



CEO Conference Call

November 9, 2023

New Leadership Team



Nurdal Kücükaya
President and Co-CEO



Subu Nagasubramony
President and Co-CEO



Kwang Seob Jung
Executive VP and CFO

Experienced leadership team for holistic transformation

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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.

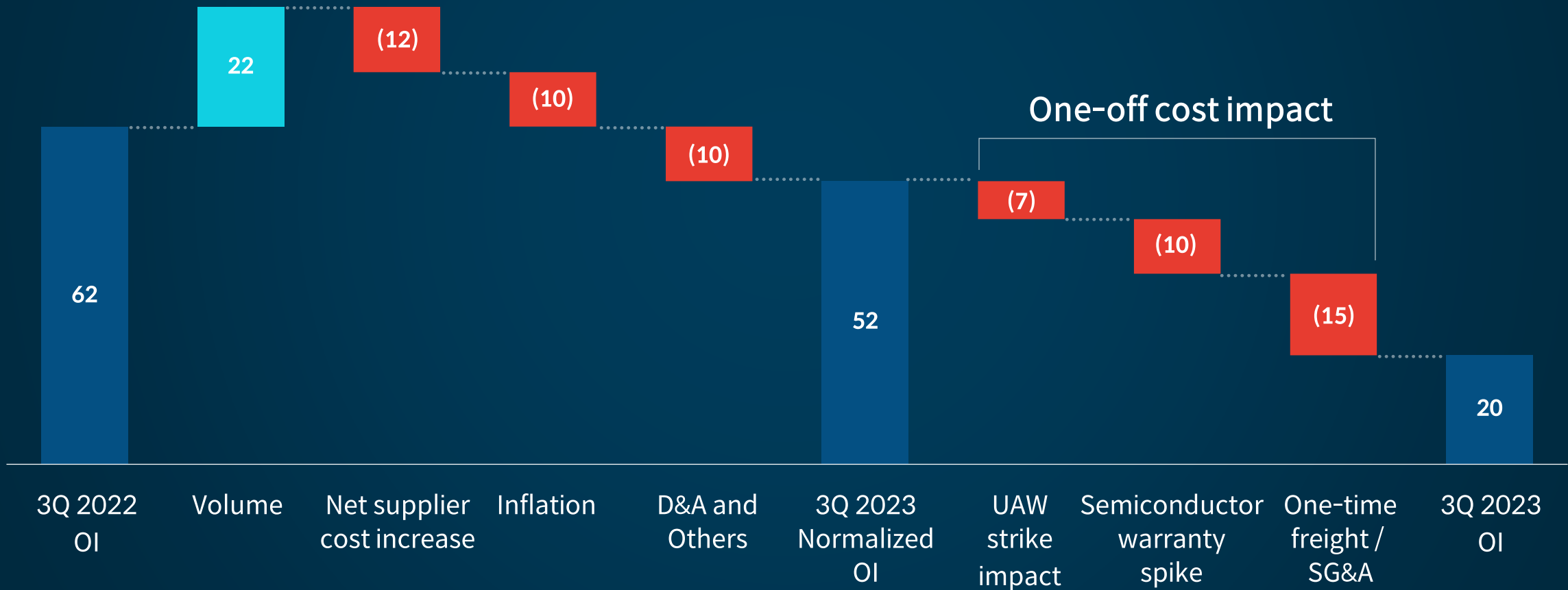
3Q 2023: Key YoY Financial Metrics

Unit: KRW in billions

	3Q 2023	3Q 2022	YoY Variance	
Revenue	2,327	2,196	131	6.0%
COGS	2,138	1,991	147	7.4%
% of Sales	91.9%	90.7%	1.2%p	
SG&A (Incl. R&D)	169	142	26	18.5%
% of Sales	7.3%	6.5 %	0.8%p	
EBITDA	173	205	(32)	(15.4%)
Margin (%)	7.4%	9.3%	(1.9%p)	
Operating Income	20	62	42	(67.2%)
Margin (%)	0.9%	2.8%	(1.9%p)	
Net Income	(42)	19	(61)	-
Margin (%)	(1.8%)	0.9%	(2.7%p)	

Normalized 3Q OI before one-off cost impact is 52 B KRW

3Q 2023 vs. 3Q 2022 Operating Income Walk



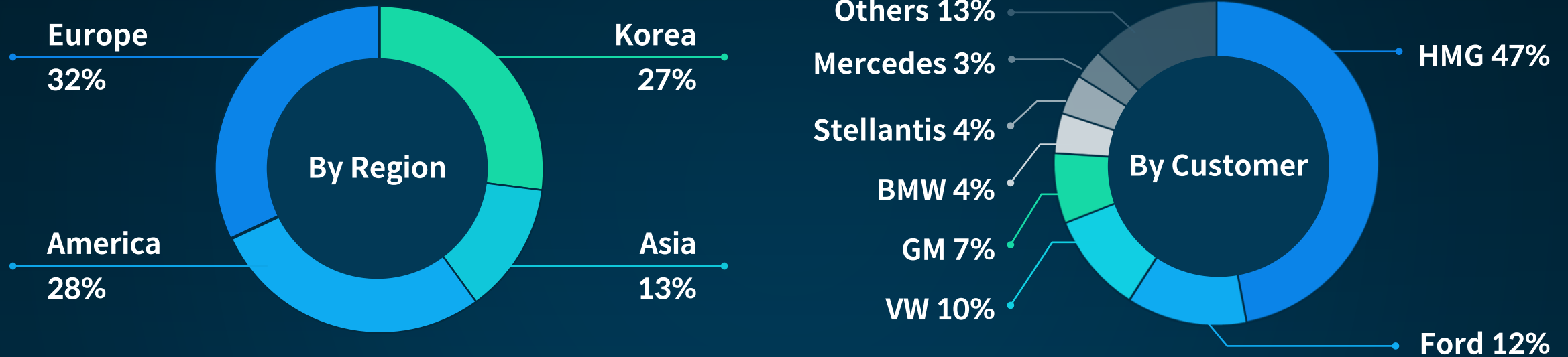
3Q YTD 2023: Key YoY Financial Metrics

Unit: KRW in billions

	3QYTD 2023	3QYTD 2022	YoY Variance	
Revenue	7,097	6,282	815	13.0%
COGS	6,410	5,699	711	12.5%
% of Sales	90.3%	90.7%	(0.4%p)	
SG&A (Incl. R&D)	463	431	32	7.5%
% of Sales	6.5%	6.9%	(0.4%p)	
EBITDA	664	565	99	17.4%
Margin (%)	9.4%	9.0%	0.4%p	
Operating Income	224	152	72	47.1%
Margin (%)	3.2%	2.4%	0.8%p	
Net Income	113	56	57	102.9%
Margin (%)	1.6%	0.9%	0.7%p	

