

Lifetime **Value** Creator

LOTTE Himart Co., Ltd

Q3 2023 Earnings Release

2023. 11. 03

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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).

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Summary

Revenue decreased ▲16.9% YoY in Q3 to KRW 725.9B, ▲21.9% YoY in cumulative 2023 to KRW 2,031.6B)

- Sales continued to decline due to economic recession, store closures(Q3: ▲14 stores, cumulative 2023: ▲38 stores), improve e-commerce business, etc.
- But, existing stores (335 stores, 76% of total sales) growth rate gradually improve(Q1: ▲22.2% → Q2: ▲11.9% → Q3: ▲4.7%)

Gross profit increased slightly +2.6% YoY in Q3 to KRW 207.9B, decreased ▲11.3% YoY in cumulative 2023 to KRW 531.5B)

- Inventory consolidation and margin structure improvement based on new product grading systems (inventory decreased KRW 140B YoY in end of Q3)
- Improve gross margin contribution from high-margin product categories (kitchen/seasonal appliances, etc.) and PB categories (Q3-2022: 23.0% → Q3-2023: 26.2%, +3.2%p)

Operating profit surged +5,179.9% YoY in Q3 to KRW 36.2B, turned to profit YoY in cumulative 2023 to KRW 18.3B)

- Operating profit increased KRW +35.6B YoY in Q3, two consecutive QoQ profit(KRW 7.8B in Q2)
- Generated KRW 26.6B in one-time VAT refund revenue
(but, even excluding the one-time VAT refund revenue, operating profit increased KRW +9.0B YoY in Q3 to KRW 9.6B)

Continued execution of the mid long term strategies direction announced in Q2-2023

1

Redesigning
Offline Networks

2

Home Total Care
Service

3

Develop PB to Increase
Selection Diversity

4

E-Commerce
Differentiated Biz
based on Differentiated
Customer Experiences

Summary of Financial Results

[Unit : KRW in 100 million]

Category	For the three-month periods ended September 30								For the nine-month periods ended September 30				
	FY2022		FY2023			※ Exclude VAT refund revenue FY2023			FY2022		FY2023		
	Ratio	Ratio	Ratio	YoY	Ratio	YoY	Ratio	YoY	Ratio	Ratio	YoY		
Revenue	8,738		7,259		▲16.9%	6,983		▲20.1%	26,025		20,316		▲21.9%
Gross Profit	2,027	23.2%	2,079	28.6% (5.4p)	2.6%	1,803	25.8% (2.6p)	▲11.0%	5,994	23.0%	5,315	26.2% (3.2p)	▲11.3%
SG & A Expenses	2,020	23.1%	1,717	23.6% (0.5p)	▲15.0%	1,707	24.4% (1.3p)	▲15.5%	6,066	23.3%	5,133	25.3% (2.0p)	▲15.4%
Operating Profit	7	0.1%	<u>362</u>	5.0% (4.9p)	5,179.9%	<u>96</u>	1.4% (1.3p)	1,304.9%	▲72	▲0.3%	183	0.9% (1.2p)	Turn to profit
EBITDA	348	4.0%	664	9.1% (5.1p)	90.9%	398	5.7% (1.7p)	14.4%	975	3.7%	1,114	5.5% (1.8p)	14.3%
Profit Before Tax	▲3,796	▲43.4%	347	4.8% (48.2p)	Turn to profit	65	0.9% (44.3p)	Turn to profit	▲3,930	▲15.1%	77	0.4% (15.5p)	Turn to profit
Net Profit	▲3,703	▲42.4%	271	3.7% (46.1p)	Turn to profit	5	0.1% (42.5p)	Turn to profit	▲3,801	▲14.6%	112	0.5% (15.1p)	Turn to profit

Stabilisation of Profitability in Q2-Q3, Continued Efforts Going Forward!

