

# LOTTE HIMART

KOREA NO.1 Home & Lifestyle Retailer

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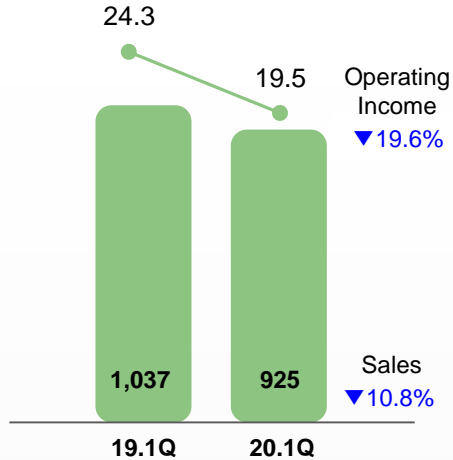
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# 1. 1Q Highlights

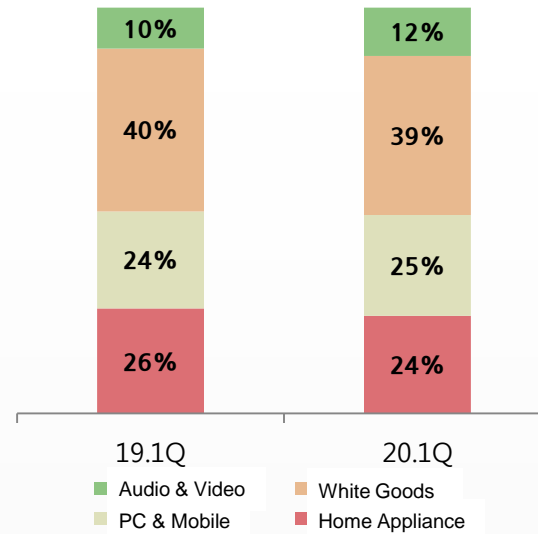
## Sales & Profit



[Unit :KRW Billion]

	19.1Q	%	20.1Q	%
Sales	1,037	100	925	100
Gross Profit	239	23.0	223	24.1
Operating Income	24	2.3	20	2.1
Net Income	15	1.5	11	1.2
EBITDA	55	5.3	54	5.9

## Product Trend



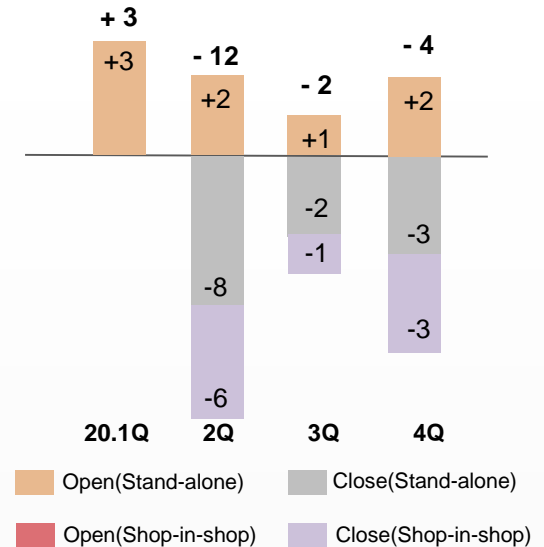
### Hot Selling Products

- COVID-19 impacts on growth of TV market.
- Arrival of replacement cycle and increased demand on premium products lead to the growth of refrigerator.

### Low Selling Products

- Decline in offline traffic caused by COVID-19
- Weak sales growth in PC & Mobile regarding delay in spring semester

## 2020 Restructuring Plan



Types	1Q	2Q	3Q	4Q
Stand-alone stores	362	356	355	354
Shop-in-shop stores	107	101	100	97
Total Stores	469	457	455	451

**Open 8 stores, close 23 stores**

→ Total plan : - 15 stores

## 2. Company Overview

### Key Factor and Shareholders

#### ○ Key Factor



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

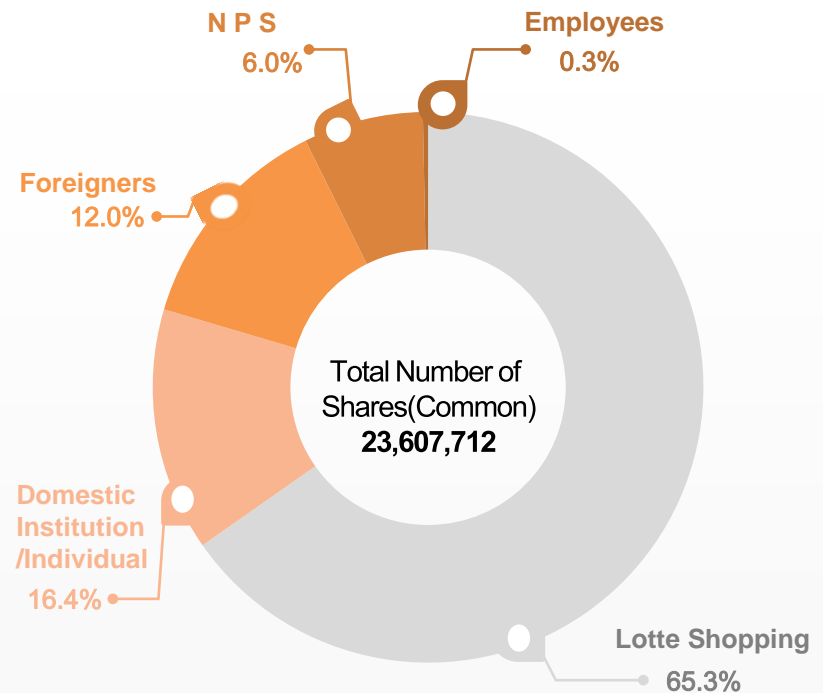
※ Electronics retailers: LOTTE HIMART, Samsung Electronics Sales, LG Hi Plaza, ET LAND

- **469 Stores** (End of Mar.2020)
- **14 Distribution Centers**
- **11 Service Centers**



- **Holding 22Million HIMART Membership** (End of Mar.2020)
- **Lotte Members was united in Jun. 2013**

