



Future of real estate investment creating new value

Your investment companion, LOTTE REIT



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Chapter 01. Background of Asset Incorporation

Chapter 02. **LOTTE REIT Overview** 



#### **Purpose of Asset Incorporation**



Chapter 01. Purpose of Asset Incorporation

### **Grow into a Global REIT of Significant Scale**



## **Enlarge Asset Size**

- Incorporate quality retail assets operated by LOTTE Shopping
- Enhance rental income stability through asset size expansion
- Potential asset value appreciation through continuous acquisition of superior assets



### **Diversify Portfolio**

- Incorporate logistics asset, favored by investors in accordance with current "un-tact" trend
- Minimize volatility through portfolio diversification
- Maximize synergy between LOTTE REIT and its anchor tenant, LOTTE Shopping by incorporating retail distribution center



## Maximize Shareholder Value

- Stable dividend income through asset size and rental income expansion
- Potential liquidity and greater investor participation through inclusion to major global REIT indices
- Potential increase in P/NAV through asset value appreciation



## Chapter 02 **LOTTE REIT Overview**

- 1. Asset Overview and Master Lease Agreement Structure
- 2. Asset Portfolio Overview





#### **Asset Overview and Master Lease Agreement Structure**



Chapter 02. LOTTE REIT Overview

- Selectively acquire LOTTE Shopping's retail properties with competitive advantages in terms of revenue generation, foot traffic, and location
- Incorporate a cutting-edge automated logistics center located in Gimpo Gochon logistics complex

Proposed acquisition assets  LOTTE Dept. Store LOTTE Dept. Store LOTTE Mart	LOTTE Premium Outlet	LOTTE Mart	LOTTE Mart Mall					
Jungdong Branch Ansan Branch Gyeyang Branch	Icheon Branch	Chuncheon Branch	Gimpo Logistics Ctr.					
Acquisition price 172 99 76	275	61	96					
% of total portfolio by acquisition price 44.5%	43.2	43.2%						
Lease term 7 years	11 ye	11 years						
Rental income <sup>1</sup> 15.1	14	14.3						
<ul> <li>Rent security deposit: Equivalent to 12-months' rent</li> <li>First year rent:         <ul> <li>Tranche D &amp; E: Fixed rent of KRW25.9bn + revenue linked rent [0.45% of previous year revenue²] (cap rate: 4.5%)</li> <li>Tranche F: Fixed rent of KRW4.3bn (cap rate: 4.7%)</li> </ul> </li> <li>Annual fixed rent escalation: CPI growth rate of previous year</li> <li>Expense structure: Triple-net structure (tenants to pay insurance costs, taxes, utilities and maintenance and repair expenses)</li> </ul>								
<b>GFA (m²)</b> 93,419 54,887 <sup>3</sup> 58,119	184,191	40,570	30,870					
Use approval date         Oct 1996         Oct 1992 <sup>4</sup> / Nov 2018 <sup>5</sup> Jul 1998	Oct 2015	Aug 2011	Dec 2015					
<b>2019 EBITDA</b> 15.7 16.4 7.7	28.6	8.9	N.A.					

Source: Company information

Note: 1. Expected rental income for the year ended in December 2021. Using the due diligence outcome of the proposed acquisition assets, estimated 2021E rental income of assets in Tranche D & E by reflecting the 2020E revenue derived based on the revenue of each asset from January to September 2020; 2. Use total revenue in case of direct acquisition, specific purchase and lease contract as a lessee, and use rental income in case of lease contract as a lessor; 3. Addition of GFA of main and new buildings; 4. Use approval date of main building; 5. Use approval date of new building

#### **Asset Portfolio Overview**



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Chapter 02. LOTTE REIT Overview

- Five of the six new proposed acquisition assets are located in the metropolitan area, and c. 64.3% of total portfolio assets are located in metropolitan area based on appraisal value
- Multi-tranche structure to minimize risk associated with concurrent lease expiry

