

SAMSUNG

COMPANY ANALYSIS

Lecturer: Mr. Tran Minh Hieu

IFM2 | Group 3

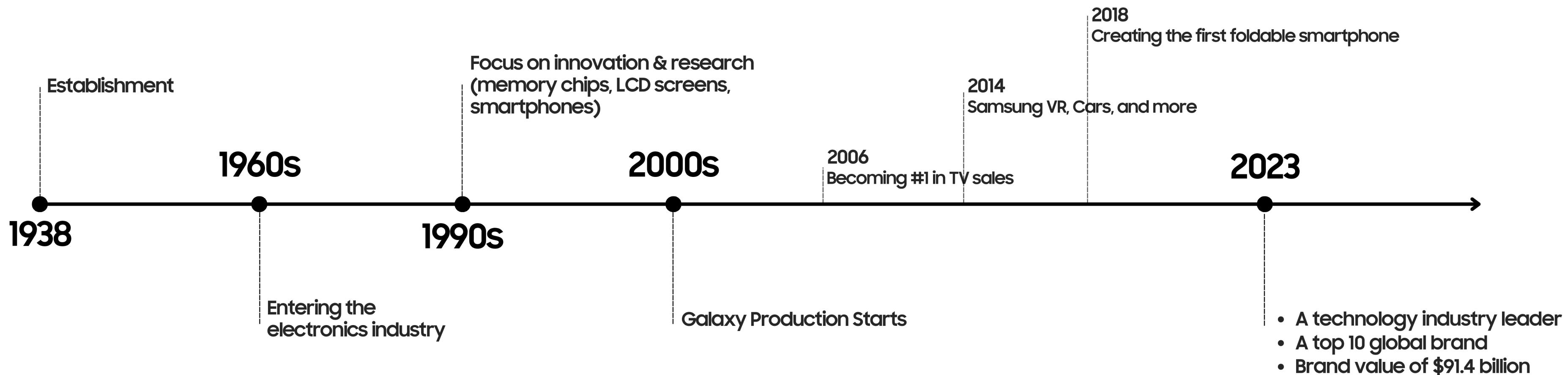


Agenda

- 
- 01 Company overview**
 - 02 Financial ratio analysis**
 - 03 Subsidiaries**
 - 04 Operation diagram**
 - 05 Exchange risk & Hedge strategy**