Quarterly performance reviews

[Unit : KRW in 100 million]

	Category	Q1		Q2		Q3 (Exclude VAT refund revenue)	
			YoY		YoY		YoY
FY2023	Revenue	6,261	▲25.6%	6,797	▲23.4%	6,983	▲20.1%
	Gross Profit	1,395	▲25.0%	1,841	▲12.6%	1,803	▲11.0%
	[Ratio]	[22.3%]	[+0.2p]	[27.1%]	[+3.4p]	[25.8%]	[+2.6p]
	SG & A Expenses	1,653	▲14.8%	1,763	▲16.2%	1,707	▲15.5%
	[Ratio]	[26.4%]	[+3.3p]	[25.9%]	[+2.2p]	[24.4%]	[+1.3p]
	Operating Profit	▲258	▲176	78	+75	96	+90
	[Ratio]	[▲4.1%]	[▲3.1p]	[1.2%]	[+1.2p]	[1.4%]	[+1.3p]
FY2022	Revenue	8,412	▲12.0%	8,875	▲10.2%	8,738	▲16.0%
	Gross Profit	1,860	▲16.7%	2,107	▲14.7%	2,027	▲23.7%
	[Ratio]	[22.1%]	[▲1.2p]	[23.7%]	[▲1.2p]	[23.2%]	[▲2.3p]
	SG & A Expenses	1,941	▲1.7%	2,104	▲1.6%	2,020	▲5.9%
	[Ratio]	[23.1%]	[+2.4p]	[23.7%]	[+2.1p]	[23.1%]	[+2.5p]
	Operating Profit	▲82	▲339	3	▲328	7	▲502
	[Ratio]	[▲1.0%]	[▲3.7p]	[0.0%]	[▲3.3p]	[0.1%]	[▲4.8p]

Improve Gross Profit

① Inventory stabilized based on "PLC, Aging" commodity valuation method

: inventory decreased KRW ▲140B YoY in end of September

② Standardisation of the products handled by business districts

: Strengthening of new products and high turnover product

③ Margin improvement through PB growth rate improvement (PB growth rate : about +10%)

Improve SG & A Expenses

① Improved marketing cost structure

② Reduce store operating costs

: Reduced rent and service costs, etc.

③ Improving the operational structures of logistics centers

: 2 DC center operations (integration of small and medium-sized distribution centers) → reduction of operating costs

Progress on Mid Long Term Strategies

1

Redesigning Offline Networks

Strengthen existing stores

- Increasing MD investment

[Unit: Store]

cumulative Q3-2023	year-end(E)
19	Around 50

⇒ **Sales per store improvement +33.6%**

※ Standardisation of the products handled by business districts, Improve layout, reinforcing the home centre

After closing an unviable store, transfer customers to an existing store

- The status of store closures

[Unit: Store]

3Q	cumulative Q3-2023
14	38

※ **38 Store closures: operating loss KRW ▲8.2B in cumulative 2022**

2

Home Total Care Service

Home Total Care Service Center

→ as of the end of October: 25 stores



Appliance and Home Cleaning, Extended Warranty, Relocation, Repair, etc.

⇒ **Quadrupled the number of service customers, Linked to the MD reorganisation investment: around 50 stores at the end of 23**

1st

Improve offline service quality

Expanding the number of Home Total Care service centres

: Adopting a CRM for lifetime care

2nd

Extending service online

Evolving to a video consultation service

Progress on Mid Long Term Strategies

3

Develop PB to Increase Selection Diversity

- ✓ Q3 PB revenue growth of 7.5%, cumulative growth of 8.5% in 2023
- ✓ Working on rebranding to improve PB(HIMADE) awareness
 - ① Systematize item strategy ② Core factory reinforcement
 - ③ Design, DP concept redesign ④ Strengthen marketing strategy

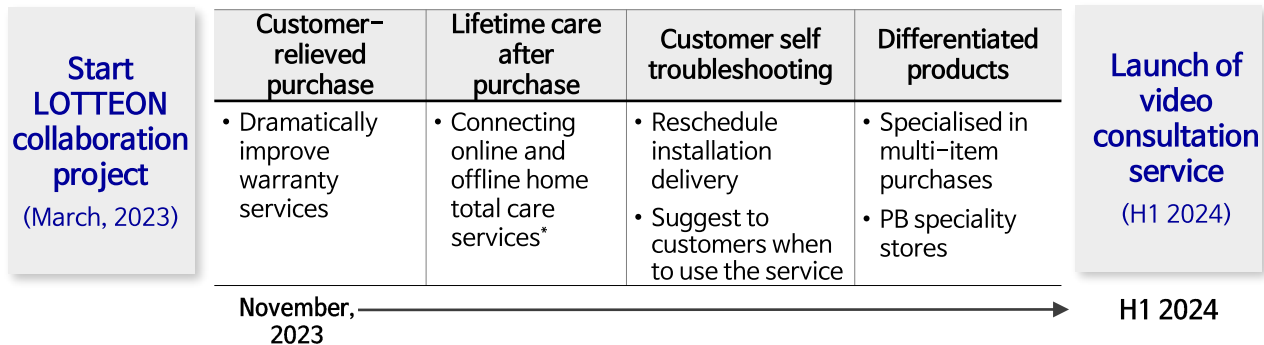


PB renewal drives rebranding strategy in 2024

4

E-Commerce Differentiated Biz based on Differentiated Customer Experiences

- ✓ [~2022] · Sales-driven businesses with high promotion costs : Deficit business
- ✓ [2023] · Stop selling non-electronic appliances that are not related to the essence of the business : Revenue reduction (▲44.8%)
 - Stop inefficient promotions : Deficit reduction
 - Business reorganisation based on differentiated 'customer-centric values'