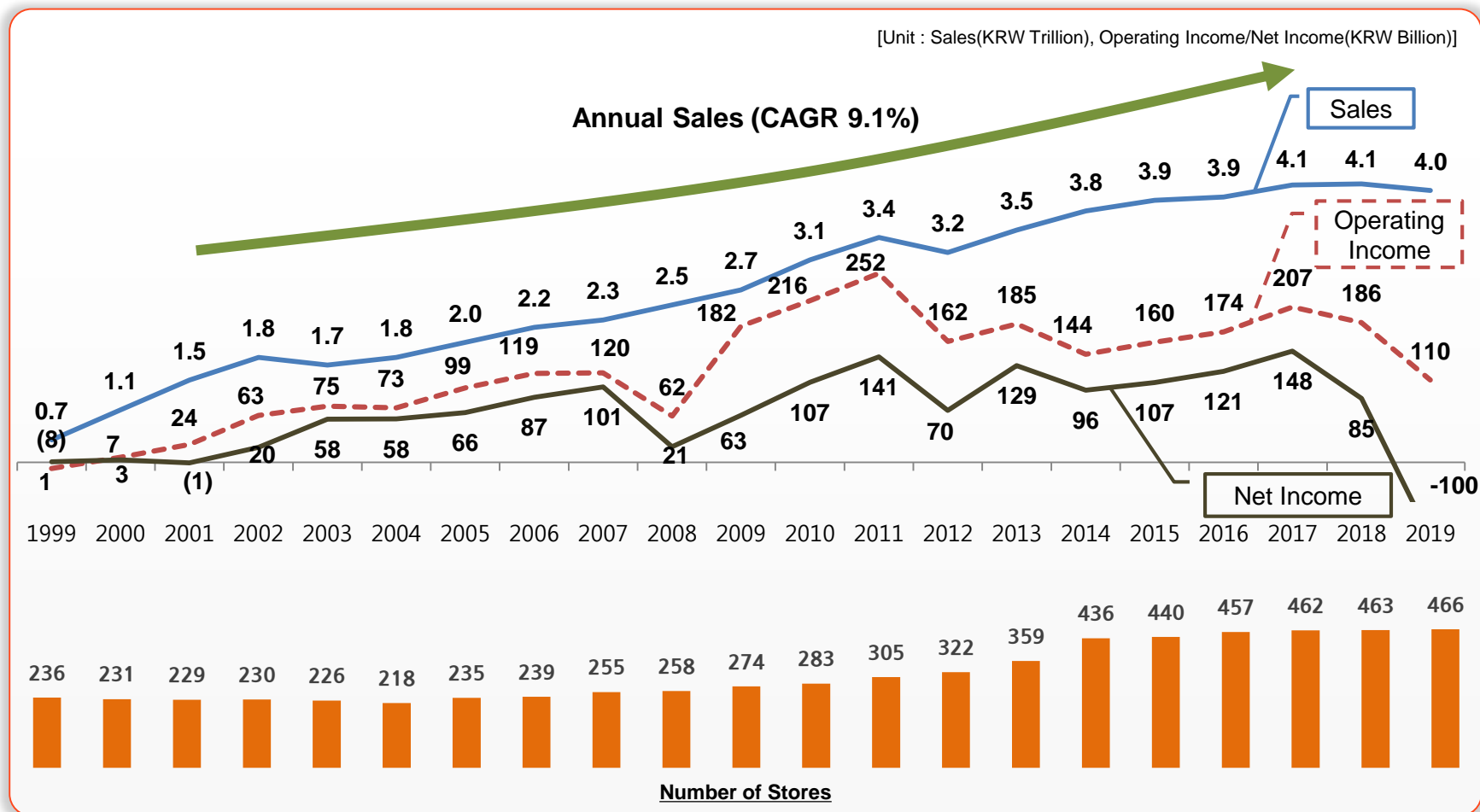
#### ○ Shareholders



※ End of Mar. 2020

## 2. Company Overview

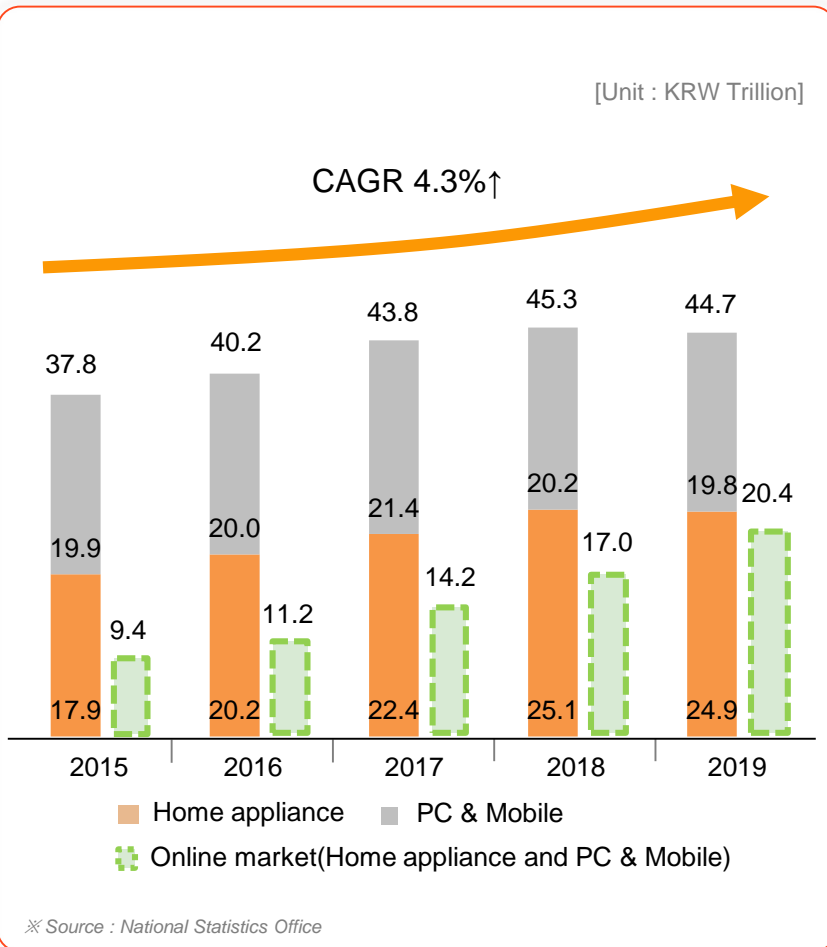
### Annual Performance and Number of Stores



