

LOTTE HIMART

KOREA NO.1 Home & Lifestyle Retailer

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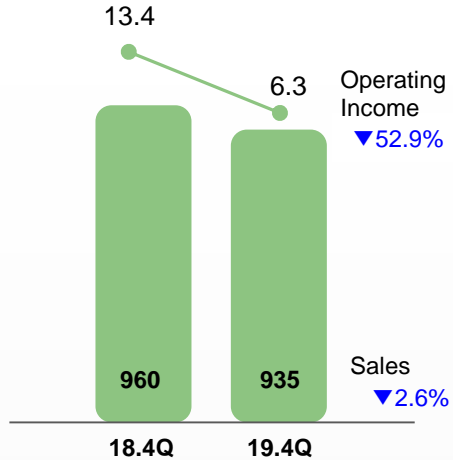
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1. 4Q Highlights

Sales & Profit

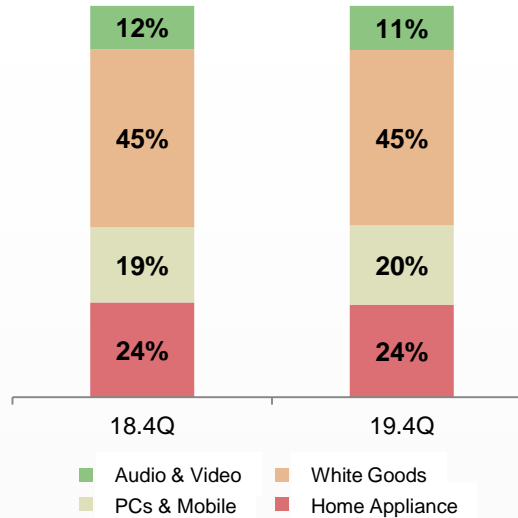


[Unit :KRW Billion]

	18.4Q	%	19.4Q	%
Sales	960	100	935	100
Gross Profit	232	24.2	223	23.8
Operating Income	13	1.4	6	0.7
Net Income	-42	-	-169	-
EBITDA	25	2.6	46	5.0

※ 19.4Q EBITDA : Including 29 billion in depreciation of right-of-use asset (Accounting Standard K-IFRS 1116)

Product Trend



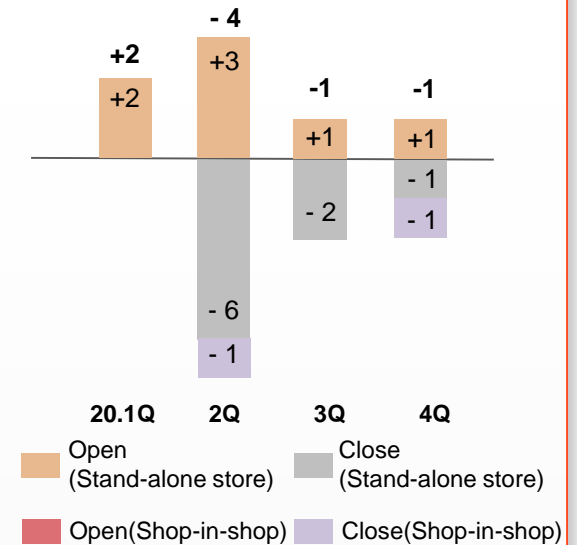
Hot selling products

PC and Mobile products (Tablet PC& Mobile accessories etc.) have grown up.

Low selling products

As general consumption has continued to weaken due to economic recession, A/V, White goods show negative number.

2020 Restructuring Plan



Types	1Q	2Q	3Q	4Q
Stand-alone stores	361	358	357	357
Shop-in-shop stores	107	106	106	105
Total Stores	468	464	463	462

Open 7 stores, close 11 stores

→ Total plan : - 4 stores (462 stores)

2. Company Overview

Key Factor and Shareholders

○ Key Factor



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

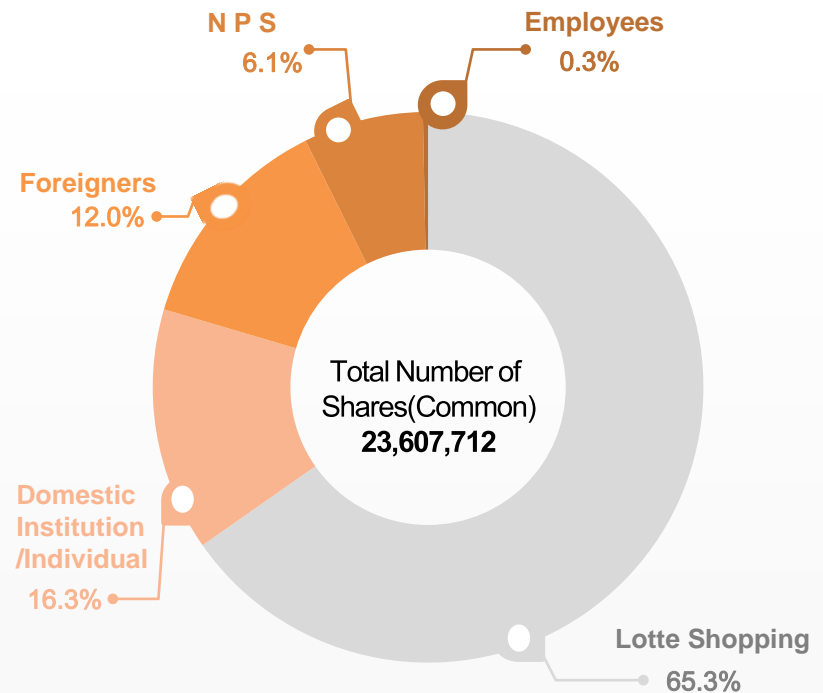
※ Electronics retailers: LOTTE HIMART, Samsung Electronics Sales, LG Bestshop, ET LAND

- **466 Stores** (End of 2019)
- **14 Distribution Centers**
- **11 Service Centers**



- **Holding 20Million HIMART Membership** (End of Dec.2019)
- **Lotte Members was united in Jun. 2013**

