

**TESTIMONY OF JOHN TOOHEY  
DIRECTOR OF STRATEGY FOR  
LG ELECTRONICS, USA**

Thank you John, and good afternoon. As John mentioned, I am the Director of Strategy for LG Electronics USA, a role which I have occupied since joining the company in 2010. Over the past five plus years, I have worked very closely with the Home Appliance division, helping to plot growth plans, analyzing market data, and helping to execute some of our key growth initiatives. I'd like to take a few minutes now to follow John's points with some additional key market facts.

Market Fact # 4 is that the US washer market has a very distinct lower value segment. Referring to slide [x], you can see that the washer market can be divided into three segments based on the physical configurations of the washers; namely Top Load Washers with Agitators, Top Load Washers without Agitators, and Front Load Washers, and I would note that virtually all industry data divides the washer market in this way. The largest segment of the market at 39.5% by units is Top Load Washers *With* Agitators. This segment represents the entry-level or so-called value segment because these products have the lowest price points in the market (note the ASP of \$453). Also, this segment is dominated by Whirlpool with 48% share, and GE with another 22% share.

The next-largest segment, representing 31.8% of the market, is Top Load Washers *Without* Agitators, otherwise known as High-Efficiency, or “HE”, Top Loaders because they use significantly less water and energy than the agitator type top loaders. With an ASP of \$598, this this segment has higher price points than the agitator-style segment. In terms of brands, Whirlpool again dominates this segment with a 42.2% share. LG competes in this segment and holds the number two position at 16.7% share. As John Herring mentioned, we’ve focused some of our recent innovations, such as the front-control panel design in this segment.

The third segment, representing 28.7% of the market is Front Load washers. This segment represents the most premium type of washers available, and has the highest ASP at \$739. Here again Whirlpool has the number one share position at 28.6%, followed by LG at 22.6%.

Although it is definitely true that over the past few years the line between the two high-er-priced segments (i.e., front load and high efficiency top load) has become more blurry, it remains equally true that the line between the lower value segment -- the top-load agitator segment -- and all other segments is not blurry. Consumers in the value segment are often budget constrained, and cannot afford to step up washers in the other two, higher-priced segments. Based on what retailers have consistently told us, it is very difficult, if not impossible, to persuade a

customer who intends to purchase a value top-load agitator washer at \$450 to spend \$600 for a high efficiency top load or \$730 for a front load washer. This is a hard-fact market reality.

That this segment remains distinct can be seen clearly in the next slide. As indicated by the Traqline data, over the past three years, there has been some shifting of share away from the Front Load segment and into the High Efficiency Top load segment. Notwithstanding this movement, the value segment remained the exact same size for each of the last three years

This is important for your analysis because, as you can see from the chart, the Top-Load *With* Agitator segment accounts for about 40 percent of all washers sold; and LG does not participate at all in this segment. LG has never offered a top-load washer with an agitator in the US market.

Market Fact #5, the retail channel of the US washer market is highly concentrated. In fact, four national retail chains, namely Sears, Lowe's, Home Depot and BestBuy account for fully 65 percent of all US washers sold. As a consequence of this high concentration, LG believed it was necessary to gain placement in all four of these national channels in order to achieve full retail distribution coverage. However, as of 2012, among the national chains, LG was sold only in Sears, Home Depot and Best Buy, but not in Lowe's.

We finally were able to get into Lowe's in early 2013. There is no question that the single biggest reason for LG's increase in US washer sales from 2012 to 2015 was Lowe's decision to add LG in 2013. And it is critically important to note that this decision was NOT based on price; rather, non-price factors were the driving considerations. In particular, Lowe's recognized that LG was an innovation leader, and there was significant unmet demand among Lowe's shoppers for LG branded products, including washers. In fact, according to TraQline, in the years before LG was sold at Lowe's, over 30% of consumers that purchased LG appliances shopped at Lowe's before making their purchases, and walked out empty handed. In addition, during our negotiations, Lowe's laundry merchant explicitly noted his strong desire to display LG's famous Cherry Red washer. Moreover, Lowe's was very much aware that LG washers have higher average selling prices than their other brands.

To demonstrate that price was not the driving factor, I ask you to look at the next slide, entitled "Retail Price Trend – Lowe's Washers", which shows the average prices at Lowe's since 2013, for the categories in which we compete (i.e., Front Load Washers and Top-Load Washers w/o Agitators), based on research provided by Gap Intelligence. As you can clearly see, since LG's launch at Lowe's in March of 2013, LG washers have been priced consistently and

significantly higher than Whirlpool and GE models. In our view, this demonstrates that Lowe's decision to add LG was not because LG offered lower prices.

That concludes my prepared remarks for today. Thank you for your time.