



LOTTE HIMART

KOREA NO.1 Home & Lifestyle Retailer

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1. Company Overview

Key factor and Shareholders

○ Key factor



- **No.1 M/S among the major electronics retailers**

※ Electronics retailers: LOTTE HIMART, Samsung Electronics Sales, Hi-plaza(maker LG's affiliate), ET LAND

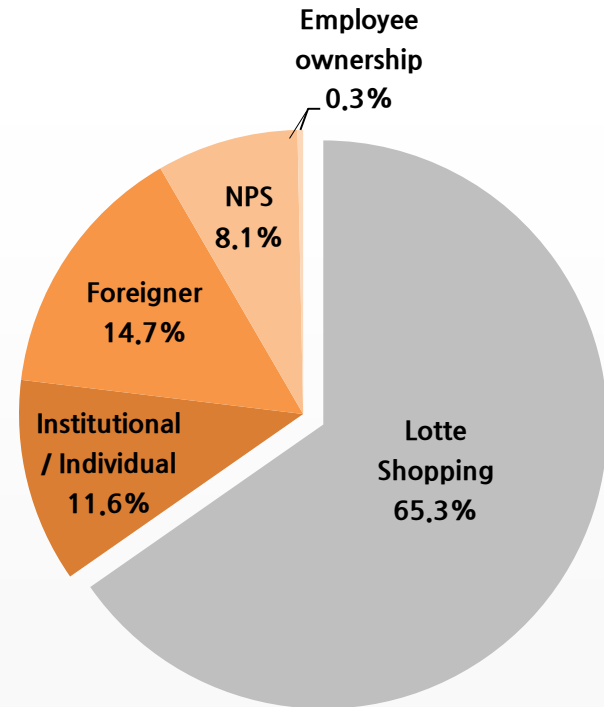
- **End of Mar. 2019 : 464 Stores**
- **12 Distribution Centers**
- **11 Service Centers**



- **Holds 38 million LOTTE Members**
(20 million HIMART Member)

(End of Mar. 2019)

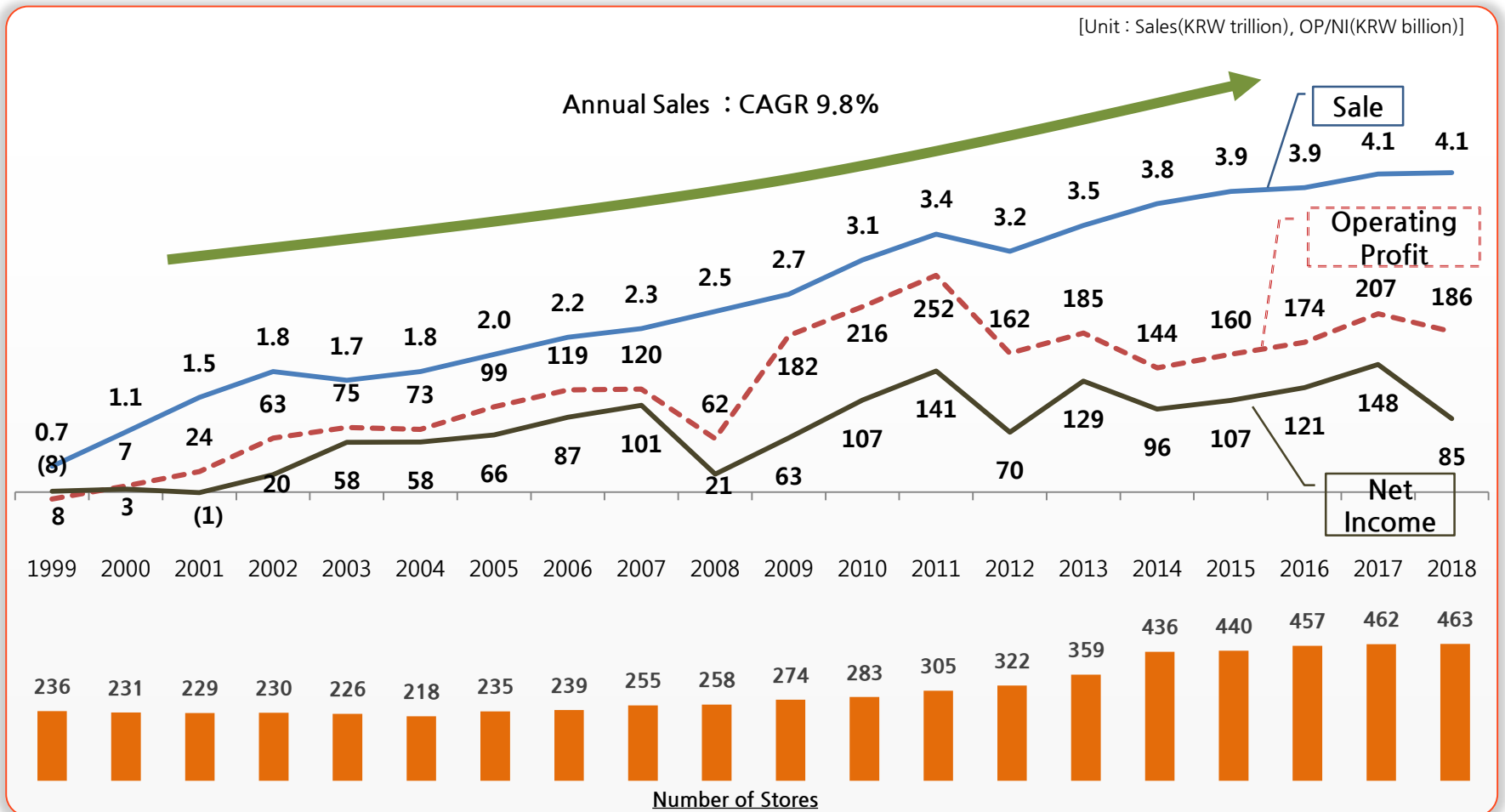
○ Shareholders



※ End of Mar. 2019 (NPS announced in 3/15/19)

