



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

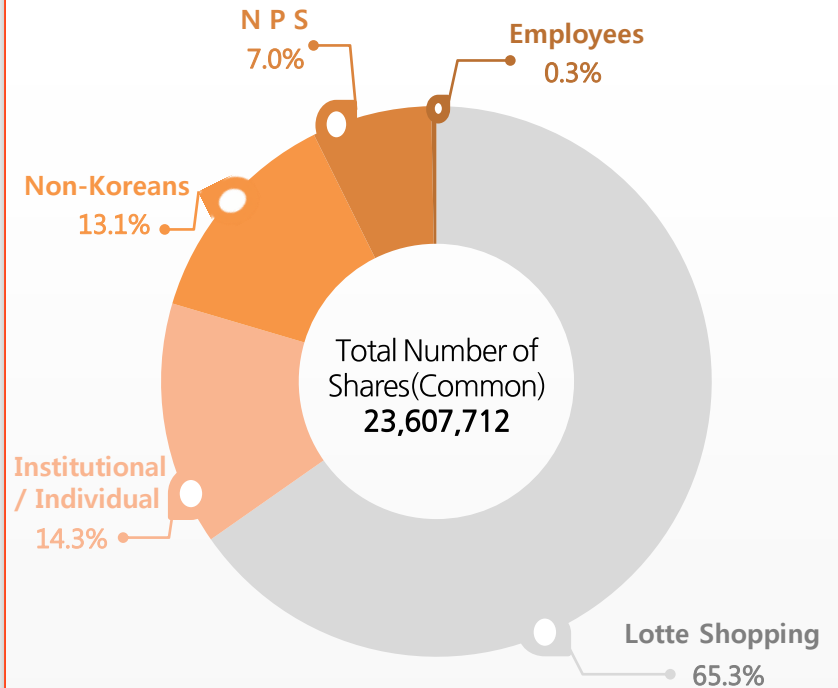
- **End of Sept. 2019 : 465 Stores**
- **14 Distribution Centers**
- **11 Service Centers**



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

(End of Sept. 2019)