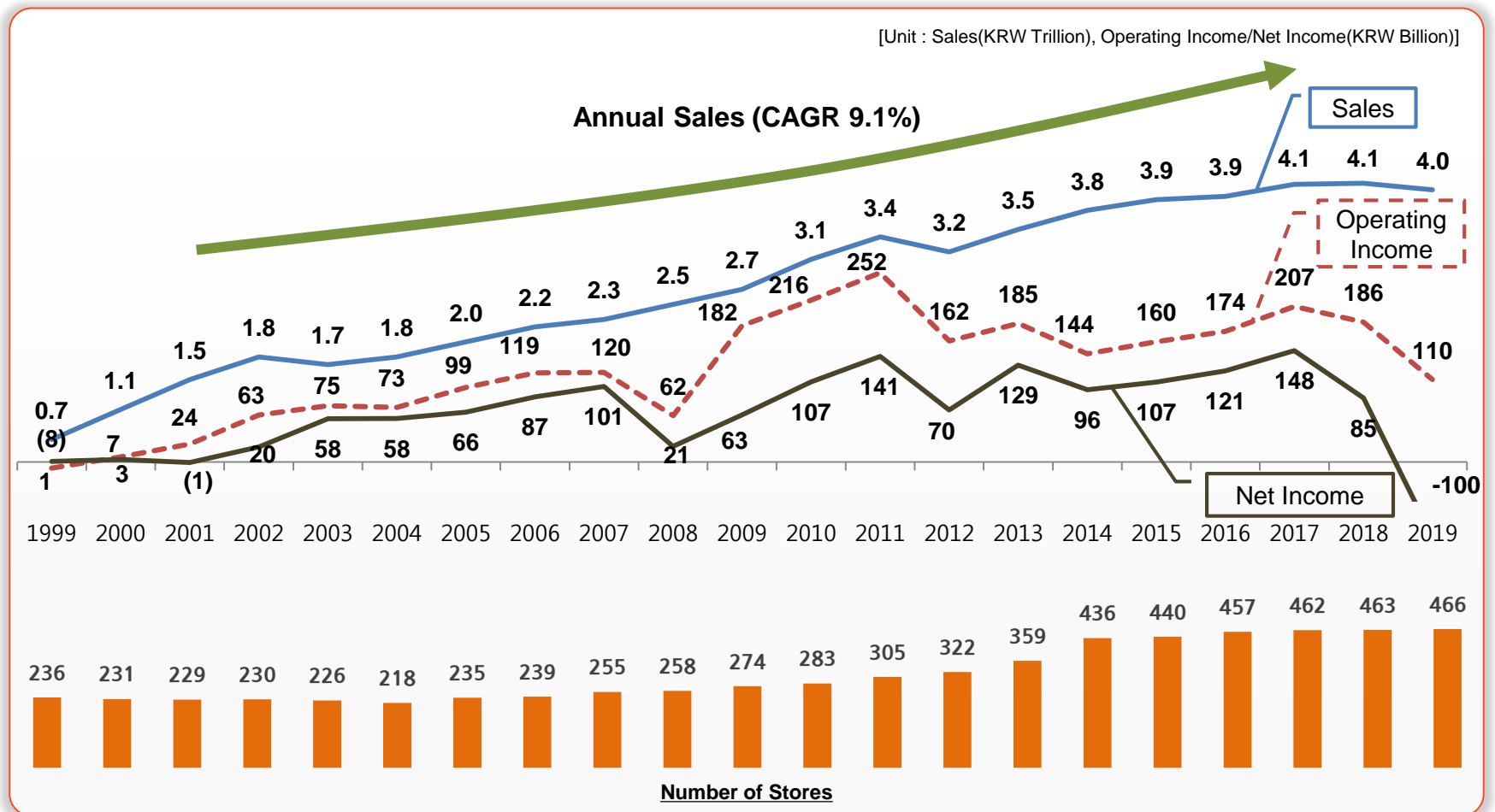
○ Shareholders



※ End of Dec. 2019

2. Company Overview

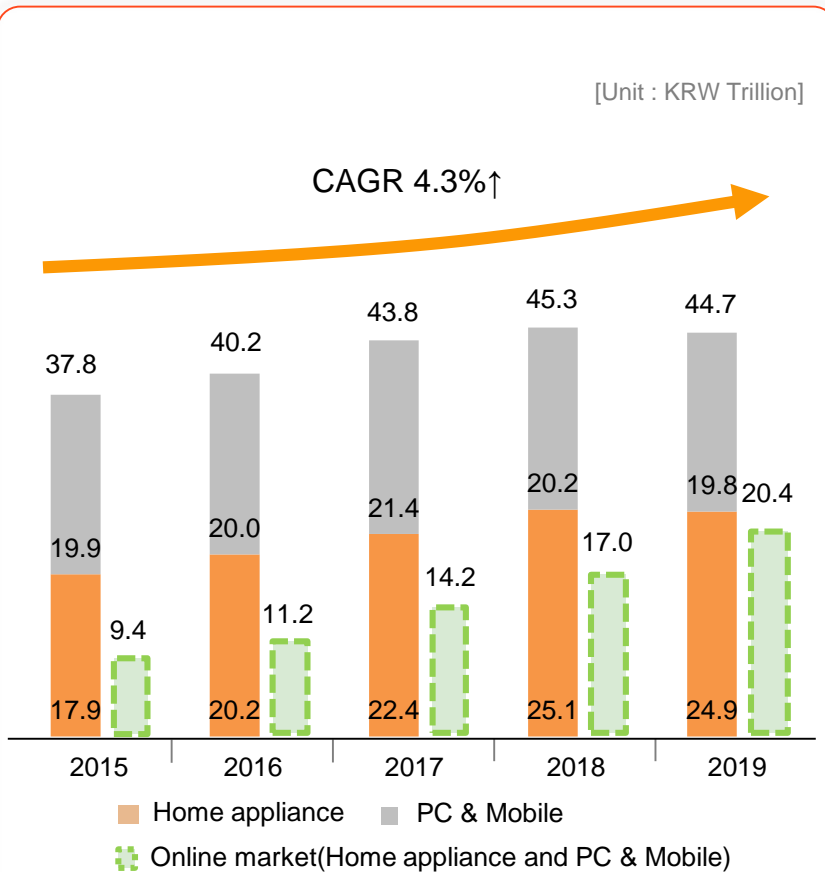
Annual Performance and Number of Stores



3. Operating Performance

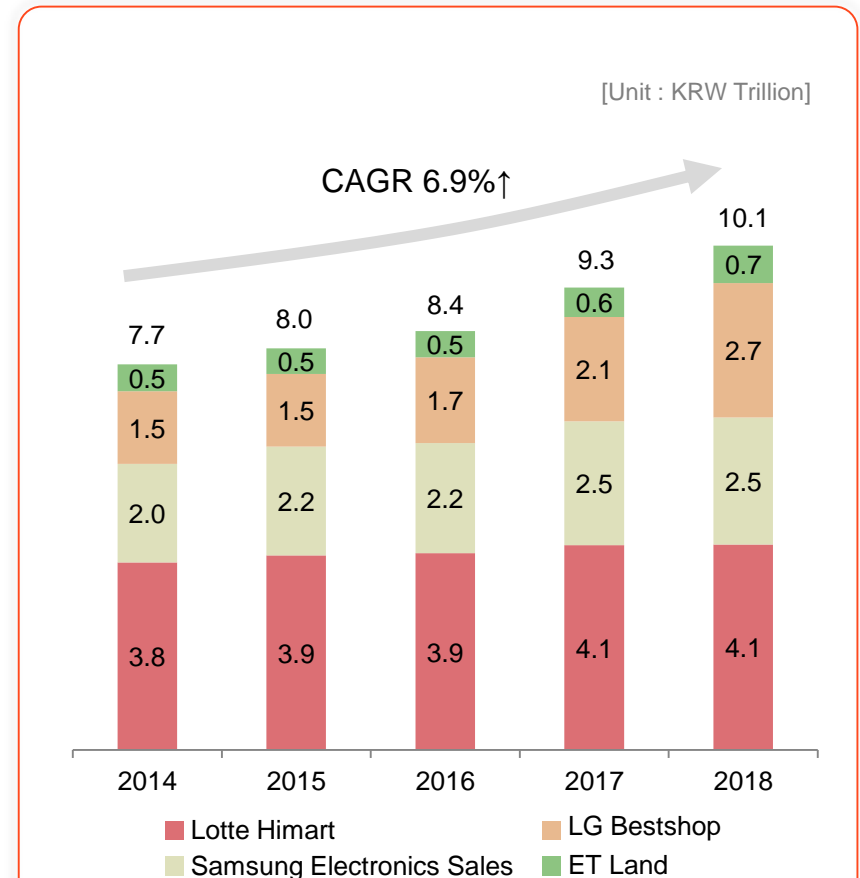
Domestic Home Appliance Market

Scale of a Domestic Appliances Market



※ Source : National Statistics Office

Electronics Retailers Trend and Market Share

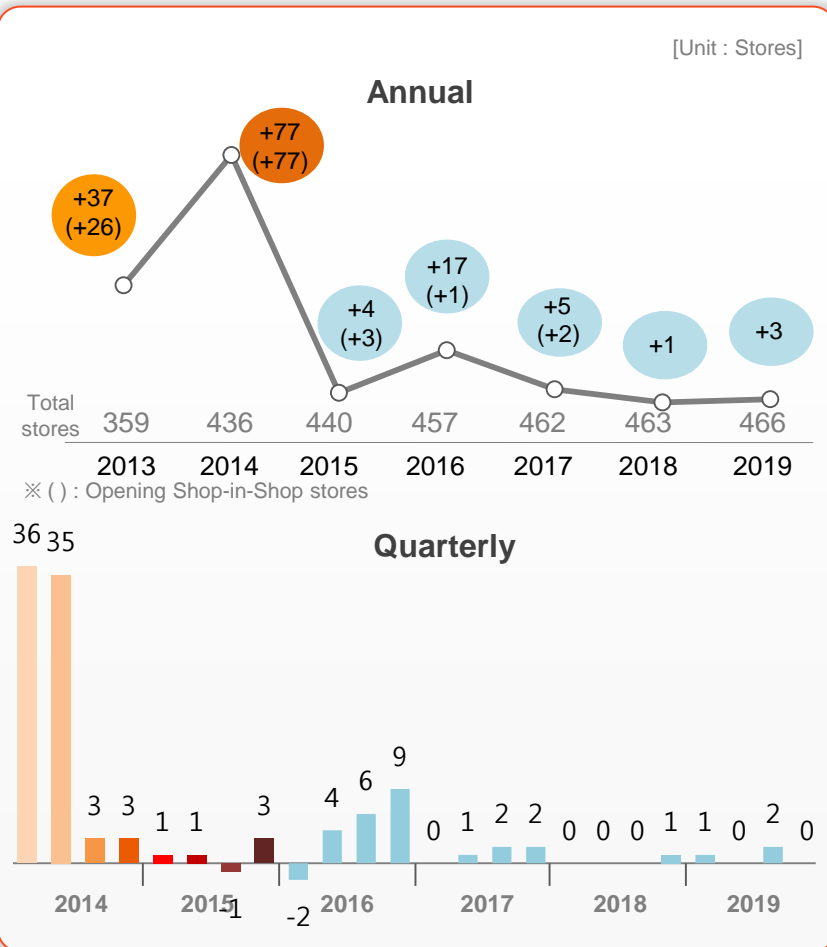


※ Source: Annual reports or audit reports of each company

3. Operating Performance

