

Lifetime **Value** Creator

LOTTE Himart Co., Ltd

1Q 2023 Earnings Release

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The financial information in this document is prepared based on the preliminary operating performance of individual financial standards prepared in accordance with Korean International Financial Reporting Standards (K-IFRS).

As this material has been prepared for the convenience of investors while the external auditor has not completed the accounting audit, some of the contents may be changed during the audit process.

Summary

1Q23 Revenue 0.6 trillion KRW (▲25.6%, YoY)

- Decline in household consumption sentiment due to continued high inflation and high interest rates (1Q23 interest rate 3.5%, +2.25%p YoY)
- Drop in demand for furnishings for moving homes / weddings due to a slowdown in real estate transactions (Cumulative total real estate transaction volume until February '23 ▲21.1% YoY, according to KOSTAT).

1Q23 Gross Profit 140 billion KRW (▲25.0%, YoY)

- Incurred one-off expenses related to excess inventory, amounting to ▲6.8 billion KRW
- Weak sales in high-margin product categories (large-sized, home/kitchen appliances) and increased sales contribution from low-margin product (IT appliances) categories (IT appliances portion : 30.8%, +2.0%p YoY)

1Q23 Operating Profit ▲26 billion KRW (continued deficit, YoY)

- The decrease in operating profit (▲46.5 billion KRW) exceeded the decrease in SG&A expenses (▲28.8 billion KRW).
- Operating profit excluding one-off expenses, amounts to ▲19.0 billion KRW.

1Q23 Net Income ▲18 billion KRW (continued deficit, YoY)

- Corporate tax refund and deductions amounted to 11.3 billion KRW (including a corporate tax refund of 4.5 billion KRW through a revised corporate tax claim and corporate tax deductions of 6.8 billion KRW).
- Non-operating income ▲3.6 billion KRW (Interest income 1.3 billion KRW, interest expenses ▲5.8 billion KRW, etc.)

**Key
Turn Around
Strategies**

*Strengthening existing
off-line store capabilities and
initiating improvements in MD*

*Reorganizing
the store network*

*Realigning
the online business
(Collaborating with
Lotte ON.)*

*Improving logistics
network and streamlining
product operation efficiency*

Summary of Financial Results

[Unit : KRW in 100 million]

Category	1Q22		1Q23		YoY		
		Ratio		Ratio		Composition	%
Revenue	8,412	100.0%	6,261	100.0%	▲2,151	-	▲25.6%
Gross Profit	1,860	22.1%	1,395	22.3%	▲465	+0.2p	▲25.0%
SG & A Expenses	1,942	23.1%	1,653	26.4%	▲288	+3.3p	▲14.8%
Operating Profit	▲82	▲1.0%	▲258	▲4.1%	▲176	▲3.2p	Continued Deficit
EBITDA	271	3.2%	59	0.9%	▲212	▲2.3p	▲78.4%
Profit Before Tax	▲93	▲1.1%	▲294	▲4.7%	▲201	▲3.6p	Continued Deficit
Net Profit	▲70	▲0.8%	▲181	▲2.9%	▲111	▲2.1p	Continued Deficit

Progress on Lotte Himart's Key Turn Around Strategies

1

Strengthening existing off-line store capabilities and initiating improvements in MD

1. Expanding the product lineup : Effective SKU (before) : 3,300

⇒ **✓** Effective SKU (at the End of 2023) : 4,100
 (※ Increasing the proportion of new products from 6% → 12%)

2. Introduce high-frequency content and improve customized MD by commercial district and store : 100 stores in '23-'24

Focusing MDs with strengths by reflecting product attributes and subdivision characteristics of commercial districts

Expanding MD deployment in customer living spaces such as kitchen, bathroom, living room, and more.

Introducing high-frequency contents with excellent customer appeal and redesigning the space to enhance customer traffic.

2

Reorganizing the store network

※ The status of store closures

[Unit : KRW in 100 million]

1Q 23		2Q 23 (E)	
# of closures	The vol. of the deficit	# of closures	The vol. of the deficit
12	▲24	15	▲32

※ The vol. of the deficit is based on FY 2022

※ Fostering high-quality stores in commercial districts near the closed stores!

Stores to be fostered	The absorp. customer rate from the closed stores
33	The target rate of ✓ 27% · Activate CRM marketing · Revamp MD



Progress of Lotte Himart's Key Turn Around Strategies

3

**Realigning
the online business
(Collaborating with
Lotte ON.)**

Selected as the 33 innovation tasks

⇒  Realigning the online strategic direction and discovering differentiating factors.

