

2020Y Business Results

2021.02.24 | Investor Relations



Disclaimer

The aim of this document is to provide practical assistance to shareholders and potential investors by reporting the recent performance and business status of LOTTE Confectionery and its major subsidiaries.

LOTTE Confectionery uses the Korean version of International Financial Reporting Standards (K-IFRS).

This document includes the prospects and judgements of LOTTE Confectionery, based on recent business circumstances.

In practice, adjustments can be made due to the likes of changes in the business environment or modifications to our strategy.

Nothing in this document shall be considered evidence of legal responsibility towards investors nor as a solicitation to invest.

We kindly remind you that LOTTE Confectionery accepts no responsibility for the actions of any third party

acting on the information provided in this document.

Feb 24, 2021

Lotte Conf. IR Team

Lotte Conf. News

Lotte Conf. officially opened its own online mall with differentiated content on Jan 22nd.

The following services are available : regular snack subscription service, introduction to new snacks, “newtro” packages, and a gift function that allows customers to send products to contacts despite not knowing the recipient's address.

Next, we plan to launch a mobile app and expand online sales not only of confectionery but also ice cream.



<https://lottesweetmall.com/>



2020Y Business Results Review

A horizontal banner with a blurred background of several bright red tomatoes. The text is overlaid on the right side of the banner.

Sharing good food
and making the world a better place.

2020Y Financial Highlights

[Parent] Domestic sales remained at the previous year's level. We significantly improved our operating profit through profitability-oriented management.
 [Consolidated] Operations in India and Belgium were affected by the Covid-19 pandemic. But, overall operating profit has risen compared to the previous year thanks to a strong defense from operations in other countries and the influence of domestic businesses.

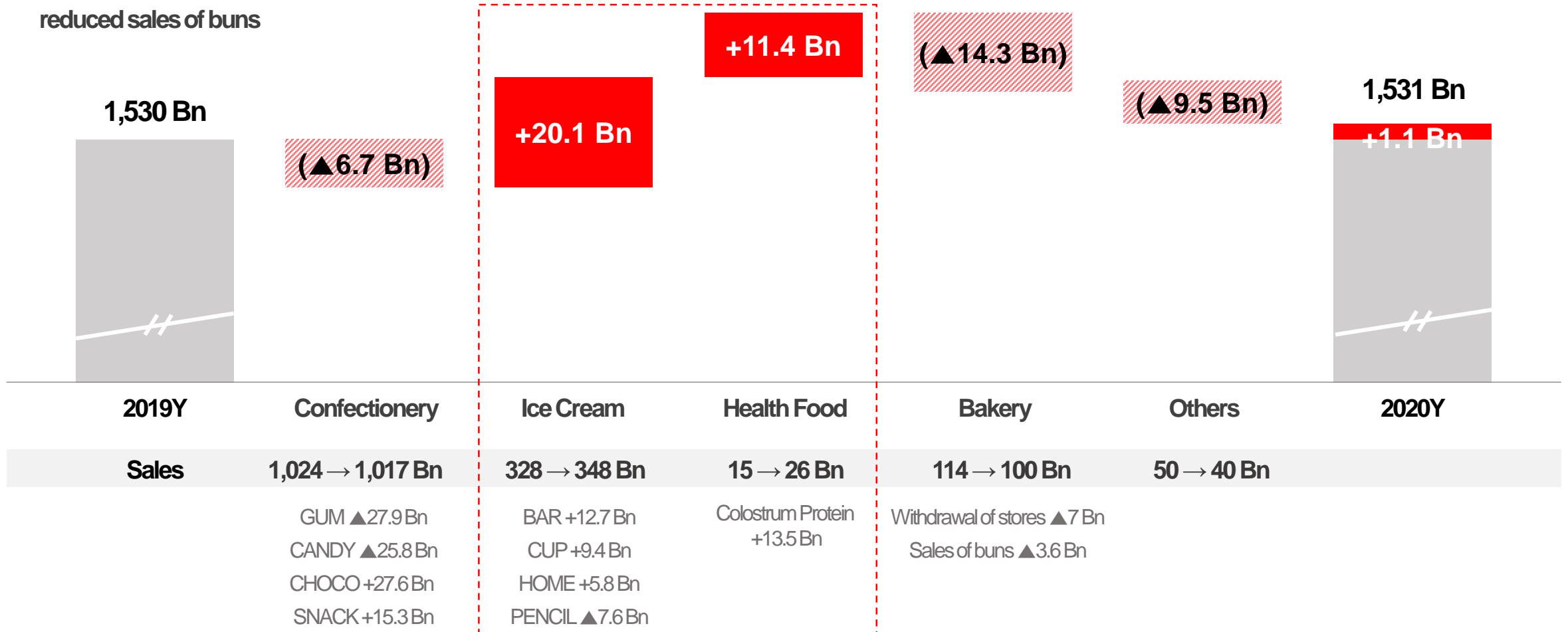
		2019Y	2020Y	(YoY)	Issue comment
Parent	Sales	1,530 Bn	1,531 Bn	1 Bn +0.1%	· Confectionery and bakery sales decreased, but total sales stayed at the previous year's level thanks to increased sales of ice cream and health food.
	Operating Profit	64 Bn	87 Bn	23 Bn +36.3%	· Advertising costs increased, but rose via management efficiency improvements, such as cost-cutting measures.
	OP%	4.2%	5.7%	+1.5%P	· Margin improved significantly thanks to a focus on profitability at major businesses (confectionery / ice cream).
Consolidated	Sales	2,093 Bn	2,076 Bn	▲17 Bn (▲0.8%)	· Add new corporation in 2020 (Lotte Corp → Lotte Conf) - Sales 58 Bn, OP 1 Bn.
	Operating Profit	97 Bn	113 Bn	15 Bn +15.7%	· Covid-19 hurt OP in India (Ice Cream)/Belgium/Singapore. · Despite Covid-19, OP improved in Pakistan/Kazakhstan/Myanmar/Russia/China.
	OP%	4.7%	5.4%	+0.7%P	