Current Status of Stores

○ The Number of New Stores



○ Store Type

[Unit : Stores, ft²]

Category	Stand-alone Store	Shop-in-shop Store (Lotte Hypermarket etc.)
Store Count	359	107
Square Footage	11,000	10,000
Location	Residential Area	Commercial Area

*Square Footage : Operating Area

※ End of Dec.2019



Stand-alone store



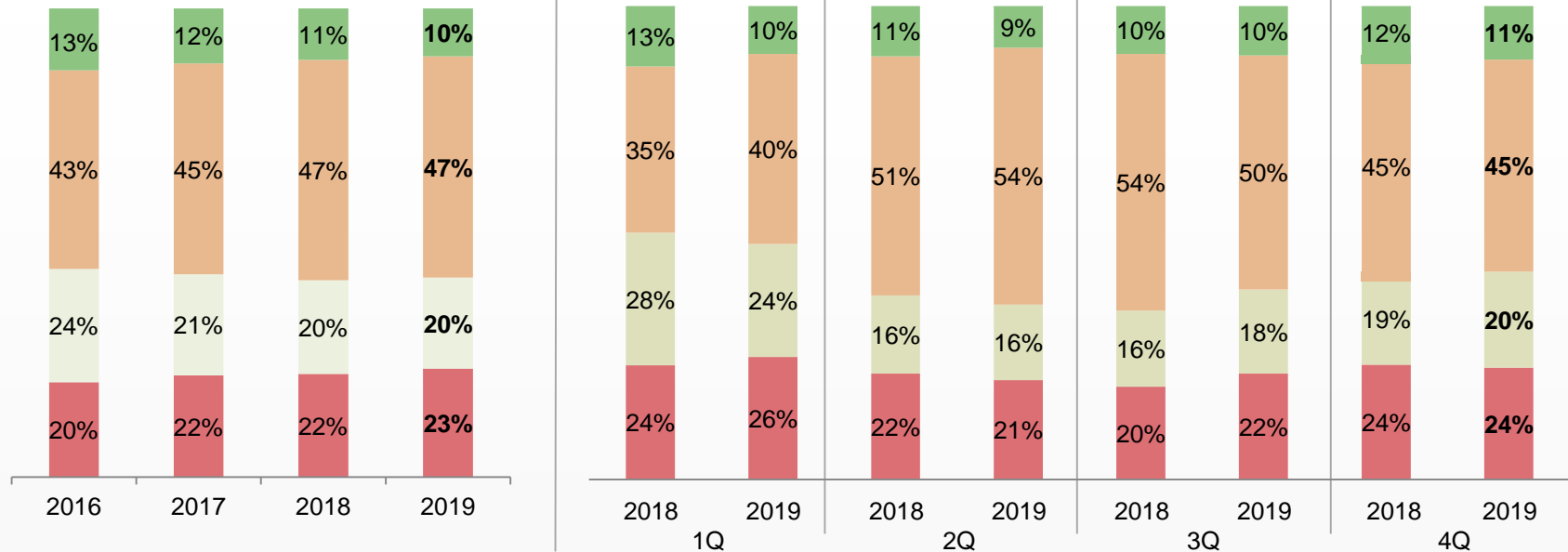
Shop-in-shop store

3. Operating Performance

Segment's Revenue Mix Percentages

○ Annual

○ Quarterly ('18.1Q ~ '19.4Q)



- 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.

