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Earnings Release Q3 2019

Samsung Electronics

บริษัท Samsung Electronics

October 2019

Disclaimer

The financial information in this document are consolidated earnings results based on K-IFRS.

This document is provided for the convenience of investors only, before the external audit on our Q3 2019 financial results is completed. The audit outcomes may cause some parts of this document to change.

This document contains "forward-looking statements" - that is, statements related to future, not past, events. In this context, "forward-looking statements" often address our expected future business and financial performance, and often contain words such as "expects", "anticipates", "intends", "plans", "believes", "seeks" or "will ". "Forward-looking statements" by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties which could adversely or positively affect our future results include:

- **The behavior of financial markets including fluctuations in exchange rates, interest rates and commodity prices**
- **Strategic actions including dispositions and acquisitions**
- **Unanticipated dramatic developments in our major businesses including CE (Consumer Electronics), IM (IT & Mobile communications), DS (Device Solutions)**
- **Numerous other matters at the national and international levels which could affect our future results**

These uncertainties may cause our actual results to be materially different from those expressed in this document.

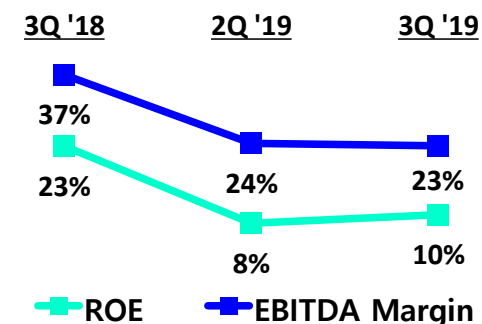
Income Statement

(Unit: KRW Trillion)

	3Q '19	% of sales	3Q '18	% of sales	2Q '19
Sales	62.00	100.0%	65.46	100.0%	56.13
Cost of Sales	39.99	64.5%	35.19	53.8%	35.94
Gross Profit	22.01	35.5%	30.27	46.2%	20.18
SG&A expenses	14.23	23.0%	12.69	19.4%	13.59
- R&D expenses	5.13	8.3%	4.52	6.9%	4.95
Operating Profit	7.78	12.5%	17.57	26.8%	6.60
Other non-operating income/expense	0.19	0.3%	0.02	0.04%	0.05
Equity method gain/loss	0.11	0.2%	0.12	0.2%	0.06
Finance income/expense	0.54	0.9%	0.25	0.4%	0.47
Profit Before Income Tax	8.62	13.9%	17.97	27.5%	7.18
Income tax	2.33	3.8%	4.82	7.4%	2.00
Net profit	6.29	10.1%	13.15	20.1%	5.18
Profit attributable to owners of the parent	6.11	9.8%	12.97	19.8%	5.06
Basic Earnings Per Share(KRW)	899		1,909		746

Key Profitability Indicators

	3Q '19	3Q '18	2Q '19
ROE	10%	23%	8%
Profitability (Net profit/Sales)	0.10	0.20	0.09
Asset turnover (Sales/Asset)	0.72	0.82	0.66
Leverage (Asset/Equity)	1.36	1.40	1.35
EBITDA Margin	23%	37%	24%



Segment Sales & Operating Profit

Sales

(Unit: KRW Trillion)

		3Q '19	3Q '18	2Q '19	YoY	QoQ
Total		62.00	65.46	56.13	5% ↓	10% ↑
CE		10.93	10.18	11.07	7% ↑	1% ↓
	VD	6.26	5.98	6.00	5% ↑	4% ↑
IM		29.25	24.91	25.86	17% ↑	13% ↑
	Mobile	28.10	23.99	24.27	17% ↑	16% ↑
DS		26.64	34.76	23.53	23% ↓	13% ↑
	Semiconductor	17.59	24.77	16.09	29% ↓	9% ↑
	- Memory	13.26	21.05	12.30	37% ↓	8% ↑
	DP	9.26	10.09	7.62	8% ↓	22% ↑
Harman		2.63	2.22	2.52	19% ↑	5% ↑

Operating Profit

(Unit: KRW Trillion)