2020Y Financial Highlights (Parent) | Sales

[Confectionery] Though sales of gum and candy fell due to the Covid-19 pandemic (which resulted in the wearing of masks and fewer outdoor excursions), the drop in sales was mitigated by the launch of new chocolate and snack products.

[Ice Cream] Ice cream sales improved as more people consumed ice cream at home and the number of ice cream specialty stores rose.

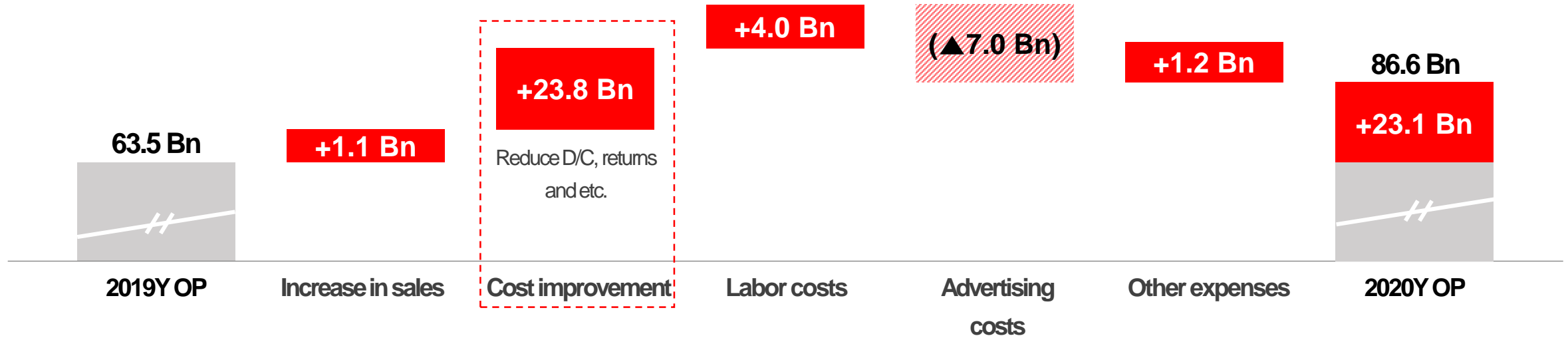
[Health Food] New product “Colostrum Protein 365” contributed heavily to a large rise in health food sales. [Bakery] Effects of the withdrawal of stores and reduced sales of buns



2020Y Financial Highlights (Parent) | Operating Profit

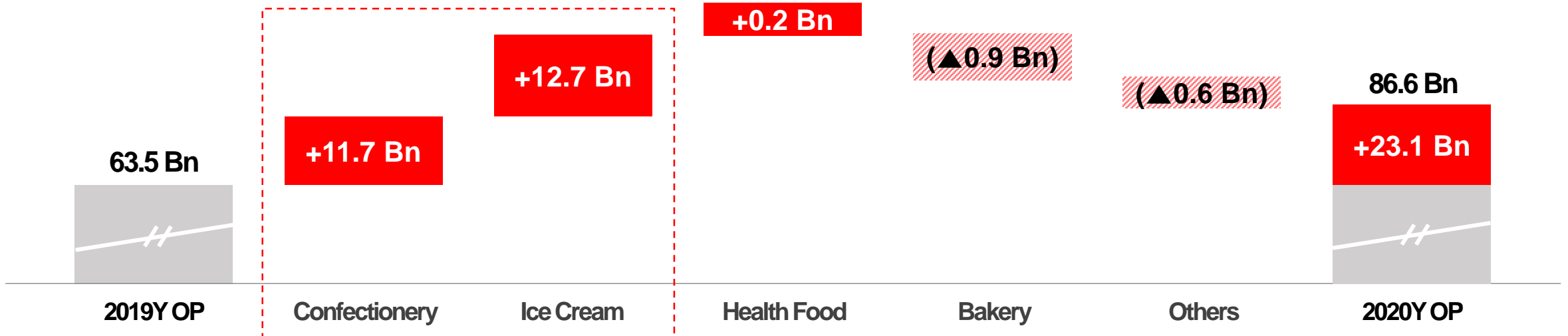
Activity

We significantly improved costs through profitability-oriented activities and expanded advertising expenses for promoting the brand.



