

TCL

TCL 電子控股有限公司
TCL ELECTRONICS HOLDINGS LIMITED
(Stock code: 01070.HK)

Living Window



2018 Q1-Q3 Business Update

Contents



1. Competitive Advantages



2. Business Review



3. Outlook



Competitive Advantages



Internationalization Strategy and Market-leading Position

- Ranked **Top 3** in both **global and the PRC TV markets**^{1,2}
- **Overseas markets** contributed over 60% of total sales volume; export shipment for Jan-Sep 2018 ranked **No.1** in the PRC³; overseas shipment remained **No.1** among Chinese brands for 9 consecutive years
- Coverage of 6 major sales channels in the **North American market** with sales volume ranking **Top 3**⁴; jumped to the **Top 2**⁴ in July and August
- European markets grew remarkably, with market ranking in **France** rising to **Top 3**⁵ in terms of sales volume

 **International Brand**



Vertical Integration Advantage and Global Strategy

- The **only Chinese TV enterprise possesses a complete vertically integrated industrial chain** spanning panel, module and assembly
- Manufacturing bases in the PRC, Mexico, Poland, Vietnam, Brazil and Argentina, establishing **globalized industrial capabilities**
- Committed to the implementation of high standard **intelligent factory and automated manufacturing**, adopting **Industry 4.0** through Tonghu Project (with **total capacity reaching 35 million sets**; Phase 1 is expected to complete by May 2019), aiming to achieve synergy with China Star Optoelectronics Technology ("CSOT"), lowering costs and raising production efficiency

 **Global Strategy**



Innovative Products and R&D Capability

- **Innovative products: cutting-edge quantum dot (QLED) TVs** and brand new **Living Window All-scenario TVs** with industry-leading AI technology
- TCL products received a **super-high score of 8.6** in the esteemed website CNET News' "Best TVs for 2018" review, beating Sony and Samsung; also won **CNET's Editor's Choice Award**
- Won the prestigious EISA Award - "**Best Buy LCD TV 2018-2019**" at IFA in Europe, TCL's global strategy for product and brand enhancement has delivered remarkable results
- **Leading R&D capability:** established a **joint A.I. design center** with TCL Corporation to accelerate R&D and application of A.I. technology

 **Product Competitiveness**



Diversified Business Strategic Transformation

- **Internet TV business** reinforced "1+1+N" strategic cooperation with total number of activated users nearing 30 million and revenue surging twice to RMB200 million, exhibiting greater monetization capability
- Develop **Smart AV Business** by establishing TES and obtaining brand authorization of "ONKYO"
- Acquired **CI Tech** to explore B2B business and enter the blue ocean market of commercial display
- Set up an open **smart home system** with the smart TV as the terminal