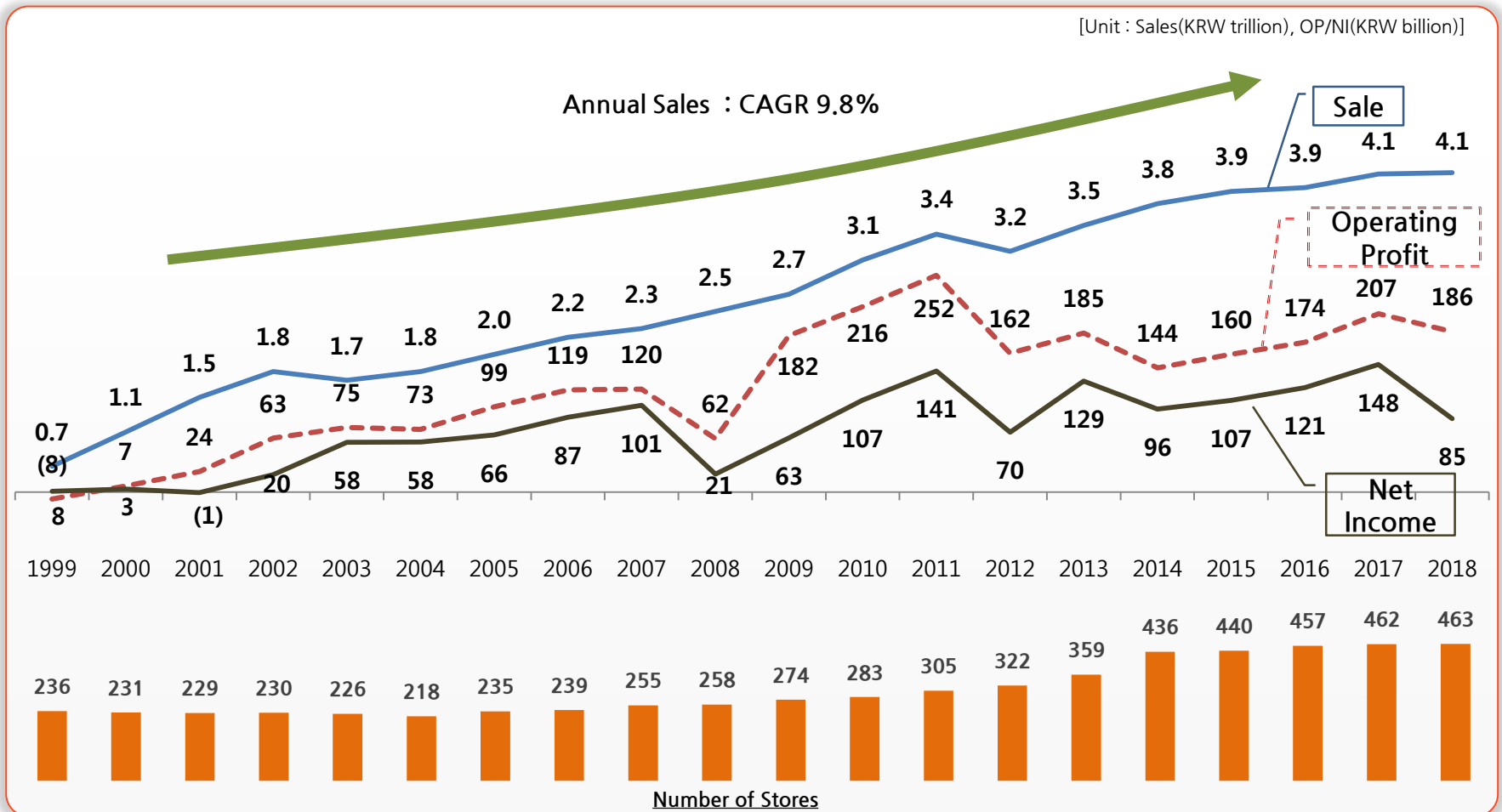
○ Shareholders



※ As of the end of Sept. 2019 (NPS announced August 12, 2019)