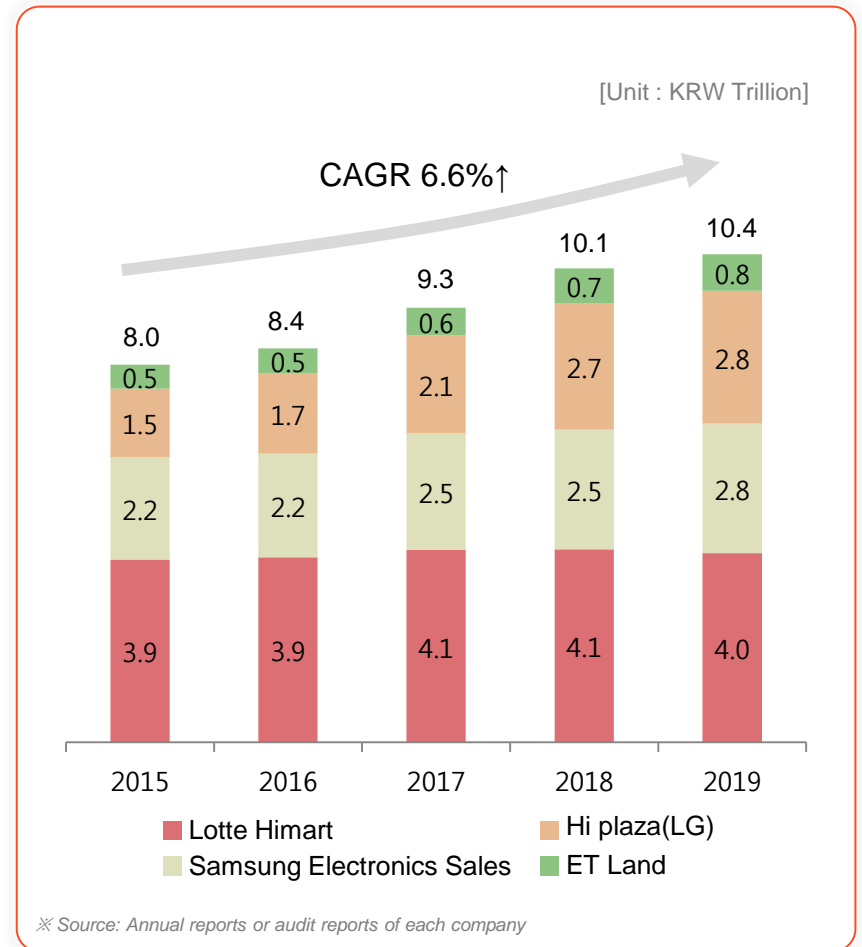
# 3. Operating Performance

## Domestic Home Appliance Market

### Scale of a Domestic Appliances Market



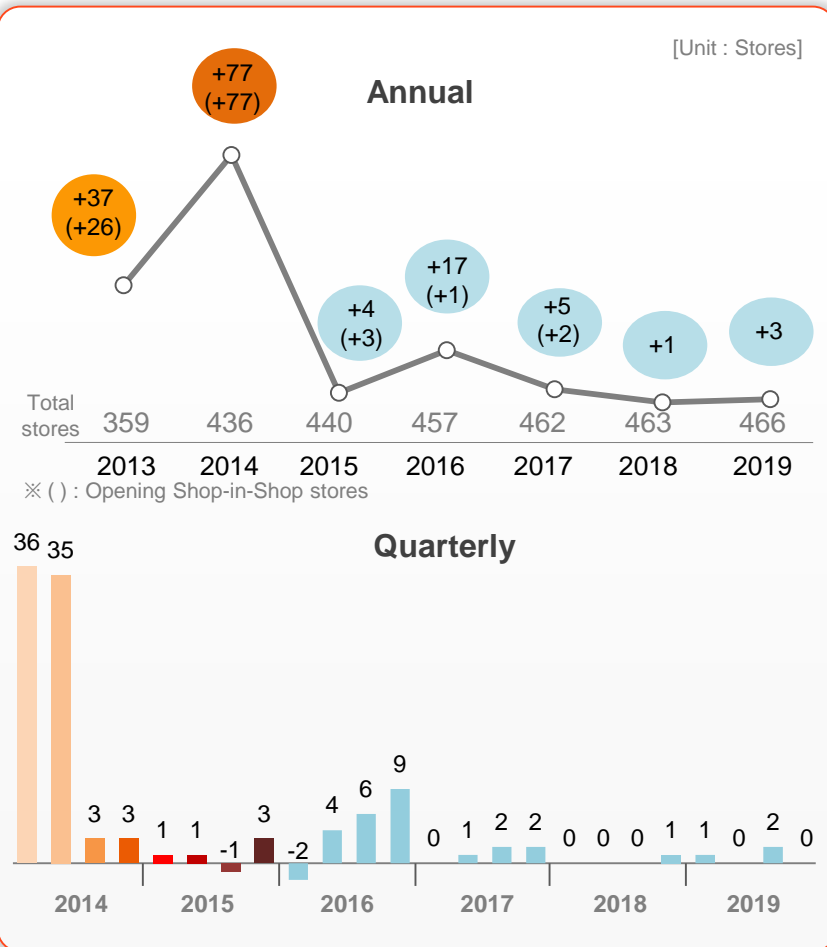
### Electronics Retailers Trend and Market Share



# 3. Operating Performance

## Current Status of Stores

### Number of New Stores



### Store Type

[Unit : Stores, ft<sup>2</sup>]

Category	Stand-alone Store	Shop-in-shop Store (Lotte Hypermarket etc.)
Store Count	362	107
Square Footage	11,400	10,000
Location	Residential Area	Commercial Area