 **Drive Profitability and Valuation**

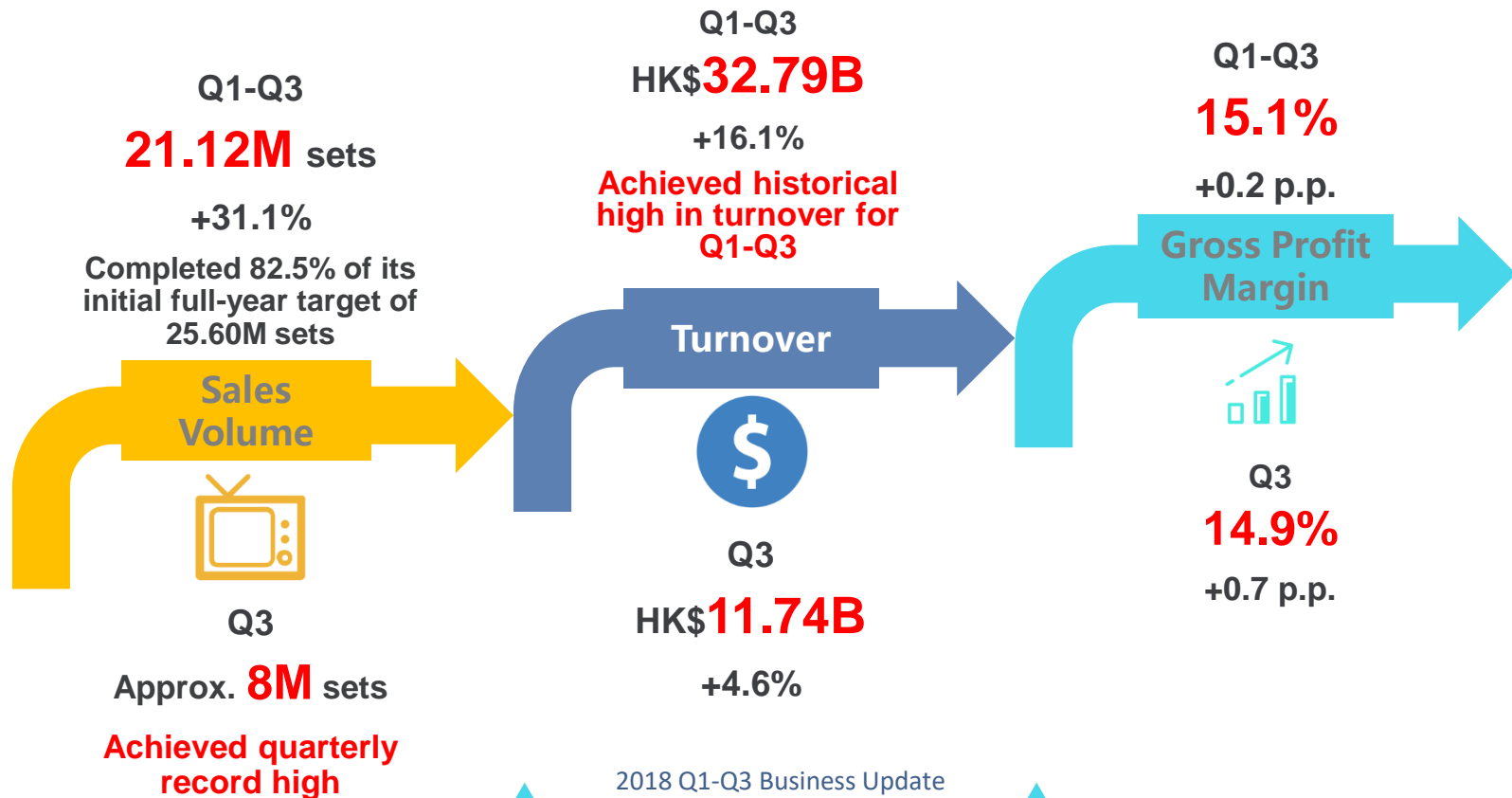
XESS



Business Review

Business Highlights

- **Scale of Sales:** Sales volume and turnover for the first three quarters of 2018 maintained remarkable growth; raised the full-year sales target to 28.3 million sets
- **Gross Profit Margin:** Committed to premium product strategy and product mix optimization, gross profit margin continued to improve year-on-year
- **Profitability:** Continuous implementation of the “cost reduction and efficiency enhancement” strategy, profitability continuously improved with effective expense control

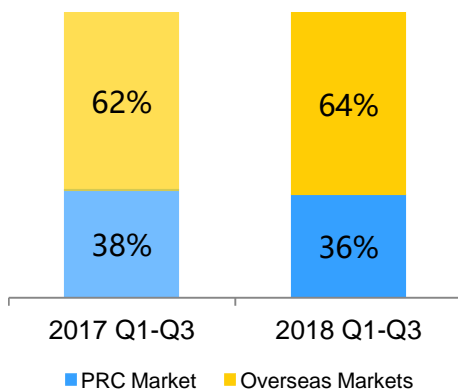


Business Summary

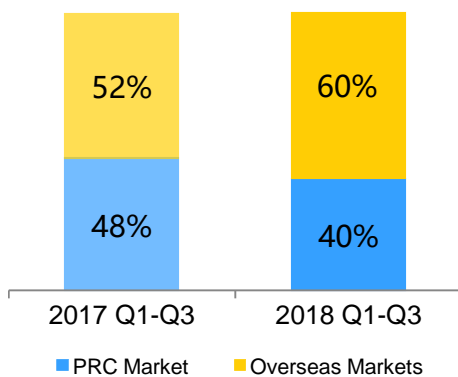
(For the 9 months and 3 months ended 30 September 2018)

TCL

Proportion of LCD TV Sales Volume



Proportion of Turnover



(HK\$ million)	2018 Q1-Q3	2017 Q1-Q3	Change	2018 Q3	2017 Q3	Change
LCD TV Sales Volume('000 sets)	21,123	16,115	+31.1%	7,949	6,511	+22.1%
- The PRC Market	7,585	6,046	+25.4%	2,696	2,180	+23.7%
- Overseas Markets	13,538	10,068	+34.5%	5,253	4,332	+21.3%
Turnover (HK\$ million)	32,789	28,248	+16.1%	11,739	11,225	+4.6%
- The PRC Market	13,164	13,427	(2.0%)	4,360	4,815	(9.4%)
- Overseas Markets	19,625	14,821	+32.4%	7,379	6,411	+15.1%
Gross Profit Margin (%)	15.1	14.9	+0.2 p.p.	14.9	14.2	+0.7 p.p.
- The PRC Market	19.4	19.3	+0.1 p.p.	17.7	18.8	(1.1 p.p.)
➤ Self-branded	22.6	21.4	+1.2 p.p.	20.4	20.2	+0.2 p.p.
- Overseas Markets	12.3	11.0	+1.3 p.p.	13.2	10.7	+2.5 p.p.
➤ Self-branded	14.6	12.0	+2.6 p.p.	15.5	12.2	+3.3 p.p.

