
ZINUS
Live in Wonder

DISCLAIMER

The information contained within this presentation regarding Zinus Inc's (hereafter referred to as "the company") business and financial performance in 4Q 2019 and FY2019 have been prepared in accordance to K-IFRS.

The company's earnings report for 4Q 2019 and FY2019 has been drawn up for the convenience of the reader, but has not been reviewed by an external independent auditor. Please note that some of the information could be subject to change pending an external independent auditor's review.

This presentation contains information regarding the company's forecasts and expectations, based on the context of circumstances prevailing at the time of the release of the company's earnings report, and is subject to certain risks and uncertainties depending on future developments that occur after the date of this presentation.

FY2019 / 4Q FY2019 Financial Performance (K-IFRS)

(Unit: KRW million)

Consolidated Income Statement	Full-Year Results			YoY		
	FY 2019	FY 2018	Change	4Q 2019	4Q 2018	Change
Revenue	**817,138**	**621,764**	**31.4%**	**249,944**	**167,468**	**49.2%**
COGS	556,943	445,400		175,462	123,093	
Gross profit	260,195	176,364		74,482	44,375	
SG&A	156,326	123,278		44,898	35,440	
Operating Profit	**103,868**	**53,087**	**95.7%**	**29,584**	**8,935**	**231.1%**
Other income & expense	(197)	5,122		(1,233)	(291)	
Financial income & expense	(11,211)	(13)		(6,571)	(2,146)	
Earnings before tax	92,461	58,196		21,781	6,498	
Income tax	20,034	14,587		6,638	1,495	
Net Profit	**72,426**	**43,609**	**66.1%**	**15,143**	**5,004**	**202.6%**
EBITDA	**123,048**	**59,691**	**106.1%**	**34,193**	**10,972**	**211.7%**
Gross Margin	**31.8%**	**28.4%**	**3.4%P**	**29.8%**	**26.5%**	**3.3%P**
Operating Profit Margin	**12.7%**	**8.5%**	**4.2%P**	**11.8%**	**5.3%**	**6.5%P**
Net Profit Margin	**8.9%**	**7.0%**	**1.9%P**	**6.1%**	**3.0%**	**3.1%P**

4Q FY2019 Financial Performance Review

Quarterly Financial Performance Review

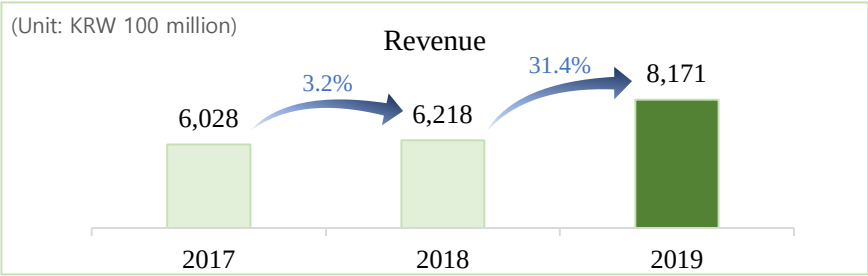
The review of the company's annual financial performance is outlined from the next page. Key takeaways from the company's 4Q FY2019 financial results are as follows.

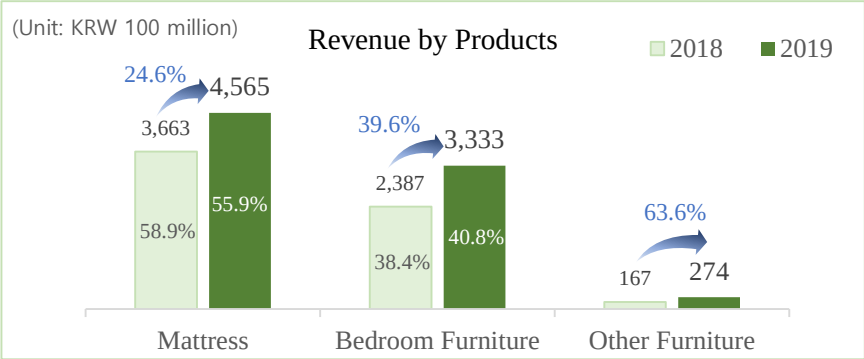
- The company's financial performance in 4Q FY2019 showed robust on-year growth in all indicators across the board.

