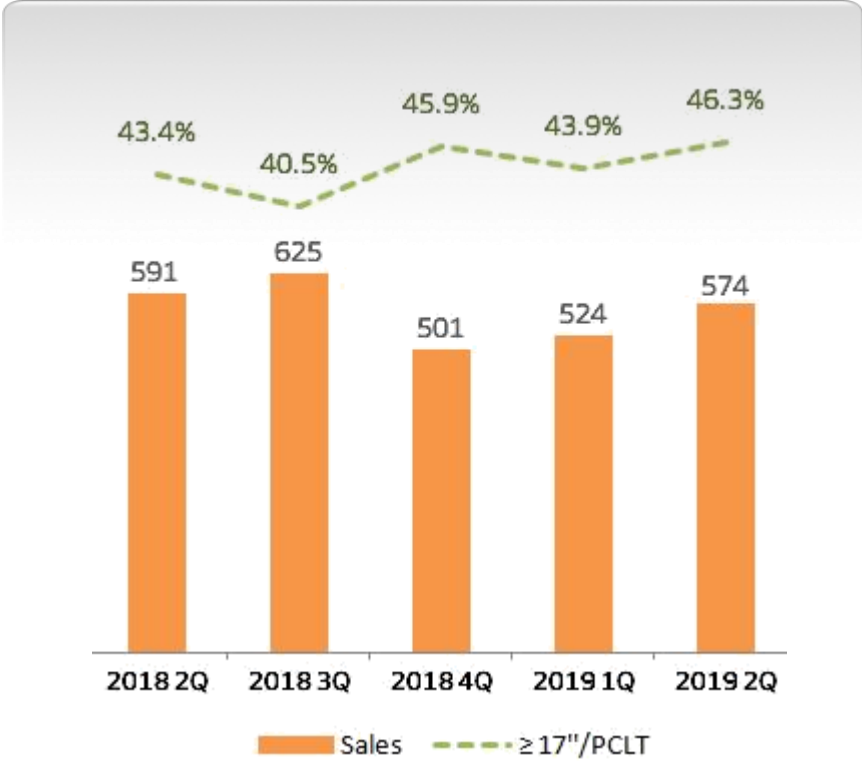
- Stable growth of RE sales especially in the ≥17" segment
- Continued contraction of car sales with weak consumer sentiment resulted decline of OE sales

# Regional Performance



## Europe

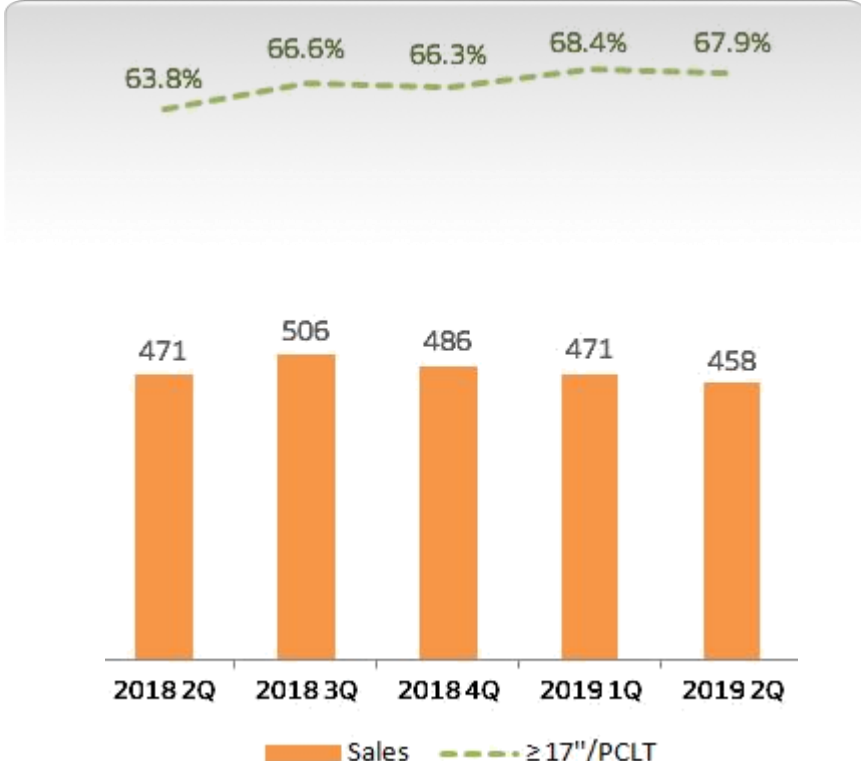
[Unit: Billion KRW, %]



