Midea Group
IR presentation

2017.09
Corporate Snapshot
Milestones

Successful transition into a multi-product and global operation group

- **1992**
  - Established Welling Holding and started appliances motors business

- **1980s – 1997**
  - Organic growth of domestic business
  - Entered home appliances market

- **1998**
  - Introduced commercial A/C to China
  - Acq. of Macro, Toshiba A/C compressor factory

- **1999**
  - Indesit
    - Started two JVs with Indesit on dishwashers and motors

- **2001**
  - Sanyo
    - Acq. of Magnetron from Sanyo

- **2004**
  - Royalstar
    - Acq. of Hualing and Royalstar; started Refrigerators and Laundry business

- **2007**
  - Factory in Vietnam

- **2008**
  - Acq. Of Little Swan

- **2008 – 2013**
  - Series of JVs with Carrier in China, Egypt, LatAm, India and Philippines

- **2010**
  - Welling
    - Listed motors asset in Welling

- **2015 – 2016**
  - JVs with Bosch, Siemens, Yaskawa, Cuchen, Toshiba Lifestyle

- **2017**
  - Acq. Of KUKA, STX

- **2016**
  - JVs with ELUX, Electrolux

Organic growth in HVAC / SDA

Vertical integration & horizontal consolidation in China

Global expansion to international markets

US$24Bn Revenue (2016)

US$33Bn Revenue (2017E)
Return to Shareholders

Stable dividend distribution to shareholders every year

Since IPO in 1993:
Revenue: RMB 936mn → RMB 159.8bn
Earnings: RMB 144mn → RMB 15.9bn
Accumulated dividend distribution: RMB 32.5bn
Overview

2017H1
$18 billion
Revenue

Export to
200+
Countries/Regions

Fortune 2017
450/208
Revenue/Profit

Credit Ratings
A-/A3/A-
S&P/Moddy’s/Fitch

# 1 Global Consumer Appliances Player by Revenue

market cap: > RMB 250bn / USD 37bn
Ranking among all A-share companies:
~ 20
Supply ~300m units of consumer appliances to customers and ~300m units of key components to manufacturers
Most of categories’ market share rank among top 3 in the Chinese market.
Diversified product portfolio; international sales account for nearly 50%
In addition, KUKA has 15 manufacturing sites worldwide, including 2 in China.
Corporate Governance
Management Handover

Becoming a modern enterprise managed by professional managers

In 2012, professional manager team came on board

- **Hongbo Fang (Paul)**
  *Chairman & President*
  Joined Midea in 1992

- **Bitong Yin (Berton)**
  *VP & GM of Residential AC*
  Joined in 1999

- **Yanmin Gu (Andy)**
  *VP*
  Joined in 2000

- **Ziqiang Hu (Zack)**
  *VP & Chief of Central Research*
  Joined in 2012

- **Feide Li (Fred)**
  *VP & Head of Operations*
  Joined in 1999

- **Fengtao Zhu (Frank)**
  *VP & GM of Kitchen Appliances*
  Joined in 1993

- **Jinliang Wang (Kim)**
  *VP & Head of Domestic Marketing*
  Joined in 1995

- **Weiming Xiang**
  *VP & Head of Products & Supply Chain*
  Joined in 1991

- **Mingguang Xiao (Peter)**
  *CFO*
  Joined in 2000

Board composition:
5 executive + 1 non-executive + 4 independent

In 2013, Midea Group launched IPO

Prior to IPO

- **Midea Holding**
  59.85%

- **Strategic Investors**
  21.15%

- **Management**
  19.00%

- **Issue Shares**
  Share swap

- **Midea Group**

- **SDA**
- **Motor**
- **Logistics**
- **Shareholders of Midea Electric**
  41.17%

- **Midea Electric (List Co)**
  58.83%

After IPO

- **Midea Holding**
  35.49%

- **Strategic Investors**
  12.54%

- **Management**
  11.27%

- **Others**
  40.70%

- **Midea Group (List Co)**

- **SDA**
- **Motor**
- **Logistics**
- **Midea Electric**
Organizational Chart

Business Units + Platforms + Corporate Functions, Great Synergies

Midea Group

Corporate functions:
Long-term Incentive Plans to Align Interests of Shareholders and Management