Department

We significantly improved profitability in our main business (Confectionery/Ice Cream). Health Food is also improving.

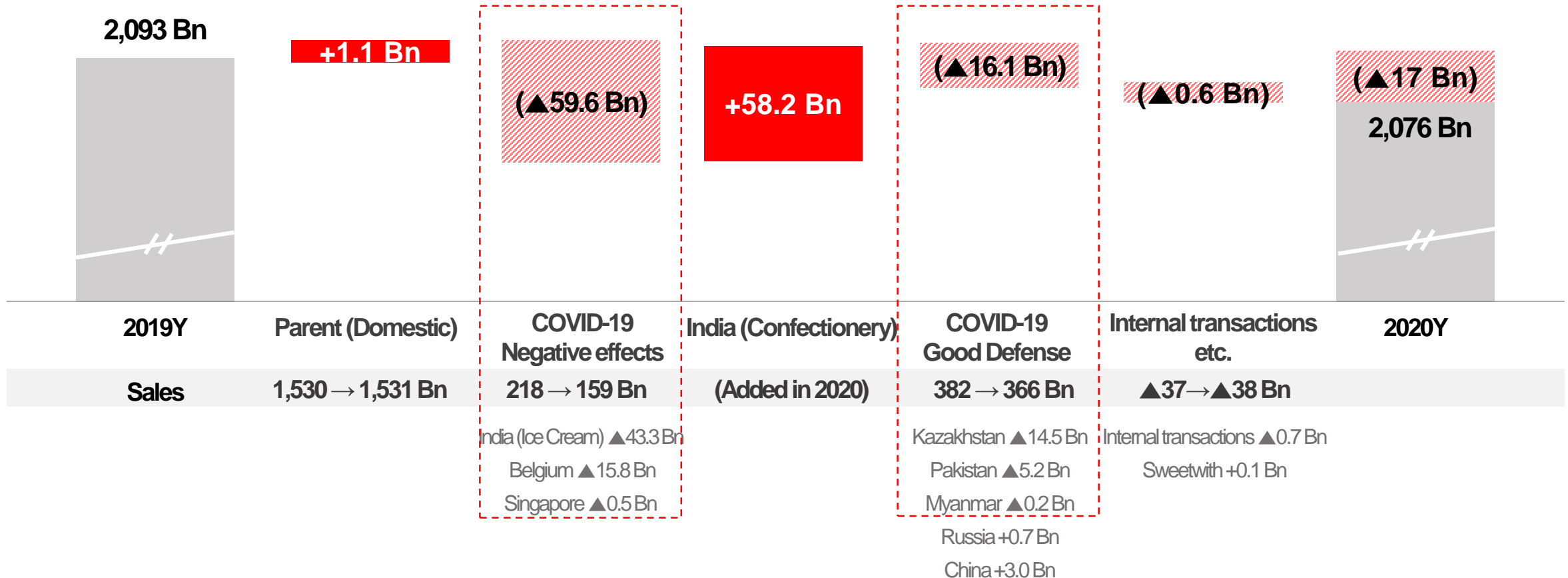


2020Y Financial Highlights (Consolidated) | Sales

[COVID-19 Negative effects] Both sales and operating profit deteriorated in India, Belgium, and Singapore.

[COVID-19 Good Defense] In Kazakhstan, Pakistan, and Myanmar, sales declined but operating profit improved.

[India (Confectionery)] Added to consolidated income statement in 2020.