4. Financial Review

Summary of Income Statement (Quarter)

[Unit : KRW Billion]

Category	18.4Q			19.1Q			19.2Q			19.3Q			19.4Q		
		%	yoy		%	yoy		%	yoy		%	yoy		%	yoy
Sales	960	100%	-0.3%	1,037	100%	8.9%	1,071	100%	-1.5%	984	100%	-11.6%	935	100%	-2.6%
Gross profit	232	24.2%	-3.3%	239	23.0%	-1.0%	285	26.6%	-4.3%	254	25.9%	-15.8%	223	23.8%	-4.0%
Operating expenses	219	22.8%	3.6%	214	20.7%	7.4%	239	22.3%	3.6%	221	22.5%	-6.9%	217	23.2%	-0.9%
Labor	67	7.0%	4.8%	68	6.5%	11.4%	71	6.6%	7.6%	68	6.9%	2.8%	67	7.2%	-0.3%
Rent	35	3.6%	-1.8%	9	0.9%	-68.5%	8	0.7%	-73.7%	8	0.8%	-75.0%	8	0.8%	-78.2%
Depreciation	12	1.2%	-2.7%	31	3.0%	157.6%	32	3.0%	167.4%	32	3.3%	169.1%	40	4.3%	241.2%
Adv.&Promotion	19	2.0%	3.4%	17	1.7%	7.5%	18	1.7%	-2.1%	16	1.6%	-5.5%	16	1.7%	-15.9%
Payment commission	45	4.7%	10.4%	47	4.5%	12.9%	49	4.6%	6.9%	47	4.8%	-0.3%	47	5.1%	4.9%
Shipping cost	27	2.8%	2.9%	24	2.3%	5.7%	25	2.3%	-5.3%	26	2.7%	-3.1%	26	2.8%	-2.0%
Installation	3	0.3%	34.1%	6	0.6%	54.2%	24	2.2%	18.1%	13	1.4%	-48.5%	2	0.2%	-29.5%
Others	11	1.1%	-8.3%	12	1.1%	-6.4%	12	1.2%	0.1%	11	1.1%	-8.7%	10	1.1%	-4.7%
Operating income	13	1.4%	-53.5%	24	2.3%	-41.3%	46	4.3%	-31.5%	33	3.4%	-48.4%	6	0.7%	-52.9%
Income before taxes	-41	-	-255.8%	20	1.9%	-48.7%	42	3.9%	-35.2%	28	2.9%	-55.5%	-174	-	-
Net income	-42	-	-340.6%	15	1.5%	-48.4%	32	3.0%	-35.2%	21	2.2%	-55.4%	-169	-	-
Stores	463		0.2%	464		0.4%	463		0.2%	465		0.4%	466		0.6%

4. Financial Review

Summary of Income Statement (Annual)

[Unit : KRW Billion]

Category	2015			2016			2017			2018			2019		
		%	yoy		%	yoy		%	yoy		%	yoy		%	yoy
Sales	3,896	100.0%	3.8%	3,939	100.0%	1.1%	4,099	100.0%	4.1%	4,113	100.0%	0.3%	4,026	100.0%	-2.1%
Gross profit	963	24.7%	4.0%	1,013	25.7%	5.2%	1,061	25.9%	4.7%	1,073	26.1%	1.1%	1,001	24.9%	-6.7%
Operating expenses	803	20.6%	2.7%	839	21.3%	4.4%	854	20.8%	1.8%	886	21.6%	3.8%	891	22.1%	0.5%
Labor	241	6.2%	2.3%	244	6.2%	1.1%	246	6.0%	0.7%	260	6.3%	5.7%	273	6.8%	5.2%
Rent	122	3.1%	6.0%	123	3.1%	1.1%	125	3.1%	1.7%	125	3.0%	-0.0%	33	0.8%	-74.0%
Depreciation	52	1.3%	-1.4%	52	1.3%	0.1%	49	1.2%	-6.1%	48	1.2%	-2.8%	136	3.4%	183.4%
Adv.&Promotion	94	2.4%	-4.2%	98	2.5%	4.1%	69	1.7%	-29.8%	70	1.7%	2.0%	67	1.7%	-4.5%
Payment commission	130	3.3%	9.9%	144	3.7%	10.6%	163	4.0%	13.0%	180	4.4%	10.2%	190	4.7%	5.9%
Shipping cost	86	2.2%	8.0%	89	2.3%	3.5%	99	2.4%	10.9%	102	2.5%	2.9%	101	2.5%	-1.4%
Installation	32	0.8%	-7.9%	44	1.1%	36.0%	56	1.4%	27.8%	54	1.3%	-3.5%	46	1.1%	-14.1%
Others	45	1.1%	-3.7%	44	1.1%	-1.7%	47	1.1%	6.3%	48	1.2%	2.5%	45	1.1%	-4.9%
Operating income	160	4.1%	10.9%	175	4.4%	9.0%	207	5.1%	18.9%	186	4.5%	-10.1%	110	2.7%	-41.1%
Income before taxes	143	3.7%	15.1%	163	4.1%	13.5%	199	4.9%	22.4%	127	3.1%	-36.2%	84	-	-
Net income	107	2.7%	10.5%	121	3.1%	13.9%	148	3.6%	22.2%	85	2.1%	-42.4%	100	-	-
Stores	440		0.9%	457		3.9%	462		1.1%	463		0.2%	466		0.6%

4. Financial Review

Financial position and the Progression of Debt

Summary of Balance Sheet

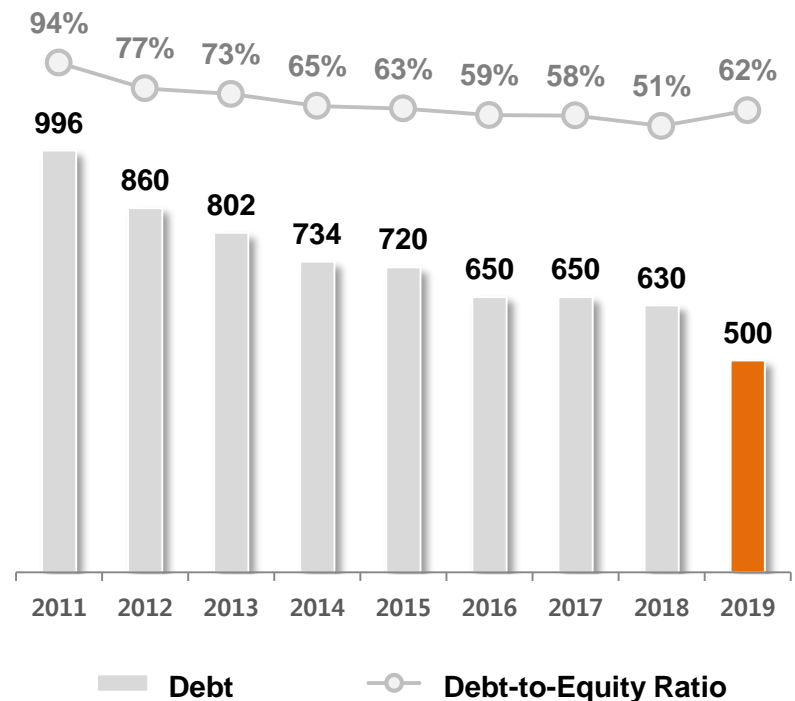
[Unit : KRW Billion]