3Q 2023 Highlights

Sales Breakdown (3Q23 YTD)



3Q23 Highlights

- Revenue decreased quarter-on-quarter due to volume decrease driven by car sales slowdown and slow EV ramp-up
- Profitability constrained by weak volume recovery, cost increases, delayed price recovery and one-off cost impact
- Company executing turnaround plan for 2024 focusing on operational efficiency and financial structure improvements

Dividend



3Q 2023 Quarterly Dividend (68 KRW per share)

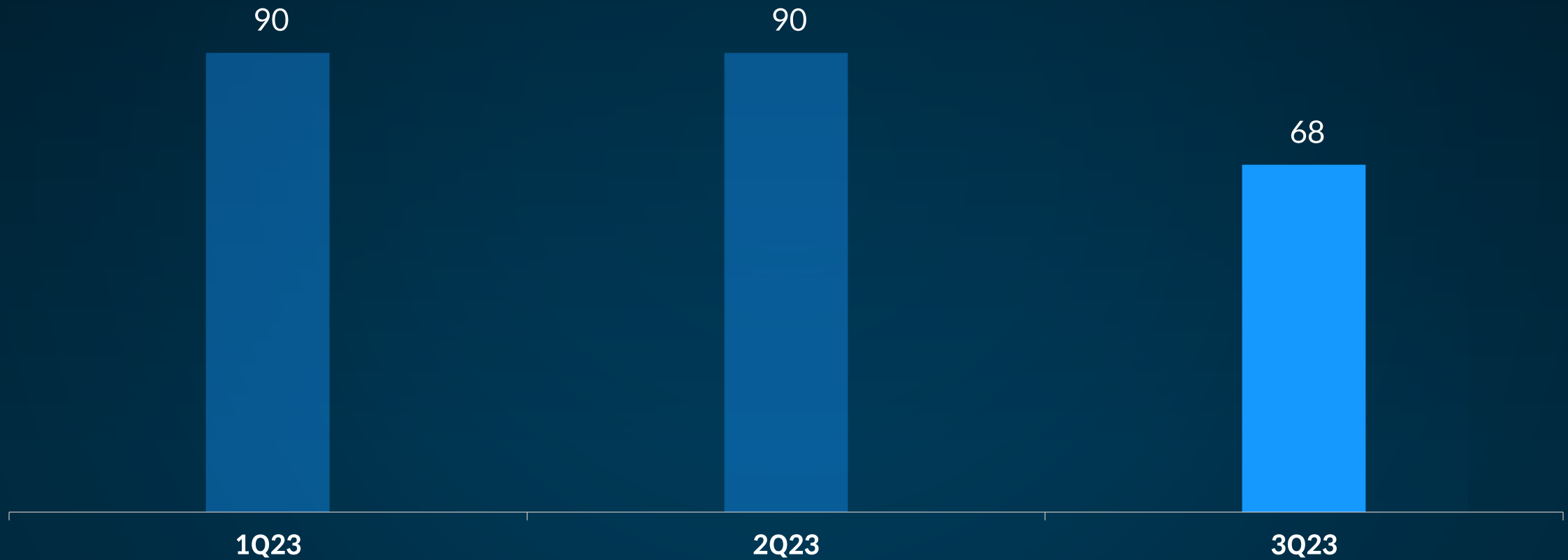


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2024 Strategic Direction

“ Transformation into Execution-oriented Company ”

~ 2023

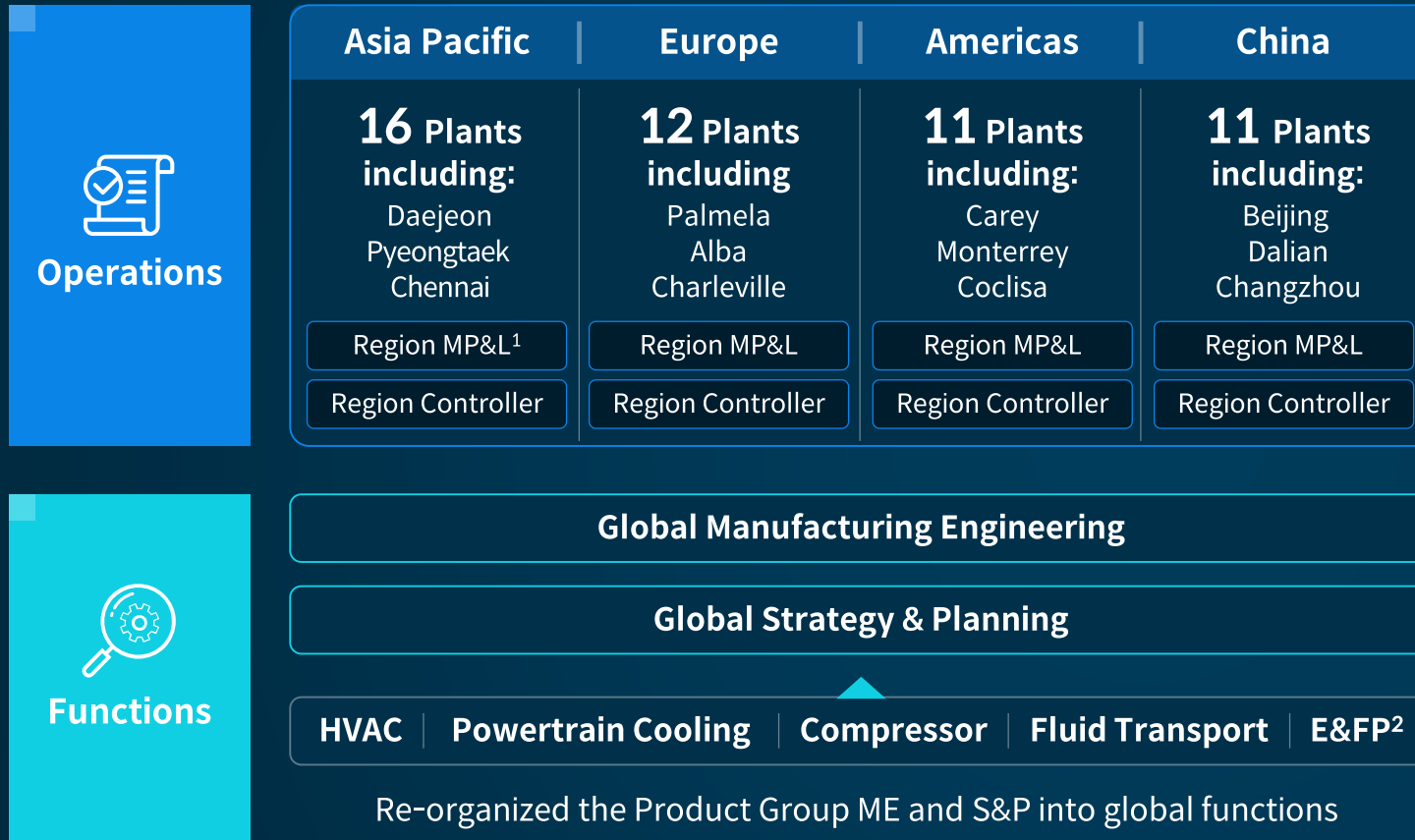
Customer Diversification
and Growth Focus