1. Company Overview

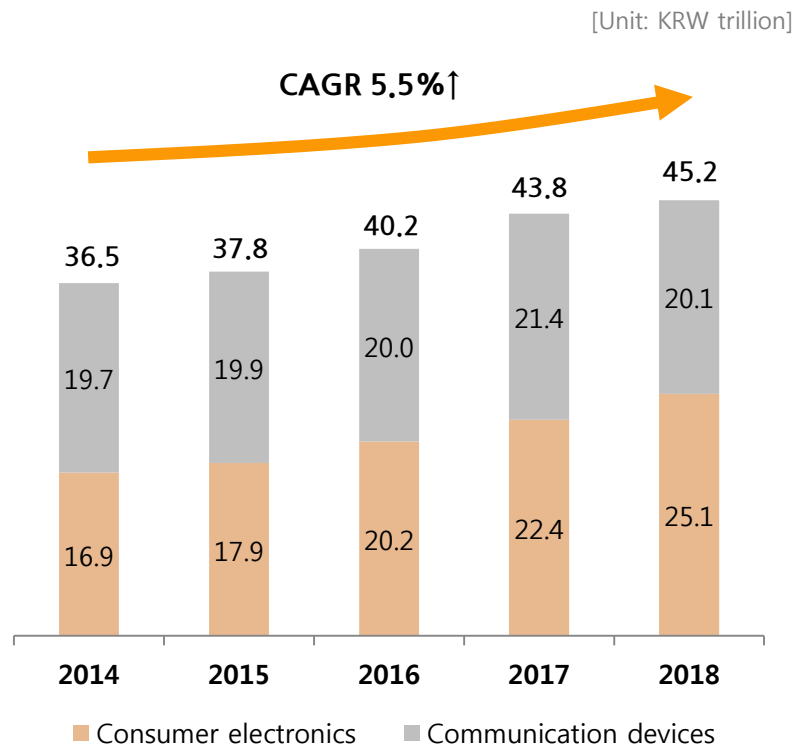
Annual Performance and number of Stores



2. Operating Performance

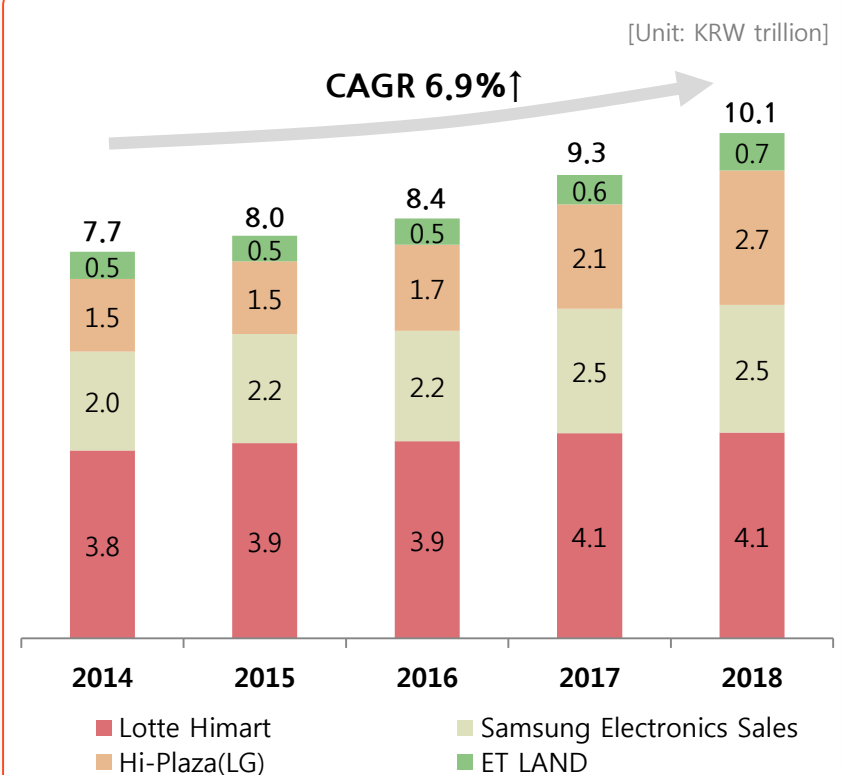
Domestic Home appliance Market

○ Scale of a Domestic Home appliance Market



※ Source : National Statistics Office

○ Sale Change of Consumer Electronics Specialty Stores and Market Share

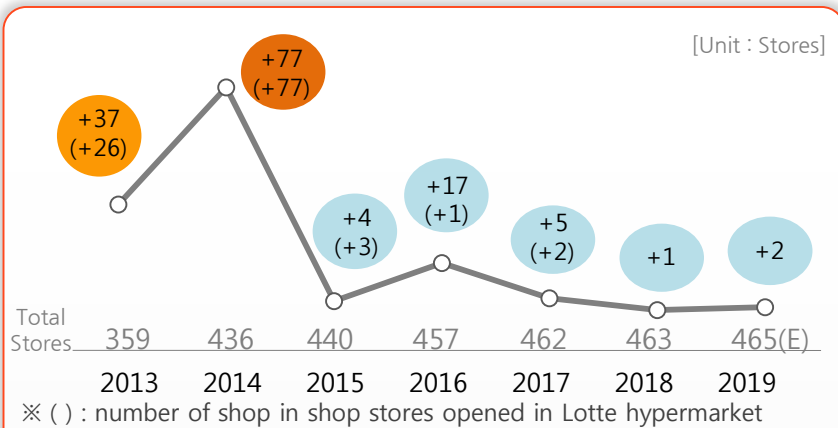


※ Source: Annual reports or audit reports of each company, Internal

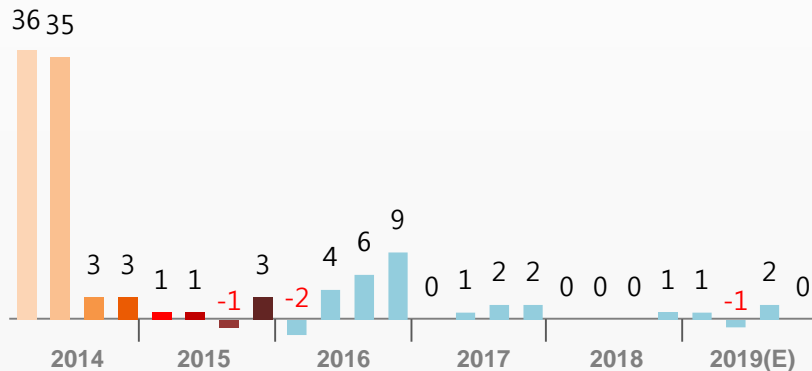
2. Operating Performance

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	357	108
Square Footage	11,300	9,580
Location	Residential Area	Commercial Area