Category	Endof2018	Endof2019	YoY
Total Assets	3,117	3,108	-0.3%
Current asset	915	716	-21.8%
Cash and cash equivalents	300	50	-83.4%
Non-current asset	2,202	2,392	8.6%
Total Liabilities	1,055	1,186	12.4%
Current liabilities	538	590	9.6%
Non-current liabilities	517	596	15.3%
Borrowings	630	500	-20.6%
Total Equity	2,062	1,922	-6.8%
Issued capital	118	118	0.0%
Debt-to-Equity (%)	51.2%	61.7%	10.5%p

※ End of 2019 : Including 297 billion in lease liability(Accounting Standard K-IFRS 1116)

Continuous Decrease of Debt

[Unit : KRW Billion]

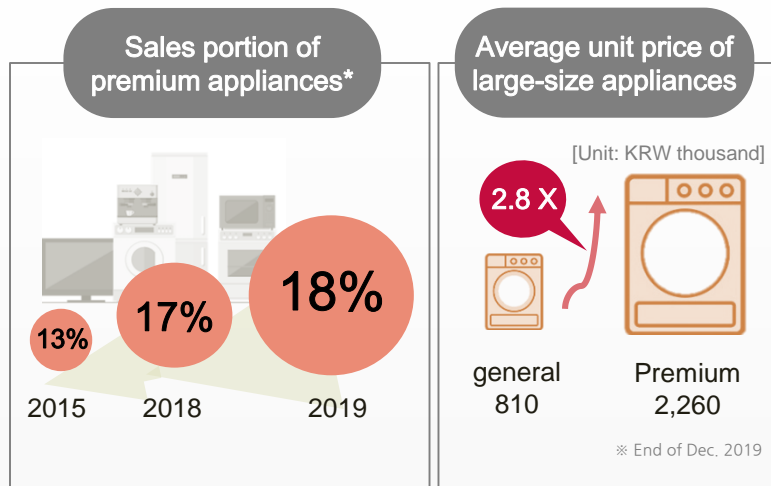


5. Business Strategy

Product Strategy

○ Improve Sales of Premium Appliance

- * To drive top-line growth and enhance profitability by expanding sales of premium appliances reflecting consumption trend.
- * Increase customer loyalty by launching premium membership. (Jan. 2020~)



- ※ Premium appliances : TV(65 " ↑ UHD, OLED-QLED), Refrigerator(4 doors, 4doors with water purifier), Kimchi Refrigerator(400t↑), Washing Machine(19kg↑ front-loading washer)
- ※ Premium Membership : Offering additional benefit to customers who purchase more than 20million KRW per year (Free appliance inspection, A.C free relocation&installation, personal consultation svc, etc.)

○ Strengthen PB / Global Brand

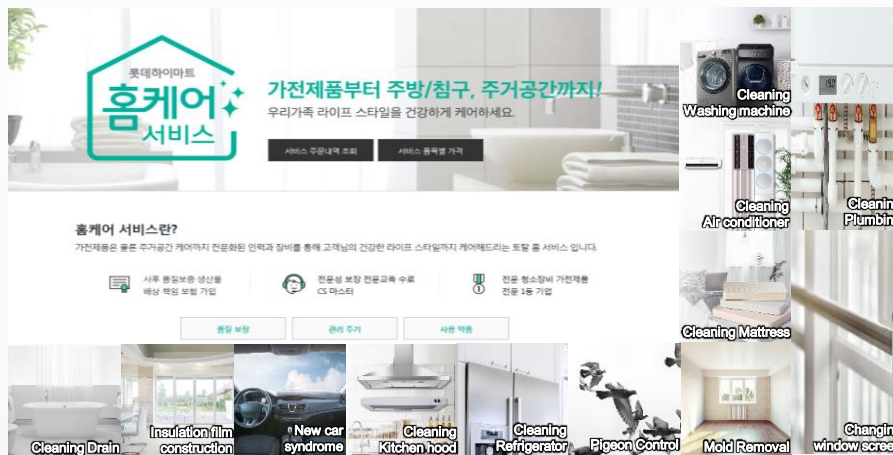
- * Differentiate from the industry and attract customers by offering exclusive and differentiated products.
 - Improve brand awareness and enhance profitability by increasing PB products.
 - Strengthen merchandising by expanding global brands.



5. Business Strategy

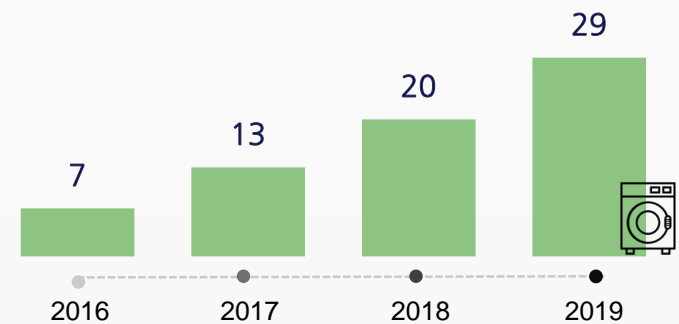
Home-care Service

- * Secure new growth engine by entering Home-care service market (anticipated potential growth)
 - * Allow us to manage home appliances lifecycle that connects from post-sale maintaining to repurchase unlike the past which simply selling home appliances.
- ① Home appliance relocation and installation services
 - ② From 2016, launched home appliance cleaning services, Kitchen and mattress cleaning services, Living space care services, Home reform services (kitchen, bathroom, sink, wallpaper, paint, lighting, etc.)
 - ③ Brand new services such as interior, home-care subscription services and others will be introduced in 2020.



Home-care service items

Number of Home-care service items

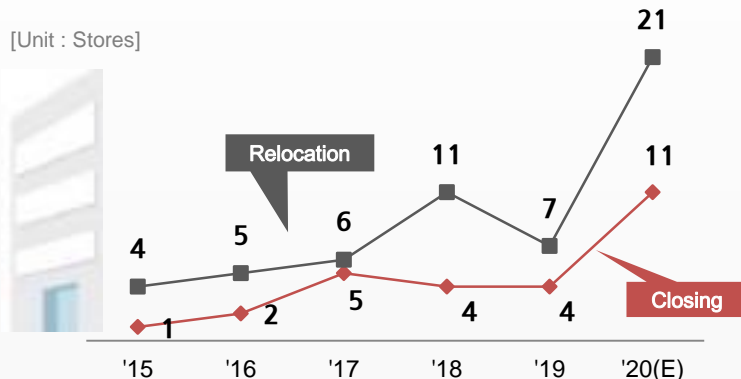


5. Business Strategy

Strengthening the Competitiveness of Offline Channel

○ Active Store Restructuring

- * Efficiency improvement through 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.



○ Diversifying Store Type

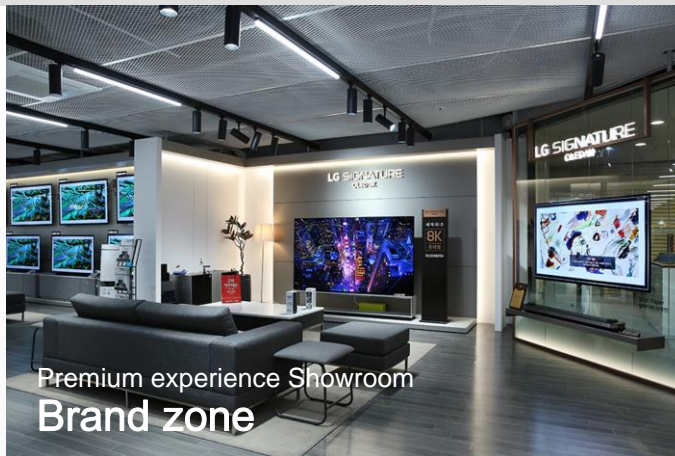
- * Strengthening competitiveness of offline stores by improving customer experiences such as providing various contents which take advantage of offline channel.



