

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

2019 Q1
Business Update



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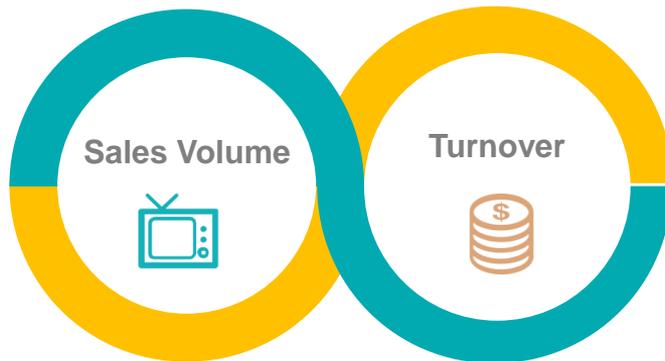
Business Review

Q1 Business Highlights



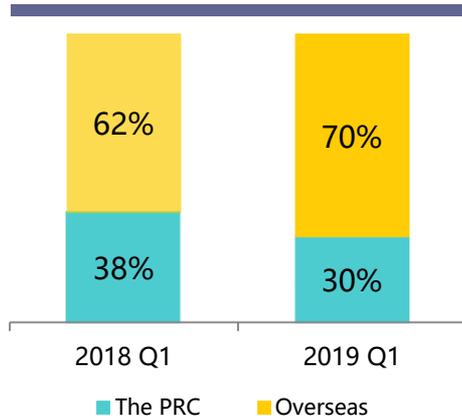
- Sales volume:** Quarterly sales volume hit a historical high. The PRC market remained stable with an upward trend. Overseas markets grew significantly by 50.9% year-on-year.
- Turnover:** Q1 turnover achieved a new Q1 record high since 2014, thanks to effective globalization strategy.
- Profitability:** Economies of scale have been realized, product competitiveness has been continuously enhanced, expenses remained well under control, and profitability further improved.

8.44M sets
+32.5% YoY
Hit a historical high

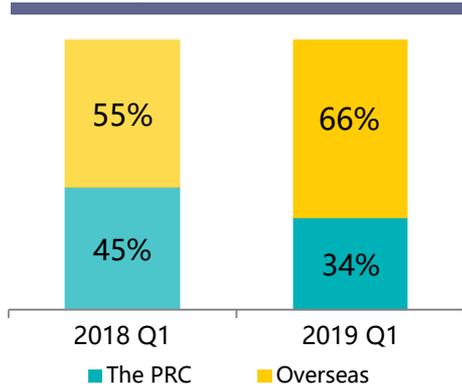


HK\$12.57B
+15.8% YoY
New Q1 record high since 2014

Proportion of LCD TV Sales Volume



Proportion of Turnover



(HK\$ million)	2019 Q1	2018 Q1	YoY Change
LCD TV Sales Volume ('000 sets)	8,443	6,374	+32.5%
- The PRC Market	2,493	2,430	+2.6%
- Overseas Markets	5,950	3,944	+50.9%
Turnover (HK\$ million)	12,573	10,853	+15.8%
- The PRC Market	4,301	4,929	(12.7%)
- Overseas Markets	8,272	5,924	+39.6%
Gross Profit Margin (%)	15.1	15.8	(0.7 p.p.)
- The PRC Market	19.5	21.1	(1.6 p.p.)
➢ Self-branded	22.1	23.3	(1.2 p.p.)
- Overseas Markets	13.0	11.8	+1.2 p.p.
➢ Self-branded	13.8	13.6	+0.2 p.p.

The YoY decrease in the overall gross profit margin was due to a higher proportion of overseas markets with low gross profit margin and low expense ratio. At the same time, the profitability of overseas markets improved significantly, contributing to the ongoing enhancement of overall profitability.



Q1 gross profit margin of self-branded products in the PRC market increased by 1.6 p.p. sequentially.

Chinese brand ranks global top 2 in terms of TV shipment for the first time

Global TV Market Share of Shipment

Ranking	Brand	FY 2018	FY 2017
1	Samsung	16.6%	18.3%
2	TCL	11.6%	10.0%
3	LG	11.3%	12.0%
4	Hisense	7.0%	6.5%
5	Skyworth	6.0%	6.1%
6	Sony	4.8%	5.5%
7	Sharp	3.7%	4.0%