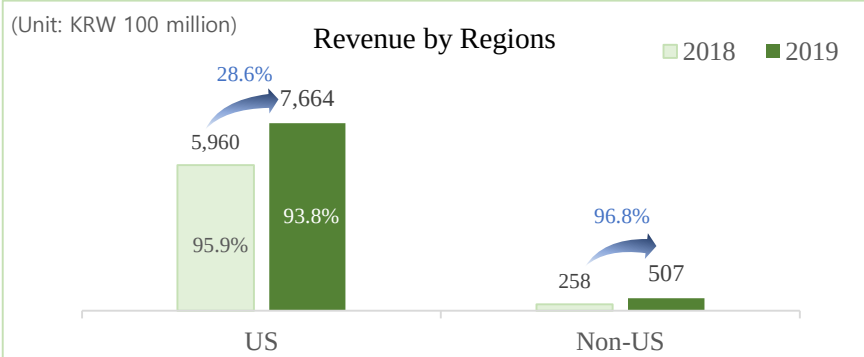
- Revenue increased by KRW 82.5 billion (49.2% y/y) while gross profit rose by KRW 30.1 billion compared to a year earlier (67.8% y/y).
  - ✓ **Revenue:** Revenue grew on-year in all product categories, as well as those from major clients and regions.
  - ✓ **Gross profit:** Gross margin increased by 3.3%P on-year due to the fall and stabilization of raw material prices as well as surging revenue which lowered the proportion of fixed cost. However, the Indonesia No.2 factory's initial capacity utilization rate did not reach normal levels since it began operations in September 2019, and was unable to fully accommodate client demand. This resulted in revenue losses, and gross margin also came in slightly below the company's expectation. Further improvement in gross margin was also impeded by an increase in the special tariff rate from 10% to 25% for Chinese-made furniture. Productivity in the Indonesia No. 2 factory is continuing to improve, and cost reduction efforts are being made in the company's China operation to counter higher tariffs.

- Operating profit jumped by KRW 20.6 billion on-year (231.1% y/y), while net profit soared by KRW 10.1 billion (202.6% y/y) from a year ago.
  - ✓ **SG&A:** Increased by KRW 9.5 billion (26.7% y/y) compared to a year earlier, due to rising variable costs in line with revenue growth, and an increase in salaries to strengthen the company's business structure with a long-term perspective in mind.
  - ✓ **Other income/expense:** Donations in 4Q FY2019 amounted to KRW 720 million, marking a KRW 380 million increase compared to the same period last year. (KRW 340 million in 4Q FY2018) Also, other delinquent receivables, amounting to KRW 200 million, was recognized as an expense in 4Q FY2019.
  - ✓ **Financial income/expense:** Net profit was adversely affected by foreign exchange losses amounting to KRW 3.7 billion in 4Q FY2019, compared to KRW 290 million in 4Q FY2018, due to the revaluation of foreign currency denominated assets and debts. This was mainly due to the weakened USD, which has now taken a bullish turn at the time of the company's earnings announcement.
  - ✓ **Income tax:** The effective tax rate has increased due to taxes imposed on undistributed income and other factors.

Revenue



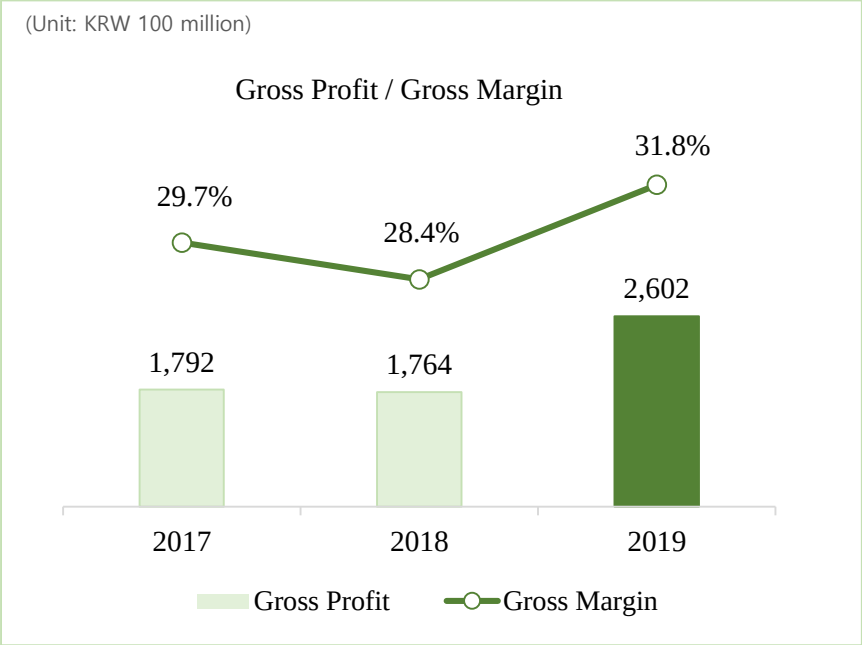




Review

- The company's revenue has significantly increased compared to a year ago. This was due to the success of the company's strategy to diversify its products and expand its target regions and client base, while the online market continued growing in the furniture industry. However, due to the shortfall in the target utilization level of the Indonesian factories, there were some opportunity losses in terms of unmet client demand.
- Amid the revenue growth seen all across categories, the proportion of revenue taken up by non-mattress products continued to remain on an upward trend. Revenue from other furniture grew 63.6% on-year, on the back of the company's long-term strategy to expand its product categories, which requires continued investment from the company.
- By region, revenue grew in both the US and non-US markets. Revenue from non-US markets soared 96.8% on-year, with their proportion of revenue increasing from 4.1% in the previous year to 6.2%. 2019 was a year marked by the company's entry into Korea, Australia, Japan, and the EU to establish a new business foundation.

