

LOTTE Himart Co., Ltd

2Q 2023 Earnings Release

2023. 7. 18

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Summary

- **2Q 23 Revenue 680 billion KRW (▲23.4%, YoY), 1H 23 1,306 billion KRW (▲24.5%, YoY)**
 - Sales continued to decline due to economic recession, but same-store growth rate gradually improved (January ▲27.4% → June ▲8.7%)
 - Reorganizing cost-dependent online business
- **2Q 23 Gross profit 184 billion KRW (▲12.6%, YoY), 1H 23 324 billion KRW (▲18.4%, YoY)**
 - Inventory consolidation and margin structure improvement → Gross profit margin increase
(2Q Gross profit rate 23.7% in 2022 → 27.1% in 2023, YoY +3.4%p)
- **2Q 23 Operating Profit 7.8 billion KRW (+3,016.0%, YoY), 1H 23 ▲18 billion KRW (continued deficit, YoY)**
 - One-off expenses in 1H23 ▲9.5 billion KRW, operating profit in 1H23 excluding one-off expenses ▲8.5 billion, similar to 1H23

Long-term strategic direction based on
a stable profit and loss structure

“The No.1 home appliance purchase and life care service”

1

Close to life
Store MD
reorganization

2

Customer lifetime care
Home total care
service

3

Reinforcing selection diversity
Reinforcing PB
development

4

ON Line
Differentiated Biz
reorganization

Strong efforts to improve the business structure in the first quarter

→ Turn to profit in operating profit in the second quarter!

[Unit : KRW in 100 million]

FY 23	1Q		2Q	
		YoY		YoY
Revenue	6,261	▲25.6%	6,797	<u>▲23.4%</u>
Gross Profit	1,395	▲25.0%	1,841	▲12.6%
[Ratio]	[22.3%]	[+0.2p]	[<u>27.1%</u>]	[+3.4p]
SG&A Expenses	1,653	▲14.8%	1,763	▲16.2%
[Ratio]	[26.4%]	[+3.3p]	[<u>25.9%</u>]	[+2.2p]
Operating Profit	▲258	▲176	<u>78</u>	+76
[Ratio]	[<u>▲4.1%</u>]	[<u>▲3.2p</u>]	[<u>1.2%</u>]	[+1.2p]
Profit Before Tax	▲294	▲201	23	+65
Net Profit	▲181	▲111	22	+50

“Store closures and online business reorganization”

- 1 OFF Line - Closure of irreparable store
- FY 22 ▲40 Stores, 1H 23 ▲24 Stores
- 2 ON Line - Suspension of sales of non-electronic appliances irrelevant to the nature of the business
- 3 OFF Line - Gradual improvement compared to the beginning of the year

FY 23 JAN~FEB	FY 23 MAR~APR	FY 23 MAY~JUN
<u>▲24.9%</u>	▲18.3%	<u>▲9.0%</u>

2Q 23 Operating profit improvement effect, Plans to continue efforts

Gross Profit Ratio **27.1%** (+3.4p)

SG & A Expenses Ratio **25.9%** (+2.2p)

1Q 23

- ✓ Laying the foundation for product operation
 - Aging-based product evaluation grade segmentation
 - Disposal of sluggish inventory (Loss 1Q ▲6 billion KRW)

- ✓ Relative SG&A cost ratio rises due to sales volume decline
But, efforts to improve the structure in the 1H 23
→ Effects expected in the 4Q 23

2Q 23

- ✓ Inventory stabilization-based Margin improvement
 - Inventory reduction and improvement
: Inventory amount at the end of 1H 23 decreased by 160 billion KRW compared to the end of FY22
 - Focus on new products with improved margins

Cost compression	One-time cost incurred
<ul style="list-style-type: none"> • Reorganization of service-related commission payments • Closures and staff reductions 	<ul style="list-style-type: none"> • Employee retirement consolation cost • Store closure fee

2H 23

- ✓ Gross profit improvement expected to continue
 - Focus on small and medium-sized home appliances with short purchase cycles
 - : Living/kitchen appliances and Mobile