Business Review

- Market Share and Ranking



Global TV Market Share

Ranking	Brand	2018 1H Market share of sales volume	2017 1H Market share of sales volume
1	Samsung	17.1%	18.8%
2	LGE	12.0%	12.4%
3	TCL	11.8%	9.5%
4	Hisense	6.5%	6.4%
5	Skyworth	5.6%	6.1%
6	Sony	4.7%	5.3%
7	Sharp	4.3%	3.7%
8	Philips+AOC	4.3%	3.7%
9	Changhong	3.2%	3.2%
10	Konka	2.9%	3.0%

Source : Sigmaintell

The PRC TV Market Share

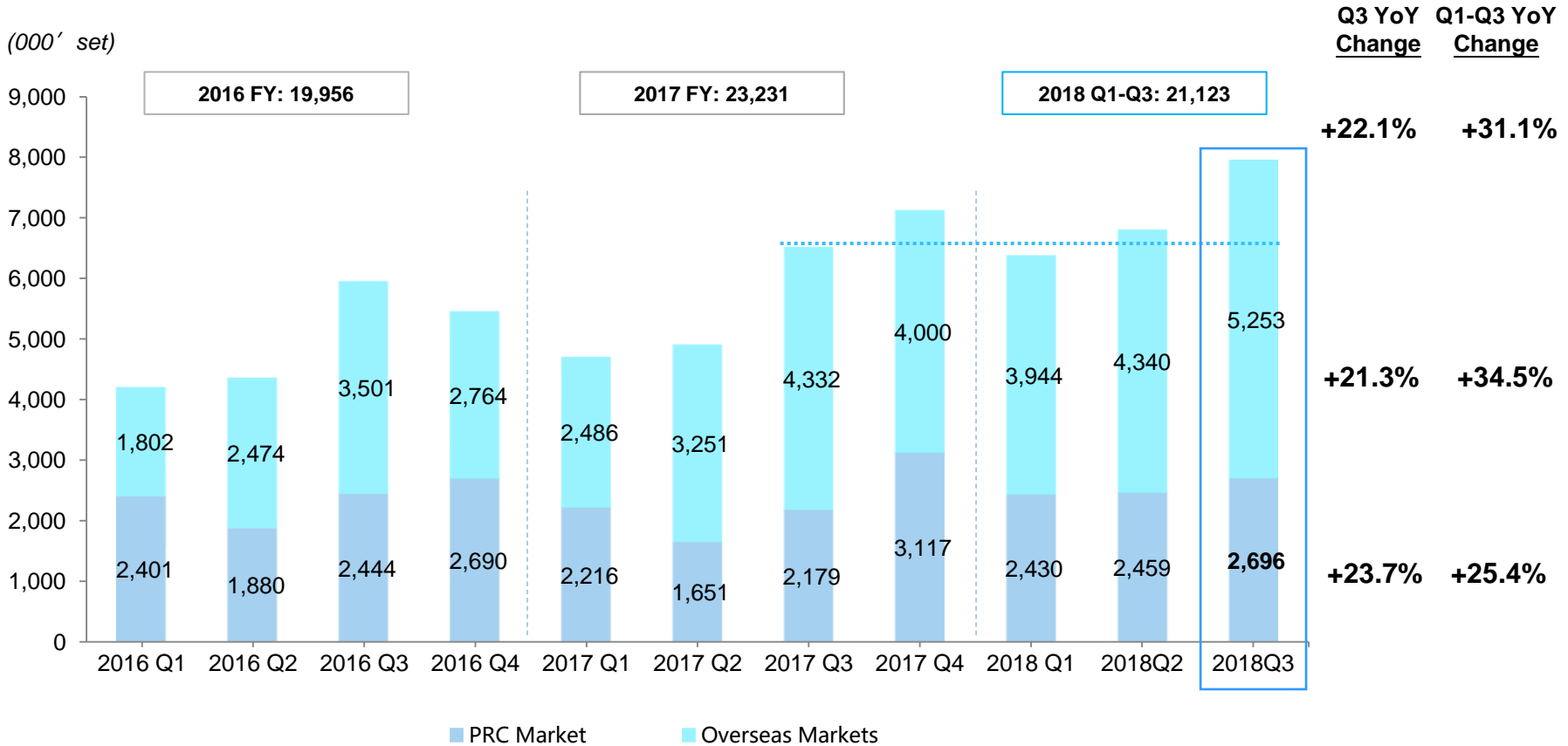
Ranking	Brand	2018 Q1-Q3 Market share of turnover	2017 Q1-Q3 Market share of turnover
1	Hisense	16.8%	15.8%
2	Skyworth	14.1%	13.5%
3	TCL	12.6%	12.3%
4	Changhong	9.6%	9.7%
5	Sharp	7.4%	7.2%
6	Mi	7.0%	3.7%
7	Konka	6.4%	6.8%
8	Sony	6.0%	5.1%
9	Haier	5.7%	5.6%
10	Philips	3.5%	3.8%

Source: CMM omni-channel data

LCD TV Sales Volume

Q3 sales volume sustained strong growth momentum, achieving quarterly record high