Gross Profit

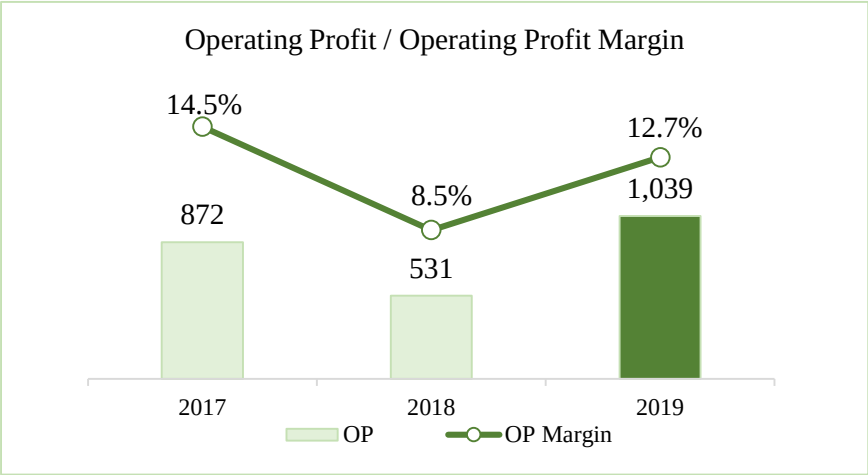


Review

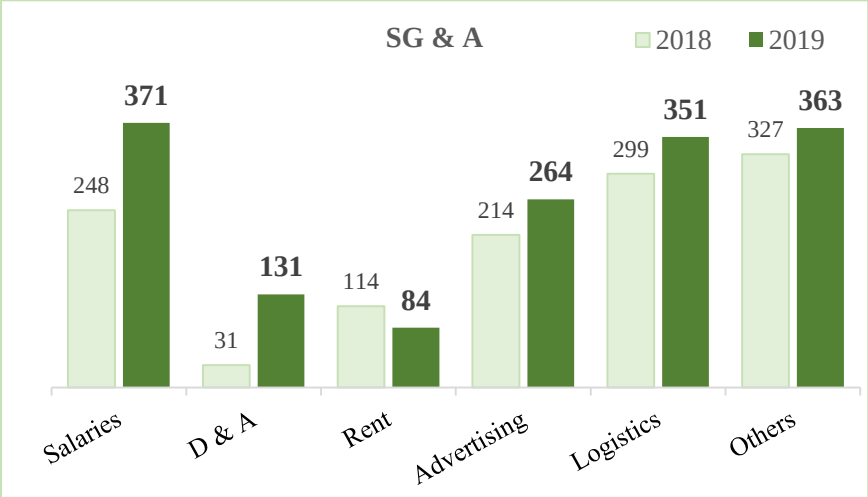
- Gross profit in 2019 was tallied at KRW 260.2 billion, increasing by KRW 83.8 billion (47.5% y/y) compared to a year earlier. Gross margin also climbed to a three-year-high at 31.8%, on the back of stabilizing raw material prices, such as chemical products used in the production of memory foam mattresses including TDI, MDI, and others.
- The construction of new factories in Indonesia, undertaken as a part of the company's long-term strategy to diversify its production base, successfully mitigated the risks of external factors such as special tariffs on all Chinese products resulting from the US-China trade war and anti-dumping duties on Chinese mattresses. During 2019, the production base for mattresses bound to the US was transferred from China to Indonesia, with the company's Chinese factories now focusing on the production of mattresses for non-US markets, as well as furniture products.
- Despite the Indonesian factories' contribution in maintaining the company's profitability in the mattress business, additional time is required for the factories' productivity to reach normal levels. It is worthy to note that the company's gross margin in 2019 managed to overcome the adverse effect (around 4% of the company's total revenue) of special US duties on Chinese products (Section 301 tariffs).

Operating Profit / SG&A

(Unit: KRW 100 million)



(Unit: KRW 100 million)