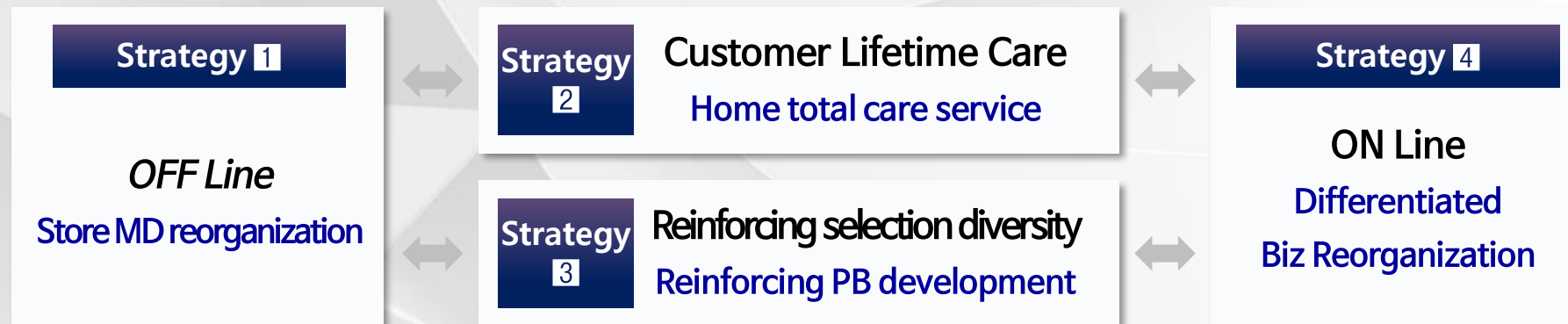
- ✓ 11 Logistics Center Operating Structure Innovation in Progress

<i>Innovation in operating structure</i>	Cost ↓ , Efficiency ↑
<i>Improvement of customer satisfaction</i>	Demand forecasting and ordering innovation → Reducing inventory shortages and delays in customer appointments

“In the second half, considering the overall economic downturn, focus on detailed management!”

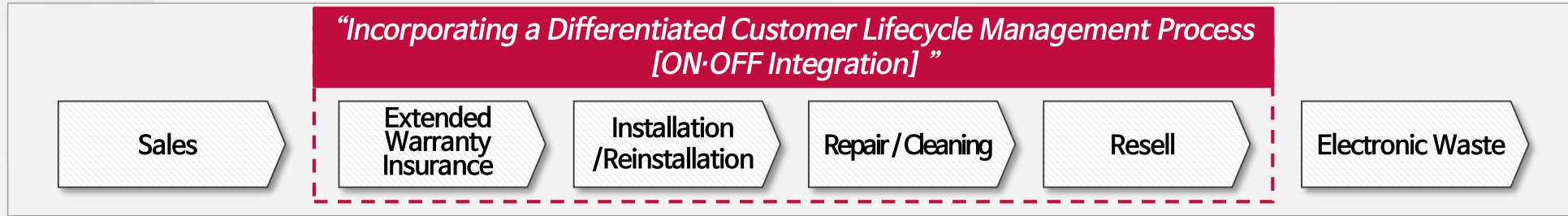
[Long-term direction: Restoring Korea's top home appliance distribution status!]

“The best company that comes to mind first when customers purchase home appliances or care services”



Circulation structure in which ON and OFF experiences are connected

Beyond Electronics Sales, 'Customer Lifetime Care Specialist'



Strategy 1. OFF Line Store MD reorganization

Assortment and functional enhancement MD

Expansion of Trendy New Product Contents

Introduction of customer lifetime care and home total care service

Layout improvement for comparison and purchase in the distribution industry

"Sales growth and turn acceleration"

4 Stores test in 1H 23
About +20% improvement ⇒

*By the end of FY24
 Plans to invest in
 100 stores*

Strategy 2. Customer Lifetime Care "Home total care service"

ON-OFF linked counseling matching product & service purchase cycle



Cheongnyangni Lotte Mart
 1st store opened (4/28)
 → 6 stores completed as of July

CRM System supplementation and simultaneous reorganization of ON Line in progress

Strategy 3. Reinforcing selection diversity Reinforcing PB development

Made by 롯데하이마트 **HIMADE**

*Average growth in the 20% range since 2020,
continued growth in the 1H 23*

Customers who value cost-effectiveness,
prepare alternatives

- 1 In-depth research on customers and markets
- 2 Systematize item strategy
- 3 Core Factory Reinforcement
- 4 Brand Development

⇒ *Systematization expected to be completed
within this year*

Strategy 4. ON Line Differentiated Biz Reorganization

“Escape from exhausting price competition
→ Transition to differentiated contents”

*Stop selling non-electronic appliances that are not
related to the essence of the business*

Preparing Hi-Mart's differentiated contents

- 1 Securing a leader specializing in online business
 - Start LOTTE ON Collaboration Project (March~)
 - Recruitment of LOTTE ON professionals (May)
- 2 Differentiated OMNI Implementation

strengths
of offline

- Inventory Control by Aging
- Home Total Care



**Strengthen online
business**
[Customer lifecycle
management]

⇒ *Scheduled to open the first shopping mall
reorganization within the year!*

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 Financial Results

[Unit : KRW in 100 million]