1. Company Overview

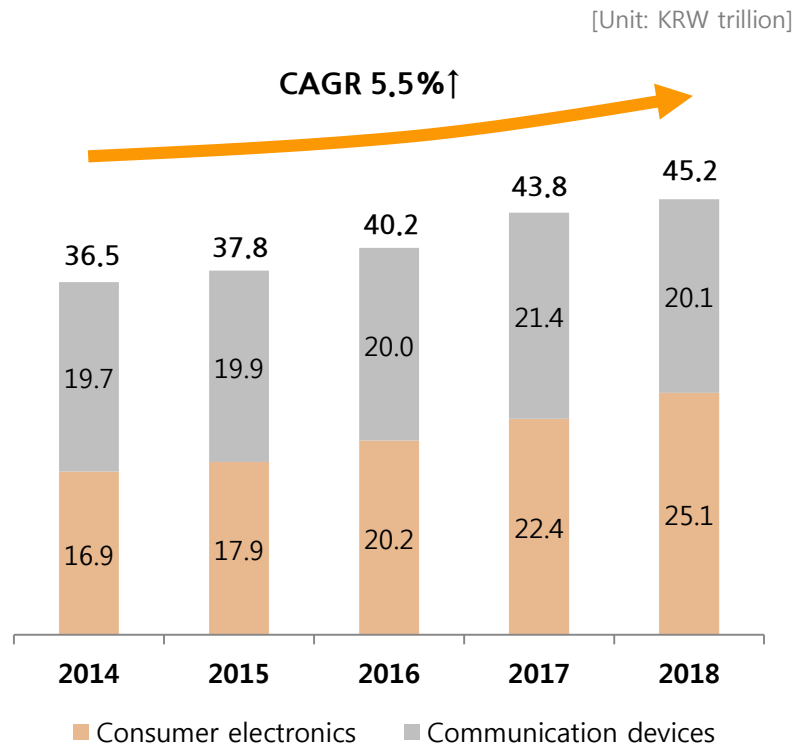
Annual Performance and number of Stores



2. Operating Performance

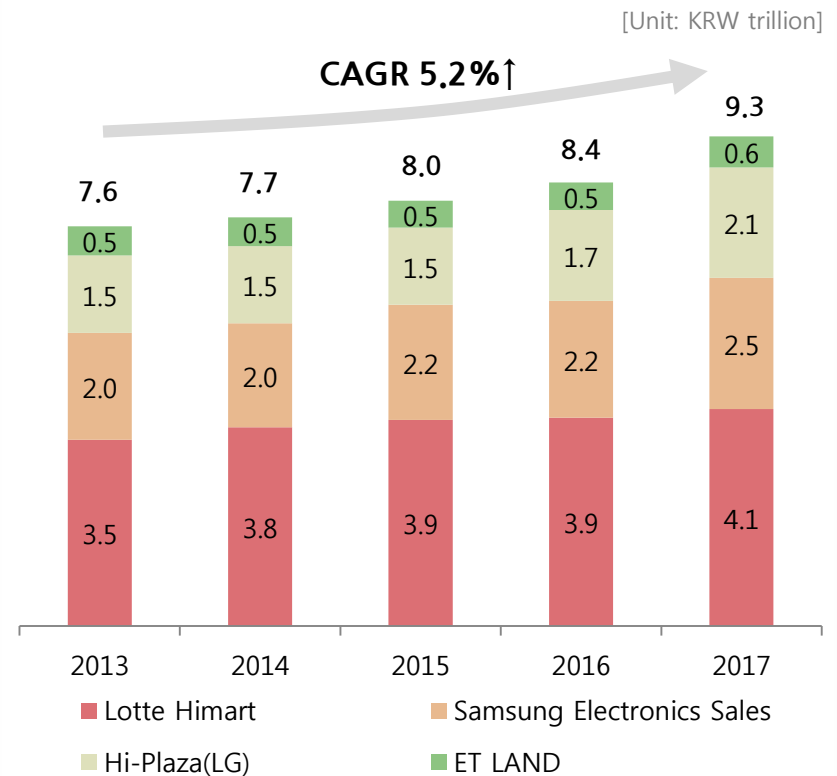
Domestic Home appliance Market

Scale of a Domestic Home appliance Market



※ Source : National Statistics Office

Sale Change of Consumer Electronics Specialty Stores and Market Share

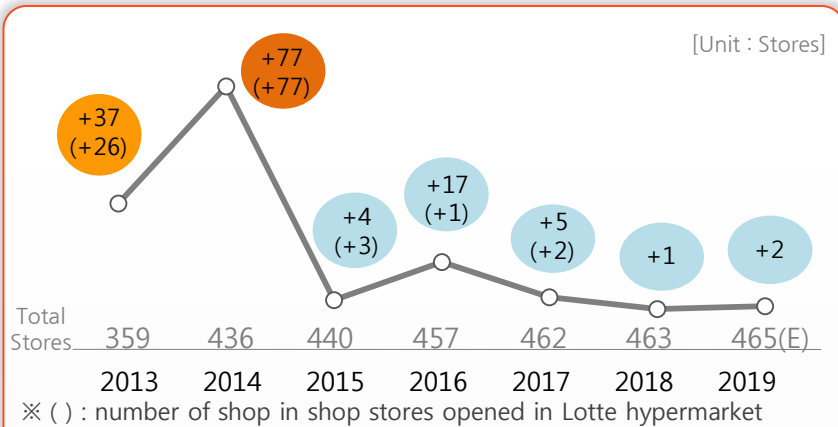


※ Source: Annual reports or audit reports of each company, Internal

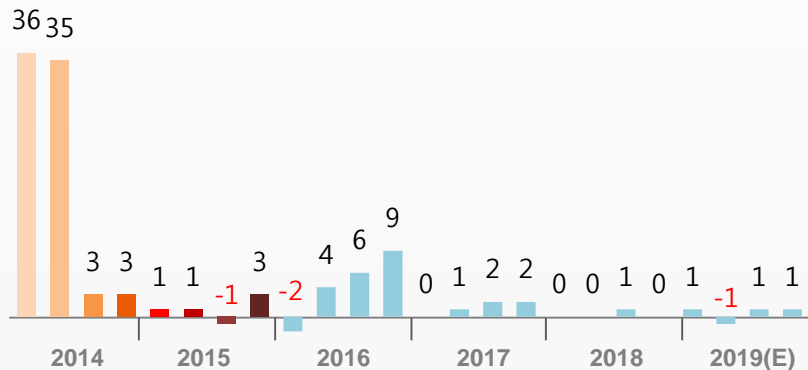
2. Operating Performance

Current Status of Stores

○ The Number of New Stores



Store Openings each Quarter



○ Store Types

[unit : Stores, ft²]

Category	Stand-alone Stores	Shop-in-Shop (Lotte Hypermarket, etc)
Store Count	355	109
Square Footage	11,315	9,571
Location	Residential Area	Commercial Area