5. Business Strategy

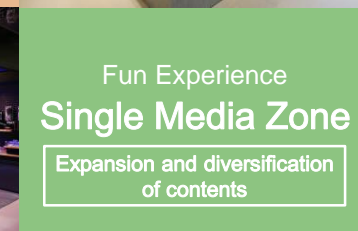
Grand Opening First Mega Store Jamsil

- * Mega Store is aimed at premium lifestyle by combine enhanced online convenience with offline experience (Jan. 2020)
 - Premium Brand zone(Samsung/LG Premium showrooms, Premium leisure, etc.)
 - Lifestyle Section(Cafe, Interior/design furniture, Home-care service, etc.)
 - Escalation of Customer experience (E-sports stadium, Single media zone, 5G zone, etc.), 020 Service(Omni store, Smart pick)



Home & Lifestyle Megastore

- Customer experience centered DIGITAL & FUN Store
- Premium & Lifestyle Store
- Premium Brand-based space allocation



5. Business Strategy

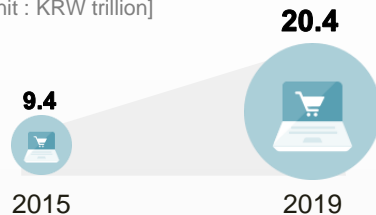
HIMART Online business expansion ①

Accelerate Online Channel Growth

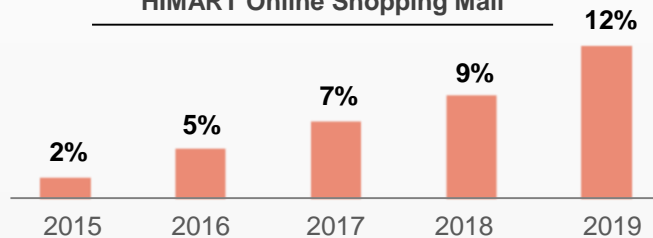
- * Expanding online sales ratio/actively dealing with online market
- * Reconstruction investment on HIMART online mall (Oct.2015)

Domestic Online Appliances Market

[Unit : KRW trillion]



HIMART Online Shopping Mall



※ Source : National Statistics Office, Internal

Transformation into Home & Lifestyle mall

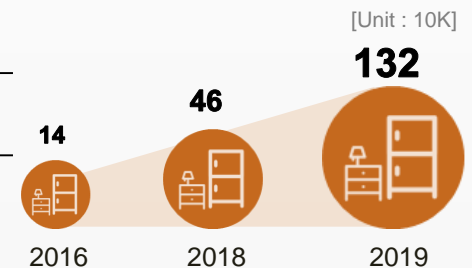
- * Extending business scope by launching home interior that can generate synergy with home appliances
- * Expanding popular items and Mall in Mall (non-electronic goods)
 - Online SKU : 460,000 (2018) → 1,320,000 (2019)

Expand product category



Expanding SKU for HIMART Online mall

※ SKU : Stock Keeping Unit

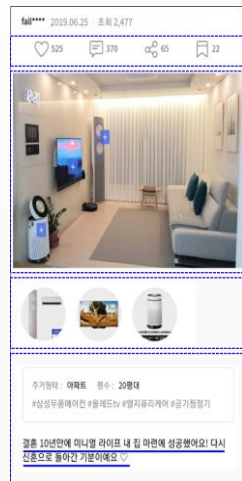
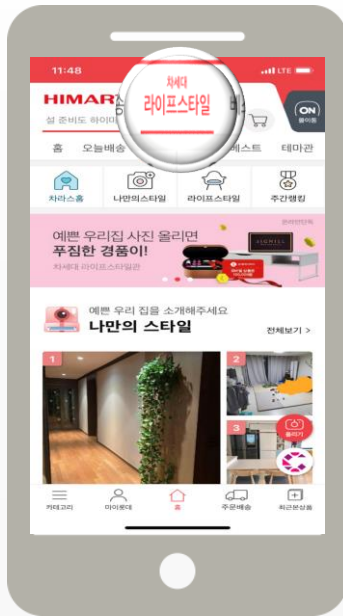


5. Business Strategy

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.
 - Expands online traffic by increasing customers' participation and experience through introducing Digital Transformation.



SNS fnc.
(like, comment, etc.)

Photo of
customers

Associated
Products
(suggestion/post)

Photo
description

Introduce Repair Service Data Platform

- * Collect and utilize customer data by establishing interactive customer communication platform based on repair service data. (Dec. 2019)
 - Customers can request repair service and share product related information after registering their products on the app.
 - Suggests suitable lifestyle based on collected customer data.



5. Business Strategy

HIMART Online business expansion ③

○ Strengthen Differentiated Services

- * Provide differentiated services 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