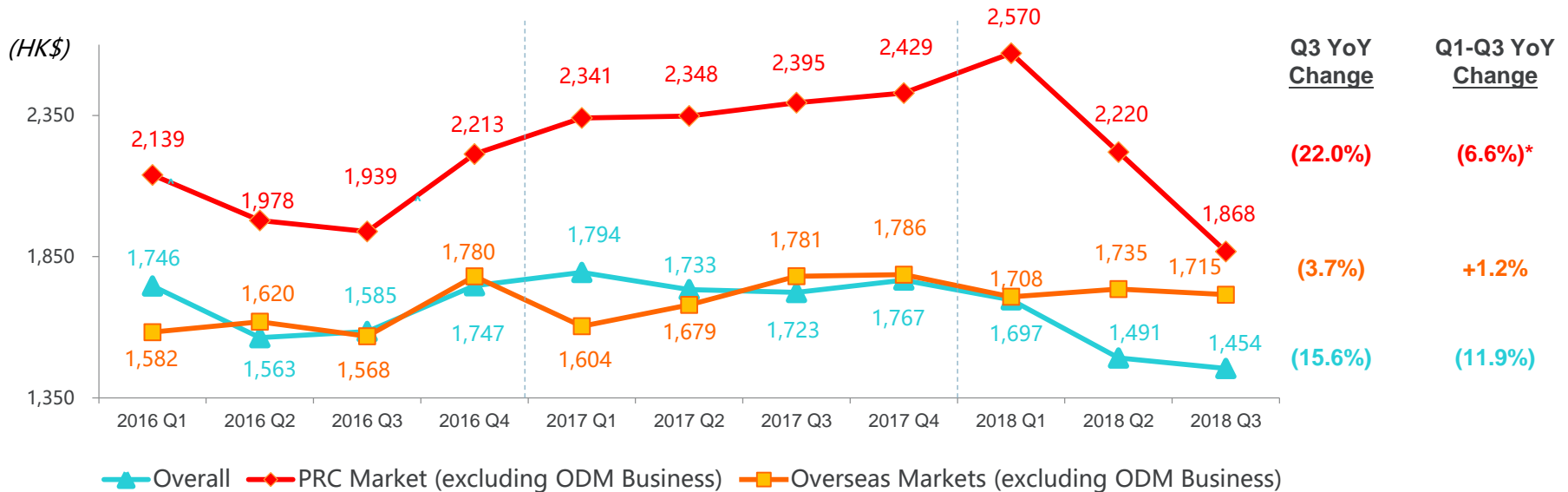
LCD TV Sales Volume (by quarter)



LCD TV Average Selling Price

ASP in the PRC market dropped mainly due to a significant increase in online sales contribution and a decline in panel price

LCD TV Average Selling Price (by quarter)



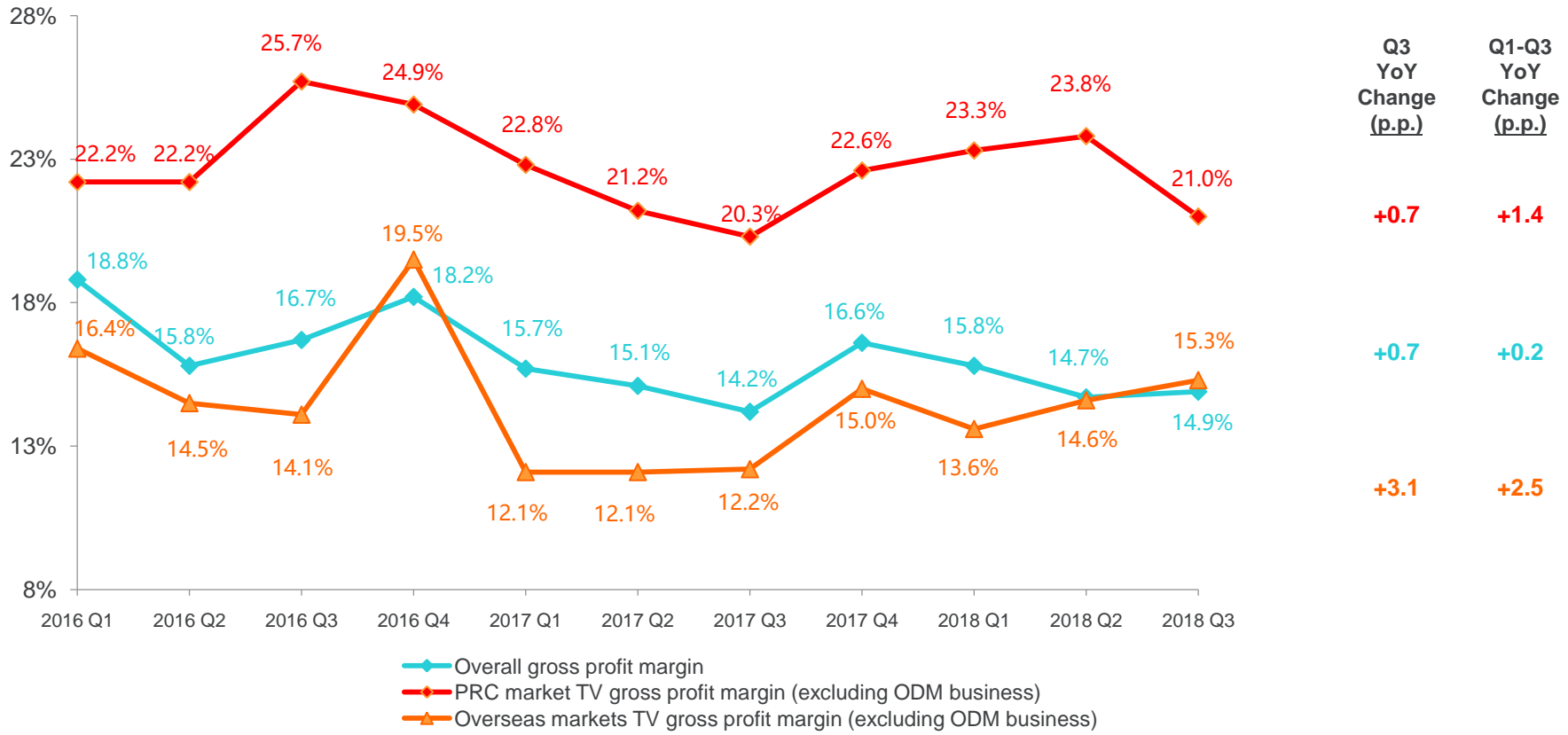
	2017 Q1-Q3	2018 Q1-Q3
Overall	1,747	1,539
- The PRC Market (excluding ODM Business)	2,363	2,206
- Overseas Markets (excluding ODM Business)	1,699	1,719