**Share Option Plan**
- Four terms of share option plans for about 3,600 employees
- Accumulatively account for 8% of TSO
- Majorly management in R&D and manufacturing

**Restricted Shares Plan**
- First term of restricted shares plan for 140 employees
- Account for about 0.5% of TSO
- Majorly senior management in the business units

**“Partners” Program**
- Three terms of “Partners” Program (ESOP)
- For key senior management.
- From “professional managers” to “business partners”.
Strategic Transformations
## Key Financial Changes

**Significant margin improvement and strong cash generation capabilities**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2016</th>
<th>キャンペーン</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (RMB Bn)</td>
<td>134.1</td>
<td>159.8</td>
<td>+19%</td>
</tr>
<tr>
<td>Net Earnings (RMB Bn)</td>
<td>6.7</td>
<td>15.9</td>
<td>+137%</td>
</tr>
<tr>
<td>Net Cash / Debt (RMB Bn) *</td>
<td>-5.1</td>
<td>69.5</td>
<td>+~75Bn</td>
</tr>
<tr>
<td>Cash flow from Operating Activities (RMB Bn)</td>
<td>4.1</td>
<td>26.7</td>
<td>+550%</td>
</tr>
<tr>
<td>Revenue per employee (RMB Mn)</td>
<td>6.7</td>
<td>13.4</td>
<td>+100%</td>
</tr>
<tr>
<td>Number of Employees (‘000)</td>
<td>200</td>
<td>120</td>
<td>-39%</td>
</tr>
<tr>
<td>Net Asset (RMB Bn)</td>
<td>30.2</td>
<td>69.0</td>
<td>+128%</td>
</tr>
</tbody>
</table>

* The calculation of Net Cash here includes Notes Receivable.
Strategic Focuses

Leading Products
- Technical Innovation
- Increased Investment
- Excellent Quality
- Customer Focus

Efficiency Driven
- Manufacturing Efficiency
- Assets Turnover Efficiency
- Automation & Informatization
- De-capacity & de-stocking

Global Operations
- Global Positioning
- Local Operation
- M&A
- OBM business growth
Leading Products

R&D investment

- **6bn RMB**
  - 23bn RMB in last 5 years
  - 3.8% of total revenue
  - Rank 7th in China (1st in industry)

R&D personnel

- **≥50%**
  - 27% in 2011
  - 55% in 2016
  - 68% in 2018 (planned)

Talent Structure

- **300**
  - 20 doctors in 2012
  - 300 doctors in 2016
  - 300 foreign experts

Patents

- **5,427**
  - 32,000 patent application in last 5 years
  - Rank 1st globally in consumer appliance
Efficiency Driven

Investment on automation & IT; reduction on overcapacity, inventory, leverage

**Investments**
- Automation: Rmb 7bn
- 632 IT Project: Rmb 3bn

**Reductions**
- Product categories: 64→32
- SKU: >4,000 → 2,000
- Channel stock: 16→7.7 (Rmb bn)
- Fixed Assets: 24→18 (Rmb bn)

Automation & Informatization, Made To Order (T+3 model)

**Growth in earnings & margins**
- Unit: RMB Bn
- 2012-2016:
  - Net Earnings: 6.1, 8.3, 11.6, 13.6, 15.9
  - Net Margin: 6.0%, 6.8%, 8.2%, 9.8%, 10%

**Shortened cash conversion cycle**
- 2012-2016:
  - Cash Conversion Cycle: 30, 4, 0
  - Reduction: 26 days

**Decrease in debt asset ratio**
- 2011-2016:
  - Debt asset ratio: 67%, 60%
  - Decline: 7 ppt
Global Operation

To achieve global allocation of capital and global operations

Proven Partner with Leading Global Brands

- **Carrier**
  - JV cooperation in China, India, Egypt, Philippines and South America