		3Q '19	3Q '18	2Q '19	YoY	QoQ
Total		7.78	17.57	6.60	△9.80	1.18
CE		0.55	0.56	0.71	△0.01	△0.16
IM		2.92	2.22	1.56	0.70	1.36
DS		4.24	14.56	4.15	△10.32	0.09
	Semiconductor	3.05	13.65	3.40	△10.60	△0.35
	DP	1.17	1.10	0.75	0.07	0.43
Harman		0.10	0.08	0.09	0.02	0.01

※ CE : Consumer Electronics (excluding health&medical equipment business), IM : IT & Mobile communications, DS : Device Solutions, DP : Display Panel

※ Sales and operating profit of each business stated above reflect the organizational structure as of 2019, and the sales of business units include intersegment sales.

※ Harman's sales and operating profit figures are based on Samsung Electronics' fiscal year, and acquisition related expenses are reflected.

3Q Results and Outlook by Business Unit

Semiconductor

[3Q Results]

- Memory: Demand grew as customers added inventory during high season
 - DRAM: Shipments went up to address rising demand, mainly from mobile and server applications
 - NAND: Sales to data centers expanded for high-density SSD over 2TB
- S.LSI : Shipments rose for APs and OLED DDIs for flagship models and high-resolution image sensors to Chinese companies
- Foundry: Demand increased for EUV 7-nano APs and HPCs, computing, and 5G network chips

[4Q19 Outlook]

- Memory: Demand to edge up Q-Q as clients continue to secure inventory; NAND industry conditions to keep stabilizing
 - DRAM: Further transition into 1Y-nano process; preemptively address LPDDR5 demand
 - NAND: Begin mass production of 6th-generation V-NAND
- S.LSI : Shipments of 5G 1-Chip SoC and 64Mp & 108Mp high-resolution image sensors expected to grow
- Foundry: Start full-fledged mass production of 7-nano chips and orders of HPC, AI, and network chips to rise

[2020 Outlook]

- Memory: Demand expected to be solid, but uncertainties likely to linger due to issues in the external environment
Reinforce efforts to supply products flexibly in line with industry conditions; add to technology leadership via further transitioning node processes
- S.LSI : Actively respond to 5G SoC and high-resolution sensor market with differentiated products
- Foundry: Diversify customer base and expand mass production of EUV 5- and 7- nano chips

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[3Q Results]

- Mobile: Earnings improvement driven by higher utilization thanks to newly released products from major customers under strong seasonality
- Large : Profit remained weak amid stagnant demand due to a supply glut and price declines caused by 10.5G capacity expansions at competitors

[4Q19 Outlook]

- Mobile: Profitability may weaken Q-Q under intensified competition due to a sales mix change as well as a cost increase caused by lower utilization of a few lines
- Large : Sustained drop in ASP and demand for TV panels coupled with low seasonality to heighten concerns over profitability

[2020 Outlook]

- Mobile: Leverage our differentiated features (eg, power efficiency and thickness) to boost utilization Y-Y as users increasingly desire upgrading to 5G
Competition to intensify as industry capacity keeps expanding
- Large : Reorganize businesses structure around QD-Display
Maintain LCD strategy of concentrating on value-added products, such as ultra-large TVs, 8k TVs, and curved monitors

3Q Results and Outlook by Business Unit

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[3Q Results]

- Mobile : Smartphone revenue improved Q-Q thanks to strong Note10 and A Series sales, and profit increased significantly mainly due to a product mix improvement and cost reduction after a lineup transition; extended technology leadership via launch of Galaxy Fold and additional 5G models
- N/W : Kept widening 5G coverage in Korea and LTE network overseas

[4Q19 Outlook]

- Mobile : A Series (including upcoming models) is expected to keep performing solidly but profit to decline Q-Q due to weaker mix from dissipating new model effects of Note 10 and increased marketing cost under strong seasonality
- N/W : Strive to expand 5G business in overseas markets based on our 5G leadership

[2020 Outlook]