2024 and on

Realization of Profitable
Growth through
Execution Excellence

Organizational Changes (effective as of August 2023)



Key Advantages

- 1 **Suited for operational efficiency improvement** by hands-on management on plant issues
- 2 **Optimized supply chain management** based on tighter management of material planning & logistics under regional leadership
- 3 **Swift response** to changes in regional market environment and customer situations
- 4 **Continued global-scale planning** for efficient business pursuit and capital deployment

Region-based operation under global planning for fast execution and optimal resource management

1. Material Planning & Logistics
2. Electronics & Fluid Pressure

Strong Action Plan to Improve Profitability

Operational Efficiency Improvement

~100 B KRW



- Immediate actions on 13 focus plants
- Labor optimization by more than 1,000 headcount

Supply Chain Optimization

~80 B KRW



- Regional supply chain management
- Freight cost reduction to sales ratio to pre-COVID level

Additional Recovery and Repricing

~75 B KRW



- Cost recovery rate of 80%+
- Systematic cost impact management and escalation

Note : Annualized impact of EBIT improvement

Focus Plant Locations and Their Business Environments

13 focus plants prioritized and concrete action plans already underway for profit improvement



1. Overall Equipment Effectiveness
2. Build-to-Schedule

Focus Plants Actions

Total ~70 B KRW improvement through operation optimization from 13 focus plants



Supply Chain Optimization

~80 B KRW cost improvement expected in freight costs with regional MP&L¹ and stabilized indexes