#### 14 properties

#### Asset size KRW2,266bn





Proposed Logistics Asset



**Existing Properties** 

#### Proposed acquisition assets KRW778bn



Jungdong Branch



LOTTE Dept. Store
Jungdong Branch

LOTTE Dept. Store
Ansan Branch



LOTTE Mart Gyeyang Branch



**LOTTE Mart** Chuncheon Branch



LOTTE Premium Outlet Icheon Branch



**LOTTE Mart Mall** Gimpo Logistics Center

### **Existing portfolio assets**





LOTTE Dept. Store 8 LOTTE Mart Changwon Branch



LOTTE Mart Jangyu Branch



LOTTE Dept. Store Guri Branch



**LOTTE Mart Seo** Cheongju & Outlet Cheongju Branches



Outlet Yulha Branch



LOTTE Dept. Store Gangnam Branch



LOTTE Dept. Store Gwangiu Branch



**Properties in** metropolitan area

pn)		
Properties	Av. remaining lease term <sup>1</sup>	Acquisition price
123	7 years	346
789	8 years	442
10 11 12	9 years	487
13 14	10 years	559
4 5	11 years	336
6	15 years	96
	Properties  1 2 3  7 8 9  10 11 12  13 14  4 5	Properties         Av. remaining lease term¹           1 2 3         7 years           7 8 9         8 years           10 11 12         9 years           13 14         10 years           4 5         11 years

Source: Company information Note: 1. As of March 2021

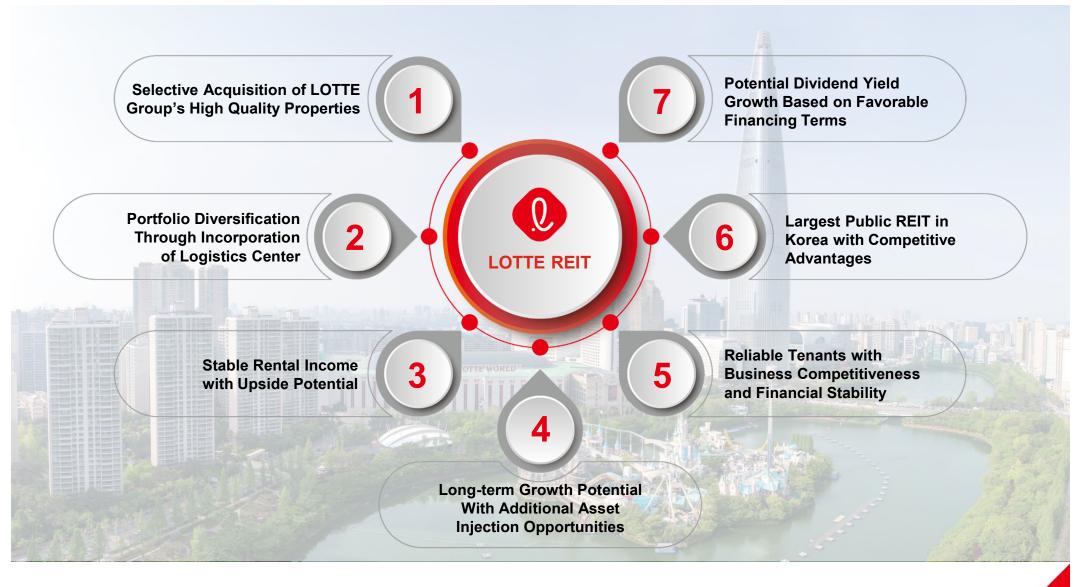






#### **LOTTE REIT Key Investment Highlights**



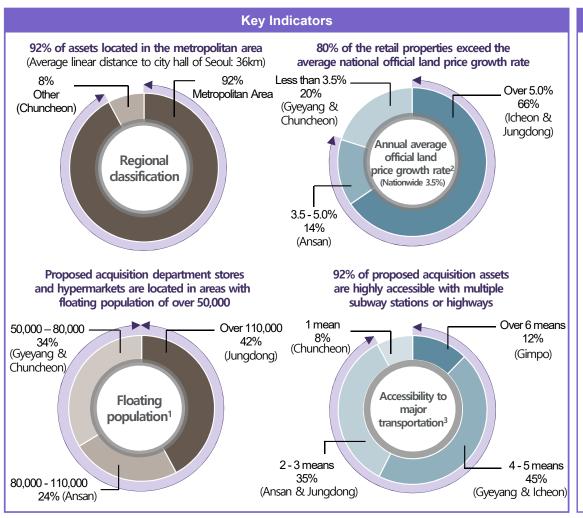


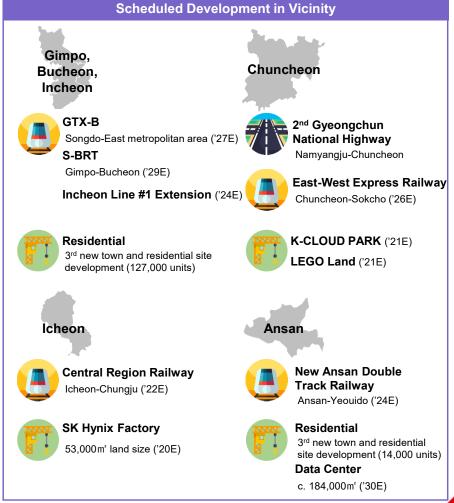


#### Selective Acquisition of LOTTE Group's High Quality Properties



- Retail and logistics assets with location advantages such as high floating population, high land value growth and multiple transport access
- Incorporation of assets that are expected to achieve stable asset value appreciation based on competitive location