- **TOSHIBA**
  - JV cooperation in HVAC and compressors

- **BOSCH**
  - JV cooperation in China with Bosch Thermo-technology

- **YASKAWA**
  - JV cooperation in China with Yaskawa on robotics

- **KUKA**
  - 94.55% Stake in Kuka and cooperation in robotics

- **SIX**
  - Joint development with Six in China on PCBs

- **Horizont**
  - JV cooperation in Belarus on kitchen appliances

- **CLIVET**
  - JV cooperation on Commercial Ac

Midea International

- Communication platform between China HQ and international subsidiaries
- 19 settlement currencies, 21 nationalities of employees
- International business account for 50% of revenue 2017F

Global standardization

HQ Globalization

Subsidiaries Localization

Local Differentiation
Strategic Cooperation

**Acquisition of 80% stake in Clivet, a European leading company based in Italy**
- Improve market share in the European as well as global markets
- Significant synergies in manufacturing and technologies of large commercial air conditioners
- Transaction completed on 31 October 2016

**Transaction completed on 30 June 2016**

**Acquisition of 80% stake in Toshiba home appliances businesses**
- Being licensed to use the Toshiba brand worldwide for 40 years
- Obtained over 5,000 IP assets
- Significant synergies in brand, channels, R&D, supply chain, etc.

**Transaction completed on 30 June 2016**

**Acquisition of 95% stake in KUKA AG**
- Midea “Smart Home” and “Intelligent Manufacturing” Strategy:
  - Improve manufacturing competency through automation
  - Improve logistics automation
  - develop smart devices and service robotics
- Another milestone of Midea’s expansion in industrial automation and intelligent manufacturing
- Provide comprehensive motion control solutions, from encoders, servo drives to multi-axis motion controllers, for a wide variety of industries including industrial robots
- Transaction completed on 6 January 2017

**Transaction completed on 9 February 2017**

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### Corporate Vision

World’s leading technologies group in consumer appliances, HVAC systems, robotics & automation, and intelligent supply chain

<table>
<thead>
<tr>
<th>Appliances</th>
<th>Smart Appliances</th>
<th>Smart Home Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>HVAC Residential</td>
<td>HVAC Commercial</td>
<td>HVAC Industrial</td>
</tr>
<tr>
<td>Robotics &amp; Industrial Automation</td>
<td>Robotics Commercial</td>
<td>Robotics Residential</td>
</tr>
</tbody>
</table>

**Building Blocks:** Compressor, Motor, Magnetron, Motion controller, Encoder, Driver, PCBs

- **Big Data**
- **Cloud Computing**
- **Artificial intelligence**
- **Key Enabler**
Business Update
Sustainable revenue and profit growth

**Total Revenue**

- **Unit:** RMB Bn
- **2016H1:** 78.0
- **2017H1:** 104.4

**Consolidation Impact:**
- Revenue: KUKA RMB13.5bn, TLSC RMB7.5bn.
- Consolidation impact: 60% revenue growth.
- Organic business achieved 34% revenue growth.

**Net Profit**

- **Unit:** RMB Bn
- **2016H1:** 10.2
- **2017H1:** 12.2

**Net Profit / loss:** KUKA RMB451mn, TLSC RMB 92mn.
- PPA: RMB1.4bn.

**Consolidation Impact:**
- Consolidation impact: 13% net profit growth.
- Organic business achieved 19% net profit growth.
## Cash & Cash Flow

**Abundant cash-in-hand; strong cash generation capabilities**

<table>
<thead>
<tr>
<th>Monetary Assets</th>
<th>End 2016</th>
<th>End 2017H1</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit: RMB Bn</td>
<td>87</td>
<td>100</td>
<td>16%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Cash Flow</th>
<th>2016H1</th>
<th>2017H1</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit: RMB Bn</td>
<td>8.1</td>
<td>13.9</td>
<td>71%</td>
</tr>
</tbody>
</table>
Cash Conversion Cycle

Operational efficiency further improved

Cash Conversion Cycle*

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
<td>0.3</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Inventory Turnover Days*

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
<td>41</td>
<td>31</td>
</tr>
</tbody>
</table>

* Only for the organic business.
Thank You!