* According to CMM omni-channel data, ASP of the PRC TV market for the first three quarters dropped 9.8% year-on-year

Gross Profit Margins

Gross profit margins of self-branded products in the third quarter and the first three quarters continued rising year-on-year

Gross Profit Margin (by quarter)



Overseas Markets TV Business



(HK\$ million)

	2018 Q1-Q3	2017 Q1-Q3	Change	2018 Q3	2017 Q3	Change
Turnover	19,573	14,793	+32.3%	7,388	6,408	+15.3%
Gross Profit	2,386	1,626	+46.8%	966	678	+42.4%
Gross Profit Margin	12.2%	11.0%	+1.2 p.p.	13.1%	10.6%	+2.5 p.p.

TV Product Proportion (excluding ODM business)

	2018 Q1-Q3	2017 Q1-Q3	Change (p.p.)
Smart	83.5%	77.4%	+6.1
4K	37.2%	23.2%	+14.0
55" and above large-screen	24.8%	18.7%	+6.1
Average size	41.9"	39.3"	+2.6"

Sales volume: LCD TV sales volume for the first three quarters of 2018 surged by **34.5% year-on-year to 13.54 million sets**

- ✓ **North American market** accelerated channel penetration, sales volume **increased by 30.7% year-on-year**; its **ranking for sales volume jumped to Top 2 in July and August***
- ✓ **Emerging markets** remained on a positive growth track, sales volume **increased by 38.3% year-on-year**, mainly contributed by Brazil, Australia and Vietnam
- ✓ **European markets** sales volume **soared by 60.3% year-on-year**, driven by continuous strong growth momentum in France, Germany and Spain

Turnover: LCD TV turnover was **up by 32.3% year-on-year to HK\$19.57 billion**

Average selling price: The product mix continued to optimize. The average selling price of self-branded products **increased by 1.2% year-on-year**

Gross profit margin: improved by 1.2 p.p. year-on-year to 12.2% for the first three quarters of 2018, **of which self-branded products rose by 2.5 p.p. year-on-year to 14.6%; increased by 3.1 p.p. year-on-year to 15.3% in Q3**



Business Review – Overseas Markets



Jan – Aug 2018 market share rankings in term of sales volume (except Brazil)
(Source: GfK, except North America from NPD)