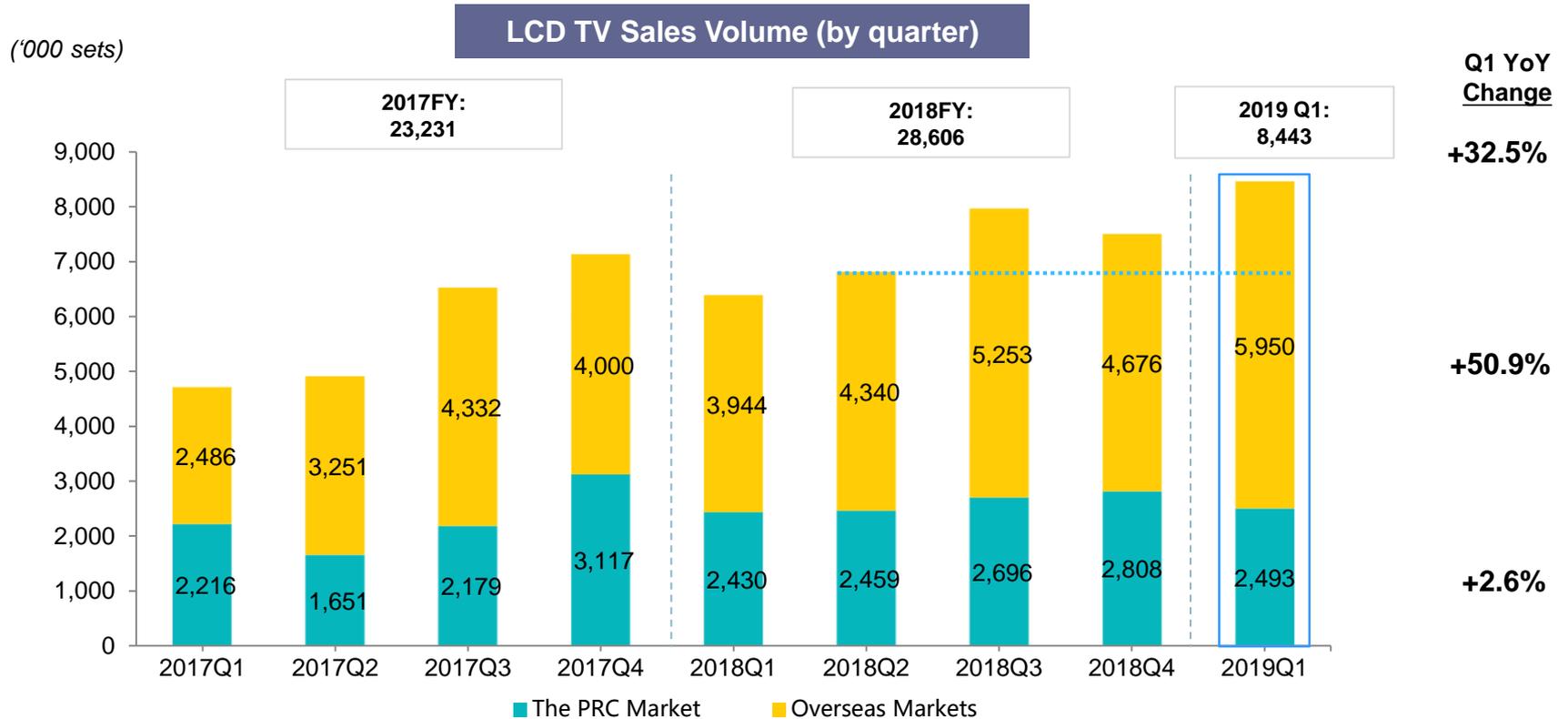
Source: Sigmaintell data

The PRC TV Market Share of Turnover

Ranking	Brand	FY 2018	FY 2017
1	Hisense	17.4%	15.9%
2	Skyworth	14.5%	13.3%
3	TCL	12.8%	12.1%
4	Changhong	9.0%	9.6%
5	Mi	8.3%	4.0%
6	Sharp	6.5%	8.4%
7	Konka	6.3%	6.7%
8	Sony	6.1%	5.6%
9	Haier	5.5%	5.4%
10	Samsung	4.5%	6.3%

Source: CMM omni-channel data

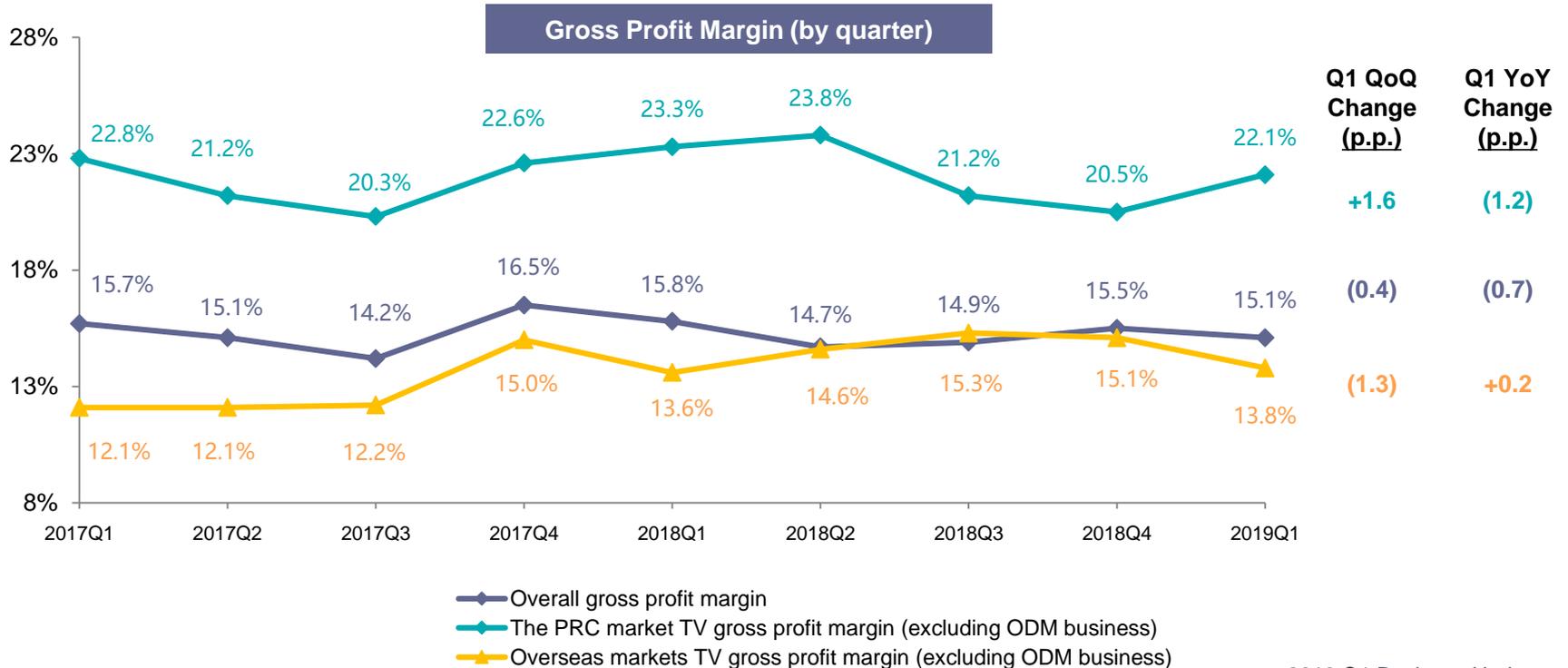
Q1 sales volume sustained strong growth momentum, achieving quarterly record high



Gross Profit Margins

-The PRC market's gross profit margin improved, up by 1.6 p.p. QoQ

-Overseas markets' overall gross profit margin decreased by 1.3 p.p. QoQ due to changes in regional structure, **whereas the overall gross profit increased by 10.1% QoQ**