SamSung History

SEC - A multinational conglomerate, headquartered in South Korea



Samsung business

Key Divisions

IT & Mobile Communications

Mobile Communications, Network Business

Device Solutions

Memory, System LSI, Samsung Foundry

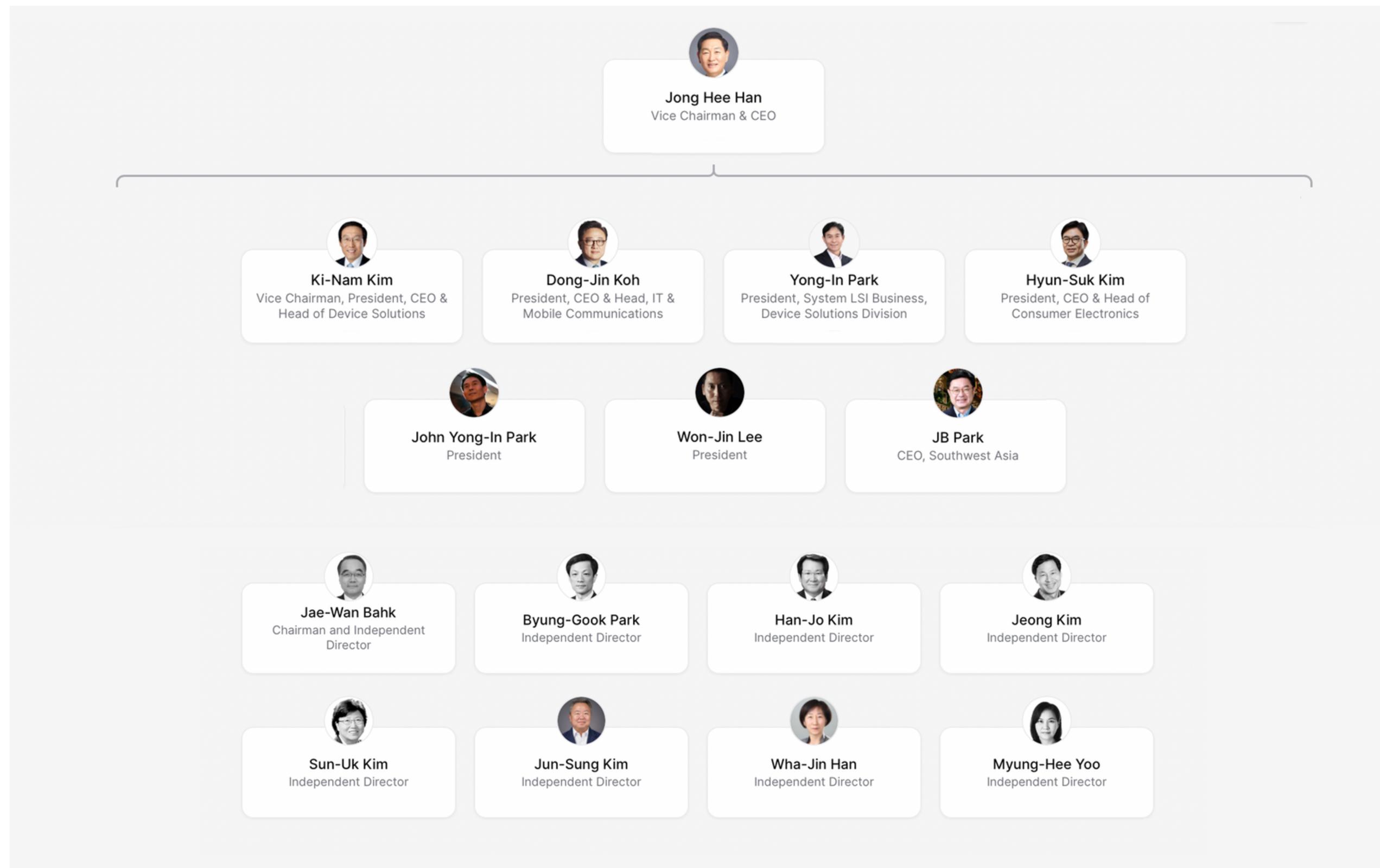
Consumer Electronics

Device Solutions, Digital Appliances, Health & Medical Equipment

R&D Center

Samsung Research

Company Structure



Affiliate companies



Electronics

Samsung Electronics
Samsung Display
Samsung SDI
Samsung Electro-Mechanics
Samsung SDS
Samsung Corning Advanced Glass

Machinery & Heavy Industries

Samsung Heavy Industries
Samsung C&T Engineering
Construction Group
Samsung Engineering

Financial Services

Samsung Life Insurance
Samsung Fire & Marine Insurance
Samsung Card
Samsung Securities
Samsung Asset Management
Samsung Venture Investment

Services & Others

Samsung C&T Trading & Investment
The Shilla Hotels & Resorts
Cheil Worldwide
S-1 Corporation
Samsung Economic Research Institute
Samsung Medical Center
Samsung Biologics
Samsung Bioepis
Samsung Welstory
Samsung fashion
Samsung resort