*Square Footage : Operating Area

※ End of Mar. 2019



Stand-alone stores



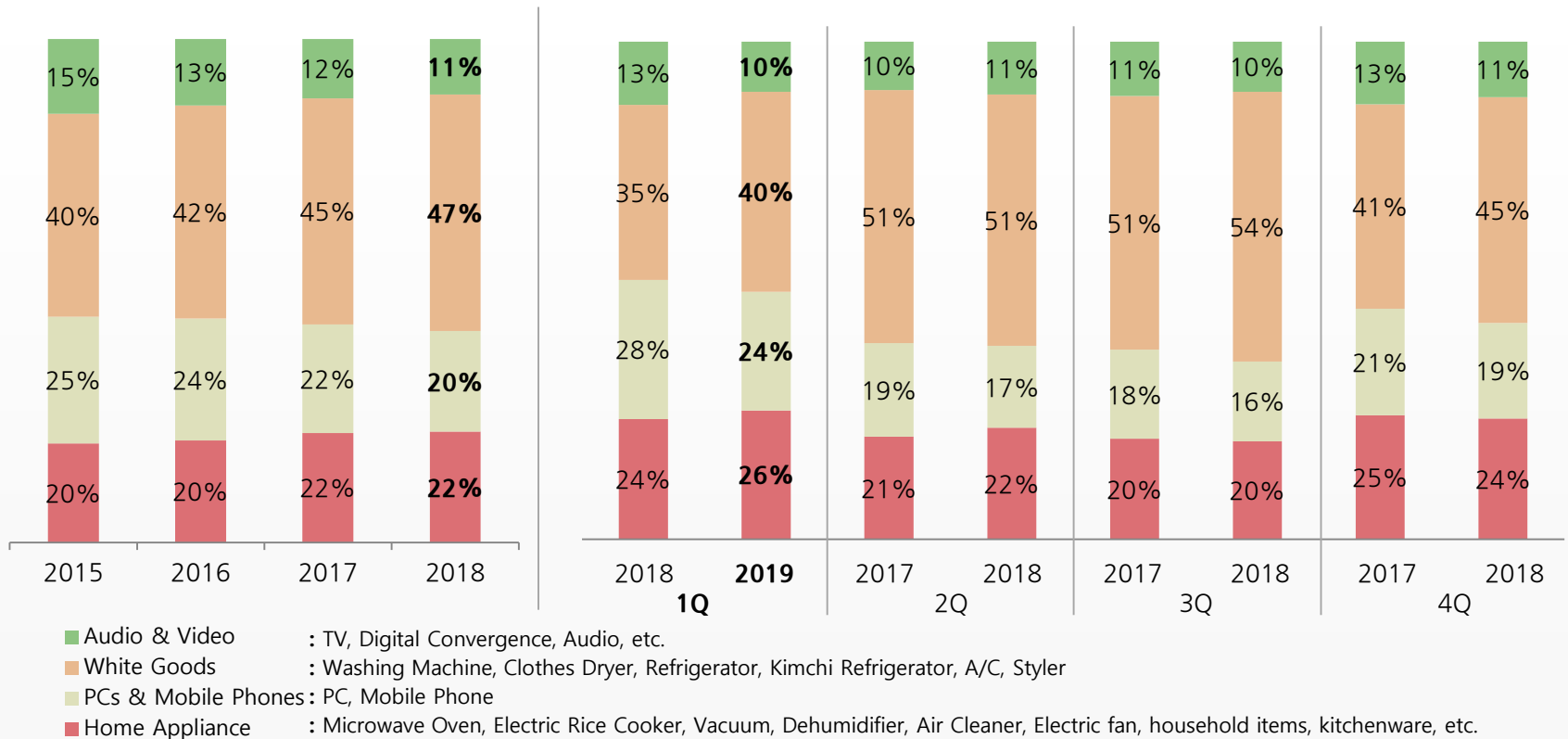
Shop-in-shop

2. Operating Performance

Segment's Revenue Mix Percentages

○ Annual

○ Quarterly ('17.2Q ~ '19.1Q)



3. Financial Review

Summary of Income Statement (Quarter)

[Unit: KRW billion]

구분	2018												2019		
	18.1Q			18.2Q			18.3Q			18.4Q			19.1Q		
		%	YOY		%	yoy		%	yoy		%	yoy		%	yoy
Sales	952	100%	6.3%	1,087	100%	2.4%	1,113	100%	-5.7%	960	100%	-0.3%	1,037	100%	8.9%
Gross profit	241	25.3%	8.8%	297	27.4%	2.8%	302	27.2%	-2.5%	232	24.2%	-3.3%	239	23.0%	-1.0%
Operating expense	200	21.0%	7.8%	231	21.2%	1.0%	238	21.3%	3.6%	219	22.8%	3.6%	214	20.7%	7.4%
Labor	61	6.4%	7.0%	66	6.0%	1.6%	66	5.9%	9.8%	67	7.0%	4.8%	68	6.5%	11.4%
Rent	30	3.1%	3.2%	30	2.7%	0.6%	31	2.8%	-1.5%	35	3.6%	-1.8%	9	0.9%	-68.5%
Depreciation	12	1.3%	-4.5%	12	1.1%	-1.0%	12	1.1%	-2.8%	12	1.2%	-2.7%	31	3.0%	157.6%
Adv. & Promotion	16	1.7%	5.3%	18	1.7%	4.5%	17	1.5%	-5.0%	19	2.0%	3.4%	17	1.7%	7.5%
Payment commission	42	4.4%	16.3%	46	4.2%	8.9%	47	4.2%	6.4%	45	4.7%	10.4%	47	4.5%	12.9%
Shipping cost	22	2.3%	12.4%	26	2.4%	4.0%	27	2.4%	-4.8%	27	2.8%	2.9%	24	2.3%	5.7%
Installation	4	0.4%	2.1%	20	1.9%	-20.1%	26	2.3%	9.6%	3	0.3%	34.1%	6	0.6%	54.2%
Others	13	1.3%	7.8%	12	1.1%	6.8%	12	1.1%	3.5%	11	1.1%	-8.3%	12	1.1%	-6.4%
Operating income	41	4.3%	13.7%	67	6.2%	9.3%	65	5.8%	-20.0%	13	1.4%	-53.5%	24	2.3%	-41.3%
Income before tax	39	4.1%	16.3%	65	6.0%	9.5%	63	5.7%	-20.2%	-41	-	-255.8%	20	1.9%	-48.7%