#### Portfolio Diversification Through Incorporation of Logistics Center

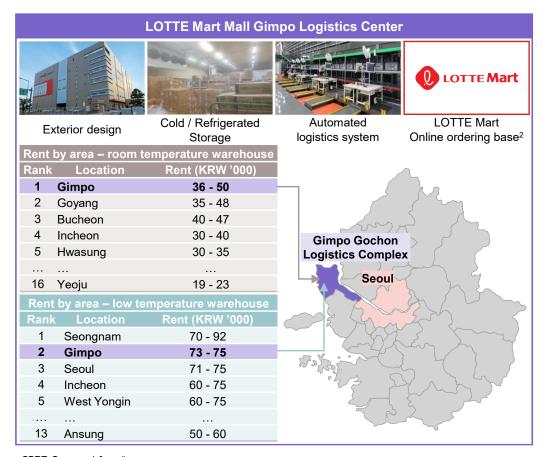


Chapter 03. Key Investment Highlights

- Gimpo Logistics Center is a cutting-edge automated distribution center with various temperature storage types and is used as a key distribution center for LOTTE Shopping's online business
- Located in Gimpo Gochon Logistics Complex, the most expensive logistics complex in the country with strong shipper preference and excellent transport access

#### Acquisition of a best-in-class logistics asset in Korea

Overview of LOTTE Mart Mall Gimpo Logistics Center<sup>1</sup>





#### Strong shipper preference

- Located in Gimpo Gochon Logistics Complex, the nation's highest logistics rent area with strong shipper preference and excellent transport access
- 1km (5 minutes) from highway access
- 5km (13 minutes) from Seoul city



#### Proximity to major airports and ports

- 6km (10 minutes) from Gimpo Airport
- 40km (30 minutes) from Incheon Airport



#### Triple-Net Lease Structure

 LOTTE Mart Mall Gimpo Logistics Center adopts Triple Net Lease structure, which is rare among logistics assets



#### Potential growth in rental income and asset value

- Expect rental income and asset value to continue to rise given high demand of logistics centers in Gimpo area
- Limited available land in Gimpo area for new logistics centers

Source: CBRE, Company information



#### Portfolio Diversification Through Incorporation of Logistics Center (Cont'd)



Chapter 03. Key Investment Highlights

- On track to obtain Right Of First Offer ("ROFO") for the top logistics centers operated or being developed by LOTTE Global Logistics
- Ability to construct a stable portfolio by acquiring deal pipelines and incorporating additional logistics centers in the future

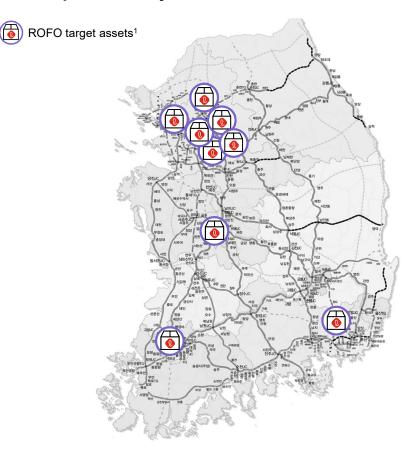
### Potential to acquire additional logistics centers through ROFO



 Secured pipeline of key logistics assets through ROFO

#### **Key Assets of LOTTE Global Logistics** Assets under **Existing Assets** construction North Yeoju Automated Daejeon Logistics Center Terminal Terminal Opo Fresh Gwangju Yangsan Integrated Terminal Center Logistics Center

### ROFO target assets located in key logistics complexes of major cities



### 3

#### **Stable Rental Income with Upside Potential**



Chapter 03. Key Investment Highlights

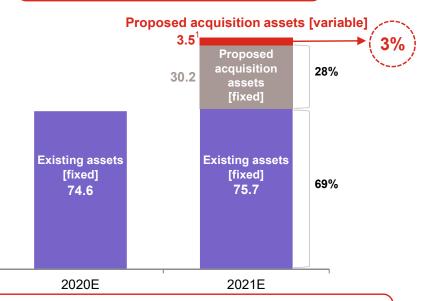
- Minimize rental income volatility by incorporating low variable rent scheme (c. 3% of total rental income)
- Potential upside in rental income when the retail market recovers 2020E sales of the proposed acquisition retail assets are set as the base for the variable rent scheme