\*Square Footage : Operating Area

※ End of Mar.2020



Stand-alone store

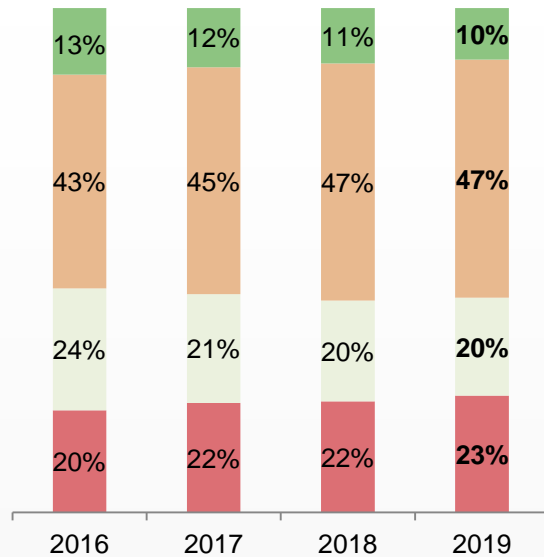


Shop-in-shop store

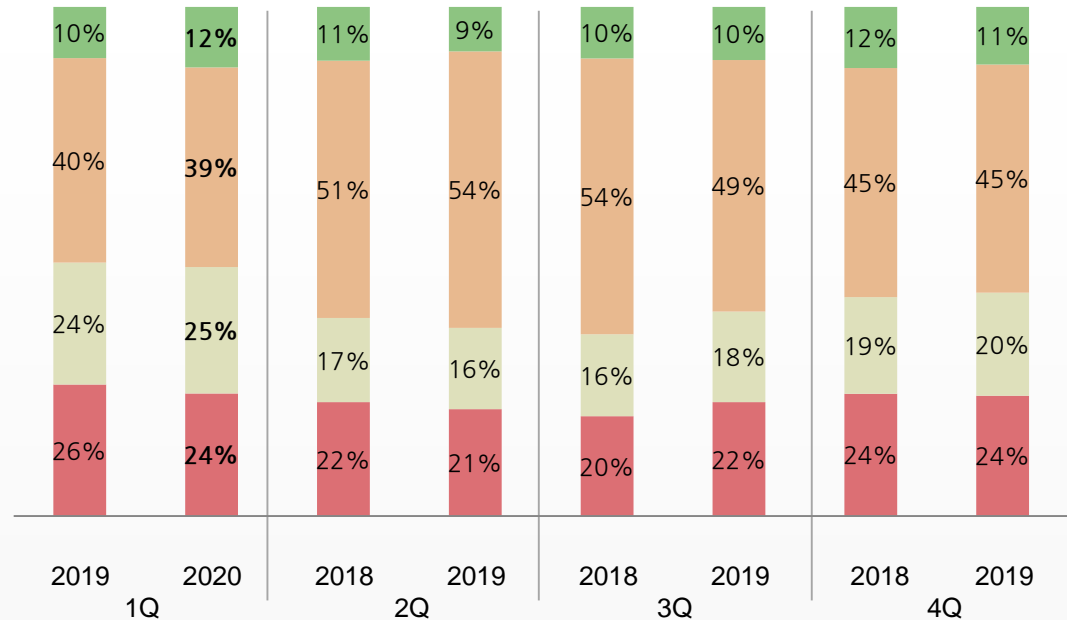
# 3. Operating Performance

## Segment's Revenue Mix Percentages

### Annual



### Quarterly ('18.2Q ~ '20.1Q)



- 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	19.1Q			19.2Q			19.3Q			19.4Q			20.1Q		
		%	yoy		%	yoy		%	yoy		%	yoy		%	yoy
Sales	1,037	100%	8.9%	1,071	100%	-1.5%	984	100%	-11.6%	935	100%	-2.6%	925	100%	-10.8%
Gross profit	239	23.0%	-1.0%	285	26.6%	-4.3%	254	25.9%	-15.8%	223	23.8%	-4.0%	223	24.1%	-6.4%
Operating expense	214	20.7%	7.4%	239	22.3%	3.6%	221	22.5%	-6.9%	217	23.2%	-0.9%	204	22.0%	-4.9%
Labor	68	6.5%	11.4%	71	6.6%	7.6%	68	6.9%	2.8%	67	7.2%	-0.3%	66	7.1%	-2.8%
Rent	9	0.9%	-68.5%	8	0.7%	-73.7%	8	0.8%	-75.0%	8	0.8%	-78.2%	6	0.7%	-35.9%
Depreciation	31	3.0%	157.6%	32	3.0%	167.4%	32	3.3%	169.1%	40	4.3%	241.2%	35	3.8%	11.7%
Adv. & Promotion	17	1.7%	7.5%	18	1.7%	-2.1%	16	1.6%	-5.5%	16	1.7%	-15.9%	15	1.6%	-13.9%
Payment commission	47	4.5%	12.9%	49	4.6%	6.9%	47	4.8%	-0.3%	47	5.1%	4.9%	45	4.8%	-4.3%
Shipping cost	24	2.3%	5.7%	25	2.3%	-5.3%	26	2.7%	-3.1%	26	2.8%	-2.0%	23	2.5%	-1.3%
Installation	6	0.6%	54.2%	24	2.2%	18.1%	13	1.4%	-48.5%	2	0.2%	-29.5%	4	0.4%	-39.1%
Others	12	1.1%	-6.4%	12	1.2%	0.1%	11	1.1%	-8.7%	10	1.1%	-4.7%	10	1.1%	-13.7%
Operating income	24	2.3%	-41.3%	46	4.3%	-31.5%	33	3.4%	-48.4%	6	0.7%	-52.9%	20	2.1%	-19.6%
Income before tax	20	1.9%	-48.7%	42	3.9%	-35.2%	28	2.9%	-55.5%	-174	-18.7%	326.5%	15	1.6%	-26.3%
Net income	15	1.5%	-48.4%	32	3.0%	-35.2%	21	2.2%	-55.4%	-169	-18.1%	301.5%	11	1.2%	-26.1%
Stores	464		0.4%	463		0.2%	465		0.4%	466		0.6%	469		1.1%

## 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%	3.8%	3,939	100%	1.1%	4,099	100%	4.1%	4,113	100%	0.3%	4,026	100%	-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 expense	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 tax	143	3.7%	15.1%	163	4.1%	13.5%	199	4.9%	22.4%	127	3.1%	-36.2%	-84	-2.1%	-166.1%
Net income	107	2.7%	10.5%	121	3.1%	13.9%	148	3.6%	22.2%	85	2.1%	-42.4%	-100	-2.5%	-216.9%
Stores	440		0.9%	457		3.9%	462		1.1%	463		0.2%	466		0.6%

※ Fiscal 2015~2016 : Accounting Standard K-IFRS 1018, Fiscal 2017~2019 : Accounting Standard K-IFRS 1115

# 4. Financial Review

## Financial position and the Progression of Debt

### Summary of Balance Sheet

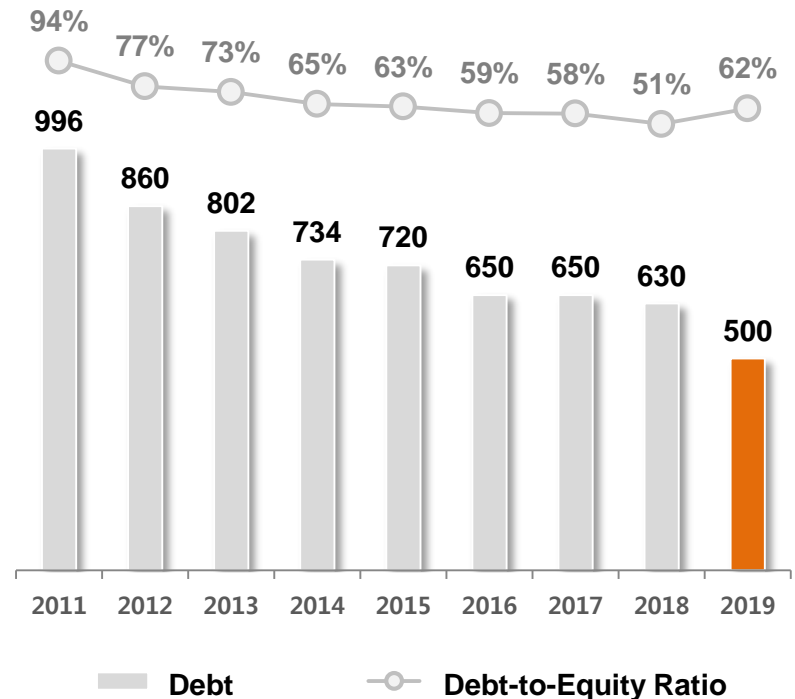
[Unit : KRW Billion]