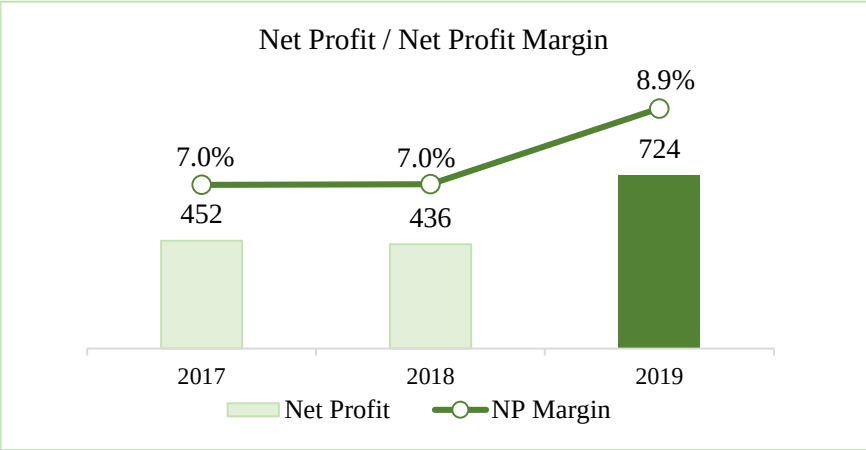
Review

- The company's operating profit rose by KRW 50.8 billion (95.7%) from a year earlier and operating profit margin climbed by 4.2%P over the same period. The margin was slightly lower than 2017 due to the increase in SG&A. As outlined in the previous section regarding gross margin, further improvement in operating profit margin was held back by special US tariffs on Chinese products.

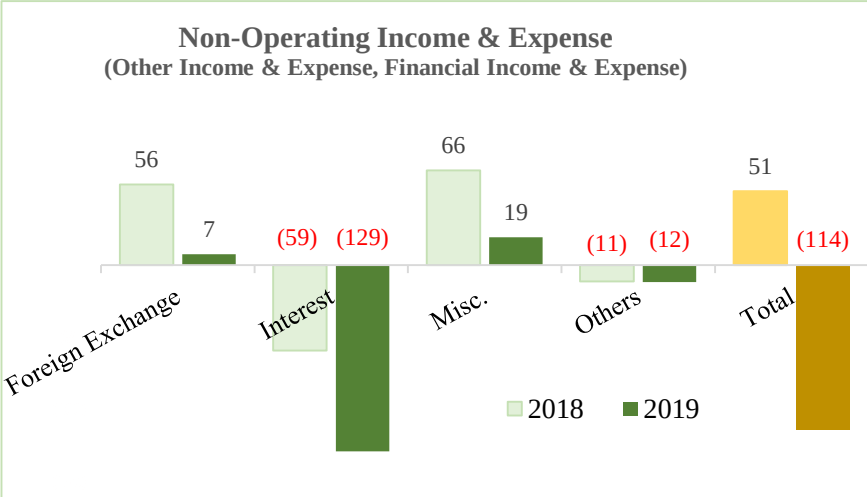
- SG&A rose by KRW 33 billion (26.8% y/y) on-year, with notable increases in salaries and depreciation expense.
  - ✓ **Salaries:** On a consolidated basis, the company has continued to recruit specialists to strengthen its IT, finance/accounting, R&D and marketing capabilities. The company also has hired new personnel to back the establishment of new affiliates as well as its business expansion. The company has reached its mid-to-long term target of strengthening the organization over the course of 2019, and 2020 is expected to be a year in which the company begins to realize the effects of economies of scale through solid revenue growth.
  - ✓ **Advertising expense:** Advertising expense is highly related to revenue growth. Considering that the increase of advertising expense(23.4%) was lower than revenue growth(31.4%), advertising expense was well managed in a stable manner, and under budget.
  - ✓ **Customs & Logistics expense:** Customs and logistics expense is highly correlated with revenue, and increased in line with revenue growth.
  - ✓ **Depreciation & Rent expense:** Will Review in a separate page on the 'Effects of K-IFRS Adoption'.

Net Profit / Other Income & Expense

(Unit: KRW 100 million)



(Unit: KRW 100 million)



Review

- The company's net profit rose by KRW 28.8 billion (66.1% y/y) on-year, while net profit margin reached a three-year-high of 8.9% despite negative figures in non-operating income & expense.

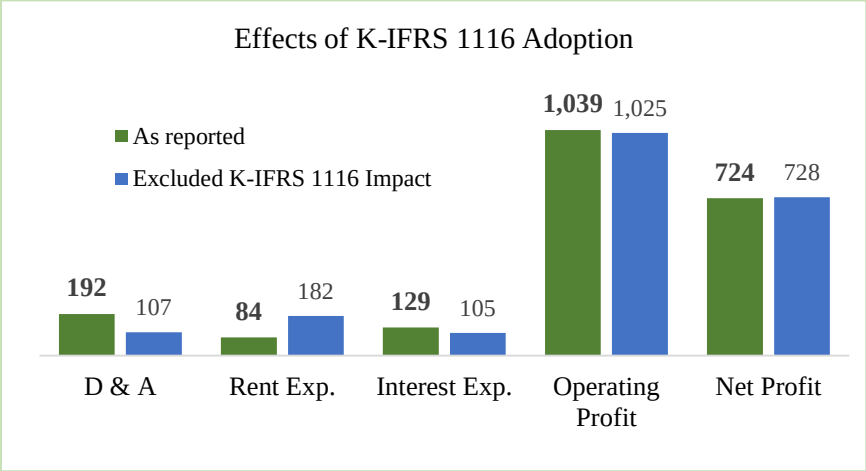
- Non-operating income & expense was tallied at a net loss of KRW 11.4 billion, compared to a net gain of KRW 5.1 billion in 2018, resulting in total differential of KRW 16.5 billion.
  - ✓ **Foreign exchange gains/losses:** The KRW/USD exchange rate was stable in 2019 while the dollar went on a bullish run as of June 2018. As a result, the company's Korea operations posted a net foreign exchange loss of KRW 1.2 billion in 2019, compared to the KRW 1.2 billion net gain in 2018. Fluctuations in the CNY/USD exchange rate also led to a smaller foreign exchange gain for the company's China operations in 2019, tallied at KRW 2.4 billion. This was KRW 1.6 billion lower than KRW 4.0 billion net gain in 2018. These changes in foreign exchange gains and losses could not be foreseen by the company, and led to a loss of KRW 3.7 billion in 4Q 2019 alone.