#### Expected to generate stable rental income

Expected rental income of LOTTE REIT (KRW bn)

#### Proportion of variable rent

 Limited impact by variable rent scheme linked to proposed acquisition assets' revenue



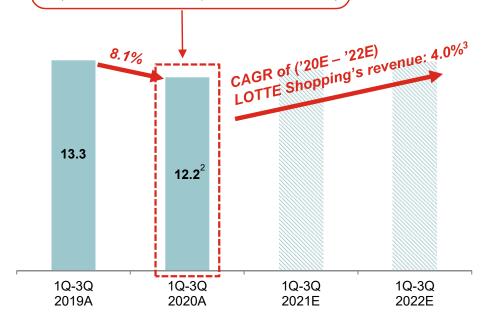
Variable rent was estimated based on the revenue of proposed acquisition assets in January to September 2020, and may change upon receiving the actual 2020 revenue from the tenant before the lease starts

### Set variable rent level: 0.45% of previous year revenue by using trough revenue as the reference

Total revenue of LOTTE Shopping (KRW trn, on a K-IFRS consolidated basis)

#### Base revenue

 Potential for higher rental income in the future as the 2020E revenue is set as the reference (assumed to be the low-point due to COVID-19)



Source: Company information, Company filing, Earnings release, Factset



#### Long-term Growth Potential from Additional Asset Injection Opportunities (1) LOTTE REIT

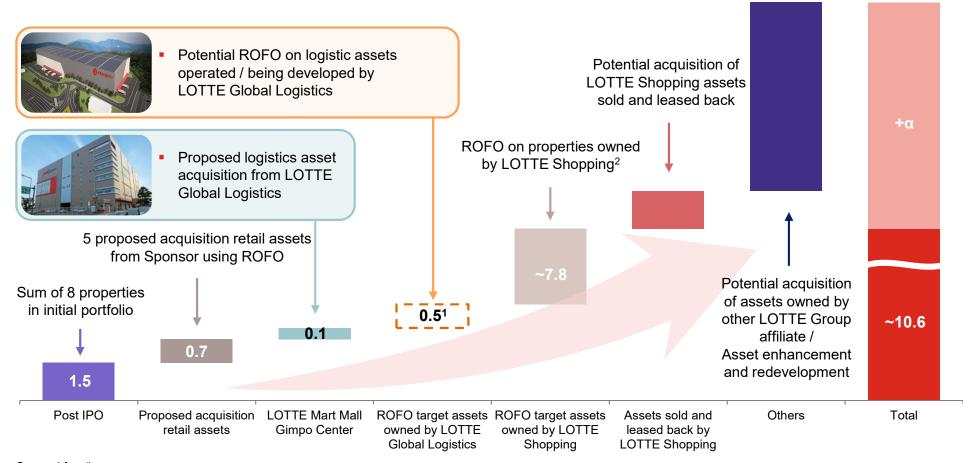


Chapter 03. Key Investment Highlights

- Long-term growth potential based on ROFO on LOTTE Shopping's retail assets of and LOTTE Global Logistics' logistic properties
- Grow as a global mega REIT with the largest AUM in Korea by continuously acquiring quality assets

#### Mid-to-long term growth roadmap

Estimated total asset value (KRW tm)





#### Reliable Tenants with Business Competitiveness and Financial Stability



Chapter 03. Key Investment Highlights

- LOTTE Shopping is a core subsidiary of LOTTE Group that leads domestic retail market and LOTTE Global Logistics is Korea's leading logistics company that offers seamless global one-stop service across all areas of logistics based on strong domestic and international network
- The tenants have the ability to continuously pay rent on a long-term basis given their business competitiveness and financial stability

#### Largest retailer with stable financials and exceptional business competitiveness

Overview of LOTTE Shopping's retail portfolio1









44.8% M/S





Consumer electronics

Department store

Supermarket



23.1% M/S



8.5% M/S



**Discount store** 



**H&B** store



**Credit Rating** 

AA









Revenue<sup>2</sup>

KRW16.8trn



EBITDA<sup>2</sup>

KRW1.6trn

#### Integrated logistics company with healthy financials

Overview of LOTTE Global Logistics



in domestic parcel delivery market

**16** Parcel delivery terminals

**13.9%** Domestic M/S<sup>3</sup>

**83** Parcel delivery points

1,100+ Network

229 SCM centers









**Credit Rating** 

Α

Revenue<sup>2</sup>

KRW2.8trn

EBITDA<sup>2</sup>

KRW56bn

Ability to make stable rent payment



## 6

#### Largest Public REIT in Korea with Competitive Advantages



- Largest public REIT in Korea based on key indicators such as AUM, market capitalization, global index inclusion, credit rating etc.
- Plans to maintain its leading position as the largest public REIT in Korea with continuous growth strategies