Category	Endof2019	Mar.2020	YoY
<b>Total Assets</b>	3,108	3,200	3.0%
Current asset	716	812	13.4%
Cash and cash equivalents	50	87	74.4%
Non-current asset	2,392	2,388	-0.2%
<b>Total Liabilities</b>	1,186	1,292	9.0%
Current liabilities	590	848	43.8%
Non-current liabilities	596	444	-25.5%
<b>Borrowings</b>	500	500	0.0%
<b>Total Equity</b>	1,922	1,908	-0.7%
Issued capital	118	118	0.0%
<b>Debt-to-Equity (%)</b>	61.7%	67.7%	6.0%p

※ Including 297 billion(End of 2019), 294billion(Mar.2020) in lease liability (Accounting Standard K-IFRS 1116)

### Continuous Decrease of Debt

[Unit : KRW Billion]

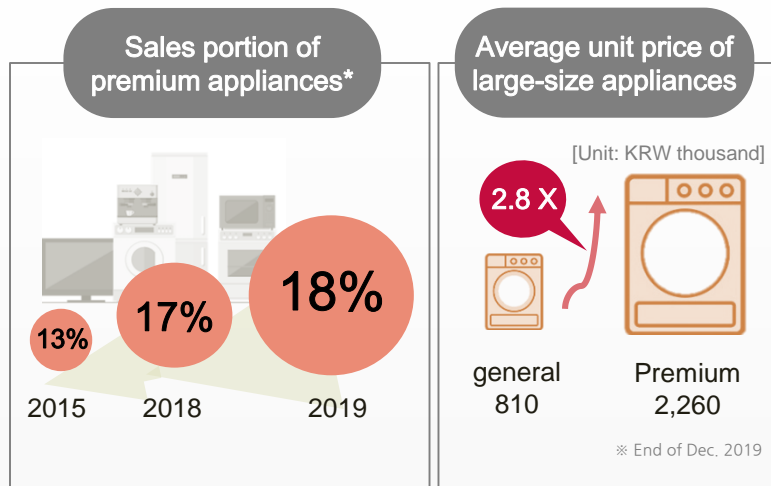


# 5. Business Strategy

## 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

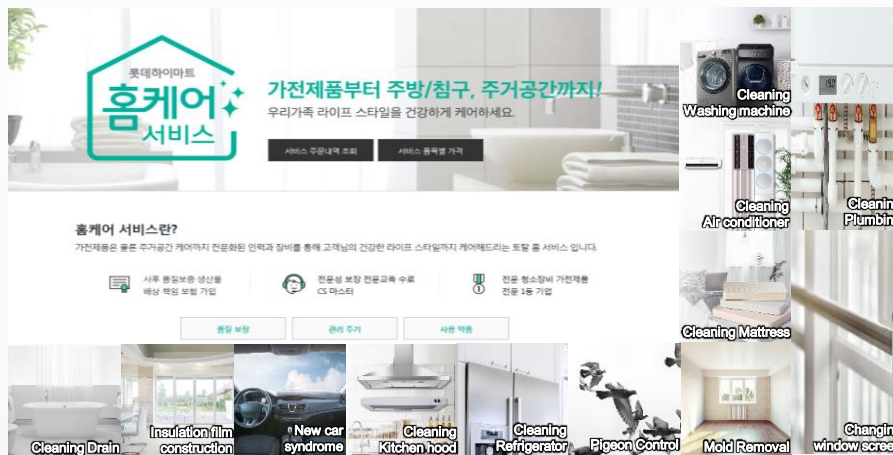
- \* Differentiate from the industry and attract customers by offering exclusive and differentiated products.
  - Improve brand awareness and enhance profitability by increasing PB products.
  - Strengthen merchandising by expanding global brands.



# 5. Business Strategy

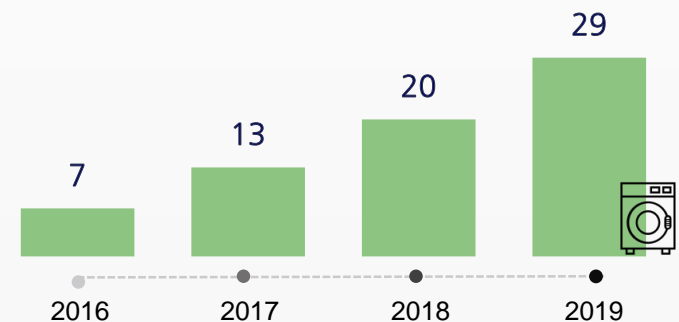
## Home-care Service

- \* 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



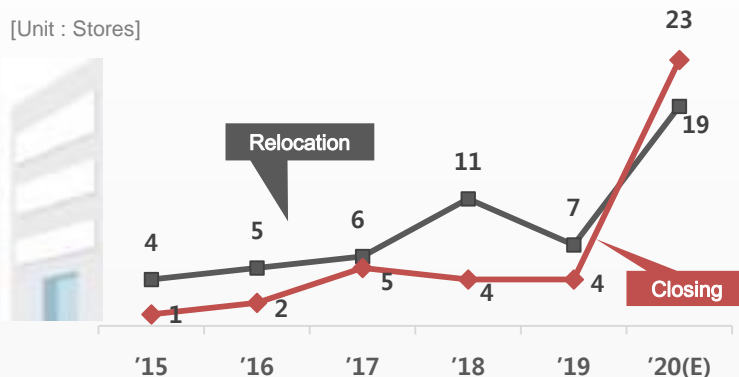
# 5. Business Strategy

## 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.

[Unit : Stores]



### ○ Diversifying Store Type

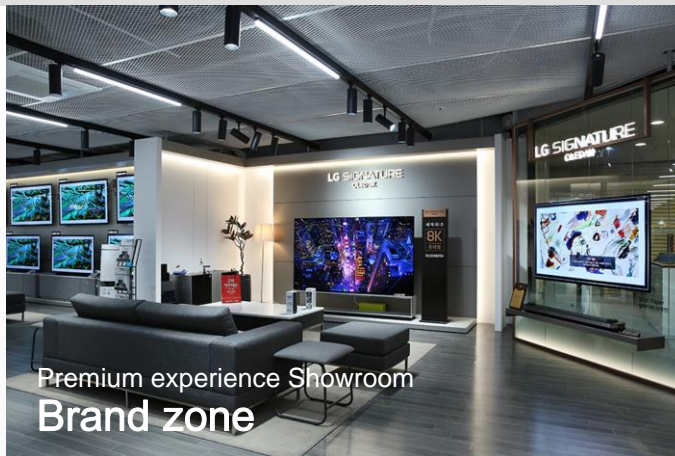
- \* Strengthening competitiveness of offline stores by improving customer experiences such as providing various contents which take advantage of offline channel.