*Square Footage : Operating Area

※ As of the end of Sept. 2019



Stand-alone stores

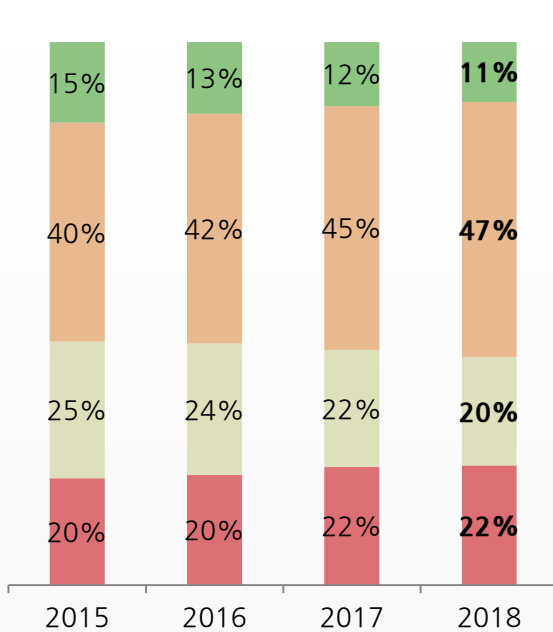


Shop-in-shop

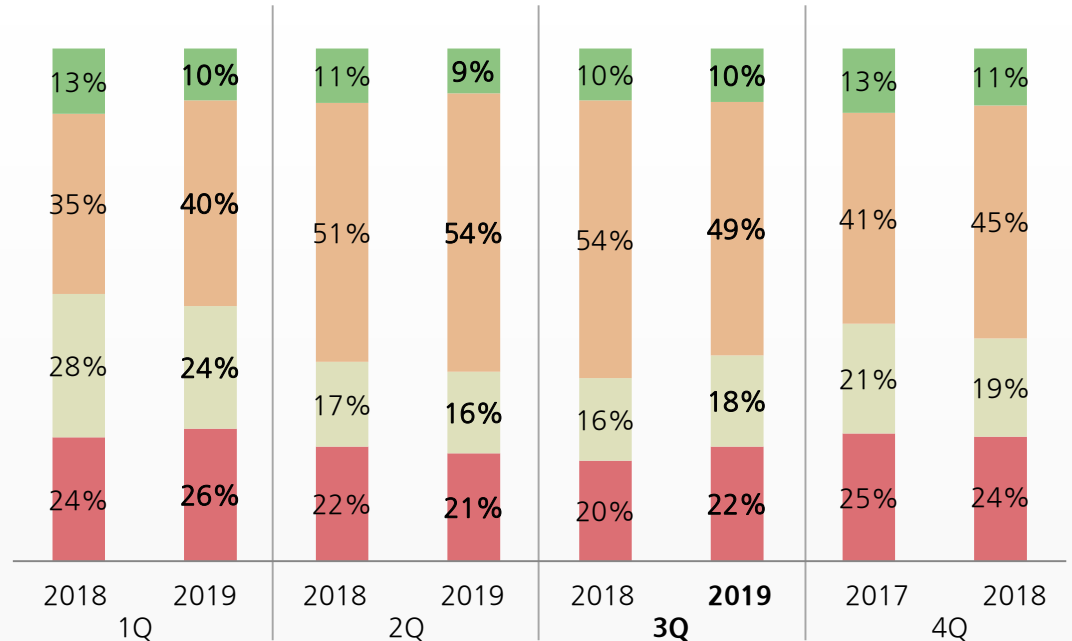
2. Operating Performance

Segment's Revenue Mix Percentages

Annual



Quarterly ('17.4Q ~ '19.3Q)



- Audio & Video : TV, Digital Convergence, Audio, etc.
- White Goods : Washing Machine, Clothes Dryer, Refrigerator, Kimchi Refrigerator, A/C, Styler
- PCs & Mobile Phones : PC, Mobile Phone
- Home Appliance : Microwave Oven, Electric Rice Cooker, Vacuum, Dehumidifier, Air Cleaner, Electric fan, household items, kitchenware, etc.

3. Financial Review

Summary of Income Statement (Quarter)

[Unit: KRW billion]

구분	2018									2019											
	18.1Q			18.2Q			18.3Q			18.4Q			19.1Q			19.2Q			19.3Q		
		%	YOY		%	yoy		%	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%	1,071	100%	-1.5%	984	100%	-11.6%
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%	285	26.6%	-4.3%	254	25.9%	-15.8%
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%	239	22.3%	3.6%	221	22.5%	-6.9%
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%	71	6.6%	7.6%	68	6.9%	2.8%
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%	8	0.7%	-73.7%	8	0.8%	-75.0%
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%	32	3.0%	167.4%	32	3.3%	169.1%
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%	18	1.7%	-2.1%	16	1.6%	-5.5%
Payment commissio	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%	49	4.6%	6.9%	47	4.8%	-0.3%
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%	25	2.3%	-5.3%	26	2.7%	-3.1%
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%	24	2.2%	18.1%	13	1.4%	-48.5%
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%	12	1.2%	0.1%	11	1.1%	-8.7%
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%	46	4.3%	-31.5%	33	3.4%	-48.4%
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%	42	3.9%	-35.2%	28	2.9%	-55.5%
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%	32	3.0%	-35.2%	21	2.2%	-55.4%
Stores	462		1.1%	462		0.9%	463		0.7%	463		0.2%	464		0.4%	463		0.2%	465		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

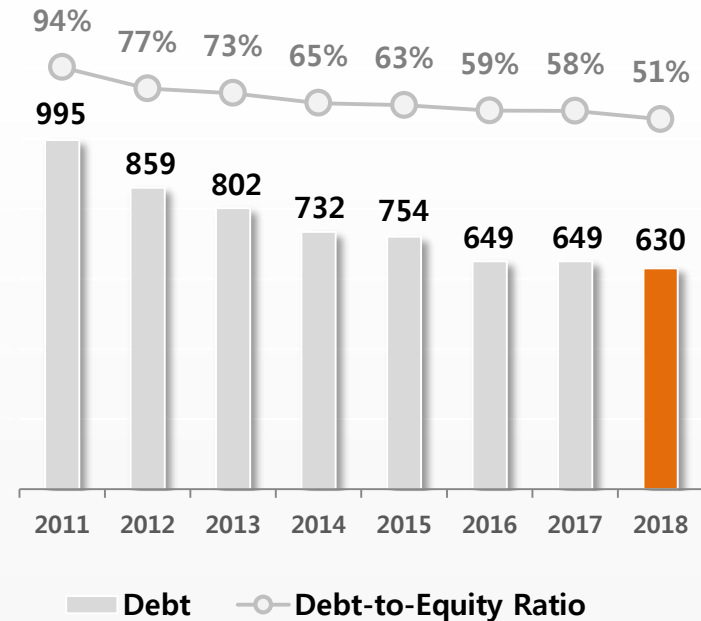
[Unit : KRW Billion]