Net income	30	3.1%	17.0%	50	4.6%	9.5%	48	4.3%	-20.0%	-42	-	-340.6%	15	1.5%	-48.4%
Stores	462		1.1%	462		0.9%	463		0.7%	463		0.2%	464		0.4%

3. Financial Review

Summary of Income Statement (Annual)

[Unit: KRW billion]

구분	2014			2015			2016			2017			2018		
		%	yoy		%	yoy		%	yoy		%	yoy		%	yoy
Sales	3,754	100%	6.7%	3,896	100%	3.8%	3,939	100%	1.1%	4,099	100%	4.1%	4,113	100%	0.3%
Gross profit	927	24.7%	5.3%	963	24.7%	4.0%	1,013	25.7%	5.2%	1,061	25.9%	4.7%	1,073	26.1%	1.1%
Operating expense	782	20.8%	12.5%	803	20.6%	2.7%	839	21.3%	4.4%	854	20.8%	1.8%	886	21.6%	3.8%
Labor	236	6.3%	14.9%	241	6.2%	2.3%	244	6.2%	1.1%	246	6.0%	0.7%	260	6.3%	5.7%
Rent	115	3.1%	35.8%	122	3.1%	6.0%	123	3.1%	1.1%	125	3.1%	1.7%	125	3.0%	0.0%
Depreciation	53	1.4%	14.5%	52	1.3%	-1.4%	52	1.3%	0.1%	49	1.2%	-6.1%	48	1.2%	-2.8%
Adv. & Promotion	98	2.6%	3.0%	94	2.4%	-4.2%	98	2.5%	4.1%	69	1.7%	-29.8%	70	1.7%	2.0%
Payment commission	119	3.2%	15.7%	130	3.3%	9.9%	144	3.7%	10.6%	163	4.0%	13.0%	180	4.4%	10.2%
Shipping cost	80	2.1%	6.8%	86	2.2%	8.0%	89	2.3%	3.5%	99	2.4%	10.9%	102	2.5%	2.9%
Installation	35	0.9%	-14.2%	32	0.8%	-7.9%	44	1.1%	36.0%	56	1.4%	27.8%	54	1.3%	-3.5%
Others	46	1.2%	2.3%	45	1.1%	-3.7%	44	1.1%	-1.7%	47	1.1%	6.3%	48	1.2%	2.5%
Operating income	144	3.8%	-21.9%	160	4.1%	10.9%	175	4.4%	9.0%	207	5.1%	18.9%	186	4.5%	-10.1%
Income before tax	124	3.3%	-25.4%	143	3.7%	15.1%	163	4.1%	13.5%	199	4.9%	22.4%	127	3.1%	-36.2%
Net income	96	2.6%	-25.3%	107	2.7%	10.5%	121	3.1%	13.9%	148	3.6%	22.2%	85	2.1%	-42.4%
Stores	436		21.4%	440		0.9%	457		3.9%	462		1.1%	463		0.2%