*Climbed to Top 2
in July and August*

North America
Jumped to No. 3 from No. 4 in the same period last year

France
Up to No. 3 from No. 4 in the same period last year

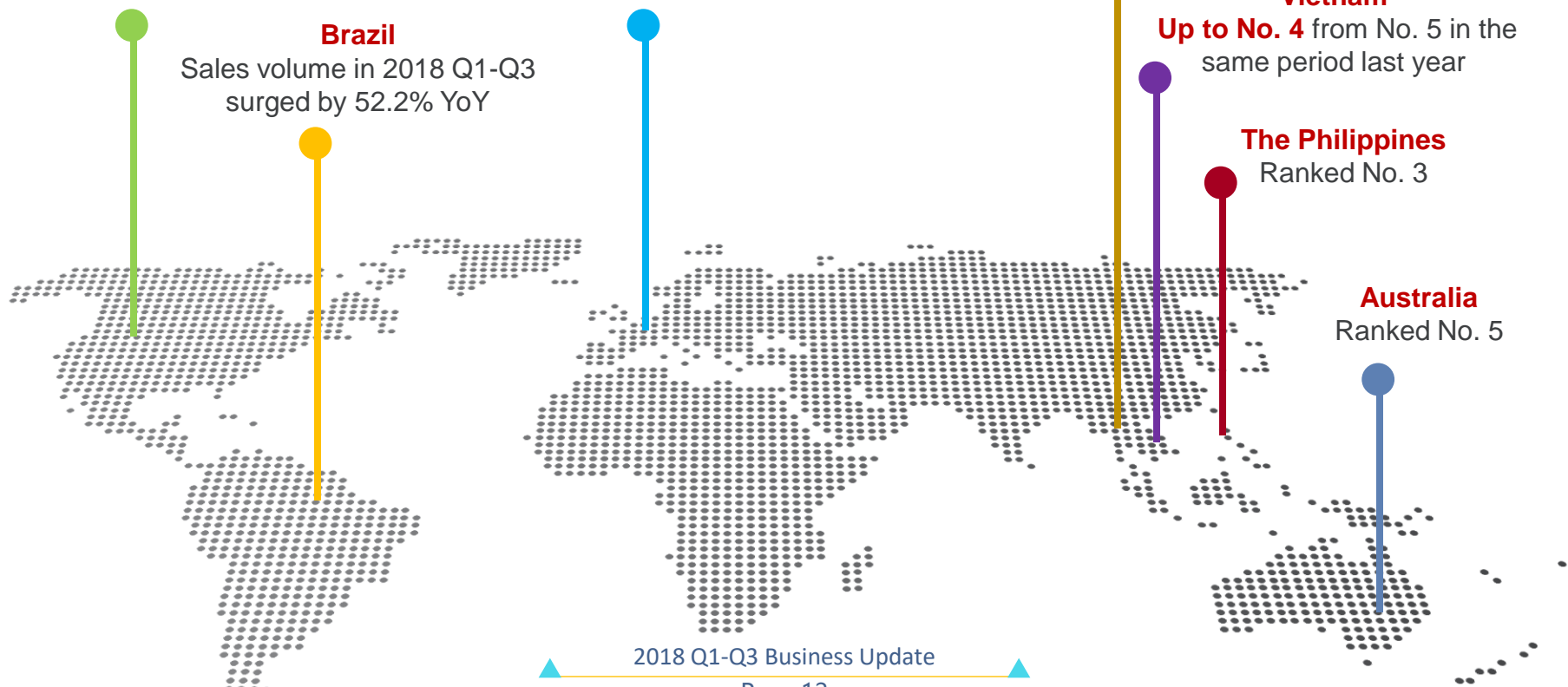
Thailand
Ranked No. 4

Vietnam
Up to No. 4 from No. 5 in the same period last year

The Philippines
Ranked No. 3

Australia
Ranked No. 5

Brazil
Sales volume in 2018 Q1-Q3 surged by 52.2% YoY



TV Business in the PRC Market



(HK\$ million)

	2018 Q1-Q3	2017 Q1-Q3	Change	2018 Q3	2017 Q3	Change
Turnover	12,971	13,354	(2.9%)	4,204	4,808	(12.6%)
Gross Profit	2,537	2,578	(1.6%)	758	908	(16.5%)
Gross Profit Margin	19.6%	19.3%	+0.3 p.p.	18.0%	18.9%	(0.9 p.p.)

Sales Volume: According to CMM's report, the sales volume of LCD TV market in the first three quarters of 2018 decreased by 0.9% year-on-year, while the Group's LCD TV **sales volume increased by 25.4% year-on-year to 7.58 million sets**, outperforming the average level of the industry

Turnover: Turnover decreased by 2.9% year-on-year to HK\$12.97 billion

Average Selling Price: According to CMM's report, the average selling price of LCD TV market in the first three quarters of 2018 decreased by 9.8% year-on-year. The Group's average selling price of LCD TVs (excluding ODM business) decreased by 6.6% year-on-year

Gross Profit Margin: Despite the drop in the average selling price caused by significant increase in the proportion of online sales and the decline in the panel price, gross profit margin in the first three quarters of 2018 increased by 0.3 p.p. year-on-year to 19.6%, of which gross profit margin of self-branded products **increased by 1.4 p.p. to 22.8%**

TV Business in the PRC Market

Brand Price Index* in the PRC TV Market

2017 Q1-Q3			2018 Q1-Q3		
1.	Hisense	110	1.	Hisense	114
2.	Skyworth	104	2.	TCL	112
3.	TCL	101	3.	Skyworth	106



Sales Volume Ranking* of Curved TVs in the PRC Market

Market Share for Jan-Sep 2018

34.4%

Ranked **No.1**



TV Product Proportion (excluding ODM business)

	2018 Q1-Q3	2017 Q1-Q3	Change (p.p.)
Smart	81.3%	74.7%	+6.6
4K	51.9%	40.4%	+11.5
55" and above large-screen	41.3%	35.3%	+6.0
Average size	46.7"	45.4"	+1.3"