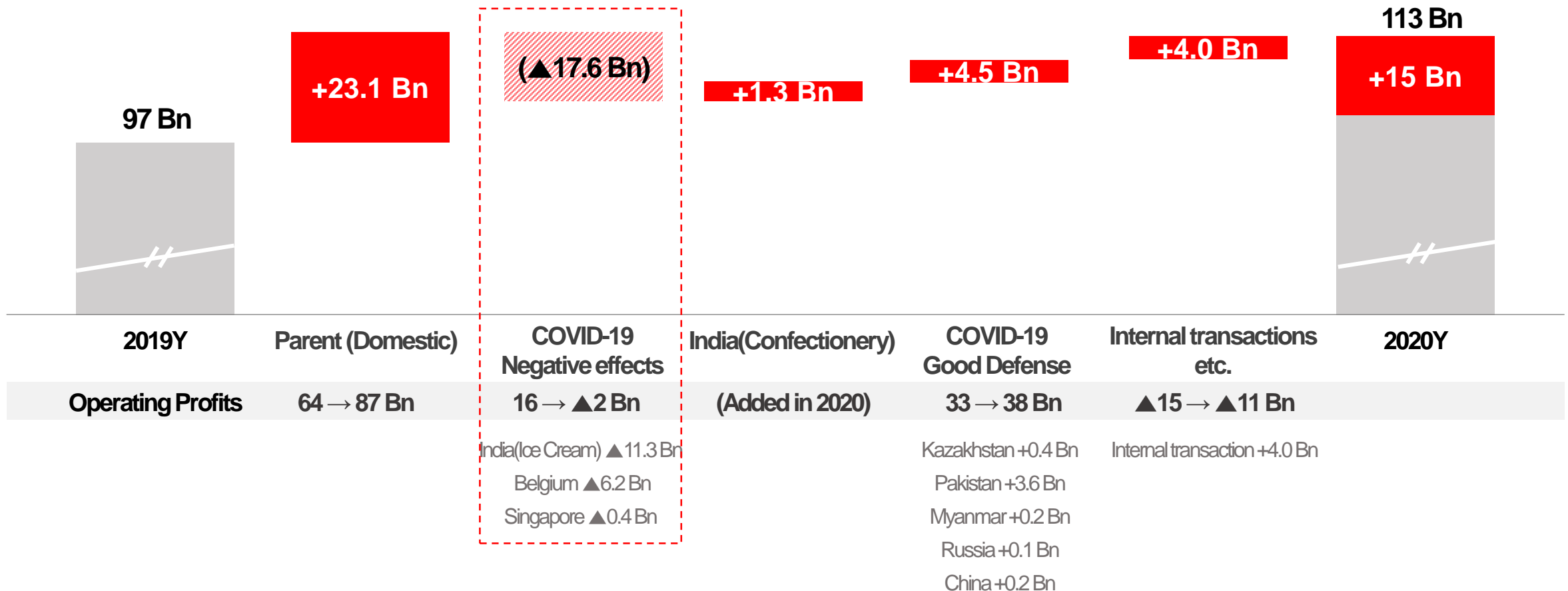


2020Y Financial Highlights (Consolidated) | Operating Profit

[COVID-19 Negative effects] Both sales and operating profit deteriorated in India, Belgium, and Singapore.

[COVID-19 Good Defense] In Kazakhstan, Pakistan, and Myanmar, sales declined but operating profit improved.

[India (Confectionery)] Added to consolidated income statement in 2020.



2021Y Guidance

An aerial view of a modern city at night, with a digital data overlay consisting of glowing blue lines and dots, suggesting a global network or data flow.

**A Global Leader
in food.**

LOTTE Confectionery

2021Y Guidance

We plan to continue our profitability-oriented management strategy in the domestic market. Our target operating profit is over 100 billion won. In overseas markets, we will focus on recoveries in countries where our operations were worst hit by the Covid-19 pandemic.

		2020Y	2021Y (P)
Parent	Sales	1,531 Bn	<i>Sales Growth Rate Low-single (Prospect)</i>
	Operating Profit	87 Bn	<i>Operating profit ratio 6.5~7.5% (Prospect)</i>
	OP%	5.7%	
<hr/>			
Consolidated	Sales	2,076 Bn	<i>Sales Growth Rate Mid-single (Prospect)</i>
	Operating Profit	113 Bn	<i>Operating profit ratio 6.5~7.5% (Prospect)</i>
	OP%	5.4%	



Remark) The 2021Y forecast is likely to change depending on the timing of preparation, and it includes subjective judgment of the company.

2021Y Guidance | Expand Online



Lotte Confectionery has strived to pioneer the online market in recent years. As a result, online sales in 2020 increased 89% year-on-year. (66% increase with distributor online sales) We will focus on managing online channels in 2021.

[2020Y Main activities]

- Expand online task organization (Team→Division) (Jan 2020)
- Open “NAVER” Store (May 2020)
- Launched Korea’s first “Monthly snacks” subscription service (Jun 2020)
- Confectionery sales in direct delivery channels rapidly increasing (Over 100%)



- Ice Cream, Natuur, and Bakery department open new accounts

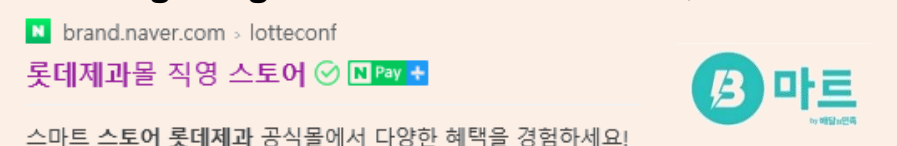


[2021Y Plan]

Own Online mall

- Open own online mall (Jan 2021) – Lotte Sweetmall
- Concept: Only & First – Subscription services, Pre-launching new products

Growing channel

- Foster new growing channels – NAVER smart store, BAEMIN Bmart, etc.
- 

Products

- Expand target products from confectionery to entire department
- Develop online specialized products, Expand promotions
- Expand products at consumer preference prices (8,000~12,000 won)
- Develop B2B market (office/kindergarten/school, for gifts, etc)
- Expand live commerce (GRIP, JAM, TMON, NAVER Live, etc)

2021Y Guidance | Improve profitability



We took a step forward to improve our profitability.
 As a result, we saw the first signs of improvement in 2020.
 In 2021, the improvement should be even more obvious.