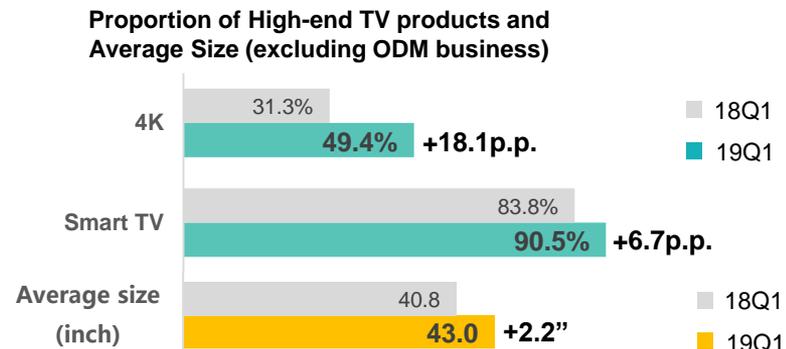


TV Business in Overseas Markets



- With successful implementation of globalization strategy, the Group sustained strong growth momentum in various regions and profitability greatly improved ;
- Further deepened strategic partnership with Google and Roku

Including ODM business	2019 Q1	2018 Q1	YoY Change
Turnover (HK\$ million)	8,241	5,892	+39.9%
Gross Profit	1,070	694	+54.2%
Gross Profit Margin	13.0%	11.8%	+1.2p.p.



↑ **Sales Volume:** LCD TV sales volume for 2019 Q1 **surged by 50.9% year-on-year to approximately 5.95 million sets**

- ✓ **North American markets** sustained competitive advantage, sales volume **increased by 112.0% year-on-year; among the top 2 in the first quarter for six consecutive weeks in North American markets, and climbed up to No. 1 in three of the six weeks***
- ✓ **Emerging markets** remained on a rapid growth track, sales volume **increased by 39.9% year-on-year**, mainly driven by the growth in Argentina, Ecuador, Indonesia and Australia, etc.
- ✓ **European markets** sales volume **soared by 27.1% year-on-year**, with Germany, Italy and France exhibiting significant increases in sales volume

↑ **Turnover:** LCD TV turnover was **up by 39.9% year-on-year to HK\$8.24 billion**

↑ **Gross Profit Margin:** improved by 1.2 p.p. year-on-year to 13.0% in the first quarter; **of which gross profit margin of self-branded products was 13.8%**

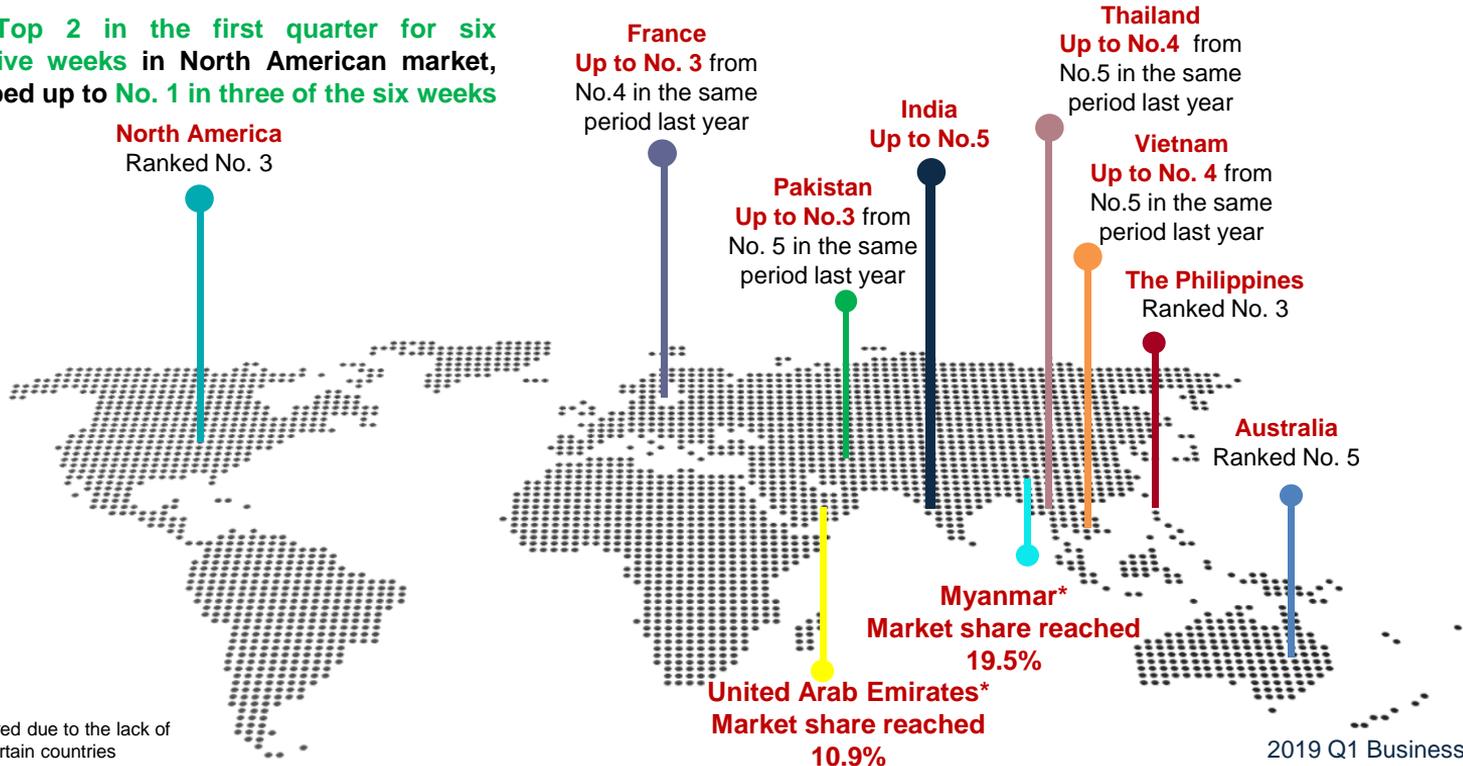
↑ **Profitability:** Successful implementation of globalization strategy led to significant year-on-year growth in profitability; **further deepened strategic partnership with Google and Roku, which will generate new revenue stream of software and services in 2019**