# 5. Business Strategy

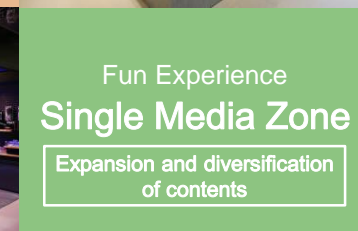
## Grand Opening First Mega Store Jamsil

- \* 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

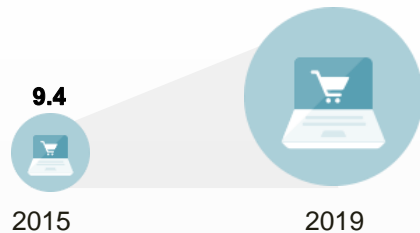
## HIMART Online business expansion ①

### Accelerate Online Channel Growth

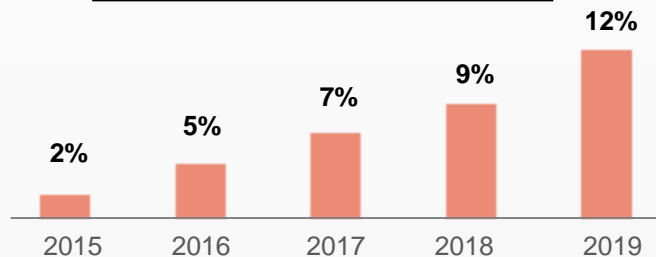
- \* Expanding online sales ratio/actively dealing with online market
- \* Reconstruction investment on HIMART online mall (Oct.2015)

#### Domestic Online Appliances Market

[Unit : KRW trillion]



#### HIMART Online Shopping Mall



※ Source : National Statistics Office, Internal

### Transformation into Home & Lifestyle mall

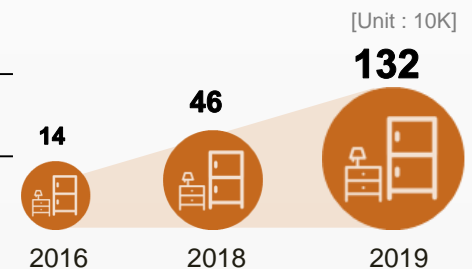
- \* Extending business scope by launching home interior that can generate synergy with home appliances
- \* Expanding popular items and Mall in Mall (non-electronic goods)
  - Online SKU : 460,000 (2018) → 1,320,000 (2019)

#### Expand product category



#### Expanding SKU for HIMART Online mall

※ SKU : Stock Keeping Unit

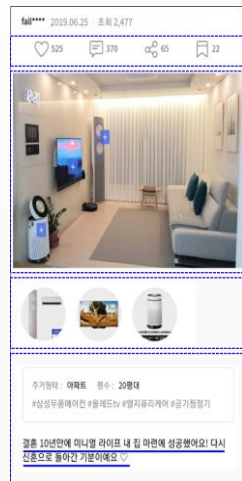
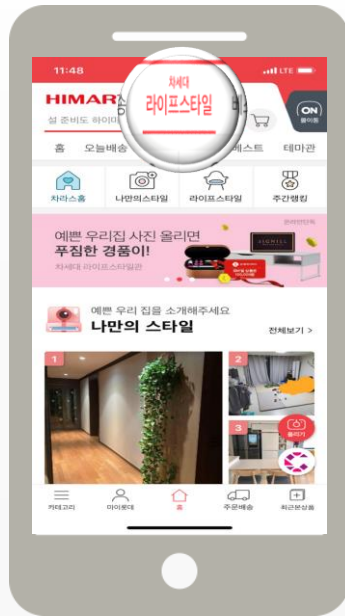


# 5. Business Strategy

## 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

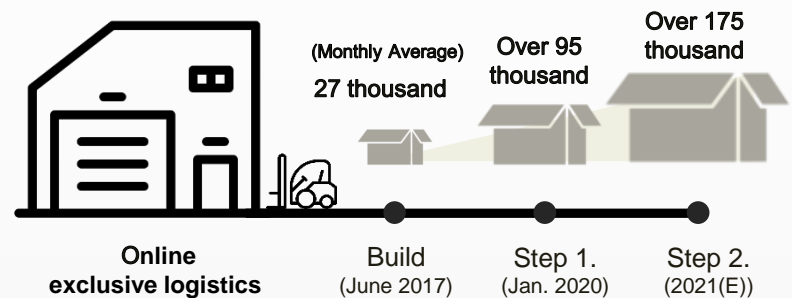


#### Designated day Delivery

Delivery and installation at the customer's designated day

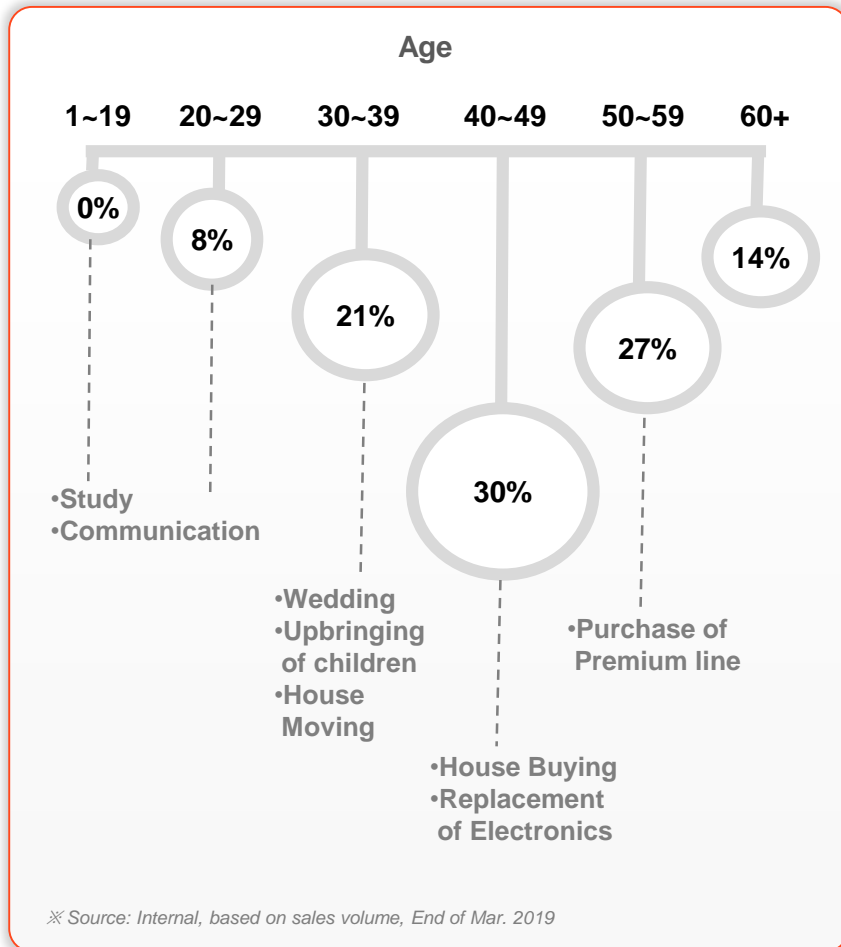
### ○ Improve customer shopping condition