Category	End of 2018	3Q 2019	YoY
Total Assets	3,117	3,427	9.9%
Current asset	915	842	-8.0%
Cash and cash equivalents	300	133	-55.8%
Non-current asset	2,202	2,585	17.4%
Total Liabilities	1,055	1,341	27.1%
Current liabilities	538	556	3.3%
Non-current liabilities	517	785	51.8%
Borrowings	630	500	-20.6%
Total Equity	2,062	2,086	1.2%
Issued capital	118	118	0.0%
Debt-to-Equity (%)	51.2%	64.3%	13.1%p

※ 3Q 2019 : Including 338 billion in lease liability(Accounting Standard K-IFRS 1116)

Continuous decrease of Debt

[Unit : KRW Billion]

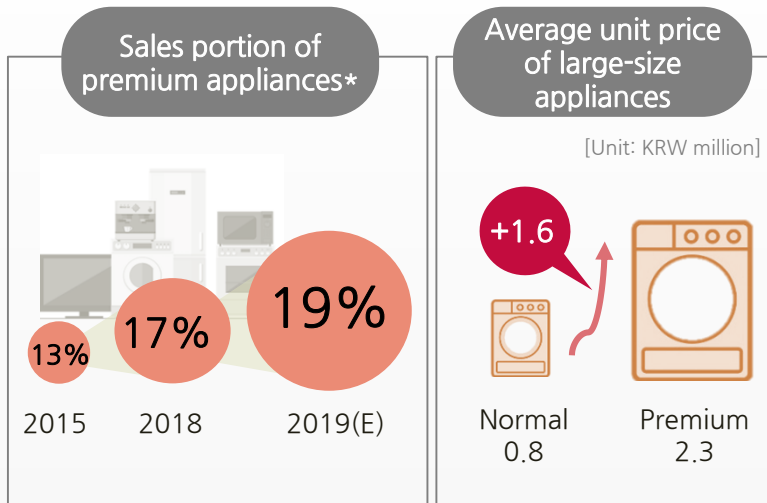


4. Business Strategy

Product Strategy

○ Improve sales of Premium appliances*

- * Increase external growth and enhance profitability by expanding sales of premium appliances reflecting consumption trend.
- Reinforcement sale of premium appliance with high unit price and profit margin



※ 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.

HIMADE(PB)

NPB/Global

[National Private Brand]

beko

(TR)

dyson

(UK)

BELLA

(US)

[Global Brand]

4. Business Strategy

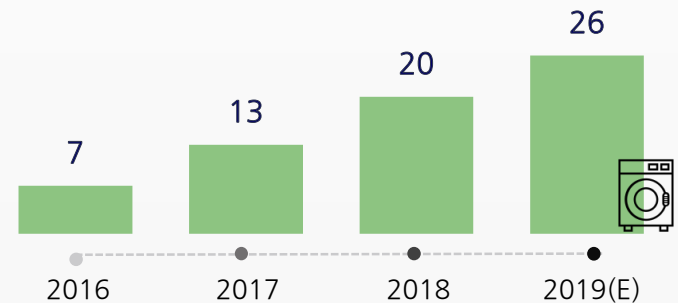
Providing total homecare service by expanding service items

- * 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 Home appliance relocation and installation service
 - ② From 2016, launched home appliance cleaning service, Kitchen and bedding cleaning service, Living space care service, Home reform service (kitchen, bathroom, sink, wallpaper, paint, lighting, etc.)
 - ③ Brand new services such as interior, home care subscription services and more are expected to be introduced from 2020.



Home care service

Number of Home care service items



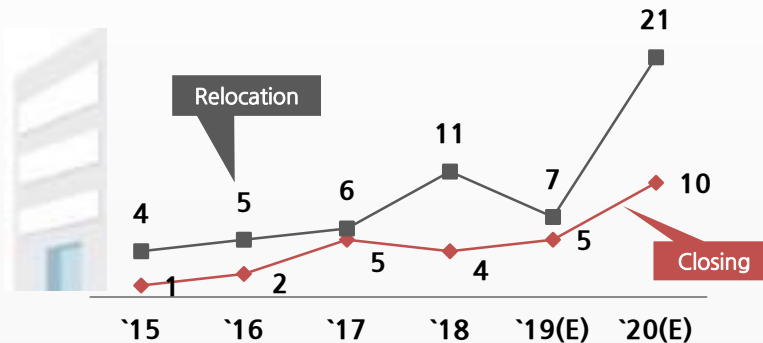
4. Business Strategy

Improving the competitiveness of offline channels

Active store restructuring

- * Efficiency improvement through offline store restructuring.
 - Increase profitability of offline stores through store closure of underperforming stores.
 - Competitiveness improvement as a core store within the district through store integrated operation.