Stabilized freight rates to be fully realized in costs

Efficiency improvement through regional supply chain operation

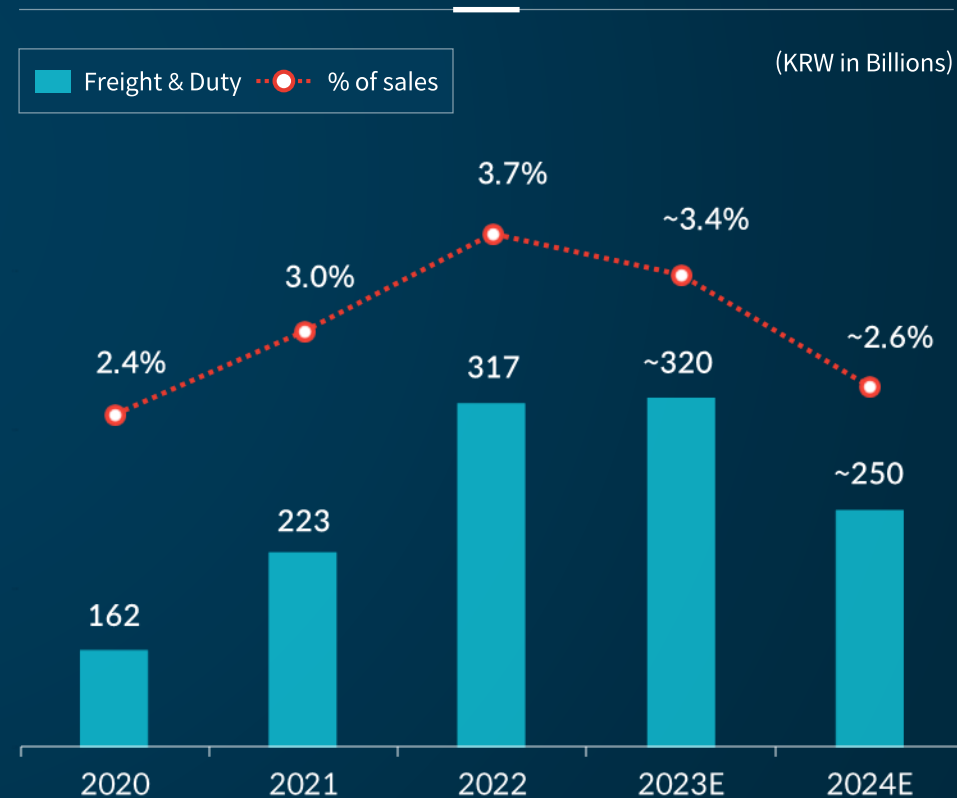


Minimizing premium freights with regional MP&L

Further diversification of supplier pool for optimal cost sourcing

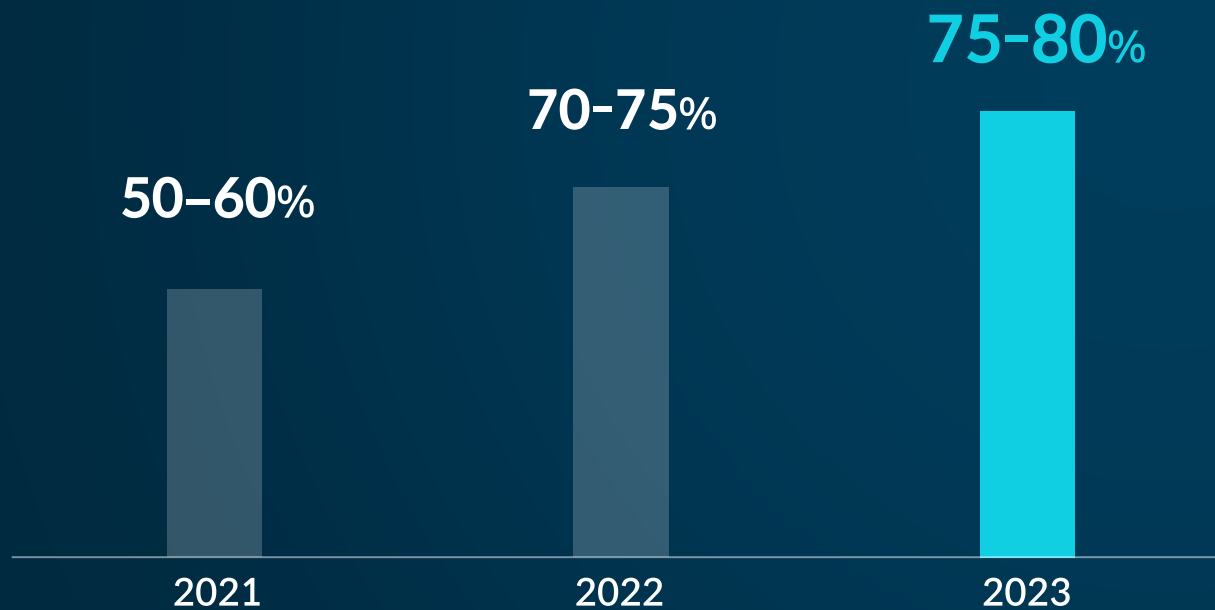
1. Material Planning & Logistics

Freight Cost Trend and Outlook



Inflation Cost Recovery and Repricing

Increasing level of cost pass-through



High cost recovery rate expected to persist in 2024



Systematic data management for better traceability of cost increases



Structured cost impact and recovery review with major customers



Constructive recovery discussions enabled by **product competitiveness and technology leadership**

Current Status of Our Action Plan



Key actions are already underway to bring results beginning in 1Q 2024

Financial Outlook



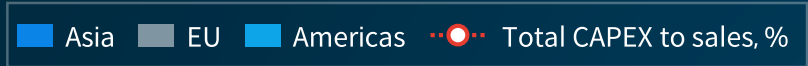
(KRW in billions)

	2023 (revised)	2024	2025
Revenue	9,500	9,800	11,000
EBITDA	870	1,050	1,260
Operating Income	280	410	600

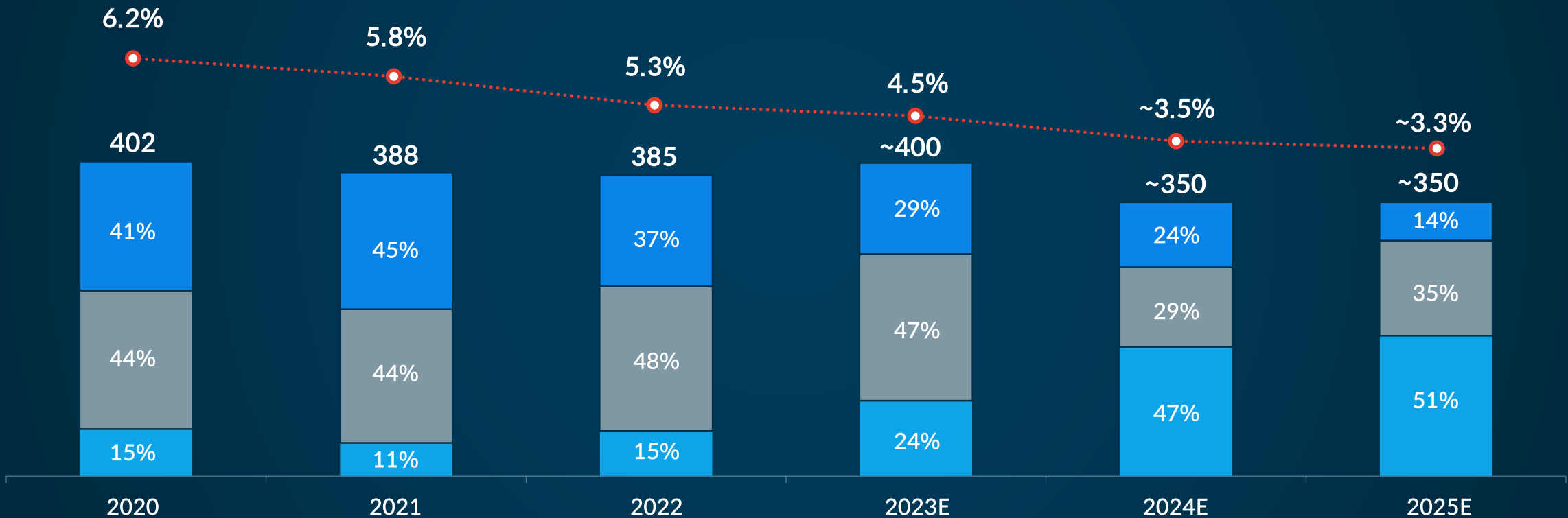
Investment Optimization



CAPEX Trend and Outlook



(Unit: KRW in billions)



Continued efforts to optimize CAPEX with profitable growth

Note : 2023-2025 regional breakdown estimated based on planned purchase orders of equipment

Conclusion

Key Points	Key Metrics	2023E	2024E	2025E	2030E
Continue industry-leading growth and lead xEV thermal management market	Revenue (T KRW)	~9.5 T KRW	~9.8 T KRW	~11 T KRW	~16 T KRW
	xEV Revenue %	~27%	~30%	~35%	70-80%
Clear priority on executing electrification plan and achieving financial targets	EBITDA Margin	~9.2%	~10.7%	~11.5%	~15%
	OI Margin	~2.9%	~4.2%	~5.5%	~9%
Focus on maximizing efficiency of capital deployment	Tangible CAPEX (% of Sales)	~4.2%	~3.6%	~3.2%	3.0-3.5%
	Intangible CAPEX (% of Sales)	~3.2%	~3.1%	~2.7%	~2.5%
Committed to generating FCF to deliver improved returns to the shareholders	Free Cashflow	Negative	Neutral	Positive	Accelerating

Relentless execution with clear priority on financial targets and shareholder value