*Source: NPD

Continued to develop key overseas markets and explore new markets, and increased its market shares in various key markets, demonstrating competitive advantages

2019 Jan – Feb market share rankings in terms of sales volume
(Source: GfK, except North America from NPD)

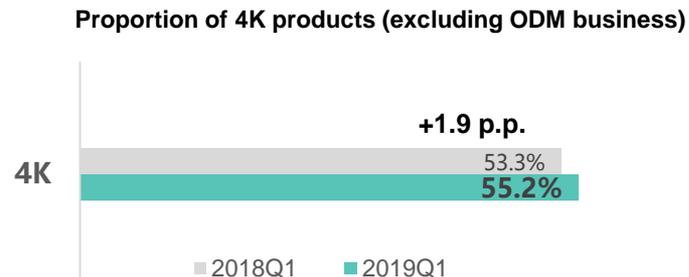
Among **Top 2** in the first quarter for **six consecutive weeks** in North American market, and climbed up to **No. 1** in three of the six weeks



* Rankings cannot be displayed due to the lack of complete data reports in certain countries

Sales volume was up by 2.6% YoY amid market headwinds, of which the self-branded products rose by 8.3% year-on-year, outperforming the industry average

Including ODM business	2019 Q1	2018 Q1	YoY Change
Sales Volume ('000 sets)	2,493	2,430	+2.6%
Turnover (HK\$ million)	4,195	4,922	(14.8%)
Gross Profit Margin	19.5%	21.1%	(1.6p.p)



Sales Volume: According to CMM's report, sales volume of the PRC TV market in 2019 Q1 decreased by 4.1% year-on-year, while the Group's LCD TV sales volume increased by 2.6% year-on-year to 2.49 million sets, of which the self-branded products rose by 8.3% year-on-year, outperforming the industry average

➤ Proportion of the Group's online sales volume increased by 0.8 p.p. from 32.1% in 2018 Q1 to 32.9% in 2019 Q1

Turnover: LCD TV's turnover was HK\$4.19 billion

Gross Profit Margin: LCD TV's gross profit margin in 2019 Q1 increased by 1.2 p.p. quarter-on-quarter to 19.5%. The gross profit margin of the self-branded products increased by 1.6 p.p. quarter-on-quarter to 22.1%

Brand price index of LCD TV in the PRC market *

FY 2017			FY 2018		
1.	Hisense	110	1.	Hisense	115
2.	Skyworth	105	2.	TCL	110
3.	TCL	102	3.	Skyworth	105



Curved and 4K TV in the PRC market *

Market share for FY2018



Curved

34.4%

Remained **No.1**



4K

13.2%

Ranked **No.3**

* Source: CMM Omni-channel data

With rapid development, operating capability has been continuously enhanced with notable monetization capability

Further deepened strategic partnership with Google and Roku



Turnover of 2019 Q1 rose rapidly from approximately RMB61.95 million* for last year to approximately **RMB98.55 million**, representing a significant **increase of 59.1%**, of which turnover from advertising increased by 51.5% year-on-year while video-on-demand and membership increased by 45.5% year-on-year

The number of paid business users **soared by 52.0%**, monetization capability continuously enhanced; **profitability greatly enhanced**

To reinforce “1+1+N” strategic cooperation, integrate resources from more content providers, strengthen Internet ecological cooperation; **further deepened strategic partnership with Google and Roku, which will generate new revenue stream of software and services in overseas markets in 2019**

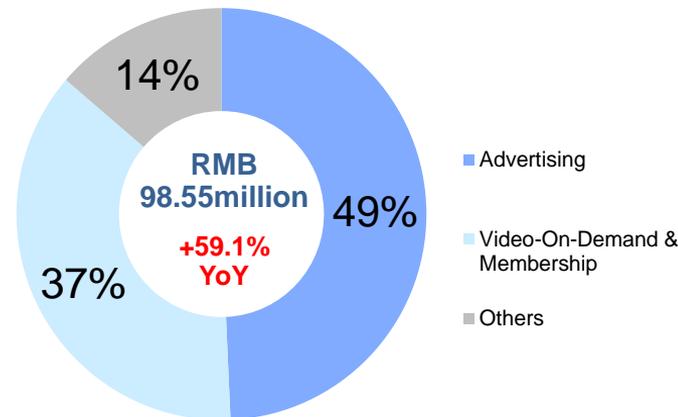
As to membership operations, the marketing strategy for TCL Value Membership System was optimized to enhance members’ interests alongside refined operation for content enhancement, leading to enhanced user loyalty and rising average daily time spent on TV

No. of Users and Time Spent on TV

	2019 Q1	2018 Q1	YoY Change
Total No. of Activated User(s)	34.82 million	25.59 million	+36.1%
Average Daily No. of Active User(s)	17.12 million	12.06 million	+42.0%
Average Daily Time Spent on TV	5.7 hours	5.1 hours	+11.8%