  - ✓ **Interest expense:** Interest expense has noticeably surged compared to the last year, due to an increase in borrowing by affiliates. (Indonesia: facility expansion and operation, US: operational loans in line with the expansion in transaction volume, Korea: temporary operational loan, amounting to KRW 20 billion, fully redeemed in 4Q FY 2019) However, interest expense in 2019 includes KRW 2.4 billion incurred as a result of the adoption of K-IFRS 1116, and removing these effects yielded an actual increase of KRW 4.6 billion in interest expense.

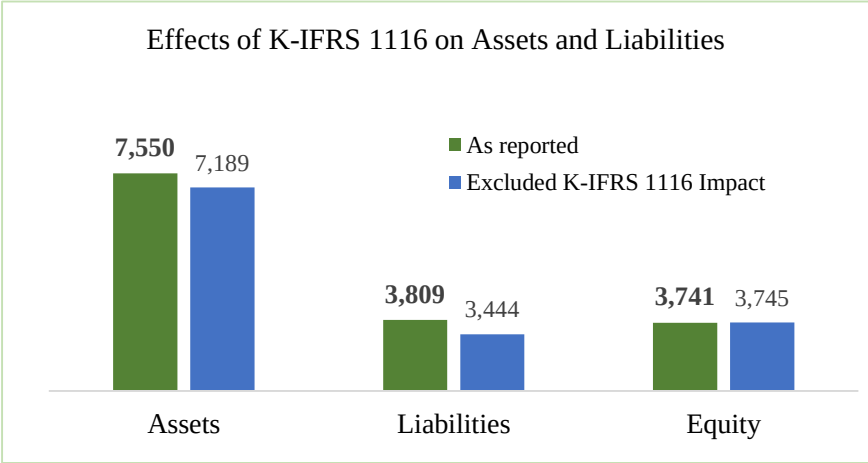
  - ✓ **Miscellaneous gains:** Approximately KRW 6.0 billion worth of inventory loss compensation, resulting from a fire incident in the company's US operations was reflected in the gains of 2018.

Effects of K-IFRS 1116 Adoption

(Unit: KRW 100 million)



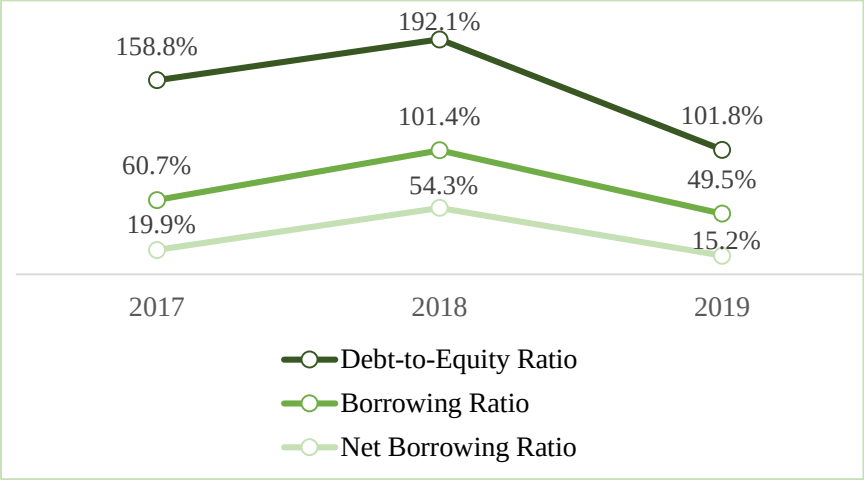
(Unit: KRW 100 million)