Q & A

Thank You

Investor Relations Team

신정관 상무

Chungkwan Shin

Head of IR

cshin1@hanonsystems.com

김은빈 전임

Eunbin (Beth) Kim

Sr. Manager

ekim16@hanonsystems.com

임체리 주임

Cheri (Cherry) Im

Manager

clim10@hanonsystems.com

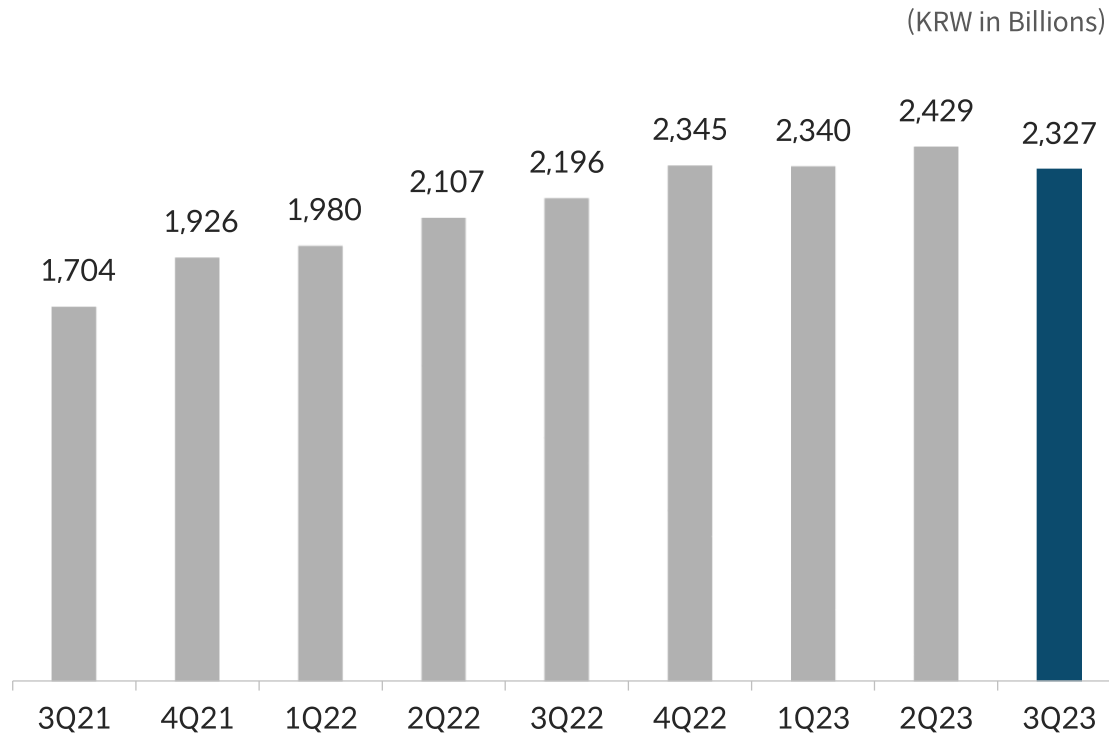
Appendix

3Q Financial Details

Quarterly Sales



Consolidated Sales



Comments



- Europe, Korea and Americas 3Q23 YoY revenue up by 12%, 8% and 6% respectively, while China revenue down by 15%



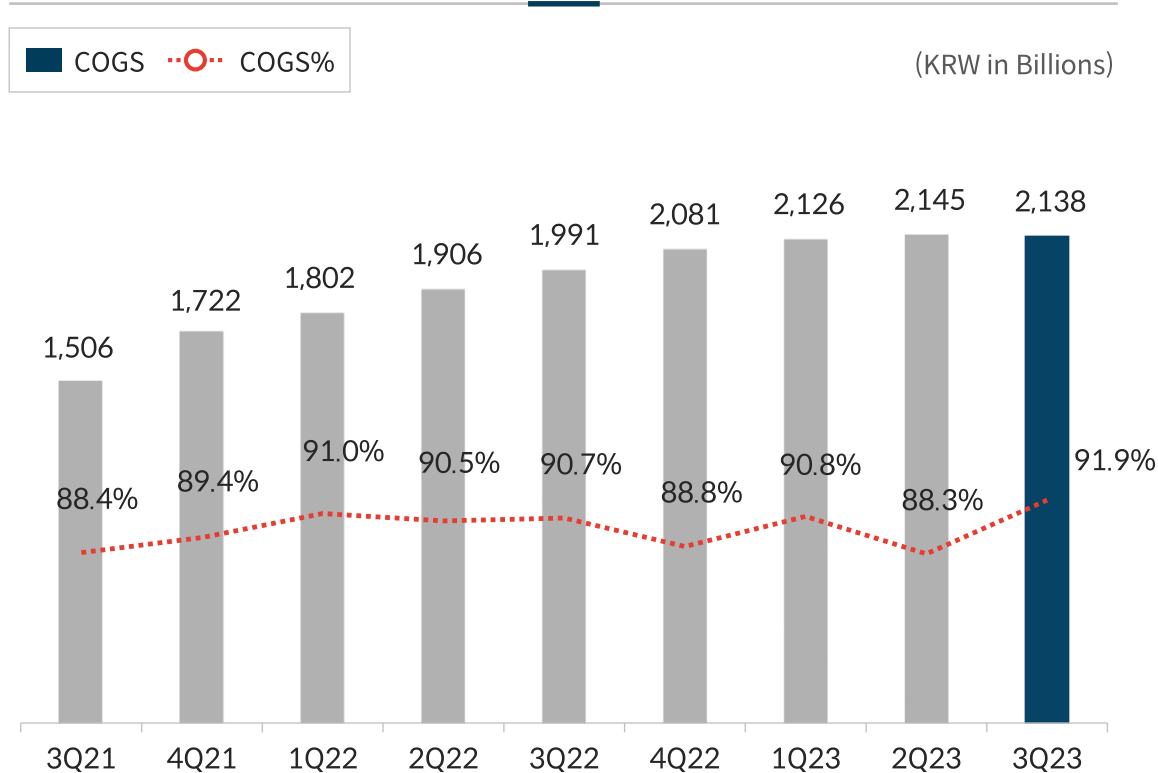
- Increase in BMW (+41%), VW (+16%), Stellantis (+10%), HMG (+6%) GM (+6%) in 3Q23

3Q23 revenue up by 6% YoY; Lower than target due to car sales slowdown in key regions