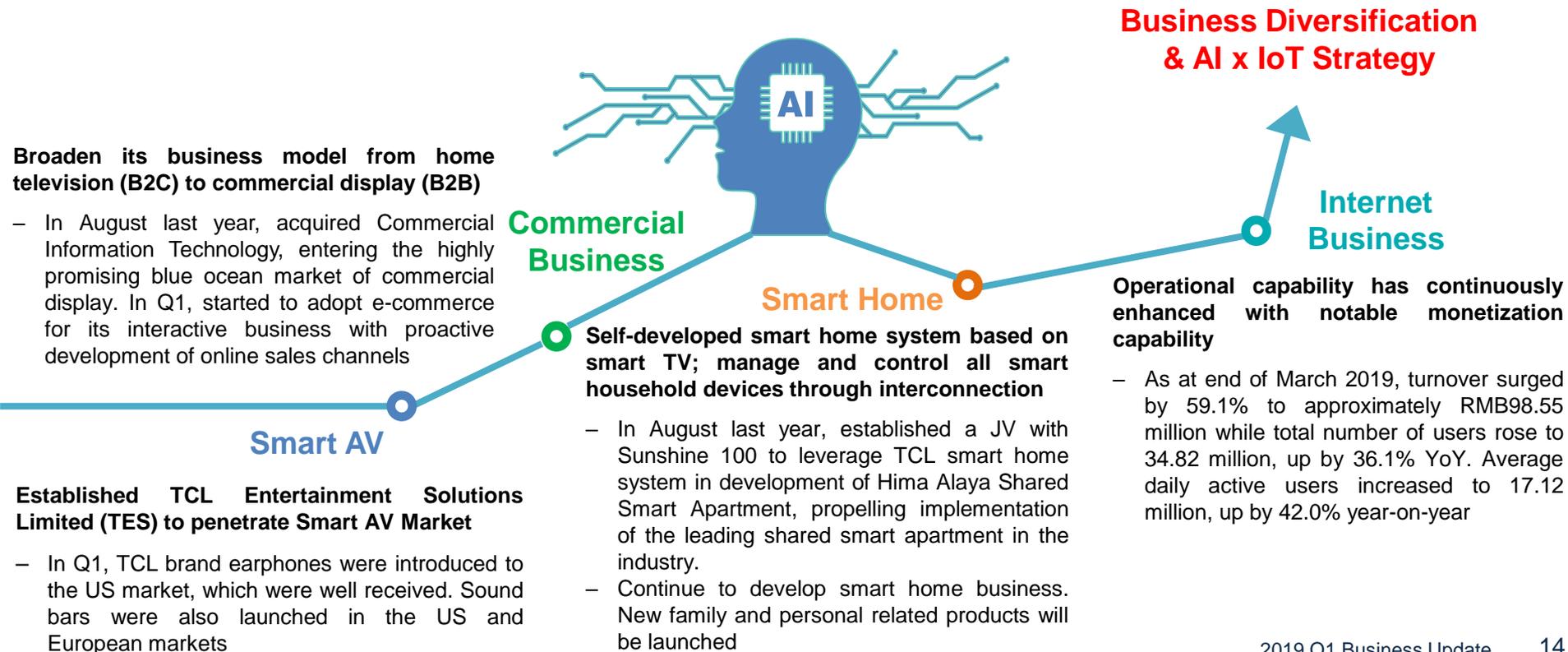
* Restated

2019 Q1 Turnover



Diversification Strategy Implemented in an Orderly Manner

Consolidate and upgrade its existing TV business while proactively diversifying business through expansion of smart AV, commercial display and smart home businesses to open up new business growth opportunities



Sports Marketing Promotes Global Brand Building

TCL

Football



Neymar Appointed as TCL's Global Brand Ambassador



Partnership with CONMEBOL Copa América Brasil 2019



Sponsorship for Brazil National Football Team

Basketball



Officially Became the Global Partner of the 2019 FIBA Basketball World Cup



Appointed NBA Milwaukee Bucks Player—Giannis Antetokounmpo (The Alphabet) as the Brand Ambassador for TCL in North America
2019 Q1 Business Update

2019 Spring Product Launch



Launching QLED 8K TV , various smart devices as well as AI x IoT Strategy





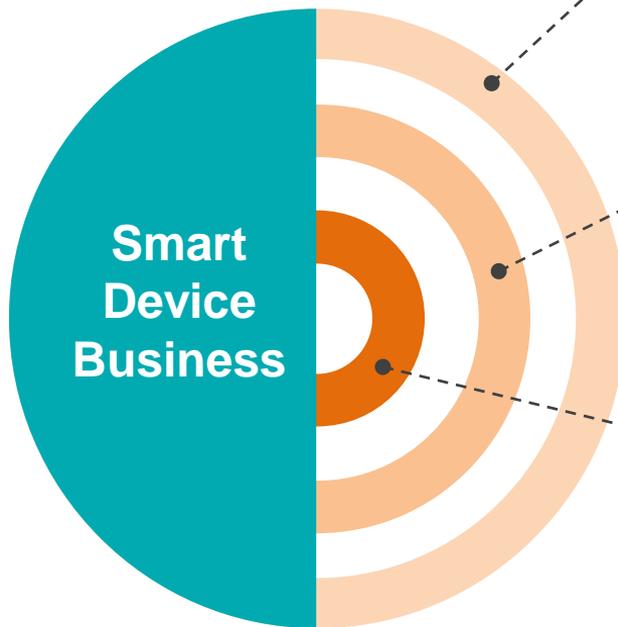
Outlook

Mission: Provide Users with Smart and Healthy Living Related Products and Services

Vision: Become a Global Leading Smart Technology Company

AI x IoT Strategy

Establish interconnected, smart and healthy ecosystem based on smart device business, facilitating interconnection of all devices and integration of various scenarios



Globalization

- Focus on major TOP10+N overseas markets and explore new markets
- Extend smart TV operation to overseas markets
- Offer various range of products