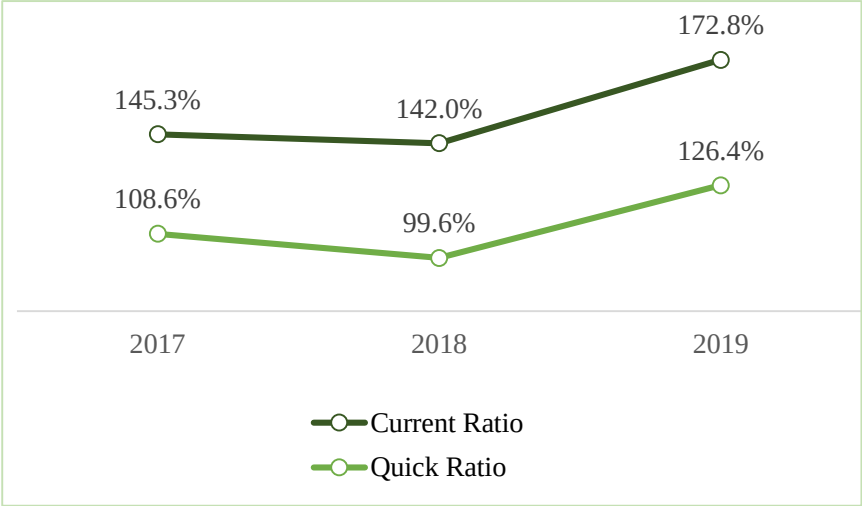


Review on K-IFRS 1116 Adoption

- In accordance with K-IFRS 1116 standards, which were adopted as of January 1, 2019, leases are now reported as tangible assets (right-of-use assets) and lease liabilities in statements of financial position, as opposed to the previous standards which recognized them as operating lease and rent expense.
- Depreciation & Amortization increased by KRW 8.5 billion for the latest period due to aforementioned effects of K-IFRS 1116 adoption, while rent expense fell by KRW 9.8 billion and interest expense increased by KRW 2.4 billion.
- Therefore, without the adoption of K-IFRS 1116, operating profit would have fallen by KRW 1.4 billion, while net profit after tax would have risen by KRW 200 million.
- The recognition of tangible assets and lease liabilities in accordance to K-IFRS standards also had an impact on assets and liabilities. As of the end of 2019, the company's assets and debts rose by KRW 36.3 billion and KRW 36.5 billion respectively due to the adoption of K-IFRS 1116.

Key Financial Ratios





Review

- The company's key financial ratios have been calculated as follows.

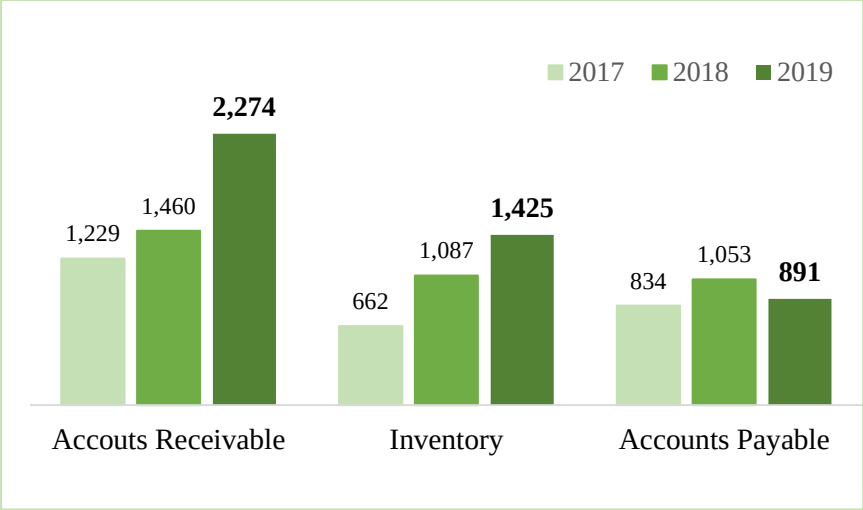
Debt-to-Equity Ratio	Total Liabilities / Total Shareholders' Equity
Borrowing Ratio	(Borrowings + Loans Payable) / Total Shareholders' Equity
Net Borrowing Ratio	(Borrowings + Loans Payable – Cash and Cash Equivalents - Short Term Financial Instruments) / Total Shareholders' Equity
Current Ratio	Current Assets / Current Liabilities
Quick Ratio	(Current Assets - Inventory) / Current Liabilities

- The company's debt-to-equity ratio, borrowing ratio and net borrowing ratio have all fallen by significant margins compared to the last year. This is mainly due to the increase in equity (paid in capital and capital surplus) from the company's IPO, and a rise in retained earning by net profit, which amounted to KRW 120.9 billion and KRW 72.4 billion respectively.

- Lease liabilities have been factored into the debt-to-equity ratio in 2019 due to the adoption of K-IFRS 1116, and excluding this effects yielded a debt-to-equity ratio of 92.0%.

- The current ratio and quick ratio, which are key indicators of the company's financial stability, both increased by significant margins.