<i>Key triggers for customer appeal</i> (Offline display/sluggish inventory → Differentiation of online business)	Strengthening core competencies in direct purchase / company mall (Comparative purchasing)	Simultaneously implementing the customer life-cycle management program "On and OFF"	Improving the online profit management structure
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※ Continue to improve low-efficiency online sales promotion and advertisement

4

**Improving
logistics network
and Streamlining
product operation
Efficiency**

1. Initiate logistics efficiency improvement

: Initiating data verification ⇒  DC efficiency is scheduled to be completed within 3Q

2. Completion of inventory clearance within the first half of the year

: Target inventory of 25.9 billion KRW ⇒ Estimated total disposal loss of 8.5 billion KRW

(Q1 23: ▲6.8 billion KRW, Q2 23 (E) : ▲1.7 billion KRW)

※ PLC · Aging Rule Set implementation progress

: Total inventory, as of the end of March 2023, 517 billion KRW (▲115 billion KRW YoY)

MISSION

사랑과 신뢰를 받는
제품과 서비스를 제공하여
인류의 풍요로운 삶에 기여한다

We enrich people's lives by providing
superior products and services that
our customers love and trust

Summary of Income Statement

[Unit : KRW in 100 million]

Category	1Q22	2Q22	3Q22	4Q22	1Q23
Revenue	8,412	8,875	8,738	7,343	6,261
Gross Profit	1,860	2,107	2,027	1,593	1,395
SG & A Expenses	1,942	2,105	2,020	2,041	1,653
Labor Expenses	612	610	610	829	537
Commission expenses	484	487	482	412	402
Trans. & Installation expenses	263	370	351	237	206
Etc.	583	638	577	563	508
Operating Profit	▲82	3	7	▲448	▲258
Profit Before Tax	▲93	▲41	▲3,796	▲1,647	▲294
Net Profit	▲70	▲28	▲3,703	▲1,478	▲181

Summary of Balance Statement

[Unit: KRW in 100 million]

Category	1Q22	2Q22	3Q22	4Q22	1Q23
Total Assets	30,335	31,038	25,878	24,642	25,526
Current Assets	7,853	8,660	7,378	6,585	7,694
Cash & Cash Equivalent	615	1,603	1,175	1,020	2,014
Non-Current Assets	22,481	22,377	18,500	18,057	17,831
Tangible Assets	7,369	7,320	6,819	6,898	6,611
Goodwill	12,707	12,707	9,279	8,376	8,376
Total Liabilities	12,370	13,084	11,611	11,689	12,816
Current Liabilities	7,102	8,986	7,626	7,639	7,547
Short-term borrowings & bonds	1,393	4,096	3,099	3,899	3,400
Non-Current Liabilities	5,269	4,098	3,985	4,050	5,269
Long-term borrowings & bonds	3,395	2,319	2,329	2,338	3,694
Equity	17,964	17,954	14,267	12,953	12,710
Capital Stock	1,180	1,180	1,180	1,180	1,180

Store Operation Status

[Unit: Store]

Category	FY 2020	FY 2021	FY 2022				1Q 23
			1Q	2Q	3Q	4Q	
Total stores	448	427	422	418	407	391	379
<i>Net increase (YoY)</i>	<i>▲18</i>	<i>▲21</i>	<i>▲5</i>	<i>▲9</i>	<i>▲20</i>	<i>▲36</i>	<i>▲12</i>
Street stores	357	340	336	332	321	309	303
<i>Net increase (YoY)</i>	<i>▲3</i>	<i>▲17</i>	<i>▲4</i>	<i>▲8</i>	<i>▲19</i>	<i>▲31</i>	<i>▲6</i>
Shop-within-a-stores	91	87	86	86	86	82	76
<i>Net increase (YoY)</i>	<i>▲15</i>	<i>▲4</i>	<i>▲1</i>	<i>▲1</i>	<i>▲1</i>	<i>▲5</i>	<i>▲6</i>

Summary of Sales by Product Category

[Unit: KRW in 100 million]

Category	FY 2021		FY 2022			1Q22		1Q23		
		Ratio		Ratio (YoY)	YoY		Ratio		Ratio (YoY)	YoY
Revenue	38,697	100.0%	33,368	100.0%	▲13.8%	8,412	100.0%	6,261	100.0%	▲25.6%
Product Revenue	38,524	99.6%	33,166	99.4% (▲0.2p)	▲13.9%	8,374	99.5%	6,213	99.2% (▲0.3p)	▲25.8%
AV appliances	4,607	11.9%	4,141	12.4% (+0.5p)	▲10.1%	1,153	13.7%	796	12.7% (▲1.0p)	▲31.0%
White goods	18,619	48.1%	15,504	46.5% (▲1.6p)	▲16.7%	3,265	38.8%	2,473	39.5% (+0.7p)	▲24.3%
IT appliances	8,340	21.6%	7,570	22.7% (+1.1p)	▲9.2%	2,425	28.8%	1,928	30.8% (+2.0p)	▲20.5%
Home appliances	8,492	21.9%	7,169	21.5% (▲0.4p)	▲15.6%	1,890	22.5%	1,344	21.5% (▲1.0p)	▲28.9%
Etc. (Sales allowance)	▲1,533	▲4.0%	▲1,218	▲3.7% (+0.3p)	▲20.5%	▲360	▲4.3%	▲328	▲5.2% (▲0.9p)	8.6%
Other Revenue	173	0.4%	202	0.6% (+0.2p)	16.7%	38	0.5%	48	0.8% (+0.3p)	24.9%