Diversification

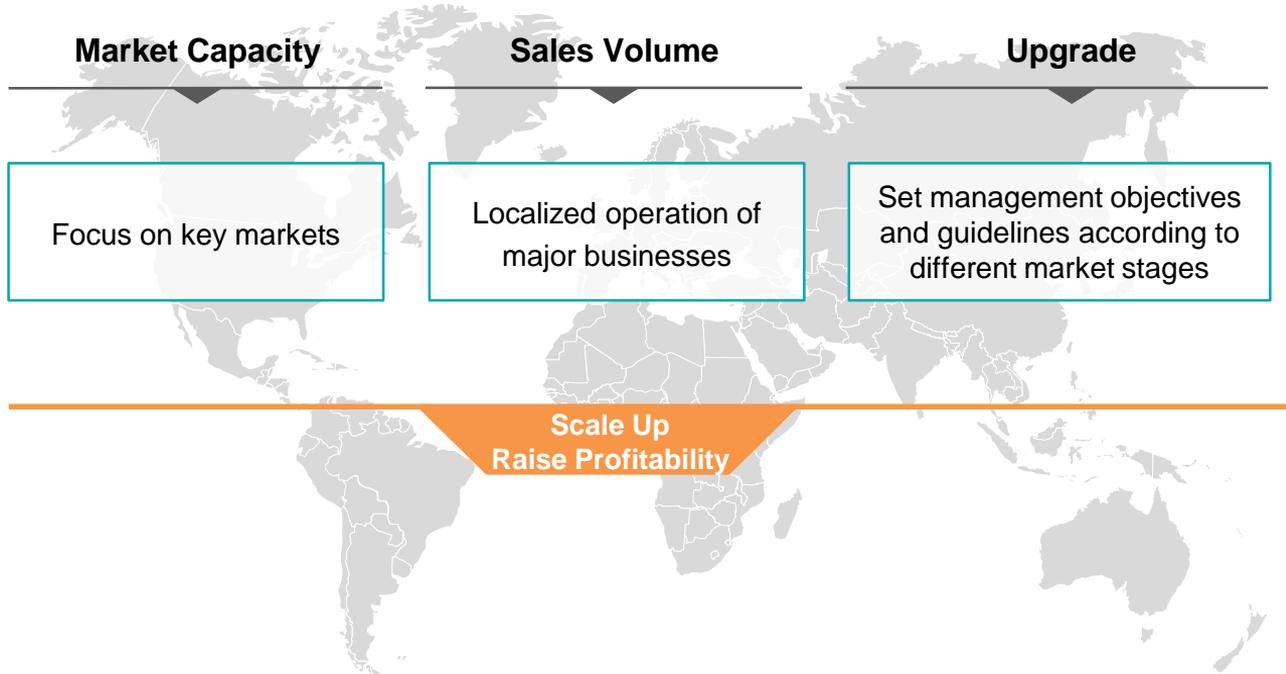
- Proactively develop full range of smart device business
- Expanding commercial business, smart AV business (TES) and smart home business to explore new business growth opportunities

R&D

Strengthen R&D investment in cutting edge display technologies such as quantum dot, Mini LED and 8K, fully upgrade all-scenarios AI x IoT, and innovation capability

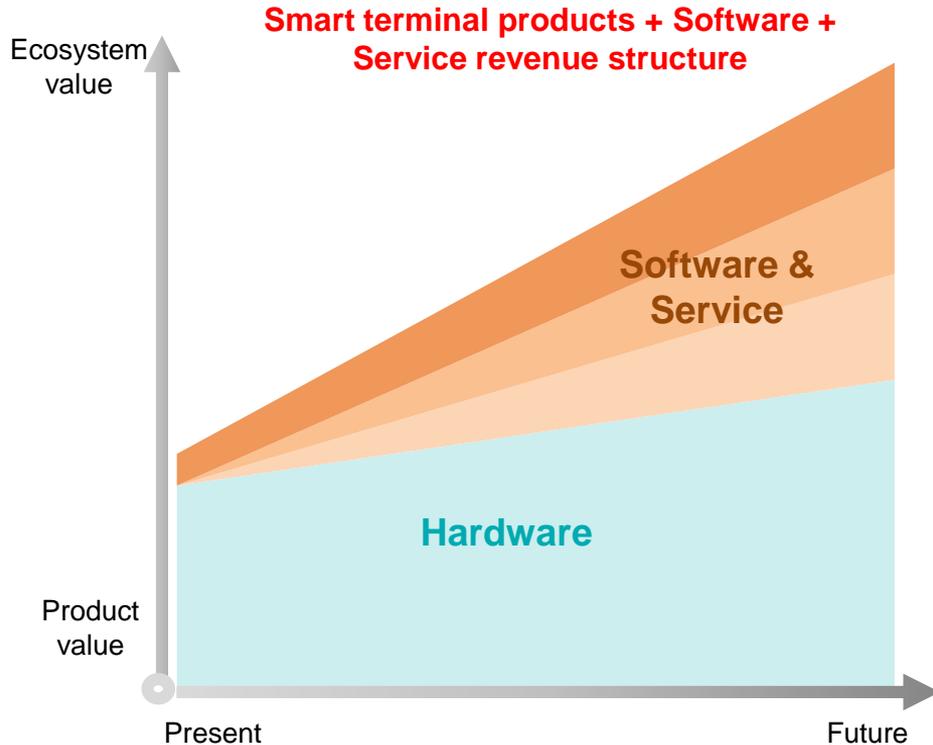
Overseas markets have become a very important growth driver and sustain strong growth momentum

The Group will consolidate its market position in the North American market, improve performance in the European market and at the same time continuously develop South American market, actively explore major countries and regional markets with large-scale markets such as India, Japan and Russia