2017-2020Y Main activities

ZBB (zero-based budgeting)

- Consultation with Boston Consulting Group (Oct 2017 - Jan 2018)
- Establish 19 initiatives in 8 major areas (Feb 2018)
 - Goal of saving 112 billion over three years

TFT for Improve profitability

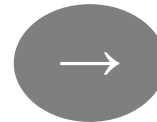
- Change price management system (2021~)
- Reduce fixed costs

Bakery

- Withdraw stores (Direct manage/Franchise) (May 2020)
 - 133 locations in 2017 → 21 locations at end of 2019 → Withdrawal completely (May 2020)

Health Food

- Termination of “Health-One” specialist stores
 - Switch from offline to online



2021Y PLAN/Expectation

Sales that value profitability rather than market share expansion

Focus on high-yield channels rather than high-costs
 ex. Online channel, Ice cream specialty stores, etc.

Efforts to boost profitability of Health Food & Bakery businesses strongly expected to bear fruit

Continuing to discover ZBB activity challenges

Improve management efficiency through beginning of digital transformation (DT)

2021Y Guidance | New Items



We are continuing with efforts to launch new products in the existing confectionery market.
 “Crunky Pepero” is representative of new products that use existing flagship branding upon release.
 Also, the new “AIR BAKED” concept in snacks is a leading new trend in the snack market.

[Main new products : Confectionery]

Crunky Pepero – 16.4 Bn in Sales (Apr 2020)



[바삭달콤고소 '크런키 페페로' 인기 상한가](#) 2020.10.30 | 세계일보 | 다들 롯데제과의 '크런키 페페로(사진)'가 품귀현상을 빚고 있다. 29일 롯데제과에 따라 '페페로'의 물량 확보를 위해 생산 라인을 풀가동하는 등 증산에 돌입했다...

[롯데제과, '크런키 페페로' 역대급 인기로 생산 라인 풀가동](#)

2020.10.30 | 조선비즈 | 다음뉴스
 '크런키 페페로' 출시 반년 만에 150억원 판매고 기록영업 일선에선 '크런키 페페로' 여질 정도 롯데제과의 신제품 '크런키 페페로'./롯데제과 제공...

- ↳ 롯데제과, '크런키 페페로' 역대급 인기로 생산 풀... 2020.10.29 | 노컷뉴스
 - ↳ 크런키 페페로, 역대급 인기... 물량 확보 위... 2020.10.28 | 시사캐스트
 - ↳ 롯데제과, '크런키 페페로' 생산 라인 풀가동 2020.10.28 | 뉴스웍스
- 관련뉴스 7건 전체보기 >

["83년생 원조도 제쳤다", 롯데제과, '크런키 페페로' 생산 풀가동](#)

2020.10.28 | SBS Biz | 다음뉴스
 이미지 롯데제과가 '크런키 페페로'의 물량 확보를 위해 생산 라인 풀가동에 나서 '크런키 페페로'는 10종의 페페로 라인업중에서 가장 많이 판매가 되고...

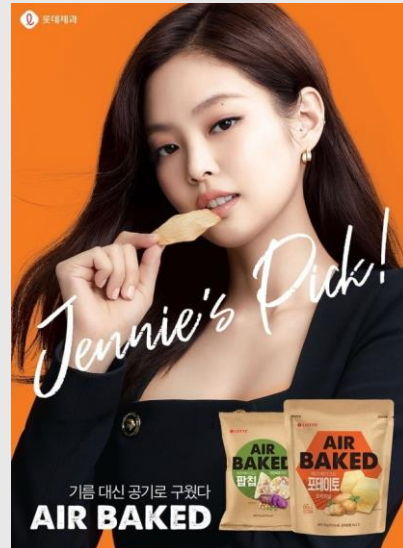
↳ "원조 페페로 매출 넘었다"...롯데제과 '크런키 페...' 2020.10.29 | 아주경제

[크런키 페페로, 물량 확보 위해 영업 일선 쟁탈전.. 역대급 인기...](#)

2020.10.29 | 한국경제 | 다음뉴스

롯데제과(대표이사 민영기)가 크런키 페페로의 물량 확보를 위하여 생산라인 확대. 크런키 페페로가 역대급 인기를 기록하고 있는 데다 10개 종류의 페페로...

AIR BAKED



[롯데 '에어베이컨드' 누적매출 100억원 돌파](#) 2021.02.04 | 헤럴드경제 | 롯데제과가 야심작으로 내놓은 신개념 스낵 '에어 베이컨드(Air Baked-사진)'가 인기를 끌고 있다. 롯데제과는 지난해 6월 선보인 스낵...

- ↳ 롯데제과 '에어 베이컨드' 누적 매출 100억 돌파 2021.02.04 | 마이뉴스24 |
 - ↳ 롯데제과 '에어 베이컨드' 누적 매출 100억원 돌파 2021.02.04 | 머니S | 다음
 - ↳ 롯데제과 '에어 베이컨드' 누적 매출 100억원 돌파 2021.02.05 | 스포츠조선
- 관련뉴스 25건 전체보기 >

[에어 베이컨드 잘 나가네.. 누적 매출액 100억원 달성](#)

2021.02.04 | 헤럴드경제 | 다음뉴스

에어 베이컨드의 누적 매출액이 출시 8개월 만에 100억원을 기록 경제=박재석 기자] 롯데제과가 야심작으로 내놓은 신개념 스낵 '에어 베이컨드'가...