※ Fiscal 2013~2016 : Accounting Standard K-IFRS 1018, Fiscal 2017 : Accounting Standard K-IFRS 1115

3. Financial Review

Financial position and the Progression of Debt

Summary of Balance Sheet

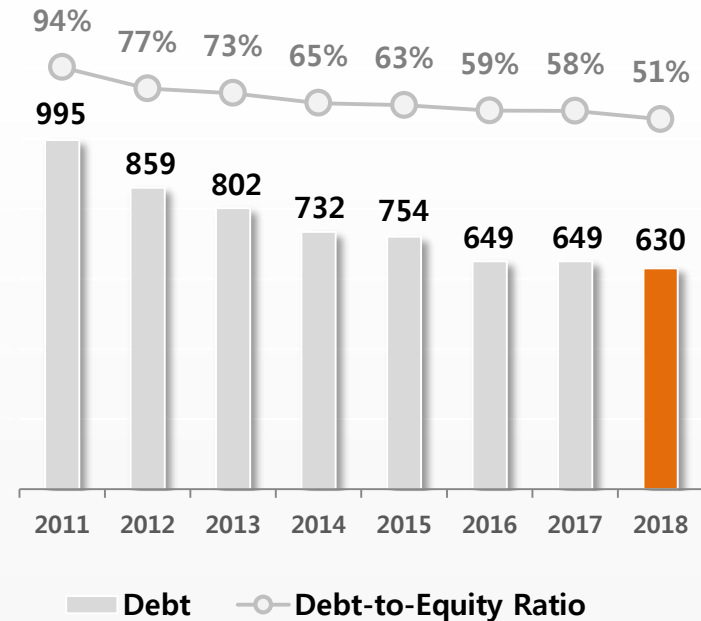
[Unit : KRW Billion]

Category	End of 2018	2019.1Q	YoY
Total Assets	3,117	3,623	16.2%
Current asset	915	1,081	18.1%
Cash and cash equivalents	300	317	5.9%
Non-current asset	2,202	2,542	15.5%
Total Liabilities	1,055	1,591	50.8%
Current liabilities	538	803	49.1%
Non-current liabilities	517	788	52.5%
Borrowings	630	500	-20.6%
Total Equity	2,062	2,032	-1.5%
Issued capital	118	118	0.0%
Debt-to-Equity (%)	51.2%	78.3%	27.1%p

※ 2019.1Q : Including 330 billion in lease liability(Accounting Standard K-IFRS 1116)

Continuous Decrease of Debt

[Unit : KRW Billion]



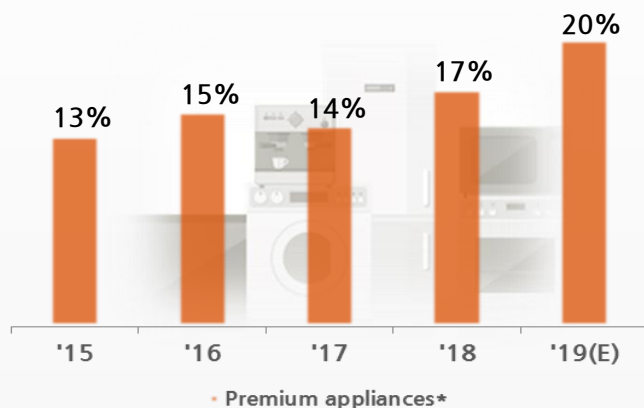
4. Business Strategy

Product Strategy

○ Improve sales of Premium appliances*

- * Increase external growth and enhance profitability by expanding sales of premium appliances that reflect consumption trend.
- * Strengthen premium appliances-oriented operation and display

Sales portion of Premium appliances*



※ Premium appliances
: TV(65" ↑ UHD, OLED-QLED), Refrigerator(4 door, French door with water purifier),
Kimchi Refrigerator(400ℓ), Washing Machine(19kg ↑ front-loading washer)

○ Strengthen PB / Global Brand

- * Differentiate from industry and increase traffic by offering differentiated products.
- Improve brand awareness and enhance profitability by expanding PB.
- Strengthen merchandising by expanding global brands.