- 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

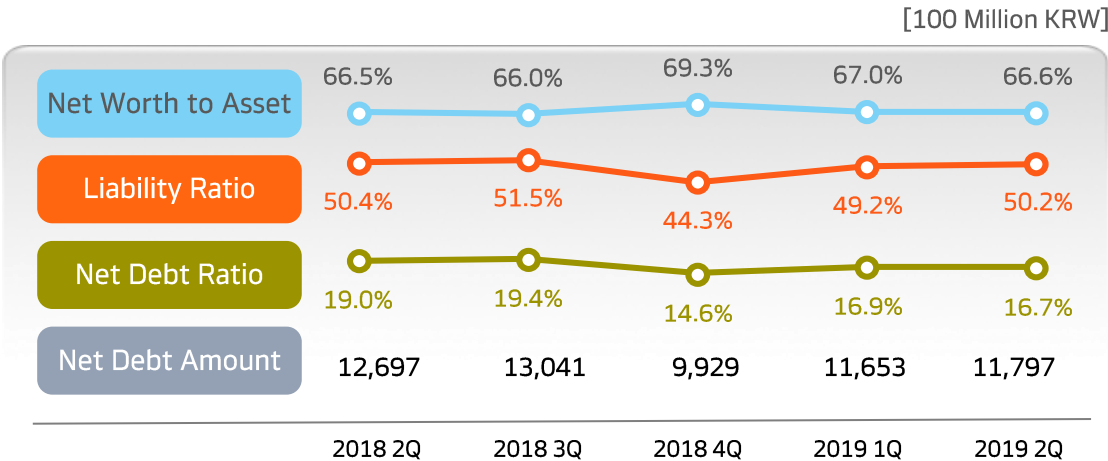
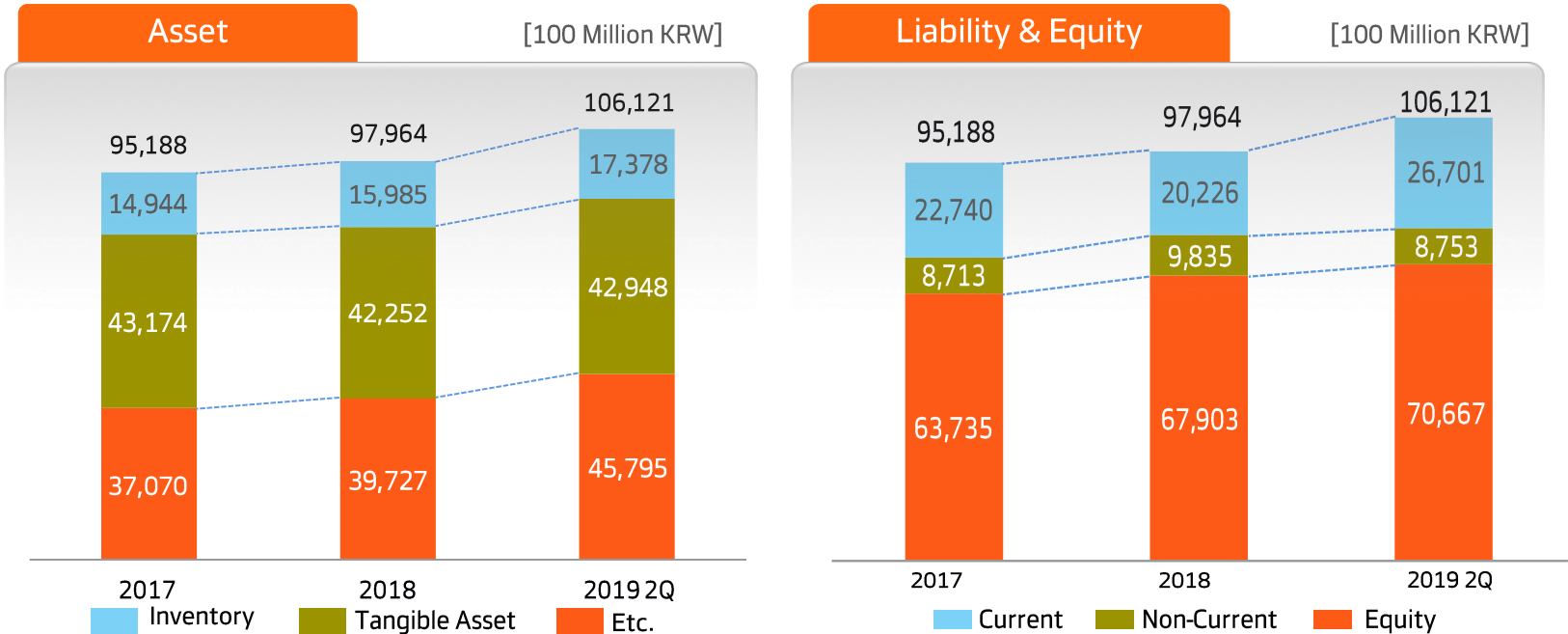
## North America