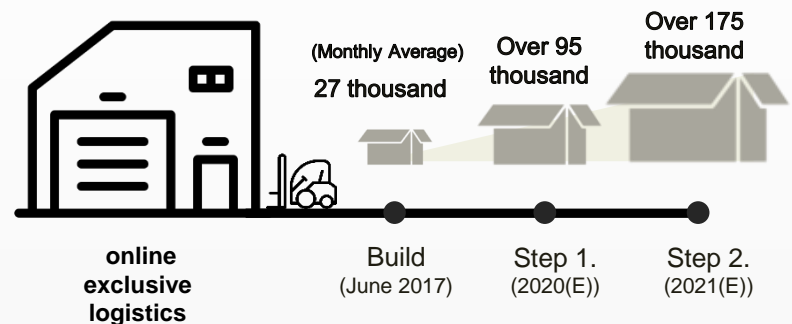


Designated day Delivery

Delivery and installation at the customer's designated day

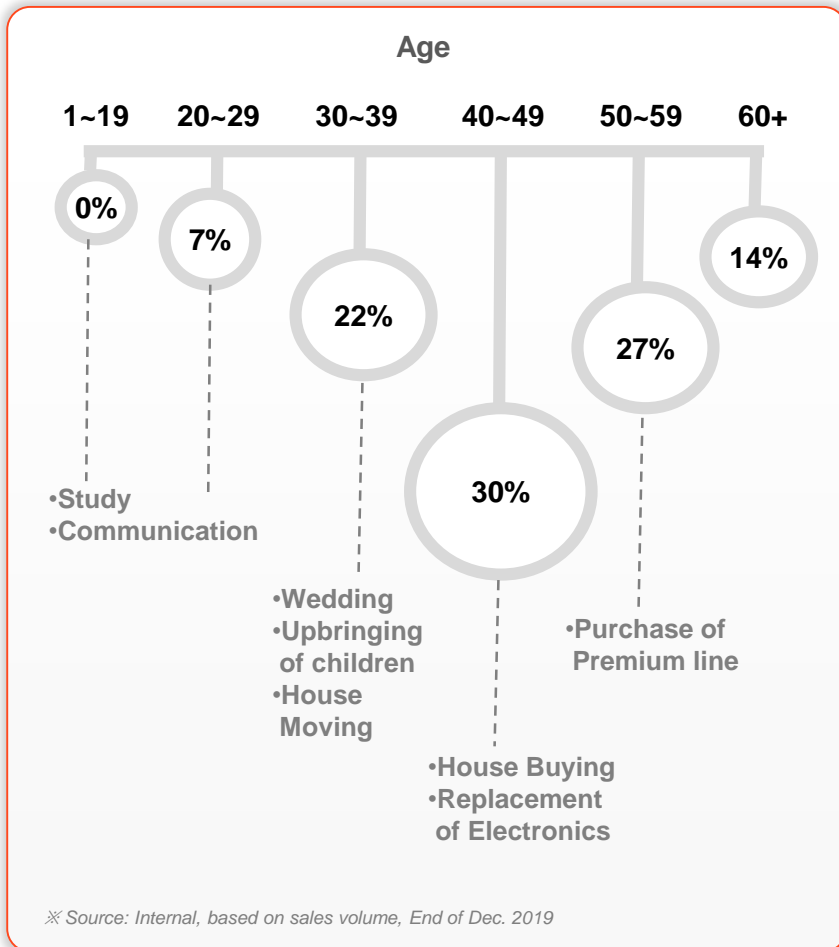
○ Improve customer shopping condition

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

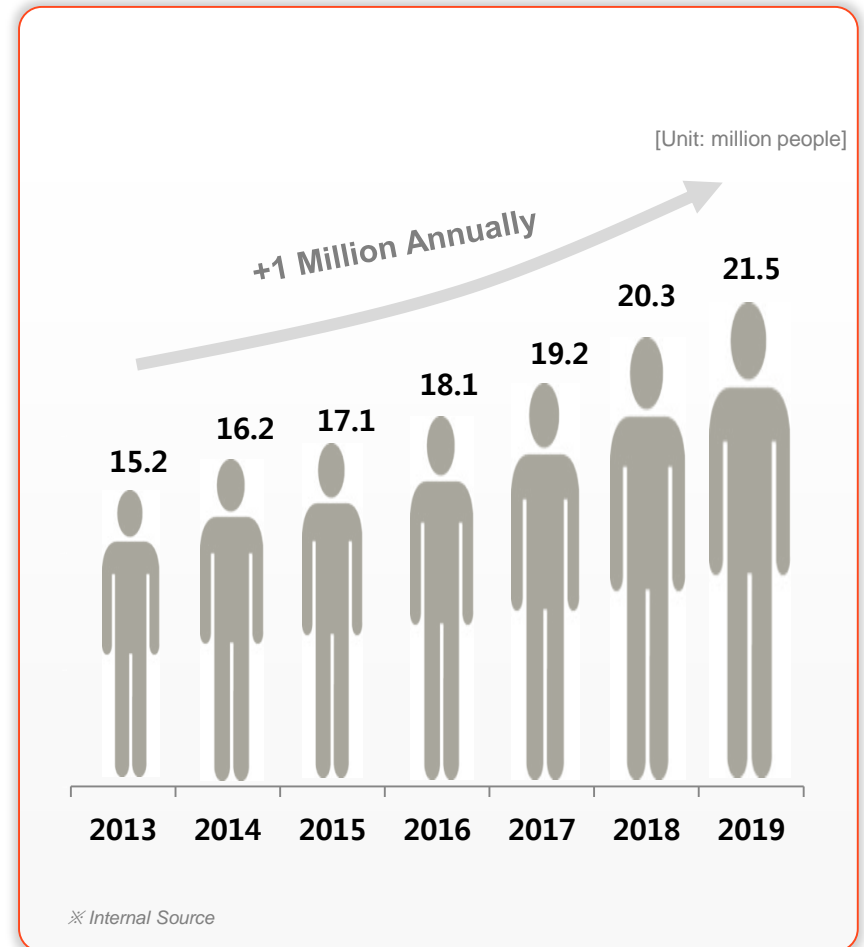


*Customer

o Main Customers (age group) ; 30-50 yrs old

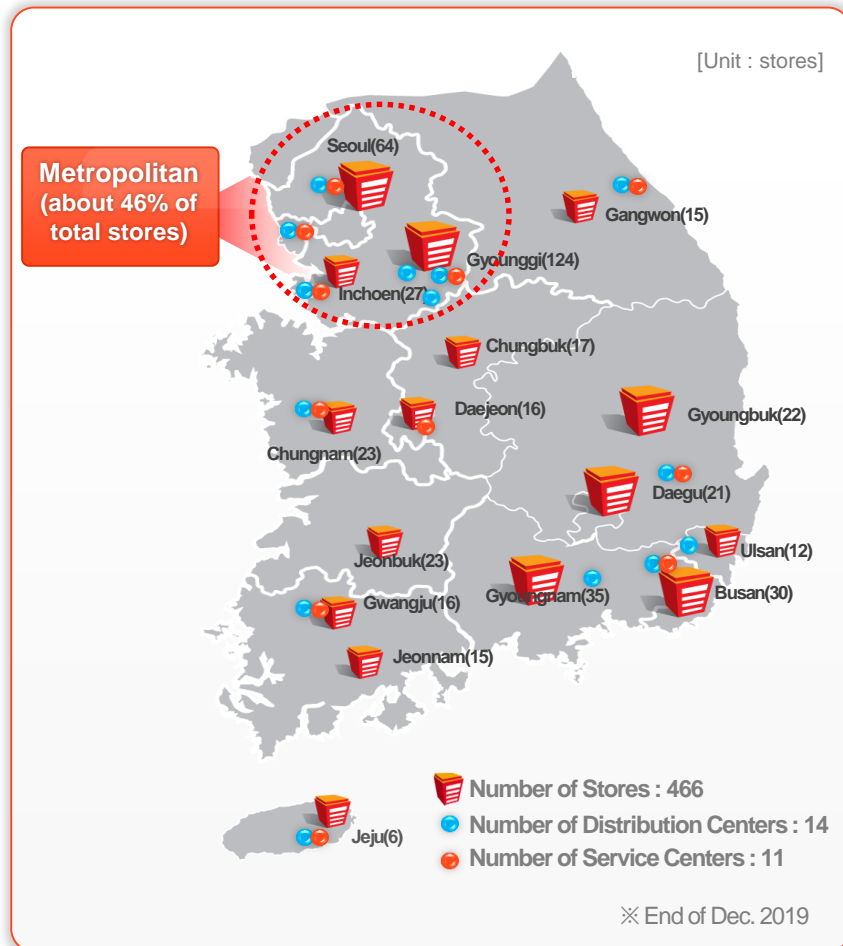


o Growing Lotte Himart Members

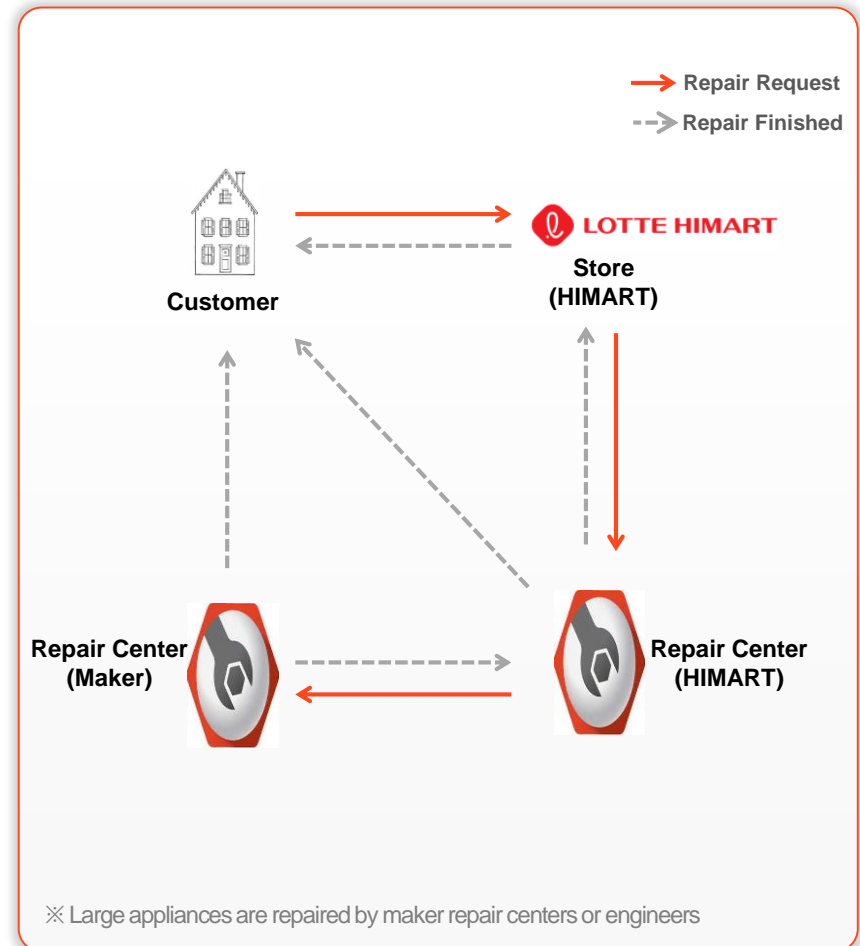