- Mobile : Increase sales by enhancing competitiveness throughout entire lineup and by addressing growing 5G demand; strengthen foundation for further sales growth, mainly driven by foldable; expand sales of premium models and optimize operations for low-end to mid-range models to improve profitability
- N/W : Remain active in nationwide expansion of 5G coverage and foster growth of our 5G business overseas, including in the US and Japan

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[3Q Results]

- TV: Revenue grew thanks to strong sales of premium TVs such as QLED and ultra-large models but profits down slightly Y-Y related to rising market competition
- DA: Earnings increased Y-Y backed by rising sales of new products including Bespoke refrigerator and AddWash washer

[4Q19 Outlook]

- TV: Expand sales in year-end peak season by closely cooperating with distributors; continue focusing on increasing the sales portion of value-added products (eg, QLED TVs); extend leadership in the premium market with sales expansion of innovative products such as 8K and Lifestyle TVs
- DA: Address peak season demand by region; boost sales of new life products domestically

[2020 Outlook]

- TV: Solidify premium TV-market leadership via sales growth of QLED and ultra-large TVs; spearhead 8k market growth by bolstering lineup and sales of 8k TVs
- DA: Promote growth by expanding sales and strengthening premium line up with items such as Bespoke and new life products while also reinforcing B2B business

[Appendix 1] Financial Position

(Unit : KRW Billion)

	Sep 30, 2019	Jun 30, 2019	Sep 30, 2018
Assets	353,386.0	342,940.1	337,195.8
- Cash *	104,989.2	99,307.0	97,781.5
- A/R	40,367.2	36,061.6	41,940.1
- Inventories	30,908.8	31,247.0	28,242.8
- Investments	19,041.5	18,660.5	17,145.9
- PP&E	116,855.6	116,624.2	115,003.1
- Intangible Assets	15,705.7	15,543.0	14,800.1
- Other Assets	25,518.0	25,496.8	22,282.3
Total Assets	353,386.0	342,940.1	337,195.8
Liabilities	89,943.7	85,193.1	95,092.6
- Debts	16,133.3	15,464.3	21,685.4
- Trade Accounts and N/P	11,422.3	9,073.1	10,209.2
- Other Accounts and N/P & Accrued Expenses	27,196.6	26,534.3	25,735.8
- Income Tax Payables	2,318.2	2,289.4	8,822.6
- Unearned Revenue & Other Advances	1,781.7	1,494.1	1,763.7
- Other Liabilities	31,091.6	30,337.9	26,875.9
Shareholders' Equity	263,442.3	257,747.0	242,103.2
- Capital Stock	897.5	897.5	897.5
Total Liabilities & Shareholder's Equity	353,386.0	342,940.1	337,195.8

* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.

	Sep 30, 2019	Jun 30, 2019	Sep 30, 2018
Current ratio *	294%	292%	236%
Liability/Equity	34%	33%	39%
Debt/Equity	6%	6%	9%
Net debt/Equity	△34%	△33%	△31%

* Current ratio = Current assets/Current liabilities

[Appendix 2] Cash Flow

(Unit : KRW Trillion)

	3Q '19	2Q '19	3Q '18
Cash (Beginning of period) *	99.31	102.04	85.70
Cash flows from operating activities	13.83	6.59	15.55
Net profit	6.29	5.18	13.15
Depreciation	6.55	6.64	6.48
Cash flows from investing activities	△6.88	△7.58	△6.12
Purchases of PP&E	△6.80	△6.49	△5.61
Cash flows from financing activities	△2.20	△2.78	3.63
Increase in debts	0.21	2.04	6.04
Acquisition of treasury stock	-	-	-
Payment of dividends	△2.41	△4.81	△2.41
Increase in cash	5.68	△2.73	12.08
Cash (End of period) *	104.99	99.31	97.78

* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.

☐ **Current State of Net Cash (Net Cash =Cash* - Debts)**

(Unit : KRW Trillion)

	Sep 30, 2019	Jun 30, 2019	Sep 30, 2018
Net Cash	88.86	83.84	76.10

* Cash = Cash and Cash equivalents, Short-term financial instruments, Short-term financial assets at amortized cost, Long-term time deposits, etc.

₩141.6 ₩264.29