Distribution strategy

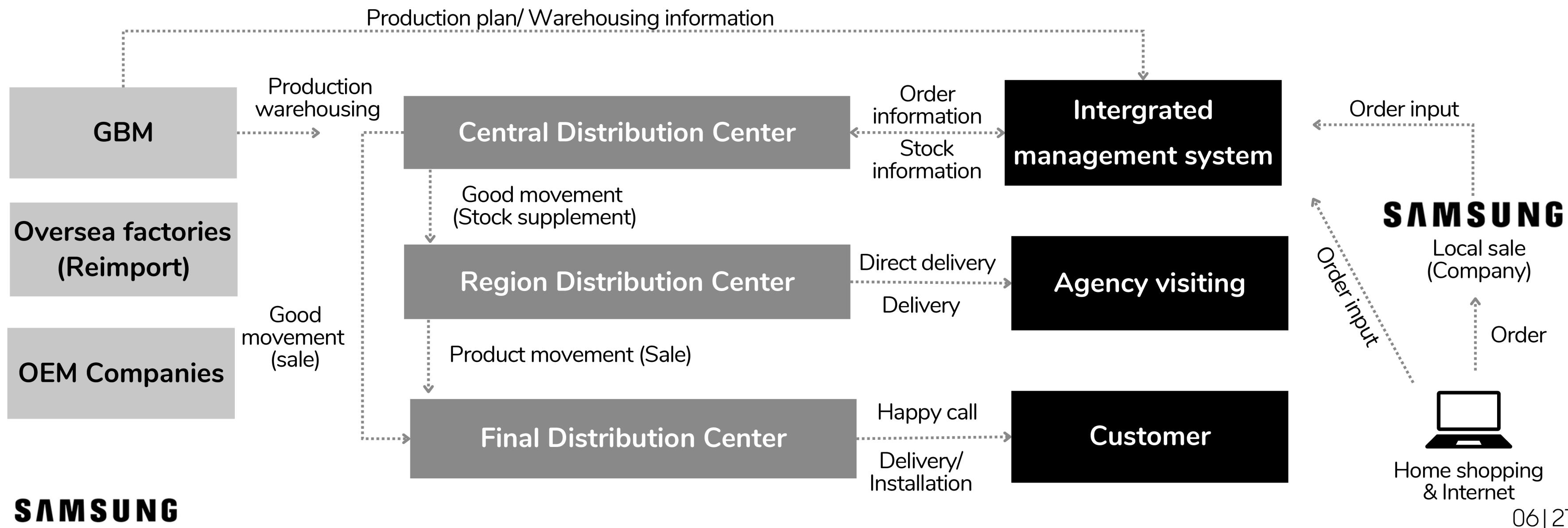


Market

52 regions from Americas, Europe, Africa, the Middle East, and Asia-Pacific.

Focus

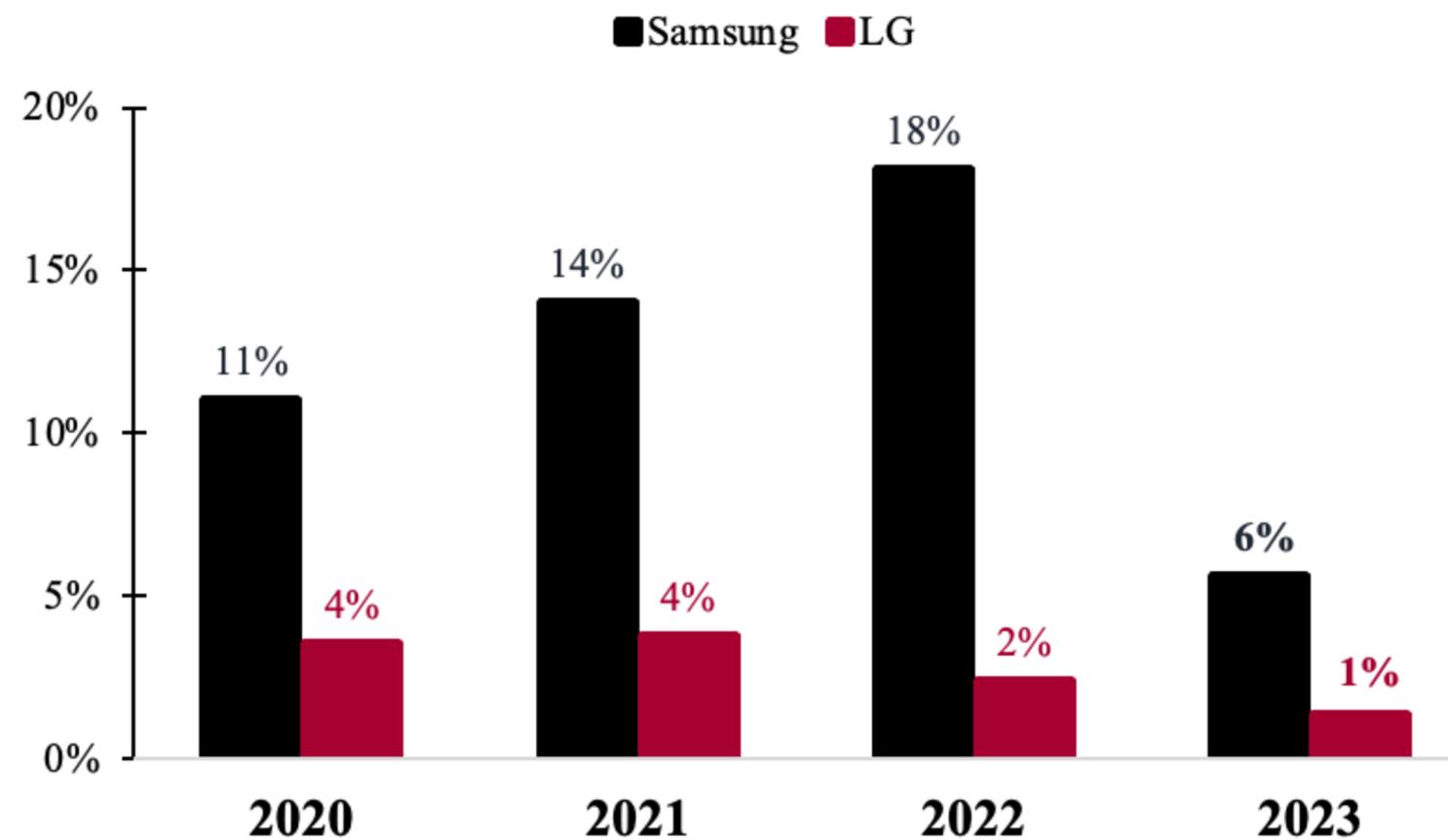
A global reach, retail networks, and digital platforms