○ PB

HIMADE



○ Global Brand

Cuisinart



(US)

beko



(Turkey)

dyson



(UK)

BELLA



(US)

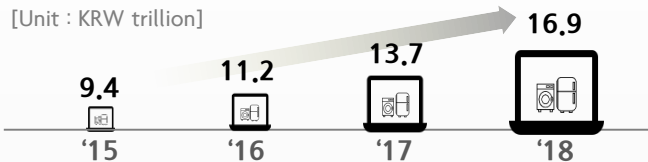
4. Business Strategy

Online Strategy ①

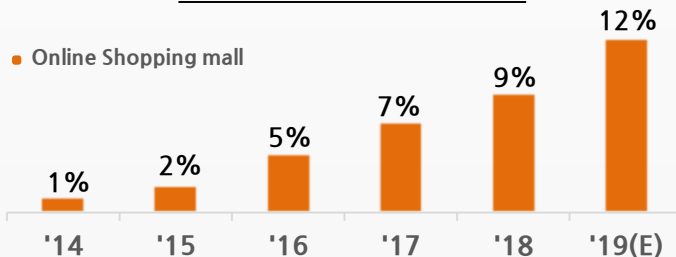
Strengthen Himart Online mall

- * Reconstruction Investment in HIMART online mall (Oct. 2015)
 - Expanding online sales portion / actively dealing with online market.
- * Enhance customer convenience / Strengthen infra (online exclusive logistics, optimized mobile apps)

Domestic Online Appliances Market



Himart online sales portion



※ Source : National Statistics Office, Internal

Maximize group synergy by strengthen Online and Offline services

- * Smart Pick('16) → Cross Pick('17), expand products and pick-up place
- * Overcome space restriction / reduce customer defection
- * Total 12 Independent Omni Sales Pilot stores ('18)
- * Provide customer convenience through 'LOTTE ON' app integrated with 7 of LOTTE's online retail stores



4. Business Strategy

Online Strategy ②

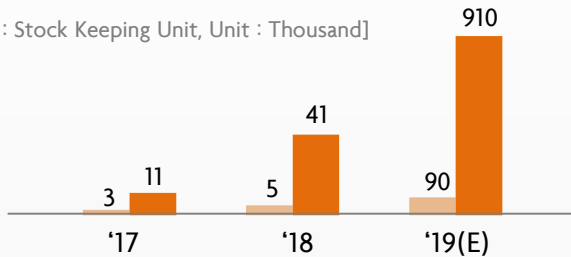
Strengthen Product and Sales Competitiveness Strengthen Differentiated Services

- * Expand popular items and Mall in Mall (non-electronic goods)
 - Online SKU : 460,000 ('18) → 1,000,000 ('19(E))
- * Expand new alliance (open market, online marketplace, etc)

Himart Online mall SKU

- Electronic goods
- Non-electronic goods

[SKU : Stock Keeping Unit, Unit : Thousand]



- * Provide a differentiated service exclusively for LOTTE HIMART online shopping mall.
 - Online industry's only overnight shipping / install service.
 - Short distance smart quick(2hr.) service (small appliances)

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오전에 구매하면
오후에 배송이 가능합니다.

주문당일, 배송에서 설치까지



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원하는 장소까지 배송이 가능합니다.

구매 후 2시간 내 원하는 장소에 도착



4. Business Strategy

Introduce home appliance related services for extending business area

- * Secure new growth engine by entering homecare market(expected high growth) with commercialization of appliances related services.
 - * Gain ability to manage home appliances lifecycle that connect from management of post-sale home appliances and even repurchase unlike the past which simply selling home appliances.
- ① Relocate home appliance installation servicer
 - ② Home appliances cleaning service (Jul.2016), Kitchen and bedding cleaning service (Nov.2016), Living space care service (Feb.2017), Home reform service (Apr.2018); Providing total home services by expanding home care service items