Quarterly COGS



Quarterly Cost of Goods Sold



Comments

Positive Factors

- Expect COGS% to improve in 2024 based on new programs

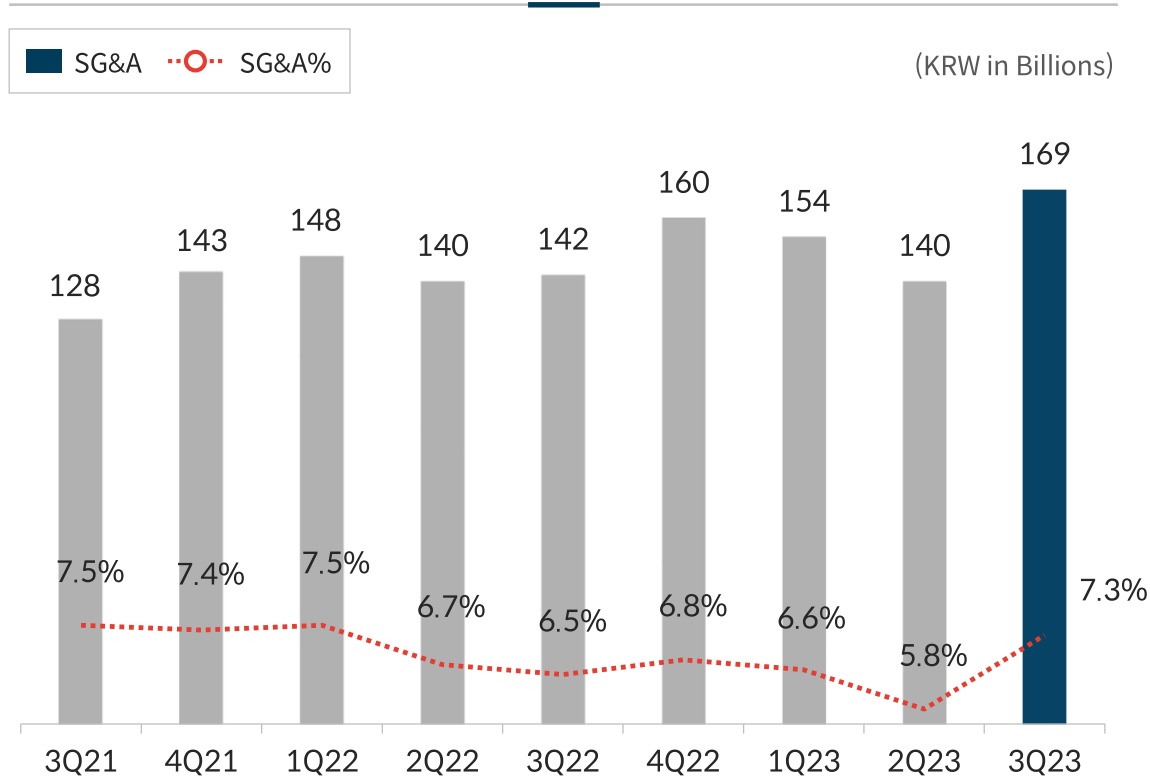
Negative Factors

- Lower-than-expected volume due to slowdown in Europe / China / Korea, and UAW strike in the U.S.
- Reimbursement to upstream suppliers
- Logistics cost surge due to 1) premium freight increase incurred by chip shortage, 2) wage increase in in-land transportation, and 3) port congestion in Mexico

3Q COGS ratio increased due to higher costs in materials and labor costs

Quarterly SG&A

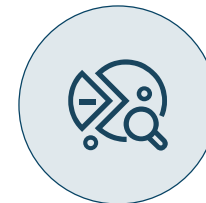
Quarterly SG&A



Comments



- SG&A expense : 7.3% of total revenue (up 0.8%p YoY)

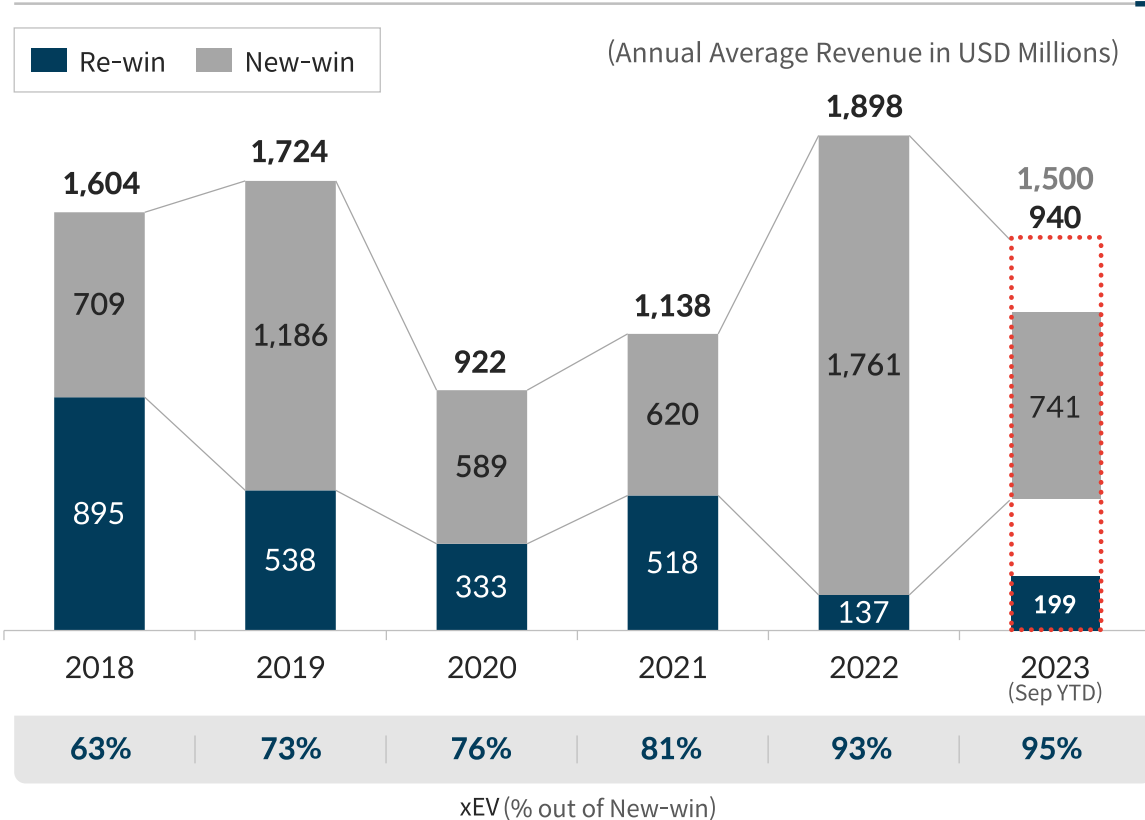


- R&D spend (incl. R&D capitalization) : 4.9% of total revenue

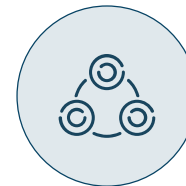
SG&A increased due to freight cost and warranty expense

New Business Wins Update

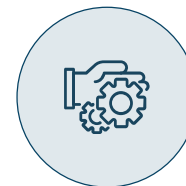
FY2023 New Business Wins



- On track to 2023 NBW target of USD 1.5B



- Expect significant new wins in 4Q 2023 on BEV platforms from major customers in the U.S., Europe and Korea