Internet Business

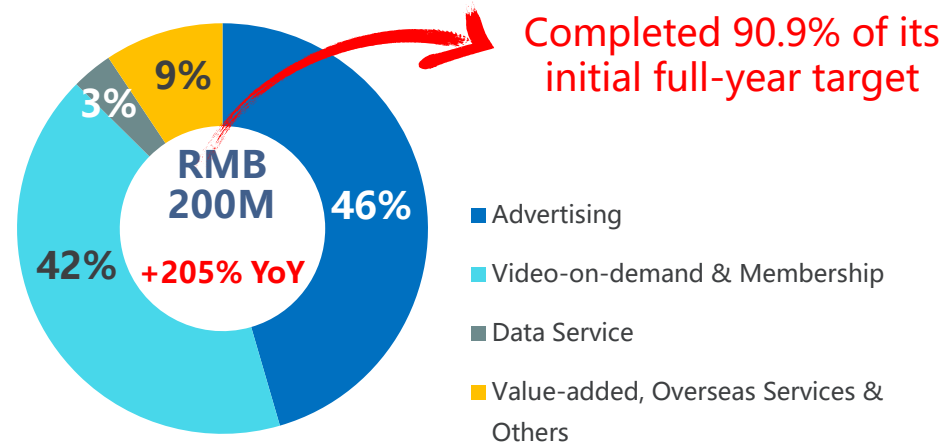
Number of users exceeds 29.31 million and average daily time spent on TV rose steadily

	2017 Q1-Q3		2018 Q1-Q3
Total number of activated users	21.76M	+34.7%	29.31M
Number of users of video-on-demand business	20.68M	+22.9%	25.42M
Number of users of paid business	1.83M*	+136.0%	4.32M
Average daily number of activated users	9.88M	+40.6%	13.89M

Average Daily Time Spent on TV



Revenue for 2018 Q1-Q3



* Restated



Brand Power Enhancement

Continuous enhancement of global brand influence

The prestigious EISA Award –
“Best Buy LCD TV 2018-2019” at IFA in Europe

Forbes Digital 100 Ranking



Global ranking **No. 79**

The only Chinese home appliance brand awarded



The Group won Europe's prestigious EISA Award granted by the European Imaging and Sound Association, in recognition of the outstanding picture and sound quality of TCL's TV products, demonstrating remarkable results for TCL's global strategy of product and brand enhancement.

The 2018 Top 50 Chinese Global Brand by Facebook + KPMG



The 2018 High-Return Stock List for Shenzhen-HK Stock Connect Southbound Listed Companies by Securities Times



79	TCL	Mainland China
80	Atos	France
81	Murata Manufacturing	Japan
82	Naspers	South Africa
83	NXP Semiconductors	Netherlands
84	SAP	Germany
85	STMicroelectronics	Switzerland
86	Advanced Micro Devices	United States
87	Cognizant Technology Solutions	United States
88	DISH Network	United States
89	Inventec	Taiwan, China
90	MediaTek	Taiwan, China
91	NetApp	United States
92	NetEase	Mainland China
93	Qualcomm	United States
94	Samsung Electronics	South Korea

Forbes Digital 100 Ranking (Section)

The Forbes' Digital 100 lists the world's Top 100 public companies from 17 countries and regions, covering IT, hardware, media, digital retail and telecommunications sectors that shape the digital economy.



Outlook

Diversified Business Development Strategies

Leverage internal and external integration of high-quality industry resources to achieve business diversification



Smart TV &
Internet TV

Smart
AV



Commercial
Information
Technology

Smart
Home



- Reinforce and upgrade its existing core TV business while proactively diversifying its business into Smart AV, Commercial Displays and Smart Home through investments, M&A and restructuring to explore new business growth opportunities
- Integrate TCL Corporation's internal and external high-quality assets of home appliance business, and further strengthen the linkage among product technology, industrial chain, brand marketing and international business, and maximize the Group's advantages through synergies, empowering itself to become an international conglomerate in the electronics industry
- Jointly establish an investment fund with TCL Corporation aiming to seek for suitable investment targets and M&A opportunities within the industrial chain, creating an industry ecosystem