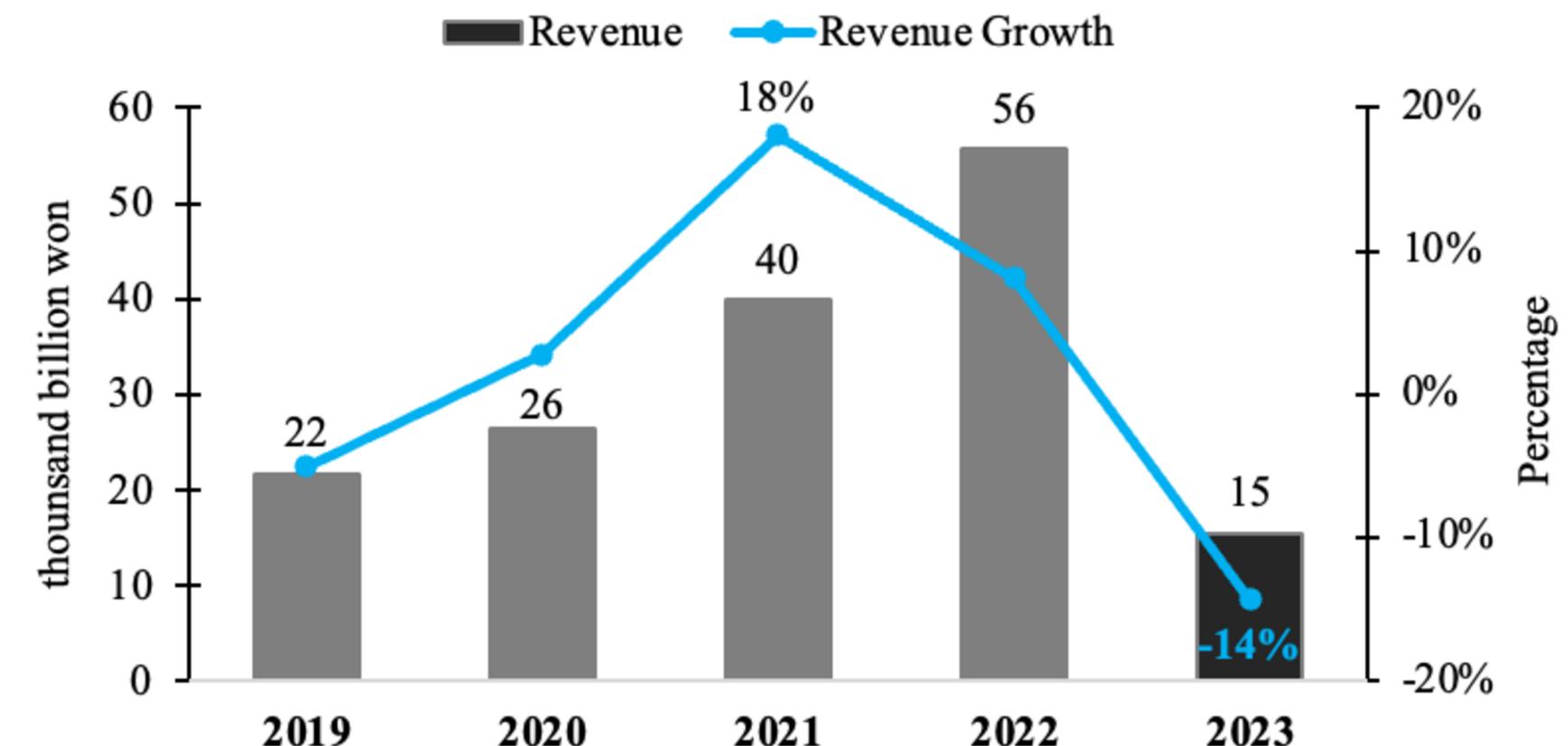
Financial highlights

Revenue

Net Profit Margin of Samsung and LG



Revenue and revenue growth of Samsung and LG



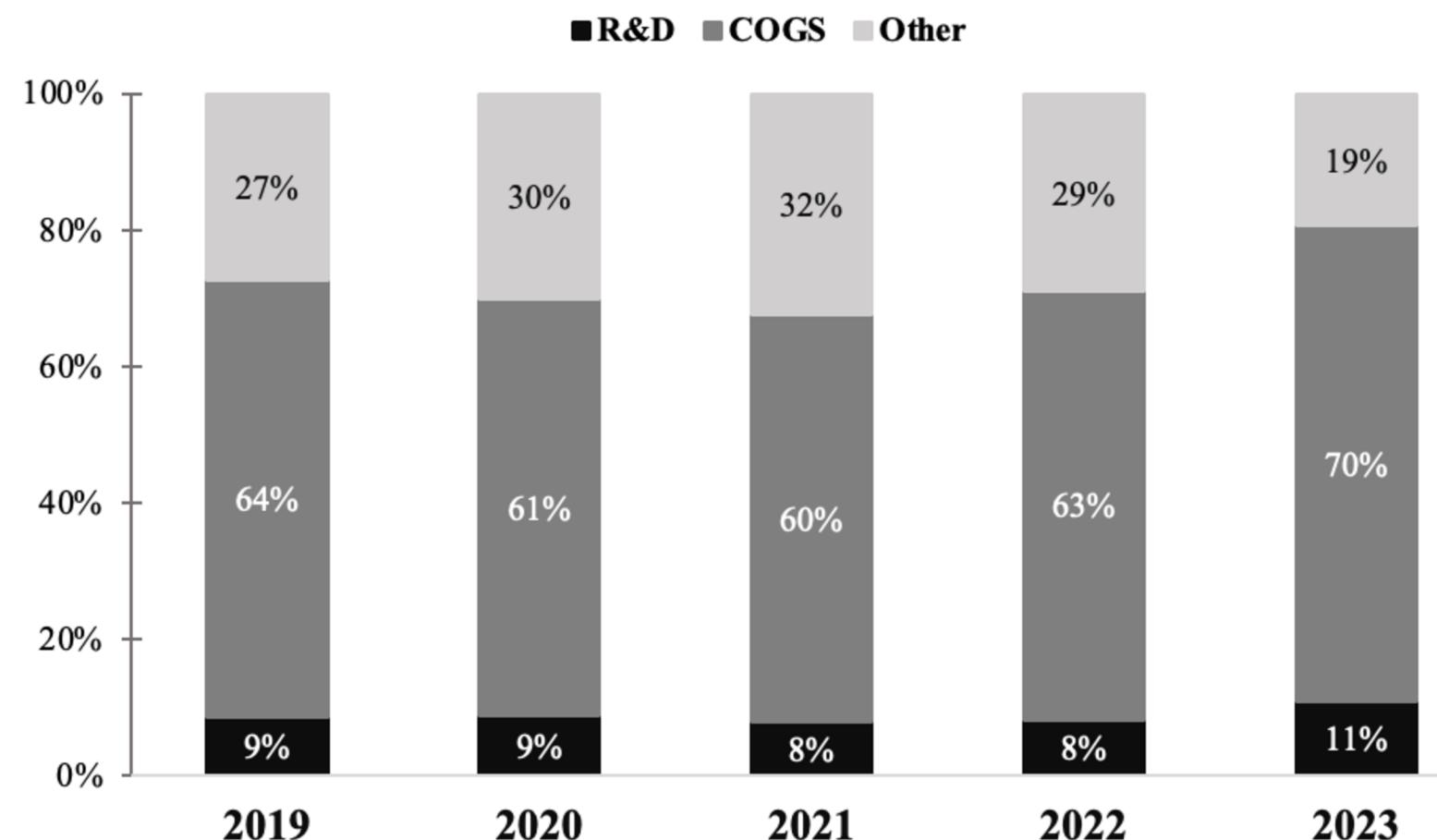
- Samsung Electronics has **outperformed** compared to LG Electronics
- NPM of Samsung in 2023 was significantly lower than the previous year at 6%

- The **decrease by 14%** in revenue growth of Samsung in 2023 significantly trigger the **low purchasing demand** of business partners (B2B) and customers (B2C).
- Otherwise, the **recovery hints** of chips and memory products appeared in the Q4 2023.