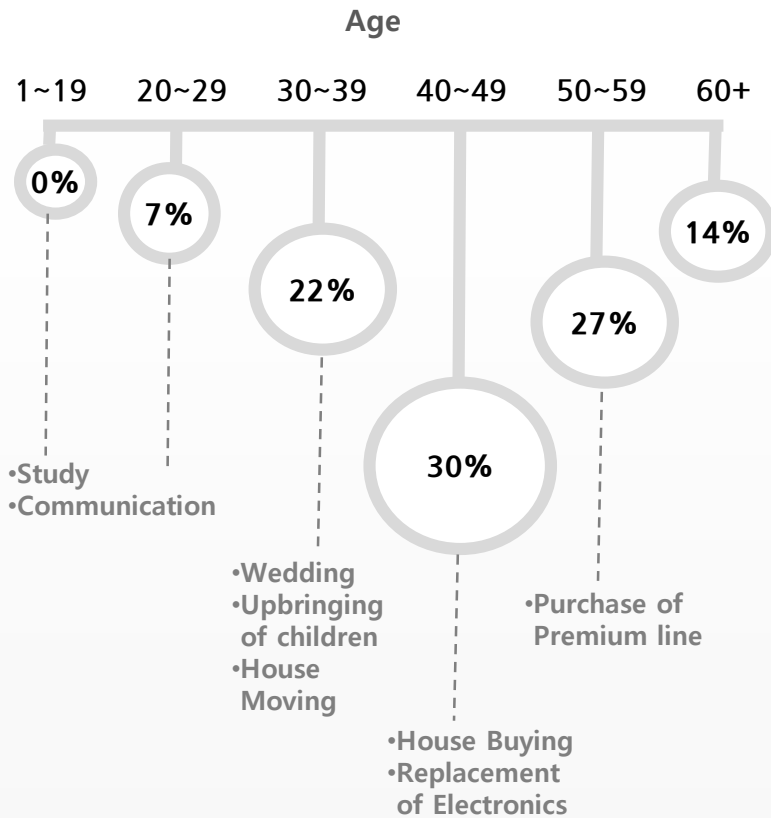
Relocate home appliances installation



Homecare service

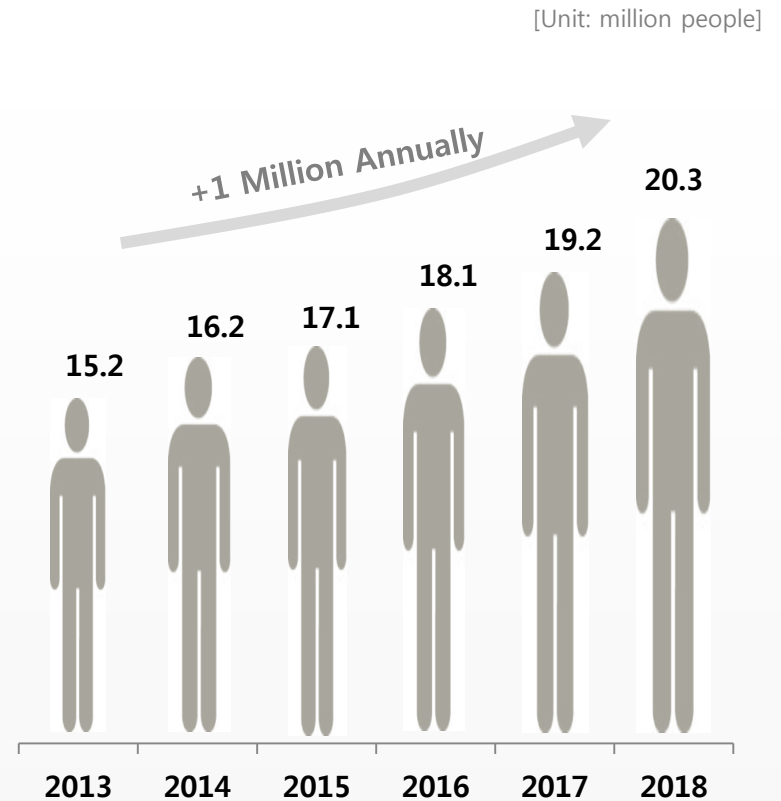
*Customer

○ Main customers (age group) ; 30-50 yrs old



※ Source: Internal, based on sales volume, End of Dec. 2018

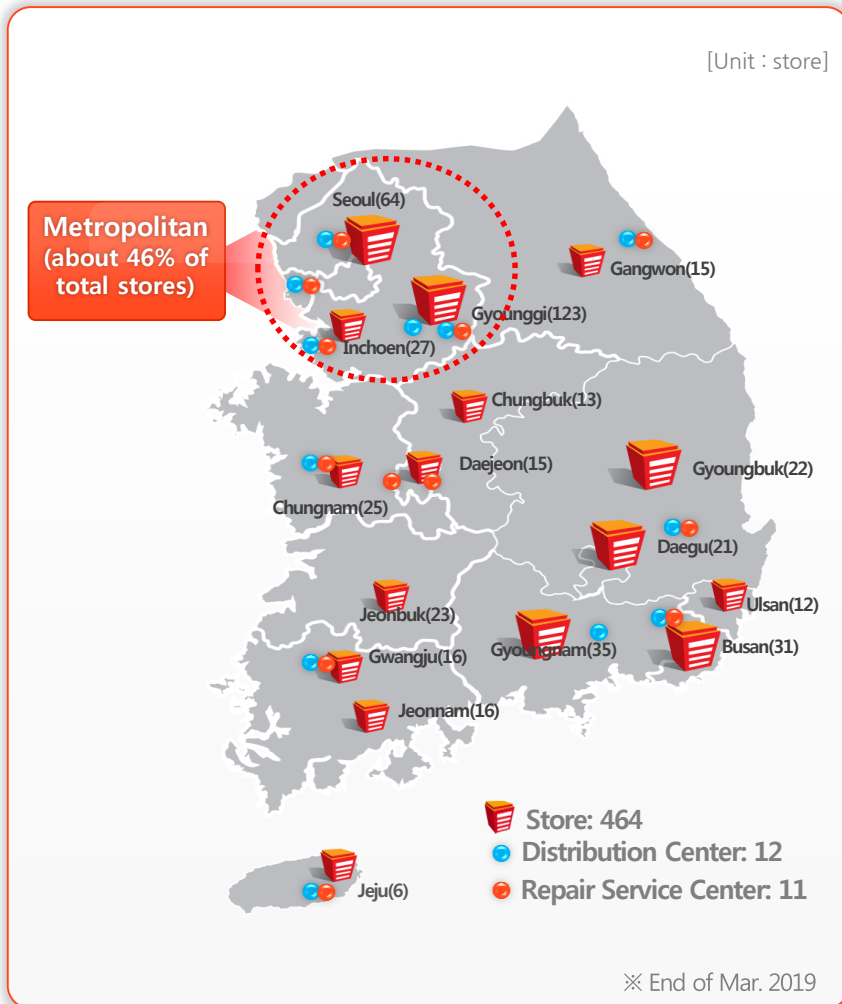
○ Growing number of Lotte Himart member