[Unit : Stores]



Diversifying store type considering each district's characteristics and consumer type

- * Strengthening competitiveness of offline stores by improving customer experiences such as providing experiential contents which takes advantage of offline.
- * Mega store opening plan in Dec. 2019 (renovate Jamsil branch)

Premium-oriented sophisticated stores focusing on customers' value

Premium store



Mega store



Premium specialty stores with variety of goods, experience space, and differentiated customer service

Omni store



Omni-store that combines online convenience with offline experience

General store



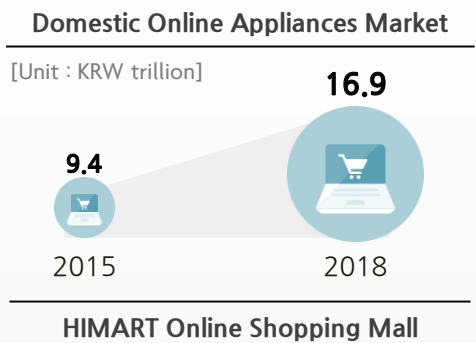
Stores that handle various brands of appliances (Stand-alone Stores / Shop-in-Shop Stores)

4. Business Strategy

HIMART Online business expansion ①

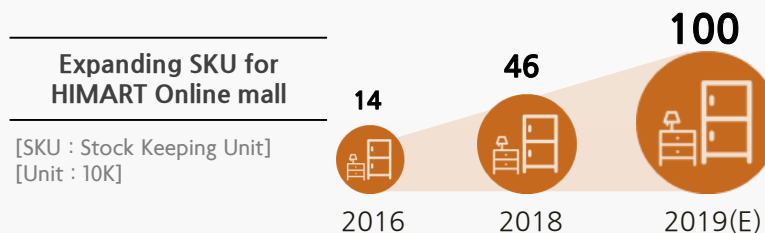
○ Strengthen HIMART online shopping mall

- * Strengthen HIMART online business
 - Expanding online sales portion / actively dealing with online market.
 - Reconstruction investment on HIMART online mall (Oct. 2015)



○ Transformation from appliance specialty mall Into Home & Lifestyle mall

- * Expanding items such as home interior that can generate synergy with home appliances
- * Expand popular items and Mall in Mall (non-electronic goods)
 - Online SKU : 460,000 ('18) → 1,000,000 ('19(E))



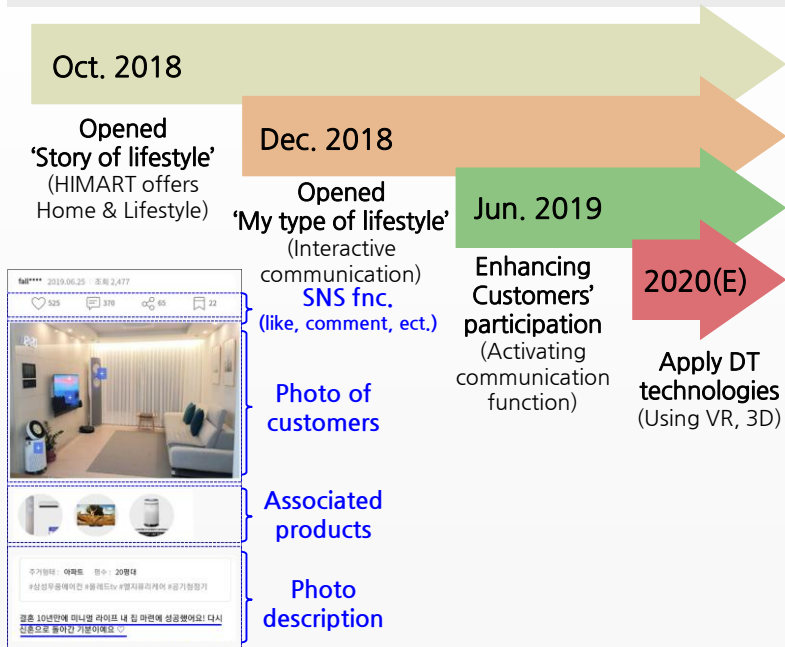
※ Source : National Statistics Office, Internal

4. Business Strategy

HIMART Online business expansion ②

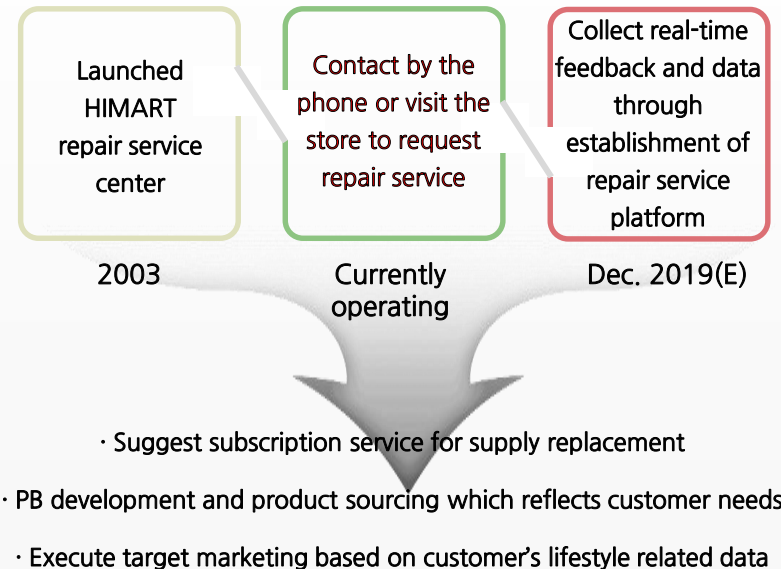
Expansion of "Story of lifestyle"

- * Strengthen suggestion of lifestyle-related products through interactive communications with customers.
 - Transition from price-oriented to customized product suggestion through communication with customers.
 - Expand online traffic by increasing customers' participation and experience through introducing Digital Transformation.