Continuously Accelerating Transformation through Diversification Strategy

Hardware + software + service, optimize revenue structure, create value



Components of Profit Growth

Internet Business Platform

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

Smart Home

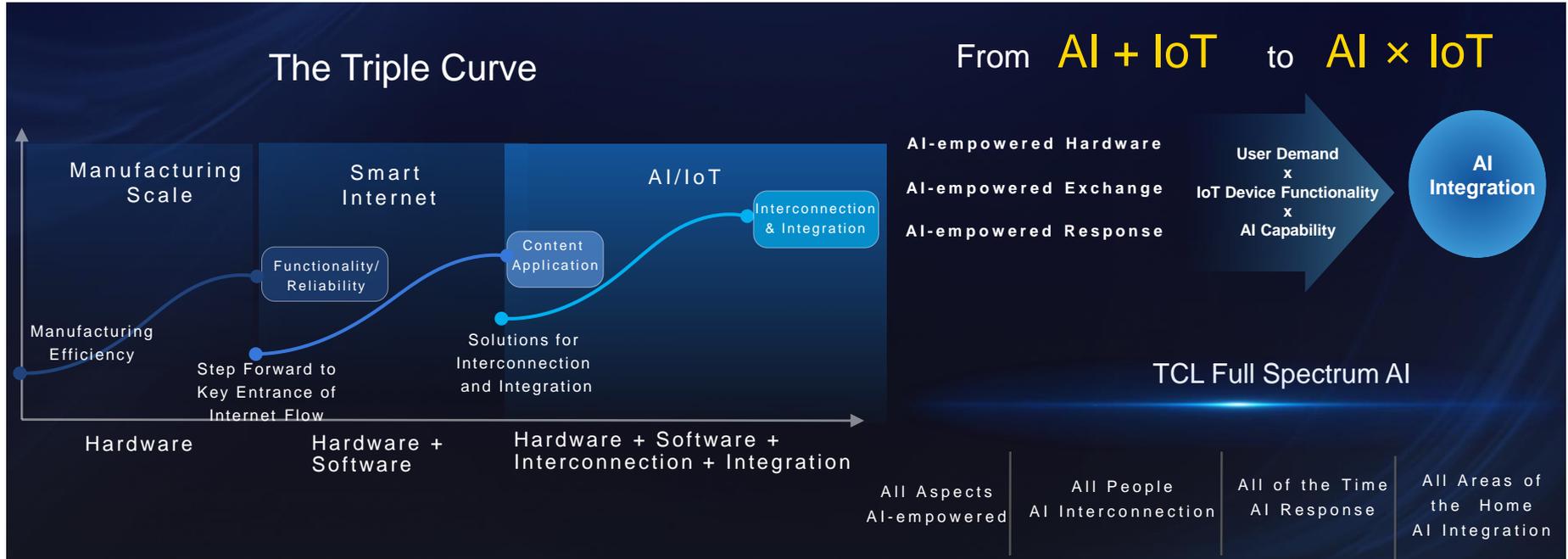
A platform for full range of TCL smart products and services based on **artificial intelligence (AI)** and **Cloud Interconnection**

Commercial Information Technology

Leveraging on 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 customized service** covering software, content and intelligent products

Smart Terminal Products

Consolidate and enhance **TV** business
Develop **Smart AV** market



Breaking boundaries, creating value through integration

- Hardware + software + interconnection of all devices and integration of various scenarios represent AI x IoT products for a new era
- The combination of different users demands, functionality of IoT devices and AI capabilities will create exponential growth opportunities

Forecasts 8%* YoY growth in TV dimension of global shipment in 2019

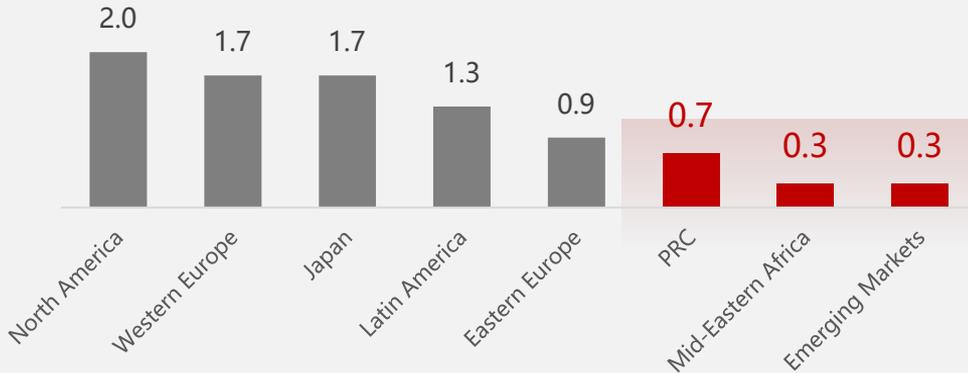


2017A	2018A	2019E
42.5"	43.6"	45.0"

Strong Demand in Certain Regions

Only 80% of global households own TVs in 2018

Panel TV (excluding CRT) average ownership (set)*



TCL overseas sales volume of LCD TVs soared by 29.5% in 2018, significantly outpacing the global average

- ✓ **North America** : up 41.8% YoY
- ✓ **Emerging Markets** : up 30.7% YoY
- ✓ **Europe** : up 43.1% YoY

With continuous enhancement in product competitiveness and brand power, TCL expects to sustain strong growth in overseas markets and increase its market shares

*Source: TCL Industrial Research Institute

In 2019, multiple government policies will favor the industry



Ultra HD + Large Size

On 1 March 2019, the Ministry of Industry and Information Technology, National Radio and Television Administration, and China Media Group jointly launched “**The Ultra HD Video Industry Development Action Plan (2019-2022)**”, which states the technical roadmap of “Putting 4K first while developing 8K” and goals. According to the Plan, by 2022, 4K TV is expected to be widely adopted, while 8K TV will contribute over 5% to total TV sales volume. The total scale of ultra-high-definition industry is expected to exceed RMB 4 trillion, with the number of ultra-high-definition video users at 200 million. The TV industry will fully benefit from the replacement demand of Ultra HD TV

According to AVC, there are only 110 million units Ultra HD TV in the PRC and approximately 500 million units Non-ultra HD (FHD/HD/CRT)TV, **presenting ample growth potential for 4K and 8K large-screen TVs.**



Energy Saving and Emission Reduction Policy to Boost Consumption

According to the Ministry of Commerce of Beijing, the Chinese government launched **energy conservation and emissions reduction policy** regulating home appliances in Beijing on 1 February 2019. Spanning three years, the policy covers 15 categories of energy-saving and emissions reduction commodities. **Nationwide expansion of implementation is expected to continue.**

The subsidy for TV with the first level energy efficiency standard is 13% of the sales price, while 8% subsidy for the second level standard. The maximum amount redeemable for the subsidized goods is RMB800.



Rural Consumption Potential

Major TVs in China’s rural market were purchased under “Home Appliances for Rural Households” program (2009-2012). By 2019, these products would be used for 7-10 years, entering the replacement period. According to AVC estimates, TV sales during the implementation of the program stood at 74.9 million units. **Rural replacement demand is set to be unleashed.**

2019 Q1 Implementation Status and 2019 Full Year Targets

	2019 Q1 Actual			FY 2019 Target*		
	Overall	PRC	Overseas	Overall	PRC	Overseas
LCD TV Sales Volume (sets)	8.44M ↑32.5%	2.49M ↑2.6%	5.95M ↑50.9%	32.00M ↑12%	10.50M ↑1%	21.50M ↑18%
Turnover (HK\$)	12.57B ↑15.8%	4.30B ↓12.7%	8.27B ↑39.6%	51.0B ↑12%		

*In view of better-than-expected sales performance in Q1, there will be a possibility that the full year target will be raised.