[Unit: Billion KRW, %]



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

# Stability - Balance Sheet (Consolidated)



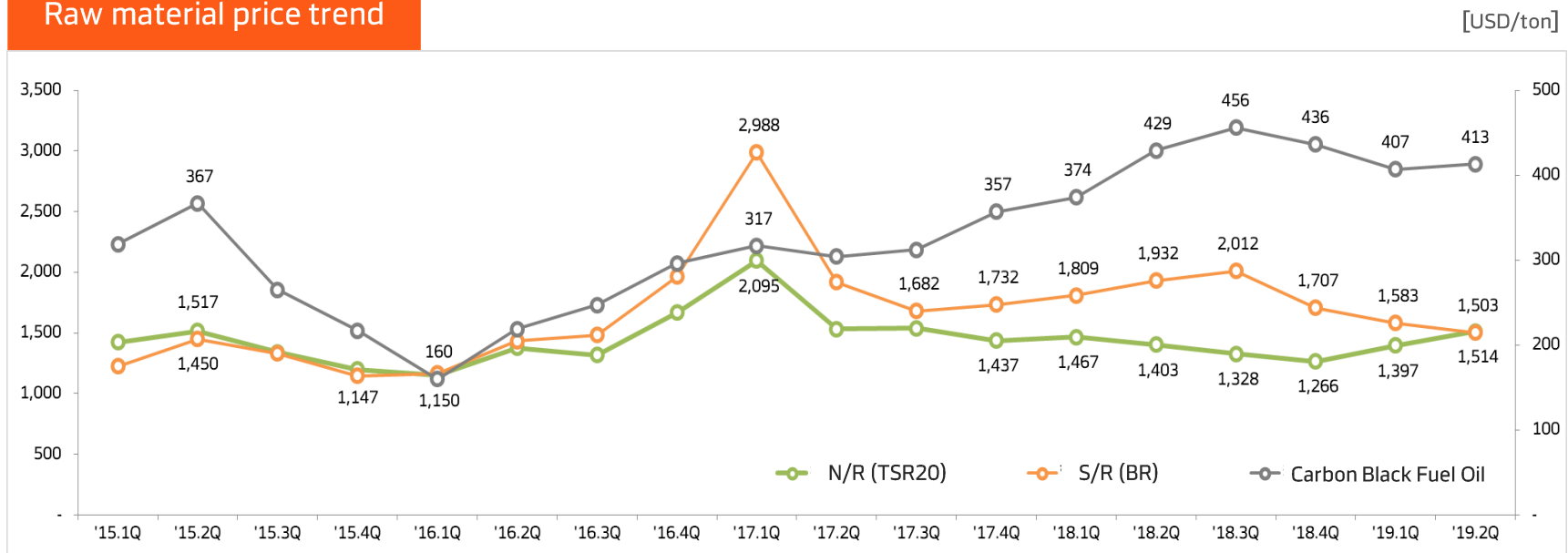


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# Appendix. Raw Material Trend

- 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