Construct platform based on repair service data

- * Collecting and utilizing customer data by establishing interactive customer communication platform based on customers' repair service data.
 - Customer can request repair service and share product related information after product registration on the app.
 - Suggest customers' lifestyle based on collected data.



4. Business Strategy

HIMART Online business expansion ③

Strengthen Differentiated Services

- * Provide a differentiated service exclusively for LOTTE HIMART online shopping mall.
- Enhance loyalty by improving customer delivery experience.



Same-day Delivery

Order by noon, delivery & installation by same day



Smart pick

Buy Online, pick up in store



Smart quick

Delivered within two hours after the purchase



Premium Delivery

Experts assigned for premium delivery and installation

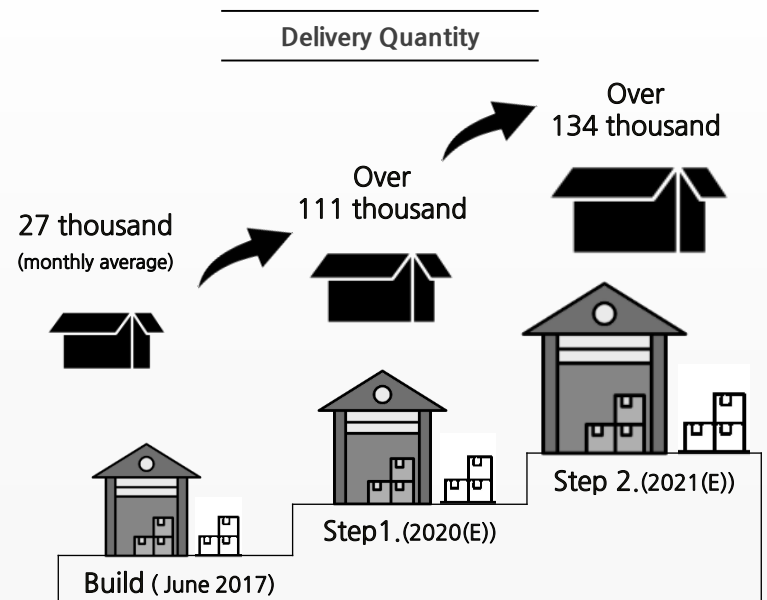


Designated day Delivery

Delivery and installation at the customer's designated day

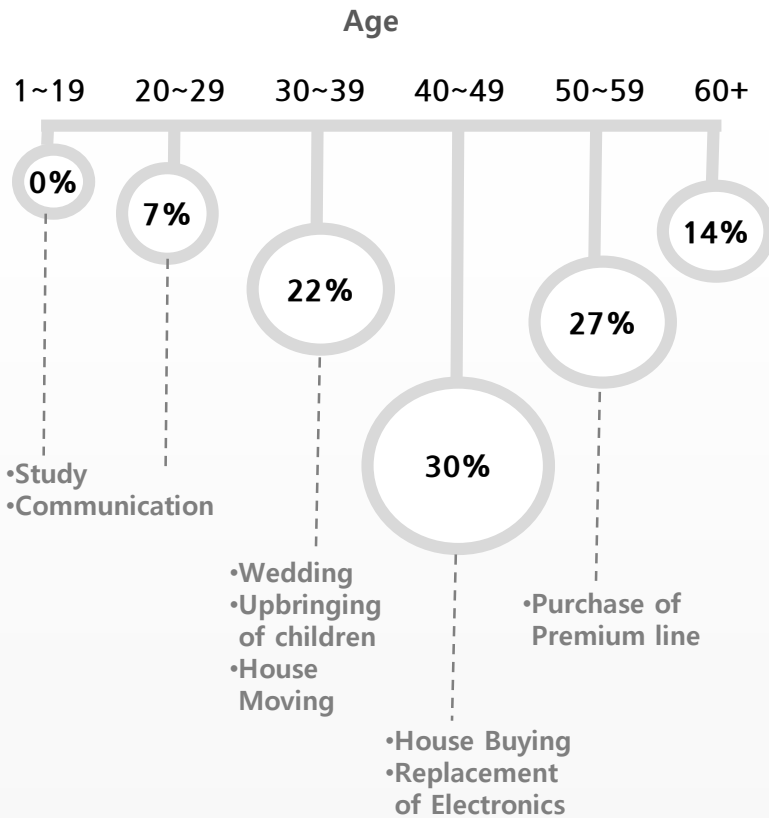
Improvement of customer shopping condition

- * Enhance customer convenience / Strengthen infrastructure
 - Mobile app optimization and speed improvement
 - Maximize delivery efficiency through escalation of online exclusive logistics