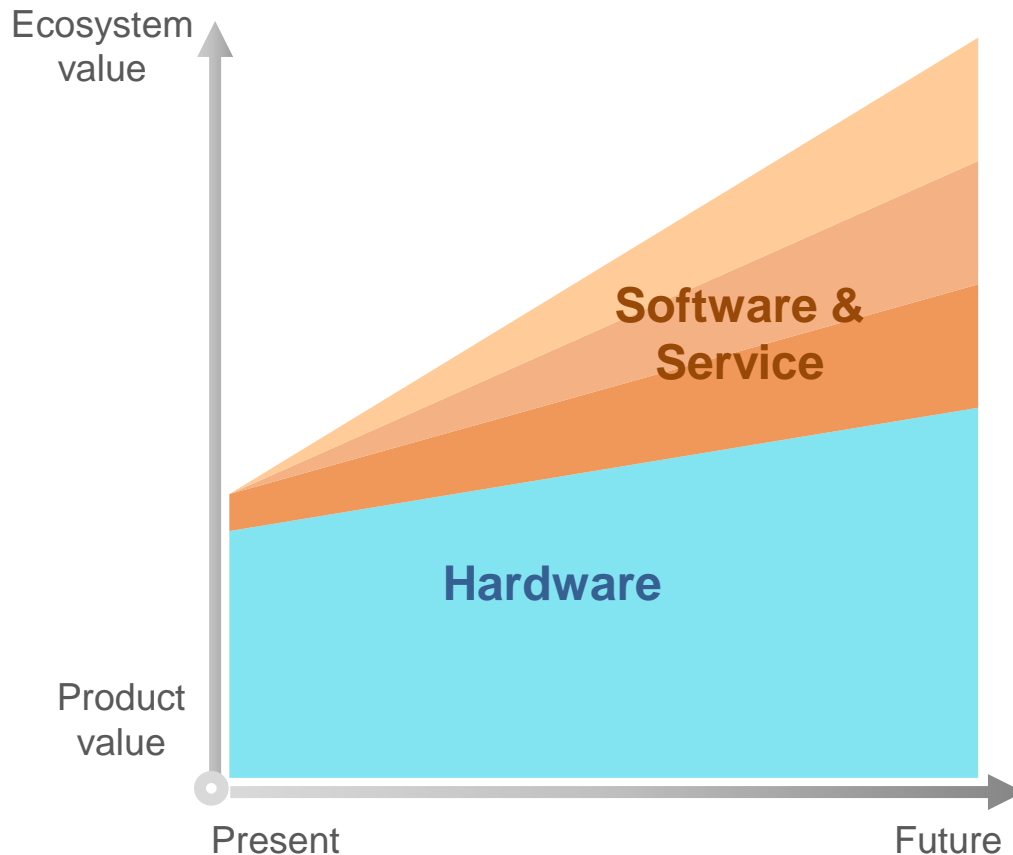
Continuously Pursuing Strategic Transformation



Integrate resources, sustain growth, and create value

Smart terminal products + Software + Service revenue structure

Components of Profit Growth



Smart Home

A platform and a full series of TCL smart products and services based on **artificial intelligence (AI)** and **Cloud Interconnection**

Commercial Information Technology

Integrate leading commercial display technologies of software and systems with **B2B, internet of things (IoT), AI, Cloud Applications** and **Big Data**, etc. to provide **one-stop customised service** covering software, content and intelligent products

Internet Business Platform

Enrich user experience and increase the proportion of **users of paid business**

Smart Terminal Product

Consolidate and enhance **TV** business; Develop **Smart AV** market; Integrate TCL Group's internal and external high quality assets of home appliance business

Progress of Implementation in 2018

Q1-Q3 and Target for FY2018



Sales Volume/ Turnover	2018 Q1-Q3 – Actual			FY 2018 Target		
	Overall	The PRC	Overseas	Overall	The PRC	Overseas
		Q1-Q3 Actual	Q1-Q3 Actual		2018 Target	2018 Target
LCD TVs Sales Volume (Sets)	21.12M ↑31.1%	7.58M ↑25.4%	13.54M ↑34.5%	Raised from 25.6M to 28.3M ↑22%	Raised from 9.5M to 10.3M ↑12%	Raised from 16.1M to 18.0M ↑28%
Turnover (HK\$)	32.79B ↑16.1%	13.16B ↓2.0%	19.63B ↑32.4%	46.0B ↑13%		

The PRC Market (excludes ODM business)	2017 Q1-Q3 Actual	2018 Q1-Q3 Actual	FY 2018 Target
Smart TVs Sales Volume in Proportion (%)	74.7%	81.3%	85%
4K TVs Sales Volume in Proportion (%)	40.4%	51.9%	48%
Curved TVs Sales Volume in Proportion (%)	14.4%	10.8%	16%
Online Sales Volume in Proportion (%)	22.4%	34.5%	30%

Internet Business	2017 Q1-Q3 Actual	2018 Q1-Q3 Actual	FY 2018 Target
Internet Service Revenue (RMB)	66.40M	200M	Raised from 220M to 260M
No. of TCL Global Activated Smart TV Users (Accumulated No. at Period End) (Year-end/Quarter-end) ¹	21.76M	29.31M	28.50M
Average Daily No. of Active Users (Year-end/Month-end) ²	9.88M	13.89M ³	13.00M
Average Daily Time Spent on TV (Hours)	4.9	5.5	5.2

- No. of TCL Activated Smart TV Users (Accumulated No. at Period End) = Accumulated No. of Activated TV Terminals
- Average Daily No. of Active Users = No. of Non-repeated Individual Users Who Visit Within 7 Days
- 2018 September Data

Investment Highlights

Business Results for 2018 Q1-Q3

+31.1%
Sales Volume

+16.1%
Turnover

+1.4 p.p.
Gross profit margin for self-branded TV products in the PRC market

+2.5p.p.
Gross profit margin for self-branded TV products in overseas markets

Industry Rankings

3
Global TV sales volume

1
Export volume of TV products among the PRC enterprises

3
TV turnover in the PRC market

2
TV brand price index in the PRC market

Growth in Internet Business

29.31 Million
Total activated users

13.89 Million
Average daily active users

4.32 Million
Users of paid business

**Empowering itself to Become
A Global Smart Consumer Electronics
Ecosystem Enterprise**

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