*Repair, Cleaning, Extended Warranty, Relocation, etc.

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	FY 2022		FY 2023		
	Q3	Q4	Q1	Q2	Q3
Revenue	8,738	7,343	6,261	6,797	7,259
Gross Profit	2,027	1,593	1,395	1,841	2,079
SG & A Expenses	2,020	2,041	1,653	1,763	1,717
Labor expenses	610	829	537	563	552
Commission expenses	482	412	402	392	383
Trans. & Installation expenses	351	237	206	289	286
Etc.	577	563	508	519	495
Operating Profit	7	▲448	▲258	78	362
Profit Before Tax	▲3,796	▲1,647	▲294	23	347
Net Profit	▲3,703	▲1,478	▲181	22	271

Summary of Balance Statement

[Unit : KRW in 100 million]

Category	FY 2022		FY 2023		
	Q3	Q4	Q1	Q2	Q3
Total Assets	25,878	24,642	25,526	24,642	24,338
Current Assets	7,378	6,585	7,694	7,041	7,050
Cash & cash equivalent	1,175	1,020	2,014	1,957	2,512
Non-Current Assets	18,500	18,057	17,831	17,601	17,288
Tangible assets	6,819	6,898	6,611	6,425	6,240
Goodwill	9,279	8,376	8,376	8,376	8,376
Total liabilities	11,611	11,689	12,816	11,891	11,306
Current Liabilities	7,626	7,639	7,547	6,932	6,406
Short-term borrowings & bonds	3,099	3,899	3,400	2,877	2,884
Non-Current Liabilities	3,985	4,050	5,269	4,959	4,900
Long-term borrowings & bonds	2,329	2,338	3,694	3,457	3,473
Equity	14,267	12,953	12,710	12,751	13,032
Capital stock	1,180	1,180	1,180	1,180	1,180

Store Operation Status

[Unit: Store]

Category	FY 2021	FY 2022	FY 2023		
			Q1	Q2	Q3
Total stores	427	391	379	367	353
<i>Net increase (YoY)</i>	▲21	▲36	▲12	▲24	▲38
Street stores	340	309	303	298	289
<i>Net increase (YoY)</i>	▲17	▲31	▲6	▲11	▲20
Shop-within-a-stores	87	82	76	69	64
<i>Net increase (YoY)</i>	▲4	▲5	▲6	▲13	▲18

Summary of Sales by Product Category

[Unit : KRW in 100 million]

Category	Q3 2022	Ratio	Exclude VAT refund revenue			Cumulative Q3 2022	Ratio	Cumulative Q3 2023	Ratio (YoY)	YoY
			Q3 2023	Ratio (YoY)	YoY					
Revenue	8,738	100.0%	6,983	100.0%	▲20.1%	26,025	100.0%	20,316	100.0%	▲21.9%
AV appliances	1,008	11.5%	857	12.3% (+0.8p)	▲15.0%	3,185	12.2%	2,469	12.2% (-)	▲22.5%
White goods	4,495	51.4%	3,691	52.9% (+1.5p)	▲17.9%	12,361	47.5%	9,766	48.1% (+0.6p)	▲21.0%
IT appliances	1,691	19.3%	1,303	18.7% (▲0.6p)	▲22.9%	5,782	22.2%	4,541	22.4% (+0.2p)	▲21.5%
Household appliances	928	10.6%	706	10.1% (▲0.5p)	▲23.9%	2,868	11.0%	2,093	10.3% (▲0.7p)	▲27.0%
Kitchen appliances	873	10.0%	707	10.1% (+0.1p)	▲19.0%	2,702	10.4%	2,113	10.4% (-)	▲21.8%
Etc.	▲257	▲2.9%	▲281	▲4.0% (▲1.1p)	9.3%	▲874	▲3.4%	▲666	▲3.3% (+0.1p)	▲23.8%