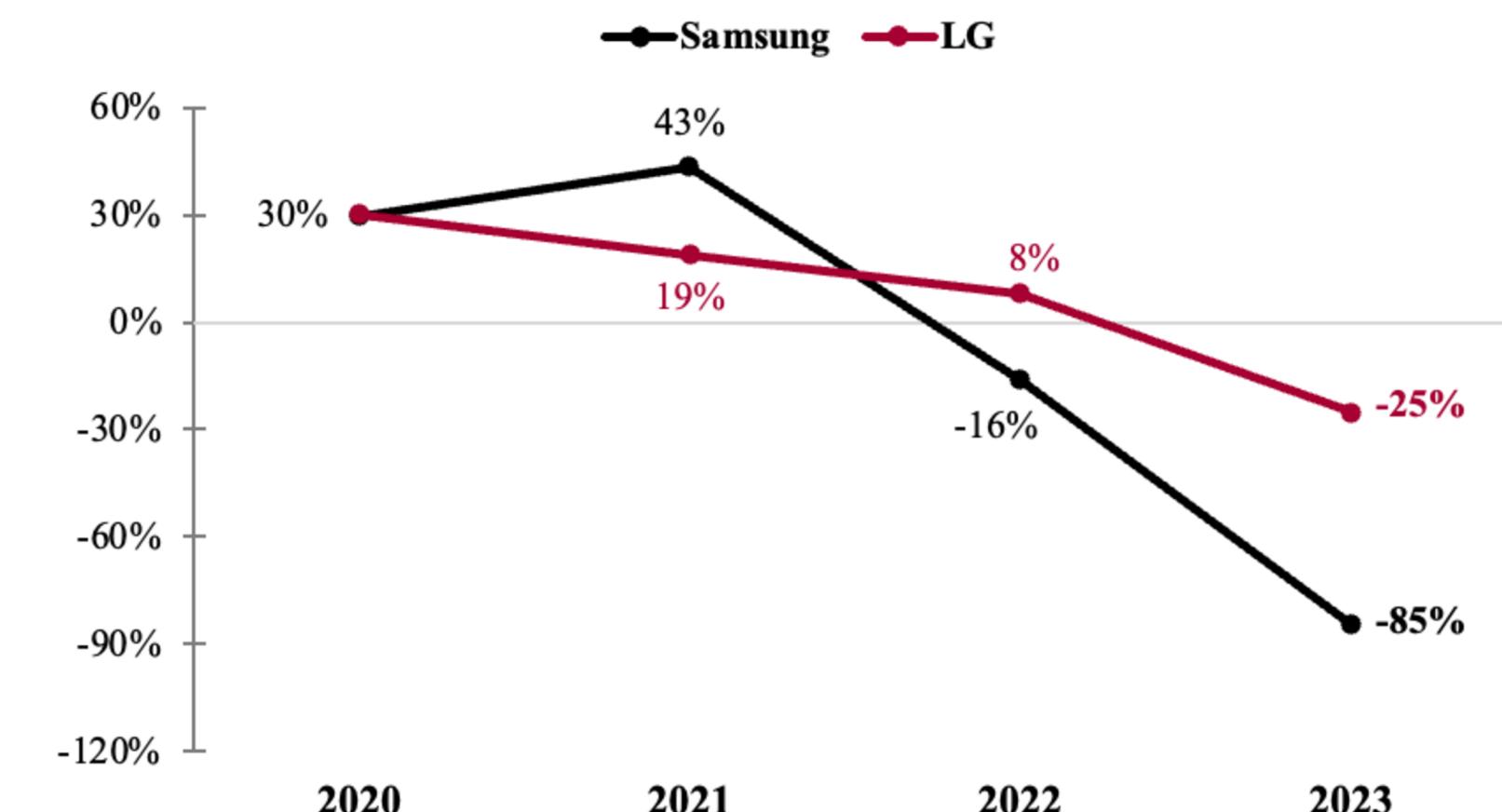
Financial highlights

Profitability

Manufacturing Expense/Revenue



Operating Profit Margin



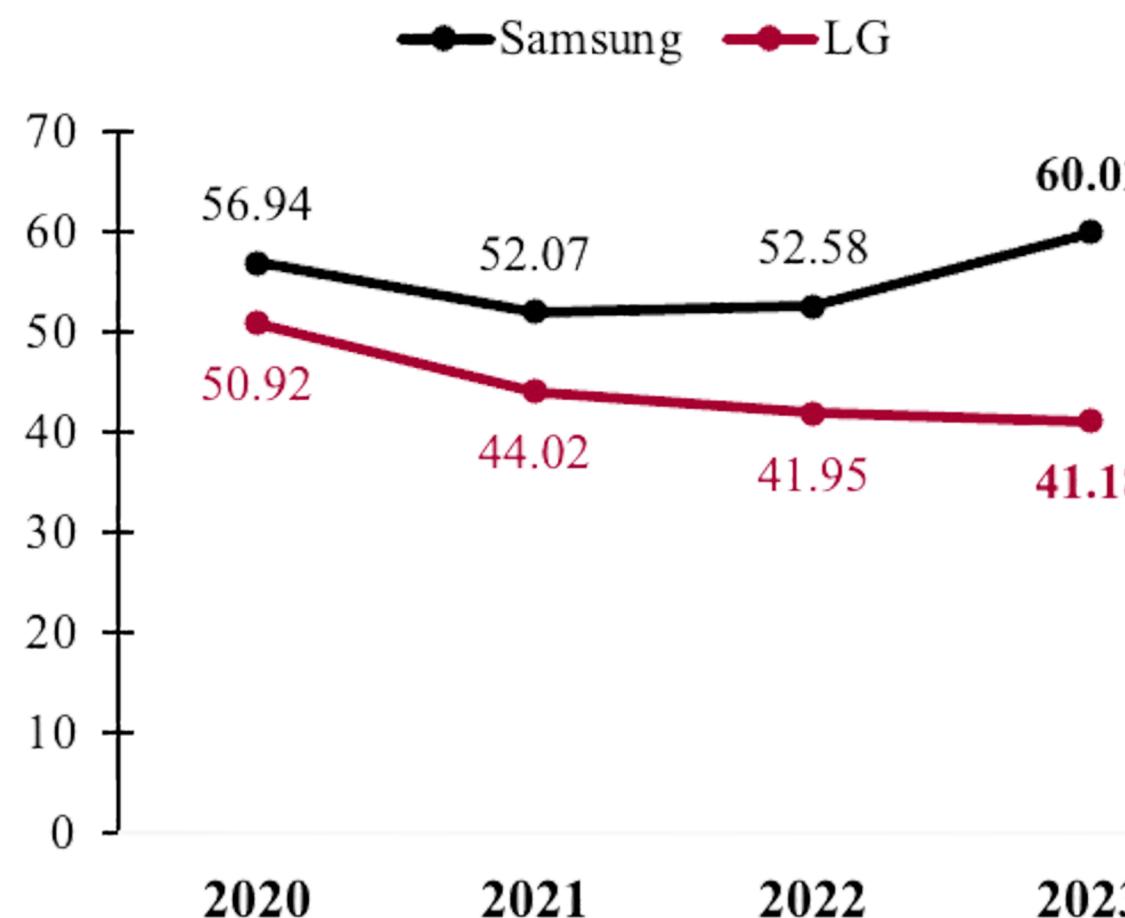
- Under detrimental macro factors and unstable geopolitical in supply chain, Samsung Electronic incurred **70% of earned revenue in COGS**
- R&D expense also rose to 11% over total revenue**

- With the combination of revenue and expense, this contributed to a **85% decrease in operating profit** in 2023.
- Indicating the **worst operating result** for 15 years after the financial crisis 2008.