- ↳ 롯데제과, '에어 베이컨드' 누적매출액 100억 돌파 2021.02.04 | 헤럴드경제
- ↳ '제니과자' 에어베이컨드, 매출 100억원 달성 2021.02.04 | 헤럴드경제

[롯데제과, 감자 스낵 '에어 베이컨드' 누적 매출 100억원](#)

2021.02.04 | 뉴스1 | 다음뉴스

에어베이컨드 3종(롯데제과 제공)© 뉴스1 (서울=뉴스1) 이비슬 에어 베이컨드' 누적 매출액이 출시 8개월 만에 100억원을 돌파했다

- ↳ 롯데제과 '에어 베이컨드' 누적 매출 100억...간강... 2021.02.04 | 헤럴드경제

2021Y Guidance | New Items



Products that are gaining popularity with consumers are emerging one after another in the Health Food department. “Colostrum Protein 365” became a leading brand in the adult protein market within one year of launching. “Quakers” have become a dietary substitute and diet food through steady marketing activities.

[Main new products : Health Food]

Colostrum Protein 365



Quaker

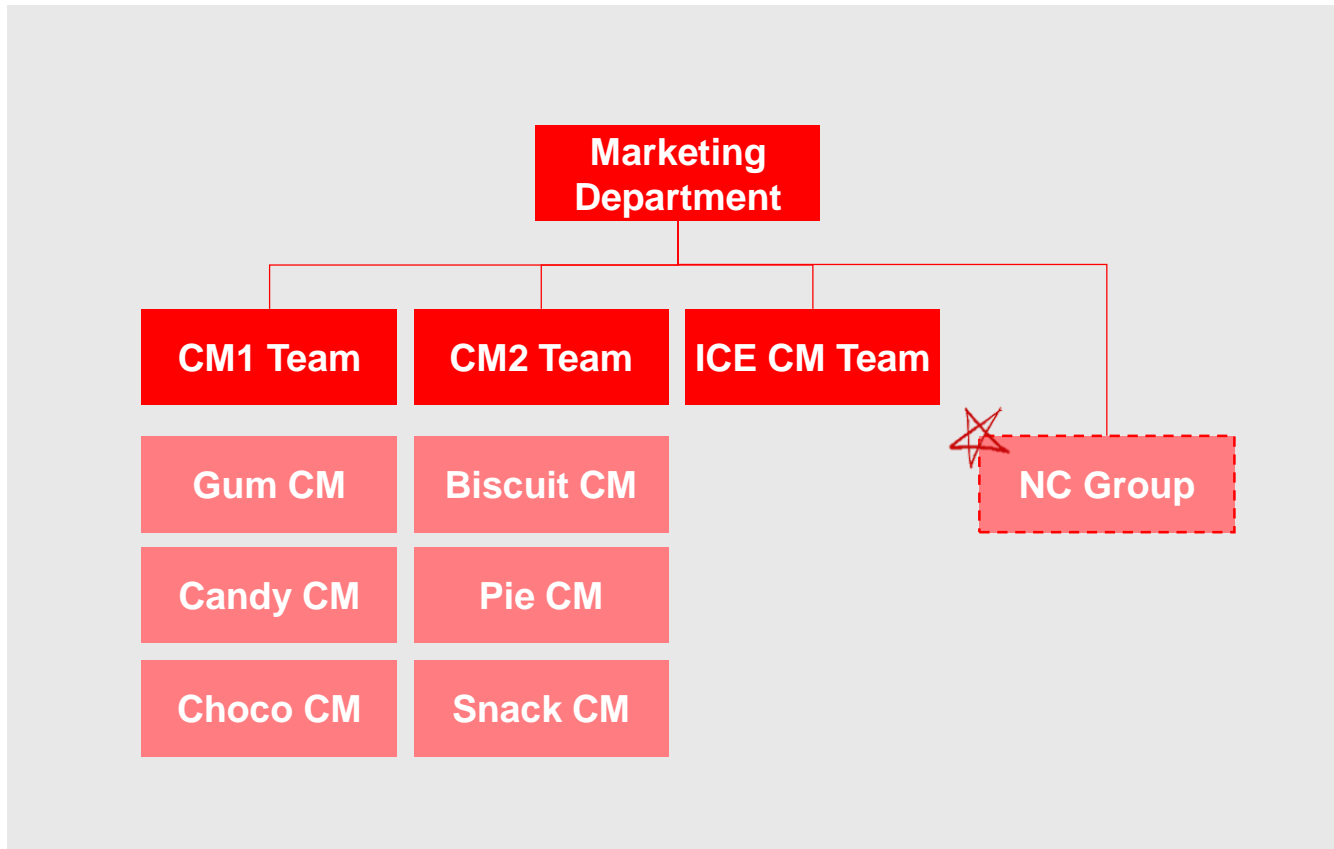


2021Y Guidance | New Items



We are continuing our efforts to find future business item related to food.
 And we are continuing to discover new items by establishing a new task group “NC” in the marketing organization.
 Also, top management encourages “start-up” culture by fostering ventures within the company.