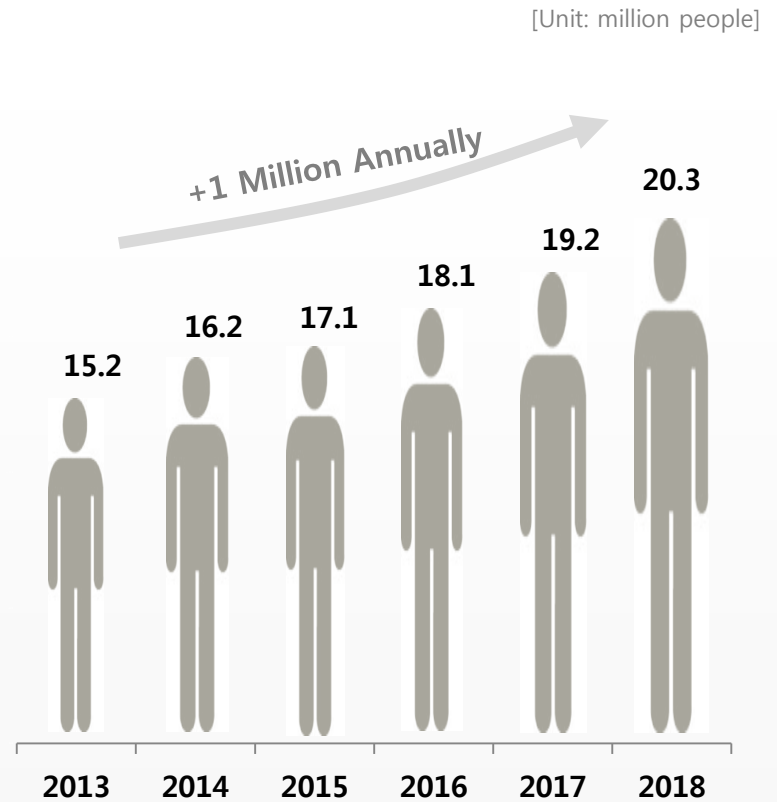
*Customer

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



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

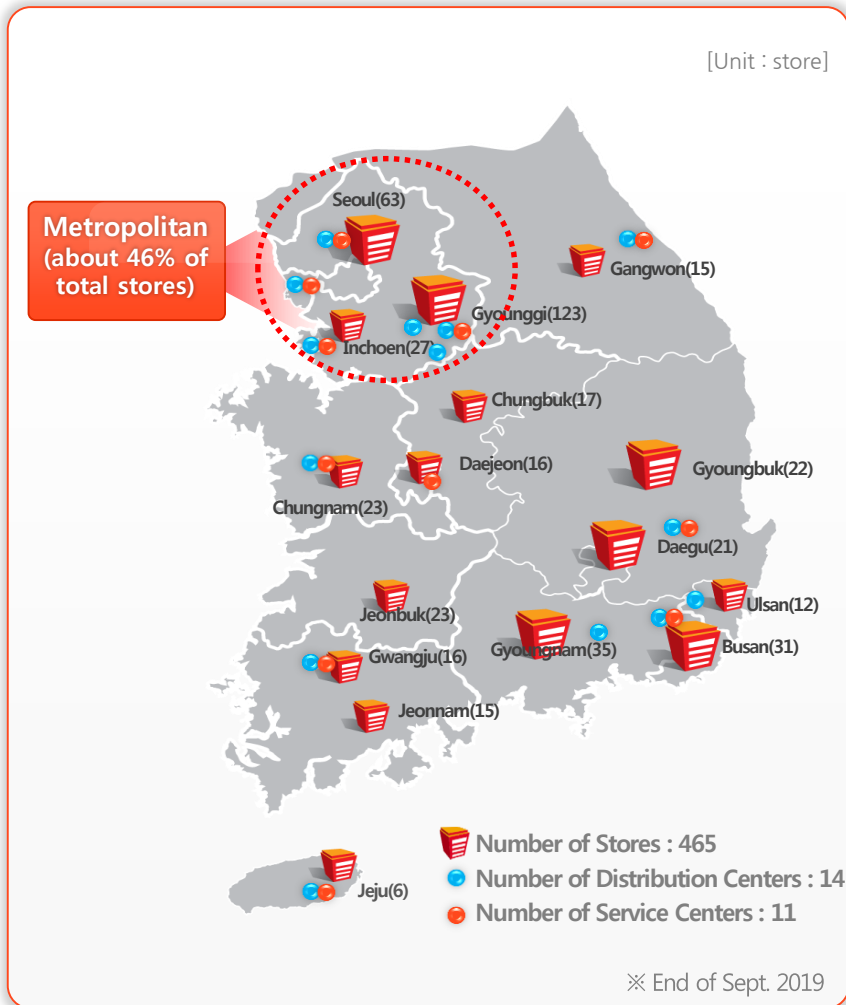
○ Growing number of Lotte Himart member



※ Internal Source

*Logistics and Repair Service

○ Nationwide Network



○ Electronics Repair Service (Small Appliances)