Accounts Receivable, Inventory, & Accounts Payable



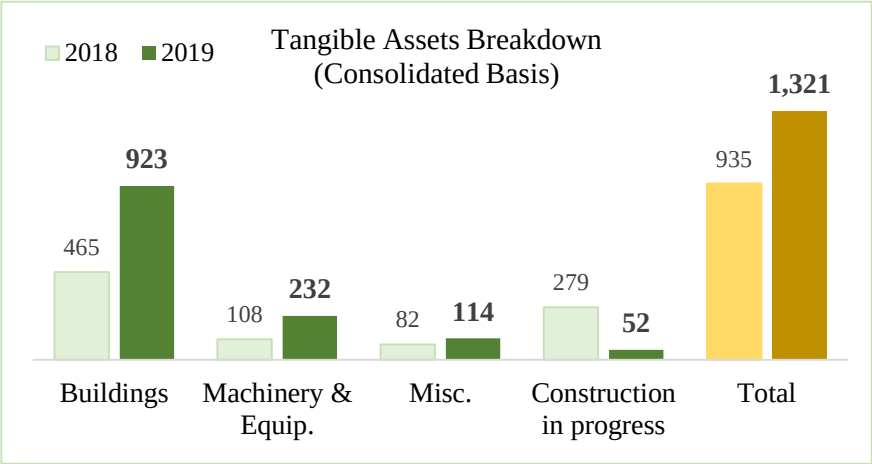
(Unit: KRW 100 million)

Review

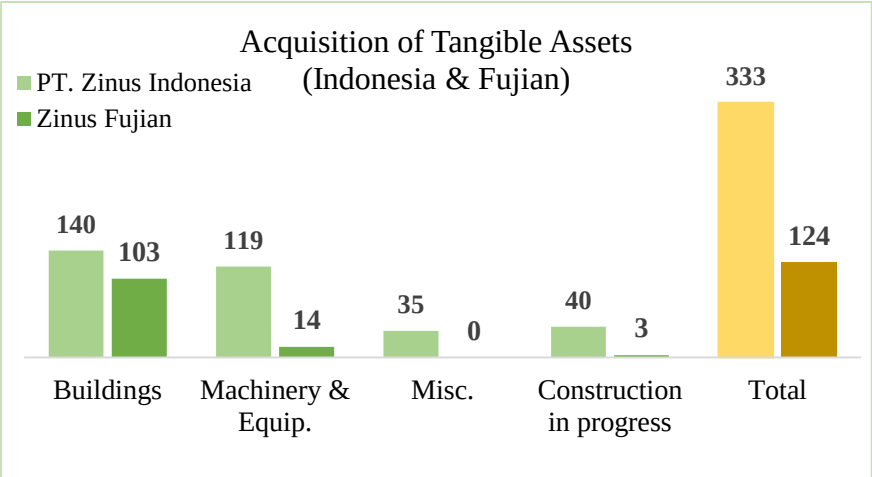
- Accounts receivable and inventory rose compared to the end of the previous year due to revenue growth and the expansion of production facilities, while account payable fell over the same period. Increase in accounts receivable/inventory and decrease in accounts payable had a significant impact on cash flow from operating activities.
- Accounts receivable: The majority of the company's outstanding accounts receivable is owed by top-performing global companies including Amazon, Walmart and Wayfair, representing a very low credit risk. The surge in accounts receivable at the end of 2019 was a temporary effect due to the seasonal concentration of revenue during the year-end, and had no change on the company's accounts receivable collection period. Adverse effects on cash flow due to the rise in accounts receivable have mostly been resolved as of the date of this report.
- Inventory: Inventory rose by KRW 33.8 billion compared to the previous year, mainly due to the increase in safety stock in line with growing revenue, as well as higher stockpiles of raw material and unfinished goods due to the production ramp-up in Indonesia and Fujian, China. Subsequently, the proportion of finished goods to total inventory has fallen to 74% in 2019, compared to 83% in 2017 and 2018. The proportion of work-in-process and raw material has risen to 18.1% (2019) from 14.2% (2018).
- Accounts payable: Despite the expansion of the company's production facilities and increased purchase amounts, accounts payable fell compared to the previous period. This can be attributed to the company's effort to reach an early settlement of accounts payable when possible, on the basis of its strengthened financial capability.

Capex

(Unit: KRW 100 million)



(Unit: KRW 100 million)