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

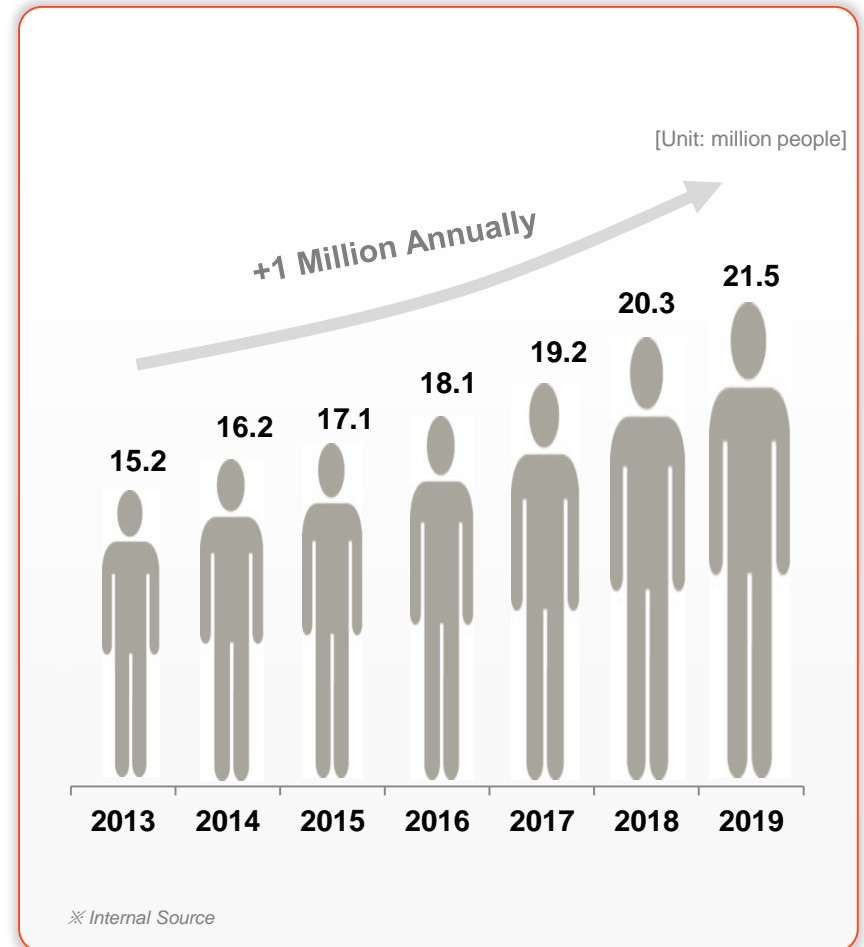


# \*Customer

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

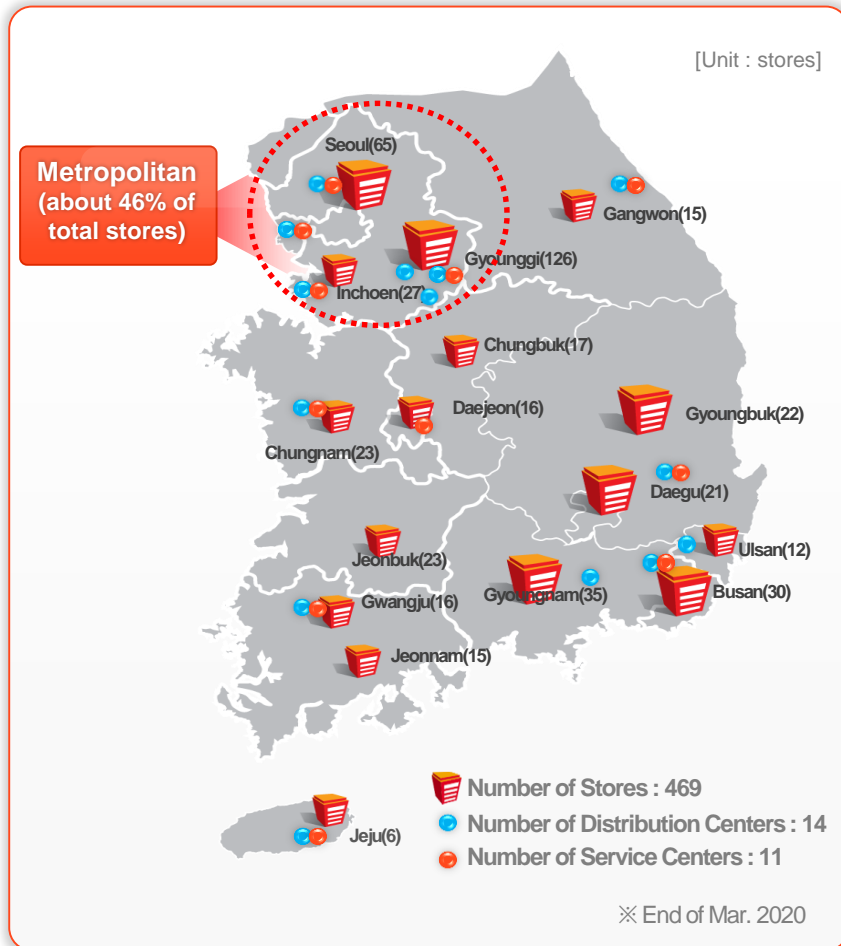


## ○ Growing Lotte Himart Members

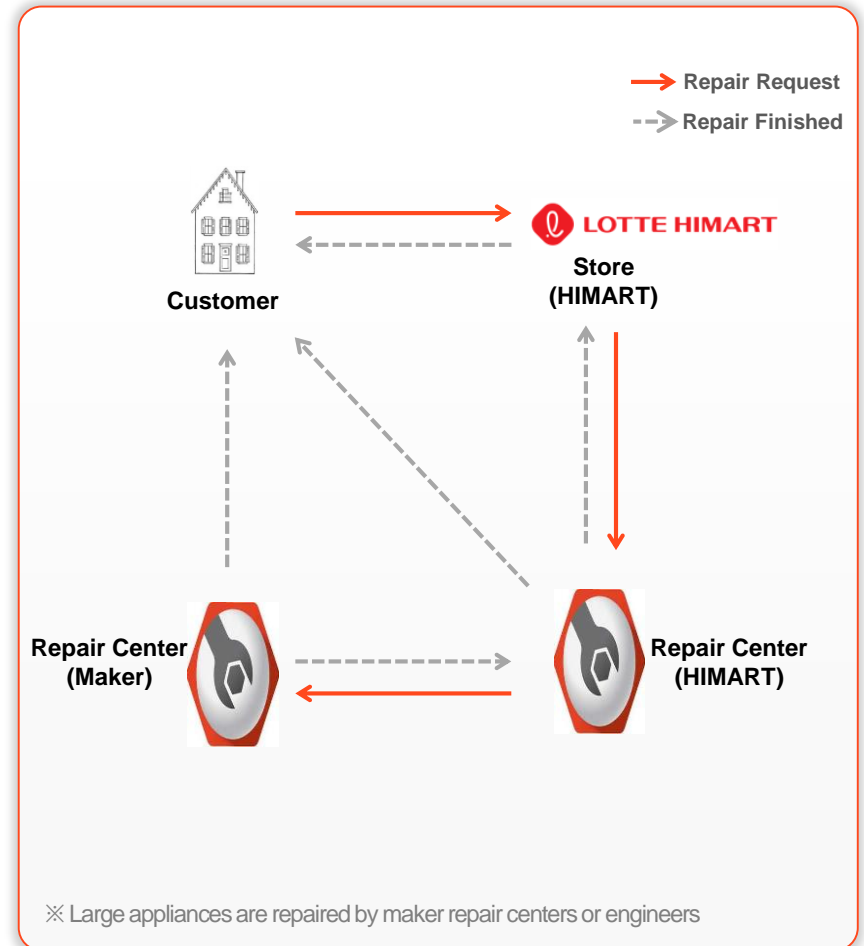


# \*Logistics and Repair Service

## ○ Nationwide Network



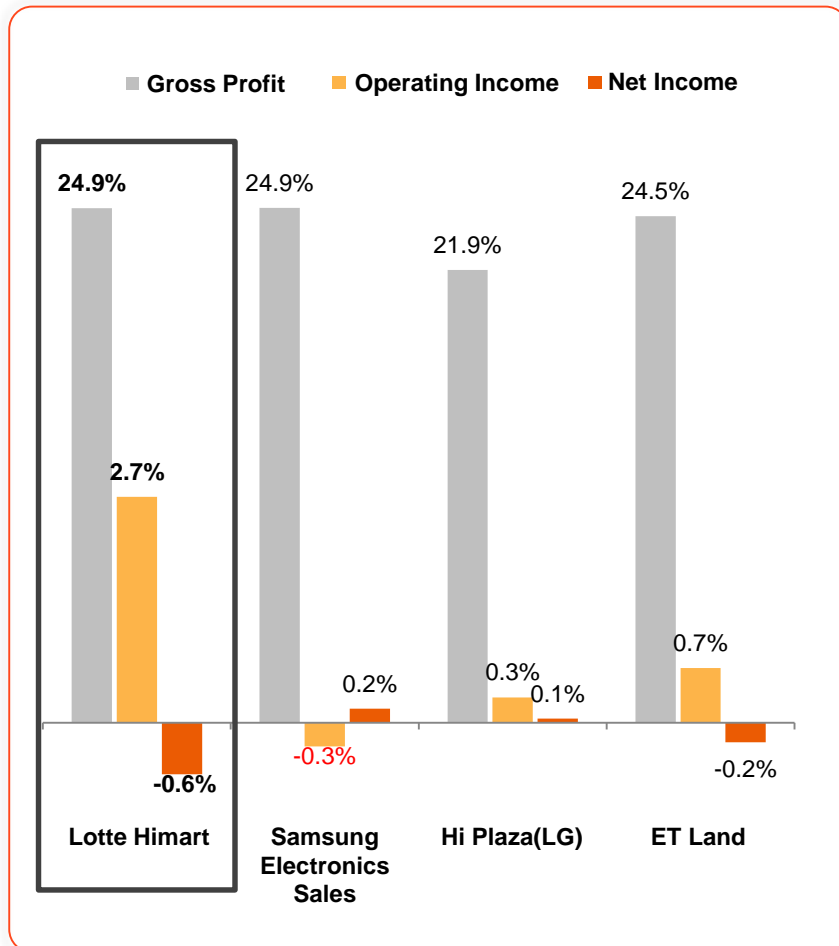