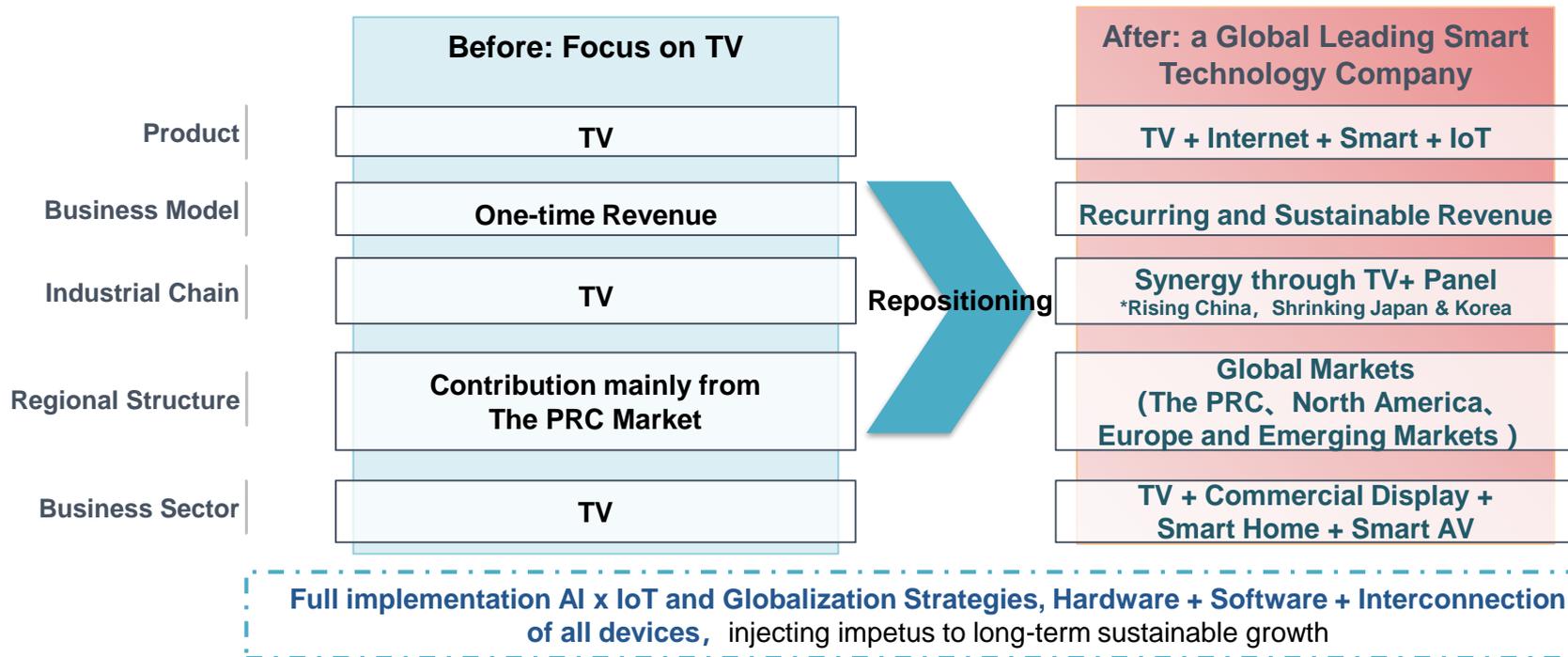
The PRC Market (excluding ODM business)	2019 Q1 Actual	FY 2019 Target
Proportion of Smart TV Sales Volume (%)	82.4%	86%
Proportion of 4K TVs Sales Volume (%)	55.2%	60%
Proportion of Online Sales Volume (%)	32.9%	38%

Internet Business	2019 Q1 Actual	FY 2019 Target
Internet service revenue (RMB)	98.55M	430M
No. of TCL Global Activated Smart TV Users (Accumulated No. at Period End) (Year-end/Quarter-end) ¹	34.82M	40.00M
Average Daily No. of Active Users (Year-end/Month-end) ²	17.12M ³	19.20M
Average Daily Time Spent on TV (Hours)	5.7	5.7

1. No. of TCL Activated Smart TV Users (Accumulated No. at Period End) = Accumulated No. of Activated TV Terminals
2. Average Daily No. of Active Users = No. of Non-repeated Individual Users Who Visit Within 7 Days
3. 2019 March data

Repositioning of TCL Electronics

Based on AI x IoT, TCL Electronics endeavours to become a fast-growing global leading smart technology company with sustainable revenue from user operation.



- ✓ continuously improve **Profitability**
- ✓ Increase **Shareholders' Value**



Internationalization Strategy and Market-leading Position

- Ranked **No.2** in the **global TV markets** in terms of shipment in **2018**¹
- **Overseas markets** contributed over 60% of total sales volume in 2018; export shipment ranked **No.1**² in the PRC in 2018; overseas shipment remained **No.1** among Chinese TV brands for 10 consecutive years
- Coverage of 6 major sales channels in the **North American markets** with sales volume ranking **Top 3**³; among **top 2** in Q1 for six consecutive weeks in North American market and climbed up to **No.1**³ in three of the six weeks
- European markets grew remarkably, with market ranking in France rising to Top 3 in terms of sales volume⁴

International Brand



Synergy Effect with CSOT and Globalization Strategy

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

Global Strategy



Innovative Products and R&D Capability

- **Innovative products: cutting-edge quantum dot (QLED), 8K TVs** and brand new **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 and **“2018-2019 8K TV Gold Award of the Year”** at CES, demonstrating remarkable results of TCL’s global strategy for product and brand enhancement
- **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 will continue to grow rapidly in 2019** and reinforce “1+1+N” strategic cooperation model with **increasing revenue from user operation and ample potential for overseas development**
- Established TES to develop **Smart AV Business**
- Acquired CI Tech to explore B2B business and **enter the blue ocean market of commercial display**
- **Self-developed smart home system based on smart TV**; manage and control all smart household devices through interconnection

Drive Profitability and Valuation

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