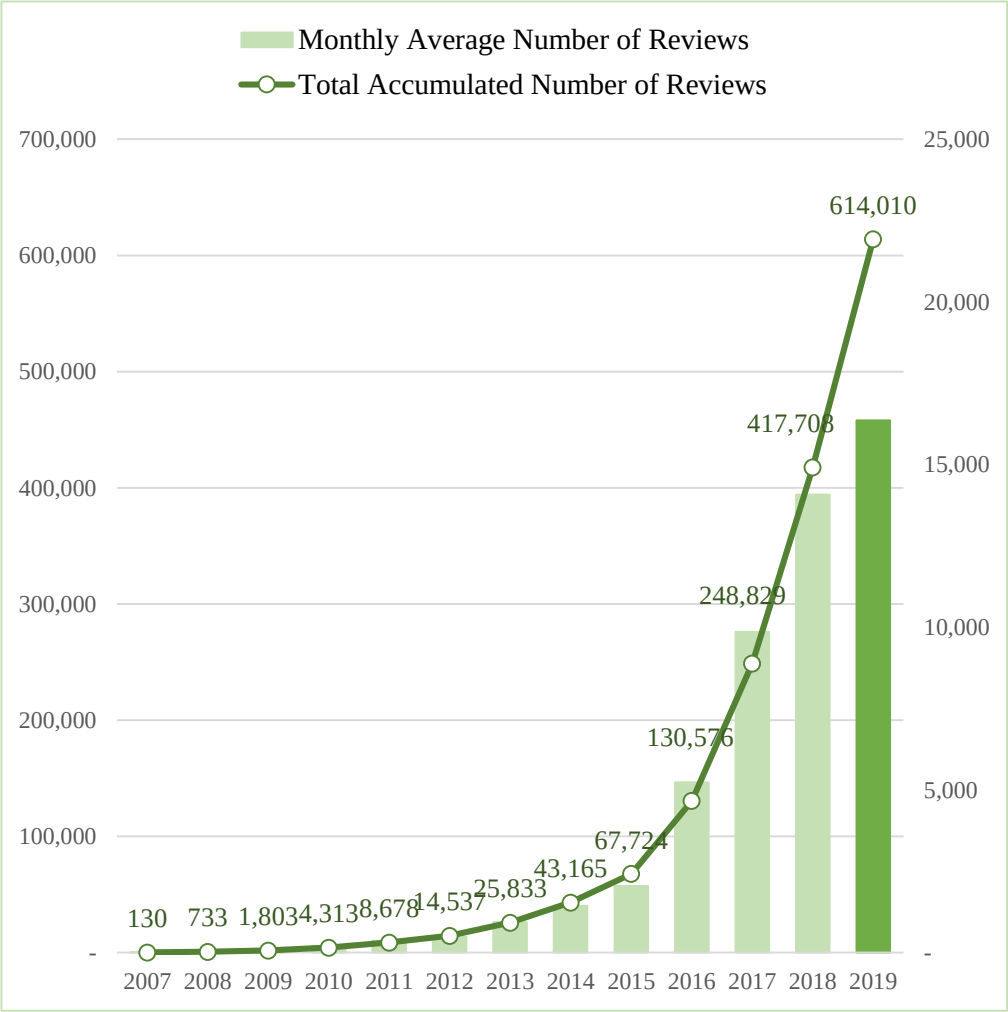
Review

- Total tangible assets, excluding right-of-use assets, increased by KRW 38.6 billion, on a consolidated basis. Considering the KRW 9.1 billion worth of reductions from depreciation, the net increase from acquisition/divestment is calculated at KRW 47.7 billion

- Buildings/Facilities and machinery accounted for the majority of the company's gains in tangible assets, broken down as follows.
  - ✓ **Buildings/Facilities**: Increased mostly due to the completion of the Indonesia No. 2 factory and the Fujian factory. This includes both newly acquired assets and capitalized assets under construction (KRW 24 billion)
  - **Machinery:** Increased mostly from the installation of production facilities in the Indonesian factories. The Indonesia subsidiary acquired machinery amounting to KRW 11.9 billion.

- The company's Indonesia and Fujian subsidiaries acquired KRW 33.3 billion and KRW 12.4 billion worth of tangible assets respectively during the period, with assets under construction to be settled to the buildings/facilities or machinery accounts.

Zinus Customer Reviews



Customer Reviews

- In the online market where reviews and feedback have a significant impact on customer decisions, the company has received an exceptional number of reviews and high review scores, strengthening its brand recognition and taking an advantageous market position over its competitors.

- Since the company received its first online review in 2007, the number of reviews has grown at an average of 98% every year to reach a total of 614,010 as of the end of 2019.

- In particular, Green-Tea Foam Mattress and 14-inch SmartBase have accrued a total of 31,558 and 26,522 reviews each, significantly outpacing more than 2,000 other competing products in the same category, maintaining their positions on Amazon's Best Sellers list, from the early days of their release until now.

- The company's average review score is 4.5, showing a higher level of customer satisfaction than its main competitors, with firm 'T' having a score of 3.9, firm 'C' at 3.9, and firm S' at 4.1.

Payout Ratio & Dividend Policies

Payout Ratio & Dividend Policies

- The company is committed to continuously executing shareholder-friendly management practices in order to boost shareholders' value, as promised to shareholders when listing.

- As part of its shareholder-friendly policy, the company has decided at its latest board meeting, to pay out dividends of KRW 1,250 per share, which is equivalent to 25% of the company's consolidated net profit. The company will continue to maintain a shareholder-friendly policy by distributing a set portion of its consolidated net profit as dividends.

- Considering the payout ratio of major KOSPI firms and other peers in the same sector, the company's dividend distribution, set around 25% of consolidated net profit, is significantly high.

- Furthermore, the company is also positively reviewing the possibility of distributing interim dividends, in consideration of requirements for working capital and CAPEX demands.

ZINUS

Investors will be able to access this material in Korean and English @
https://www.zinus.co.kr/board/list.php?bdId=investor

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