## ○ Electronics Repair Service (Small Appliances)



# \*Comparison of Competition

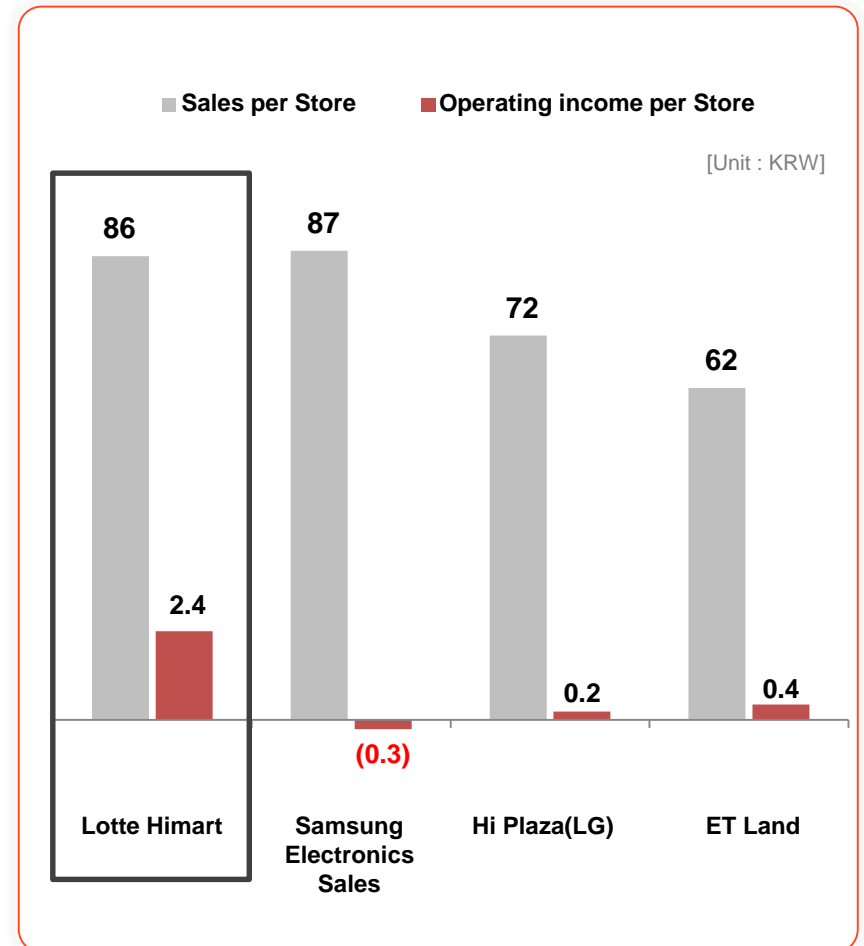
## Profitability and Efficiency

### o Competitive Profitability Ratio



※Source: 2019 annual reports or audit reports of each company

### o The No.1 Sales and Operating Profit per Store



※ Source: 2019 annual reports or audit reports of each company