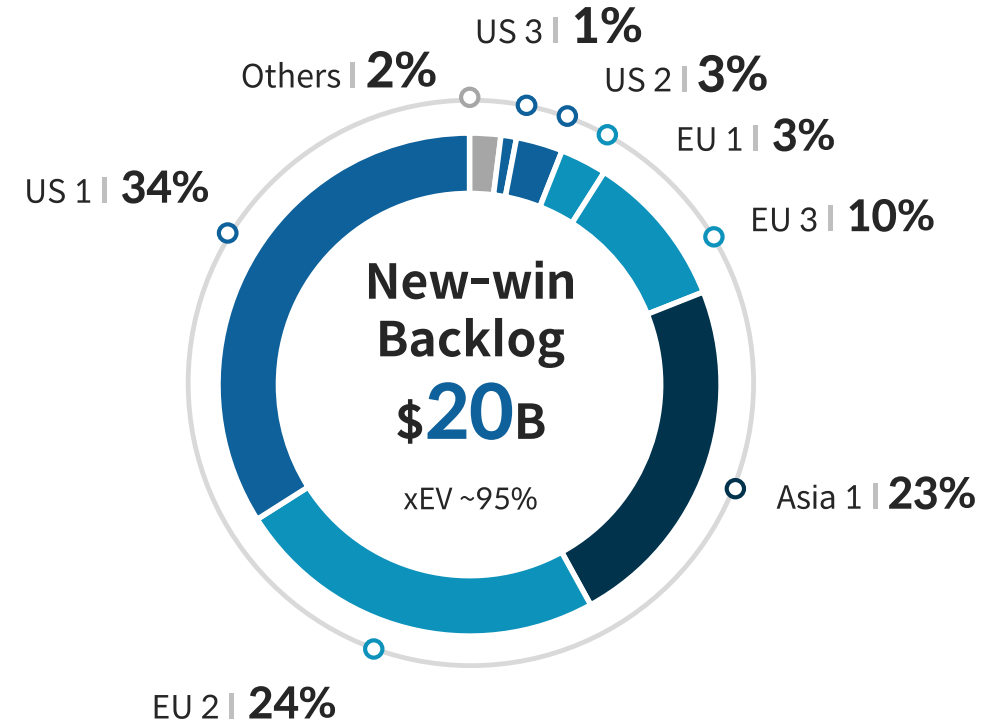
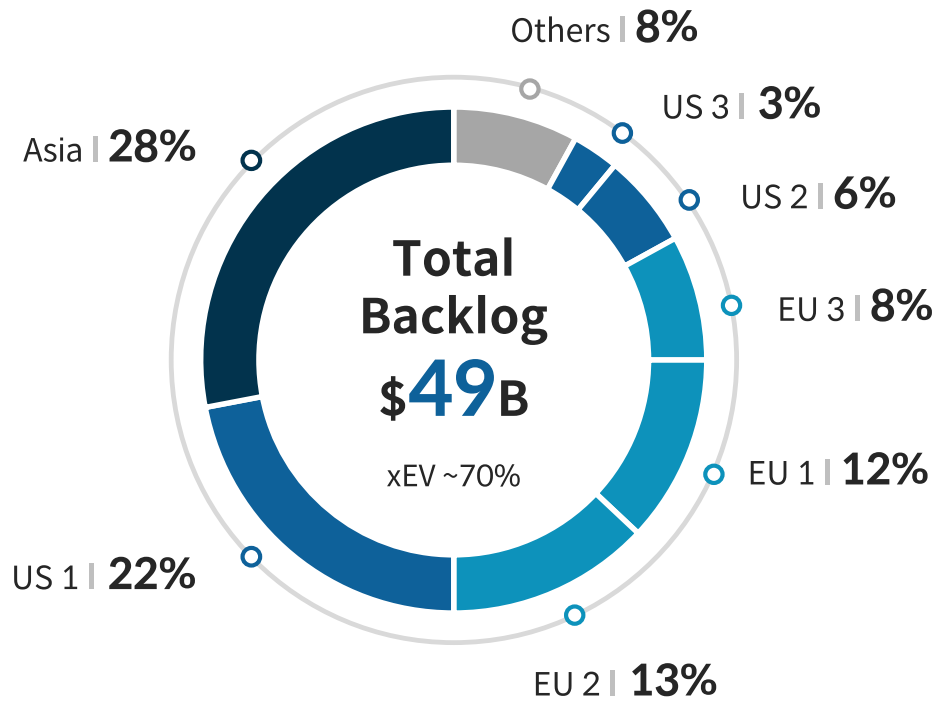
- Maintain strong technology leadership by securing module and system orders from global carmakers

On track to achieve 2023 NBW target based on strong relationship with anchor customers

Solid Backlog



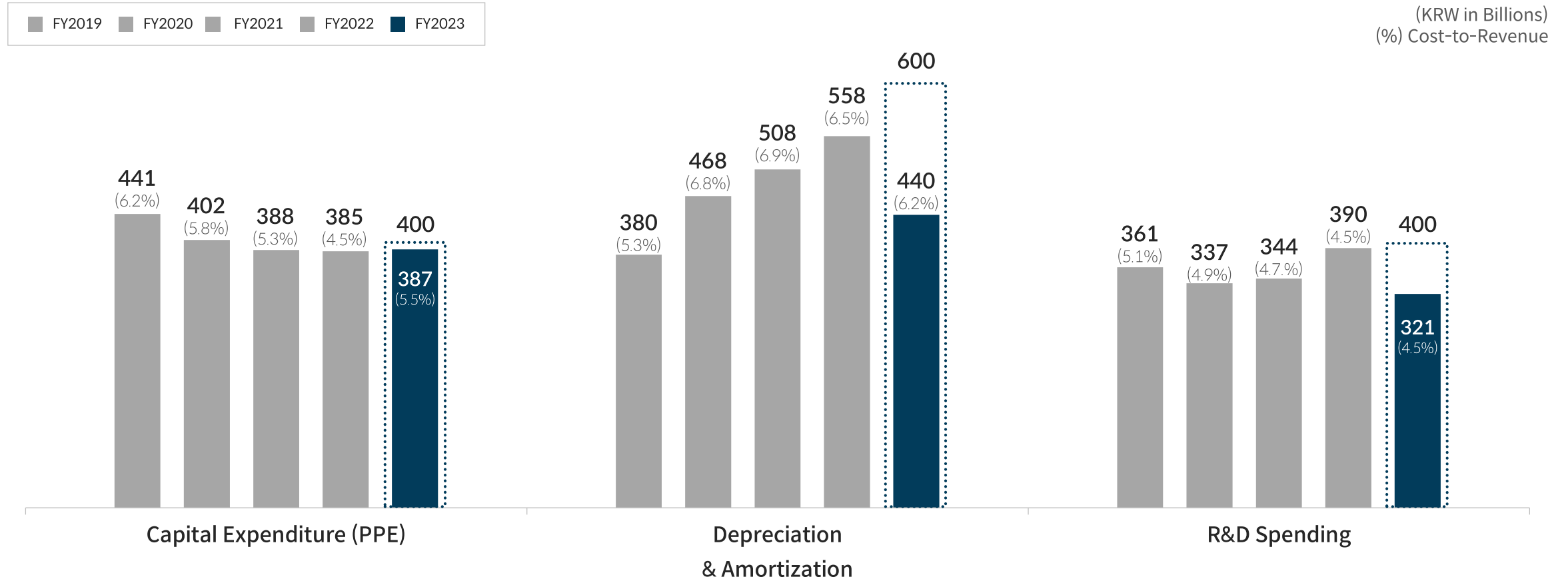
3Q 2023 Backlog



Solid backlogs to support long-term growth with a greater focus in electrification