0	LOTTE REIT	JR Global REIT	Shinhan Alpha REIT	E <sup>·</sup> REITs	KORAMCO ENERGY PLU	IGIS Value <sup>†</sup>	IGIS ResidenceREIT	MIRAE ASSET	NH Prime REIT
Asset type	Retail	Office	Office	Retail	Gas station	Office	Residence	Retail	Office
AUM¹ (KRW bn)	2,266³	1,560	799	746	1,017	303	N.A. <sup>7</sup>	293	89
Market Capitalization <sup>2</sup> (KRW bn)	929	874	375	367	345	120	105	101	84
Number of assets <sup>1</sup>	8	1	3	5	187	1	18	1	4
Master lease tenants	LOTTE Shopping and LOTTE Global Logistics	-	-	Eland Retail	Hyundai Oilbank	-	-	GS Retail	-
Direct ownership of properties	0	Х	Partially <sup>5</sup>	Partially <sup>6</sup>	0	X	Х	Ο	X
Master lease agreement	0	Х	Х	0	0	Х	Х	0	X
Global index inclusion	FTSE, MSCI, S&P	-	S&P	-	-	-	-	-	-
REIT Credit rating	AA- (Stable) <sup>4</sup>	-	-	-	-	_	-	_	-
2020E Dividend yield <sup>2</sup>	5.92%	7.32%	4.52%	6.31%	6.40%	5.93%	5.11%	5.49%	5.25%



#### Largest Public REIT in Korea with Competitive Advantages (Cont'd)



- Higher dividend yield and dividend yield spread compared to global public REIT peers
- Potential to grow into a large scale REIT through series of additional asset injection













Country	Korea	Singapore <sup>5</sup> Singapore <sup>5</sup>		HongKong <sup>6</sup>	Japan <sup>7</sup>	Australia <sup>8</sup>
AUM (KRW bn)	2,266 <sup>4</sup>	3,397	2,365	5,901	4,629	2,582
Market capitalization <sup>1</sup> (KRW bn)	929	1,711	2,961	1,848	2,399	1,990
Number of assets	8	5	7	16	43	90
Master lease agreement	0	Х	Х	Х	0	X
2020E Dividend Yield <sup>2</sup>	(5.92%)	4.78%	4.70%	6.81%	5.30%	5.34%
Divided Yield Spread <sup>3</sup>	(4.37%)	3.98%	3.89%	6.11%	5.27%	4.51%



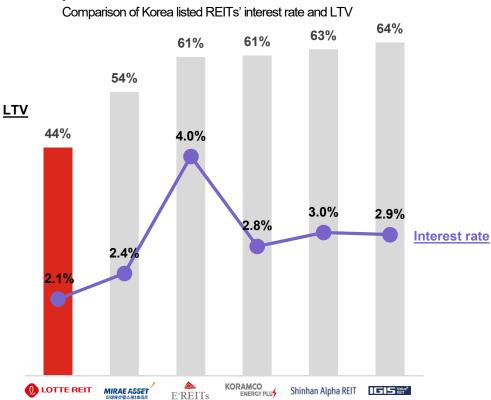
#### **Potential Dividend Growth with Favorable Financing Terms**



Chapter 03. Key Investment Highlights

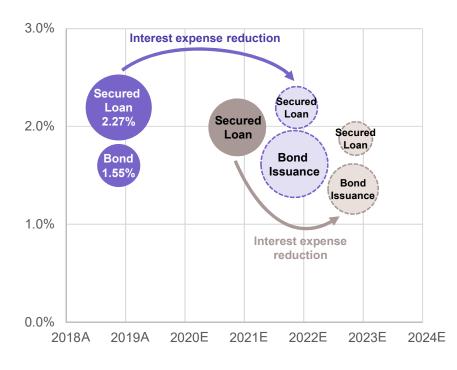
- Maintain healthy financial structure compared to peer public REITs with low LTV and debt funding cost
- Successfully issued c. KRW170bn corporate bond based on a robust credit rating of AA-1
- Potential to further reduce financing cost and increase dividend yield by refinancing existing secured loan with corporate bond in the future

#### Lower interest rate<sup>2</sup> & LTV<sup>3, 4</sup> compared to peer public REITs



### Potential to reduce debt funding cost based on strong credit rating

Overview of interest baring debt and public bond issuance plan





Thank you