*Logistics and Repair Service

○ Nationwide Network



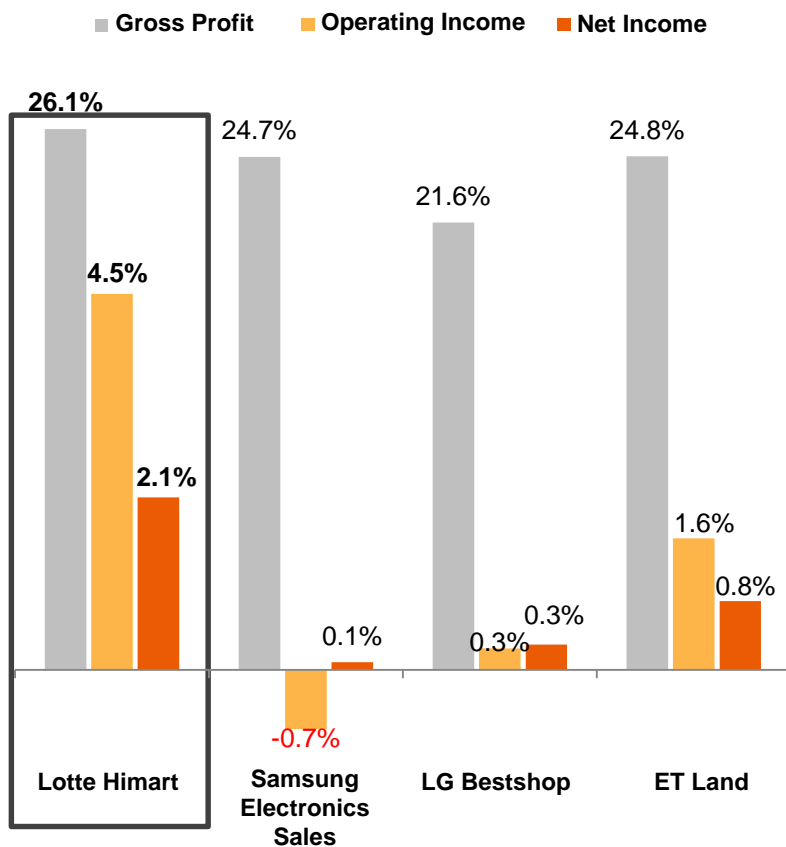
○ Electronics Repair Service (Small Appliances)



*Comparison of Competition

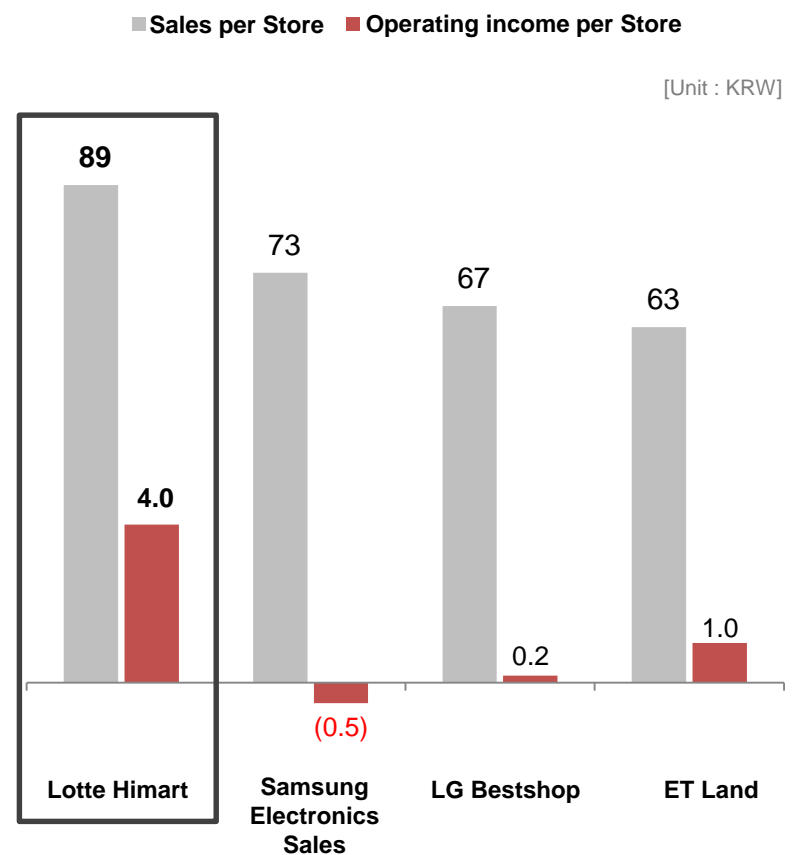
Profitability and Efficiency

o Competitive Profitability Ratio



※Source: 2018 annual reports or audit reports of each company

o The No.1 Sales and Operating Profit per Store



※ Source: 2018 annual reports or audit reports of each company