Category	2Q 22		2Q 23			1H 22		1H 23		
		Ratio		Ratio	YoY		Ratio		Ratio	YoY
R e v e n u e	8,875		6,797		▲23.4%	17,287		13,057		▲24.5%
Gross Profit	2,107	23.7%	1,841	27.1% (3.4p)	▲12.6%	3,967	22.9%	3,236	24.8% (1.9p)	▲18.4%
SG&A Expenses	2,105	23.7%	1,763	25.9% (2.2p)	▲16.2%	4,046	23.4%	3,416	26.2% (2.8p)	▲15.6%
Operating Profit	3	0.0%	78	1.2% (1.2p)	3,016.0%	▲79	▲0.5%	▲180	▲1.4% (▲0.9p)	Continued Deficit
E B I T D A	356	4.0%	392	5.8%	10.0%	627	3.6%	450	3.4%	▲28.2%
Profit Before Tax	▲41	▲0.5%	23	0.3%	Turn to profit	▲134	▲0.8%	▲270	▲2.1%	Continued Deficit
Net Profit	▲28	▲0.3%	22	0.3%	Turn to profit	▲98	▲0.6%	▲159	▲1.2%	Continued Deficit

Summary of Income Statement

[Unit : KRW in 100 million]

Category	2Q22	3Q22	4Q22	1Q23	2Q23
Revenue	8,875	8,738	7,343	6,261	6,797
Gross Profit	2,107	2,027	1,593	1,395	1,841
SG&A Expenses	2,105	2,020	2,041	1,653	1,763
Labor Expenses	610	610	829	537	563
Commission Expenses	487	482	412	402	392
Trans. & Installation Expenses	370	351	237	206	289
Etc.	638	577	563	508	519
Operating Profit	3	7	▲448	▲258	78
Profit Before Tax	▲41	▲3,796	▲1,647	▲294	23
Net Profit	▲28	▲3,703	▲1,478	▲181	22

Summary of Balance Statement

[Unit : KRW in 100 million]

Category		2Q22	3Q22	4Q22	1Q23	2Q23
Total Assets		31,038	25,878	24,642	25,526	24,642
	Current Assets	8,660	7,378	6,585	7,694	7,041
	Cash & Cash Equivalent	1,603	1,175	1,020	2,014	1,957
	Non-Current Assets	22,377	18,500	18,057	17,831	17,601
	Tangible Assets	7,320	6,819	6,898	6,611	6,425
	Goodwill	12,707	9,279	8,376	8,376	8,376
Total liabilities		13,084	11,611	11,689	12,816	11,891
	Current liabilities	8,986	7,626	7,639	7,547	6,932
	short-term borrowings & bonds	4,096	3,099	3,899	3,400	2,877
	Non-Current liabilities	4,098	3,985	4,050	5,269	4,959
	longt-term borrowings & bonds	2,319	2,329	2,338	3,694	3,457
Equity		17,954	14,267	12,953	12,710	12,751
	Capital Stock	1,180	1,180	1,180	1,180	1,180

Store Operation Status

[Unit : Store]

Category	FY 2021	FY 2022	FY 2023	
			1Q	2Q
Total stores	427	391	379	367
<i>Net increase (YoY)</i>	<i>▲21</i>	<i>▲36</i>	<i>▲12</i>	<i>▲24</i>
Street stores	340	309	303	298
<i>Net increase (YoY)</i>	<i>▲17</i>	<i>▲31</i>	<i>▲6</i>	<i>▲11</i>
Shop-within-a-stores	87	82	76	69
<i>Net increase (YoY)</i>	<i>▲4</i>	<i>▲5</i>	<i>▲6</i>	<i>▲13</i>

Summary of Sales by Product Category

[Unit : KRW in 100 million]

Category	2Q 22		2Q 23			1H 22		1H 23		
		Ratio		Ratio (YoY)	YoY		Ratio		Ratio (YoY)	YoY
Revenue	8,875	100.0%	6,797	100.0%	▲23.4%	17,287	100.0%	13,057	100.0%	▲24.5%
AV appliances	1,024	11.5%	816	12.0% (+0.5p)	▲20.3%	2,177	12.6%	1,612	12.3% (▲0.3p)	▲26.0%
White goods	4,600	51.8%	3,602	53.0% (+1.2p)	▲21.7%	7,866	45.5%	6,075	46.5% (+1.0p)	▲22.8%
IT appliances	1,667	18.8%	1,309	19.3% (+0.5p)	▲21.4%	4,092	23.7%	3,237	24.8% (+1.1p)	▲20.9%
Household Appliances	1,003	11.3%	760	11.2% (▲0.1p)	▲24.2%	1,940	11.2%	1,387	10.6% (▲0.6p)	▲28.5%
Kitchen Appliances	876	9.9%	688	10.1% (+0.2p)	▲21.4%	1,829	10.6%	1,406	10.8% (+0.2p)	▲23.2%
Etc.	▲295	▲3.3%	▲379	▲5.6% (▲2.3p)	▲28.4%	▲617	▲3.6%	▲659	▲5.0% (▲1.4p)	▲6.9%