[Marketing organization]



[In-company ventures Poster]

2021 LOTTE CONF VENTURE 1ST

롯데제과 사내벤처 1기 모집

최대 1억원 지원! 독립적 활동 보장!
 머릿 속에 있는 나만의 사업! 실패의 두려움 없이 도전하라!

운영목적

- 운영목적: 사내 임직원의 창의력, 도적적 문화 확보
 전문 스타트업 CEO로 양성을 위한 활동지원
 *최종 분사 OR 사내 사업화 진행
- 참여대상: 롯데제과 임직원 중 지원희망자
 *모집공고일 기준 재직자

운영특전

- 사업 운영비 최대 1억원 지원(자발적 집행/결용가능)
- 완전한 개별 운영 보장(사무 오피스 지원/사내보고 미진행)
- 실패와 무관하게 불이익 ZERO(보수/인사상 불이익 등)

운영일정

구분	공모 접수	1차 평가	2차 평가	합격자 발표
기간	21.01.01 ~ 21.01.31	21.02.01 ~ 21.02.12	21.02.21 ~ 21.02.23	21.02.26
	자유 주제 OR 서류 심사 PT 면접 최종 2팀			

※ 1차 평가 통과자 시상금 지급(50만원)

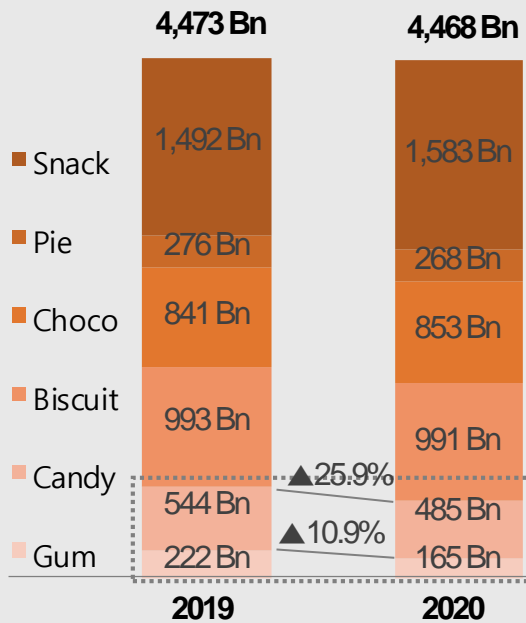
2021Y Guidance | Post COVID-19



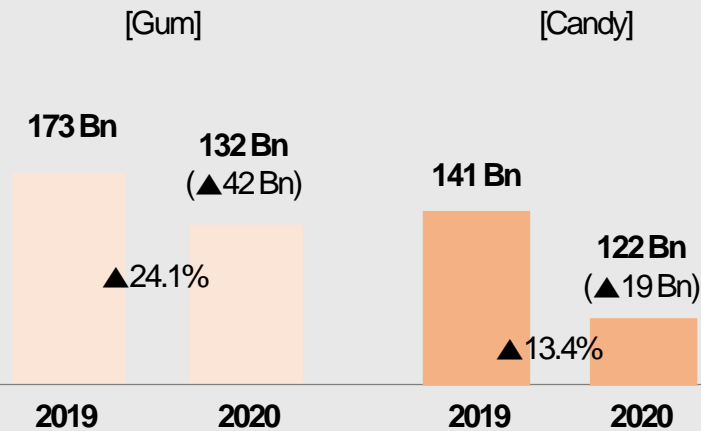
The gum/candy market has declined since the start of the Covid-19 outbreak for two reasons:
 1) inconvenience of eating while wearing a mask; 2) a decline in purchases of gum and candy at cashier stands.
 During the pandemic, we have overcome this sales decline by launching new chocolate and snack products.
 The gum and candy market is expected to recover gradually after the end of Covid-19.
 This recovery will serve as an opportunity factor for Lotte Confectionery.

[2019-2020Y Confectionery market]

Total confectionery market (POS): ▲0.1% decrease
 Gum ▲25.9% decrease, Candy ▲10.9% decrease



Lotte Confectionery (POS Sales)
 Gum ▲24.1% decrease, Candy ▲13.4% decrease



[2021Y Main marketing plan]



Freshmint re-launch (Jan. 2021)

- Reflecting demand for flavor and fragrance
- Consider peppermint trends



Launch new product "MonCher Jelly" (Feb. 2021)

- Similar characteristics to MonCher pie
- Adds fun elements to shape, taste, and texture

Enhance marketing activities for Xylitol

- TV commercial (cavity prevention function)
- Public advertisement (mouth care in mask)