Note : Total Backlog includes the followings 1) In-production backlog: Remaining life-cycle revenue from vehicles in production
 2) Re-win backlog: Program life-cycle revenue of re-win vehicles to be launched 3) New-win backlog: Program life-cycle revenue of new-win vehicles to be launched

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



Efforts ongoing to optimize R&D and CAPEX for flawless launch of BEV platforms

Note: E&FP consolidated since 2Q 2019

3Q 2023 Balance Sheet

Balance Sheet

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

	Sep 2023	Dec 2022	Dec 2021
Cash and cash equivalent	879	1,436	1,404
Account receivable	1,415	1,285	1,025
Inventories	1,179	972	810
Property and equipment	2,696	2,371	2,336
Intangible assets	2,109	1,923	1,790
Lease assets	310	249	227
Other assets	875	863	642
Total assets	9,463	9,099	8,234
Account payable	1,787	1,824	1,475
Debt	4,287	4,280	3,723
Other liabilities	742	624	560
Shareholder's equity	2,506	2,236	2,343
Non-controlling	141	134	133
Total liabilities & shareholders' equity	9,463	9,099	8,234

Cash and Debt

Cash Balance	Sep 2023	Dec 2022	Dec 2021
Net Debt	3,408	2,844	2,319
Net Debt Ratio	1.3	1.2	0.9
Debt to Equity	1.6	1.8	1.5

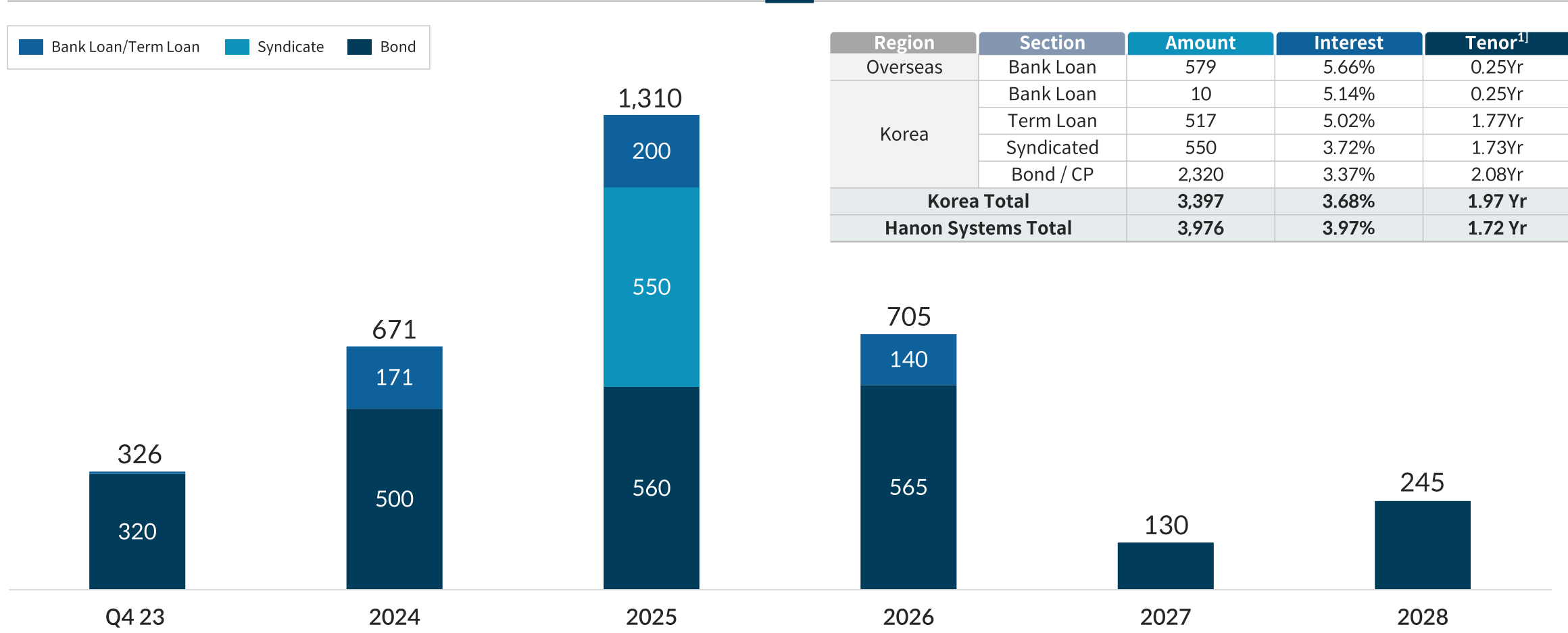
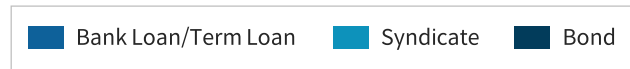
Leverage	LTM (Last Twelve Months)	2022	2021
EBITDA	913	814	834
Debt / EBITDA	4.7	5.3	4.5
Net Debt / EBITDA	3.7	3.5	2.8
EBITDA / Net Interest Expenses	6.3	8.8	10.5

Management weighs options to improve balance sheet in the next six months

Debt Maturities



Major Debt Maturities



Region	Section	Amount	Interest	Tenor ^{1]}
Overseas	Bank Loan	579	5.66%	0.25Yr
	Bond	0		
Korea	Bank Loan	10	5.14%	0.25Yr
	Term Loan	517	5.02%	1.77Yr
	Syndicated	550	3.72%	1.73Yr
	Bond / CP	2,320	3.37%	2.08Yr
Korea Total		3,397	3.68%	1.97 Yr
Hanon Systems Total		3,976	3.97%	1.72 Yr

1. The base date is end of Sep 2023