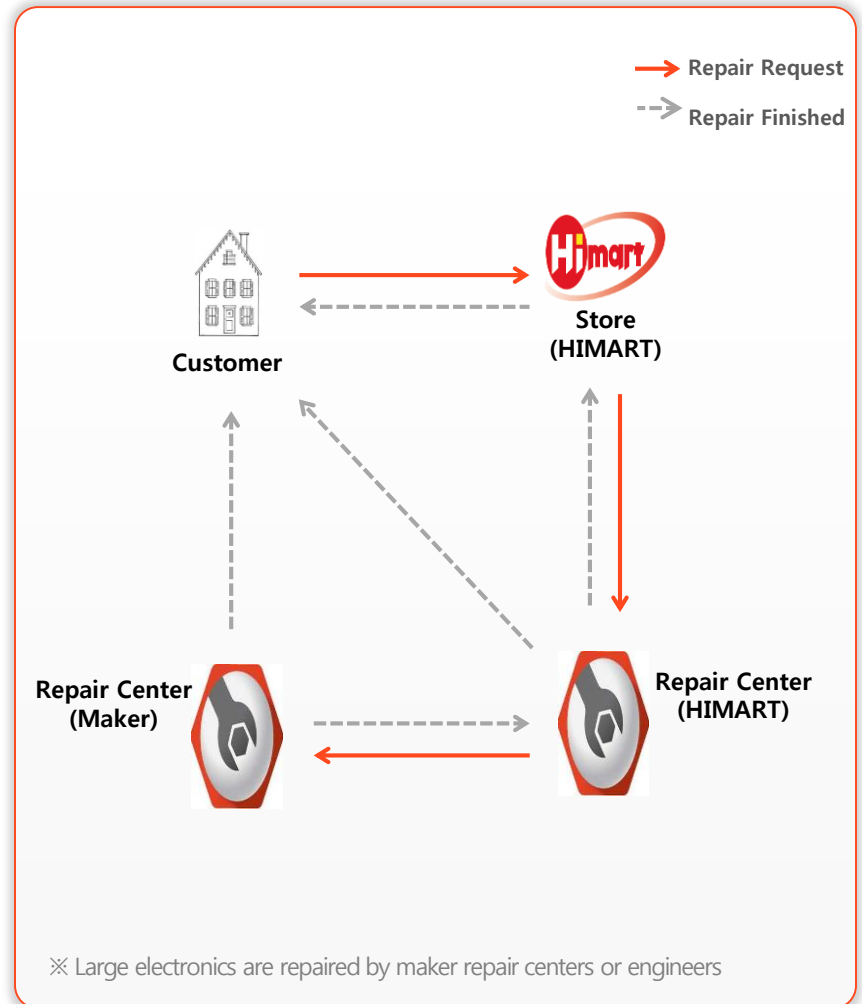
※ Internal Source

*Logistics and Repair Service

○ Nationwide Network



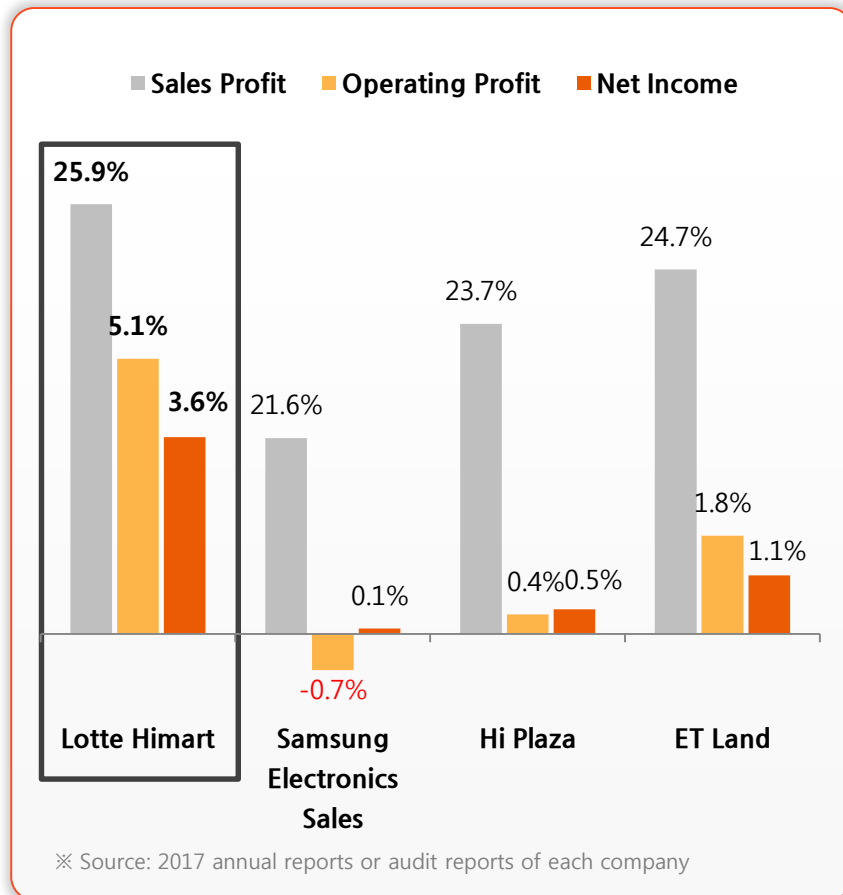
○ Electronics Repair Service (Small Appliances)



*Comparison of Competition

Profitability and Efficiency

○ Competitive Profitability Ratio



○ The No.1 Sales and Operating Profit per Store