Expanding products for outdoor activities

- Anti-Sleeping Gum/Chewing gum when exercising



Remark) POS Sales/Total includes other categories (2019Y: 106 Bn, 2020Y: 124 Bn)

2021Y Guidance | Global business



The primary goal of 2021 is to restore global business to pre-Covid-19 levels.
 We will develop the Lotte Global Mega brand in our overseas market to strengthen our Lotte brand equity
 - 3 Mega brands : Choco Pie, Pepero, Gum

[21Y Sales prospect by foreign corporate]

	2019Y	2020Y	2021Y(P)
COVID-19 Negative effects	219 Bn	159 Bn	
	India (Ice Cream)	102 Bn	<i>80-90% of sales pre-Covid-19 (2019Y)</i>
	Belgium	105 Bn	
Singapore	11 Bn		
COVID-19 Good defense	382 Bn	366 Bn	
	Kazakhstan	193 Bn	<i>100-105% of sales pre-Covid-19 (2019Y)</i>
	Pakistan	92 Bn	
	Myanmar	30 Bn	
	Russia	51 Bn	
China	16 Bn		

[Main Brand by foreign corporate]

	[Ice Cream] Havmor; Launch Lotte World Cone - Havmor → M/S 1st (44%) in western region (Amul; 2nd (24%)) [Confectionery] Lotte India; M/S 1st place in CP - M/S 91.7% (Nielsen, 2020)	
	Guylian; Mass Premium chocolate for Gift - Enhance all year round product (for retail, online channel)	
	Rakhat; Local No.1 confectionery Brand - M/S 1st place in confectionery (Kazakhstan) - 1st place in awareness survey of local brands (Forbes, 2018) Expand Choco Pie sale in Kazakhstan	
	Launch the 3rd Choco Pie line in Russia	

Remark) 2021Y prospect of Lotte India (added in 2020) : 80-90% of pre-Covid-19 sales (2019Y: 70 Bn)

2021Y Guidance | ESG Management

Lotte Confectionery was given an ESG evaluation grade of A in 2020 (the industry's highest).

In the future, we intend to implement sustainable management through more-advanced ESG activities.

[2019-2020Y ESG Evaluation results]



2019Y



Environmental: A
Social: A
Governance: B+

2020Y



Environmental: A
Social: A+
Governance: B+

[Main Social contribution activities]

Domestic



Sweet Factory (2010~)

- Confectionery museum



Natuur Forest (2019~)

- Campaign for planting urban forest



Dr. Xylitol Bus (2013~)

- Dental care service for children



Sweet School (2020~)

- Improve after-school surroundings



Sweet Home (2013~)

- Established 8 children care centers



Eco-friendly package(2021~)

- Develop cacao material paper

Overseas

Practice community sharing to overcome Covid-19

- Donating to public institutions/ Supporting healthcare and care organizations with products



Myanmar



India



Kazakhstan



Supports marine ecosystem protection activities (1998~)

- Be connected with Guylian icon "seahorse"



Natural disaster relief / Support building community library (2015~)

Support educational institutions through NGO group (2018~)



Sponsor New Pushkin Literature Award (2017~)

- Sponsored annually

Blueprint | 21-23Y

Domestic business is expected to increase sales and improve operating profit in all business units ; confectionery, ice cream, health food and bakery.
We will focus on overcoming Covid-19 negative effects abroad and introducing "Lotte" brand to local corporations actively.

[Domestic Positive Effect Point & Management Directions]

Confectionery	Online channel	Targeted at least 10% of 22-year sales
	Trend leading NP	Baked snack, Dessert, Functional product
	Recover Gum/Candy sales	Revert to pre-Covid19 levels in 2022~2023
	New Price System	10 bn profit improvement in 2021~2023
Ice cream	Online+Ice specialty store	CAGR are expected 10% in 2021~2023
	Trend leading NP	Household products, Off-season products
	Premium (Natuur)	Vegan products, Signature store
	LOTTE Group synergy	Respond to big changes of ice cream market
Health Food	Colostrum Protein 365	Expand product types (RTD type. etc)
	Quaker	Active marketing, Promote "Drinking Quaker"
	Trend leading NP	Develop unique NP (Functional certification)
Bakery	Mass / Frozen	Enhance the quality of product as bakery
	Improve Operating profit	Maximize the effect of withdraw stores
	Trend leading NP	High-end dessert products

[Overseas Management Directions]

COVID-19	Overcome Covid-19 effects in India & Belgium	
Brand	Strengthen profitability in Local Brand + Introduce "LOTTE" brand to local corporations	
Kazakhstan		
Pakistan		
India		
Myanmar		

Conclusion

The dividend for 2020 is 1,600 won per share. (YoY +300 won, dividend yield 1.6%)

In addition, we will introduce an electronic voting system at the 4th general meeting of shareholders to enhance the safety of shareholders and the convenience of exercising voting rights.

We will continue to work hard to be a company that rewards our shareholders and investors for their support to build future growth engines, improve management efficiency, and have a worldwide presence.

Finally, Lotte Confectionery will listen to various opinions of the market and communicate actively. Thank you!

Lotte Conf. IR Team

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