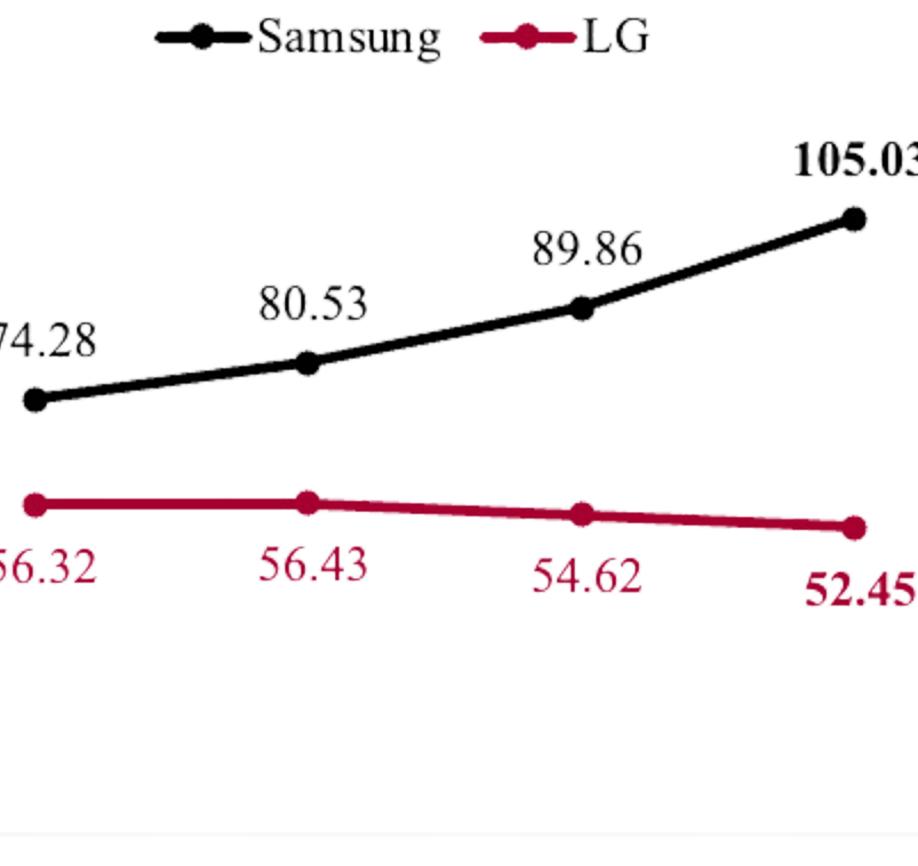
Financial highlights

Efficiency

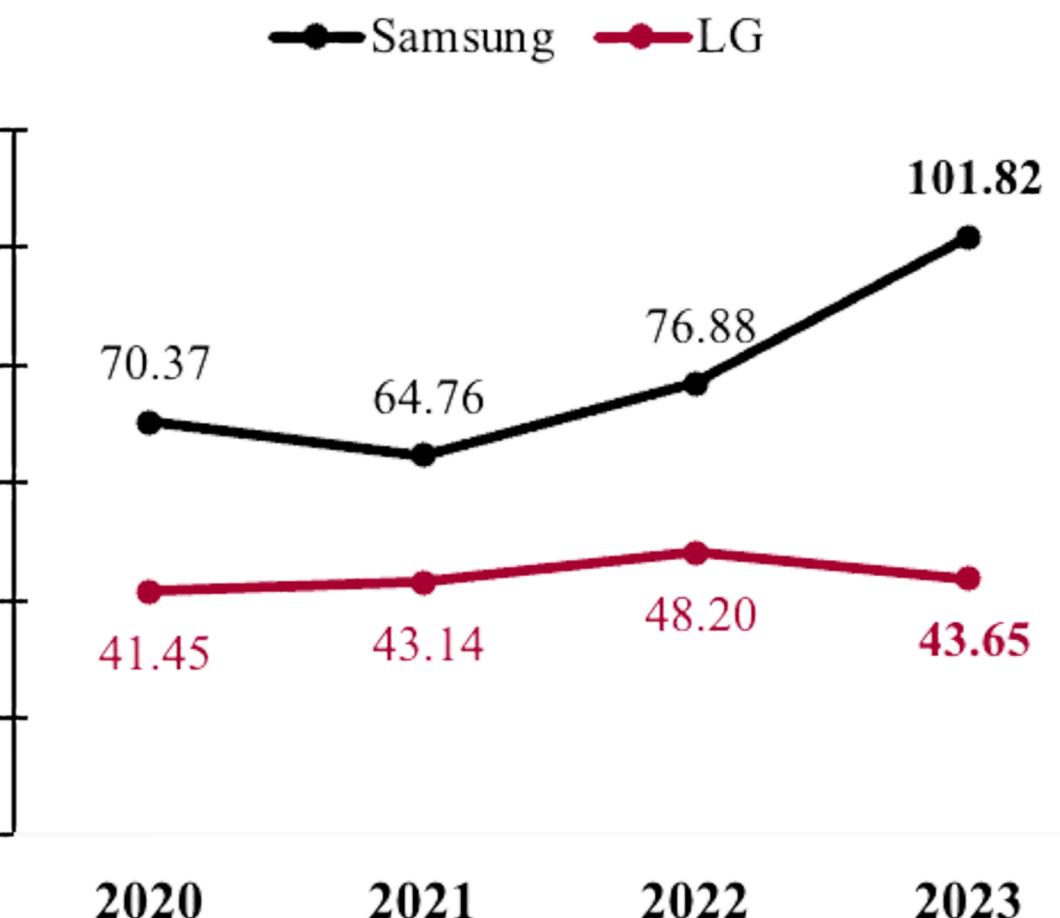
Days in Sales Outstanding



Days in Inventory Outstanding



Cash Conversion Cycle



Low purchasing power

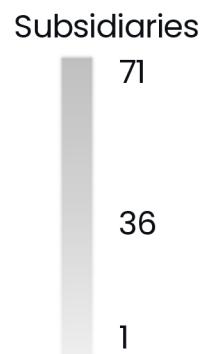
**Pessimistic indicators
from macroeconomy**

Higher level of stocks in inventory
Lengthen the inventory turnover process

Lower account receivable turnover

Increase in cash conversion cycle
from 76 in 2022 to 101 in 2023

Subsidiaries & Affiliate Network



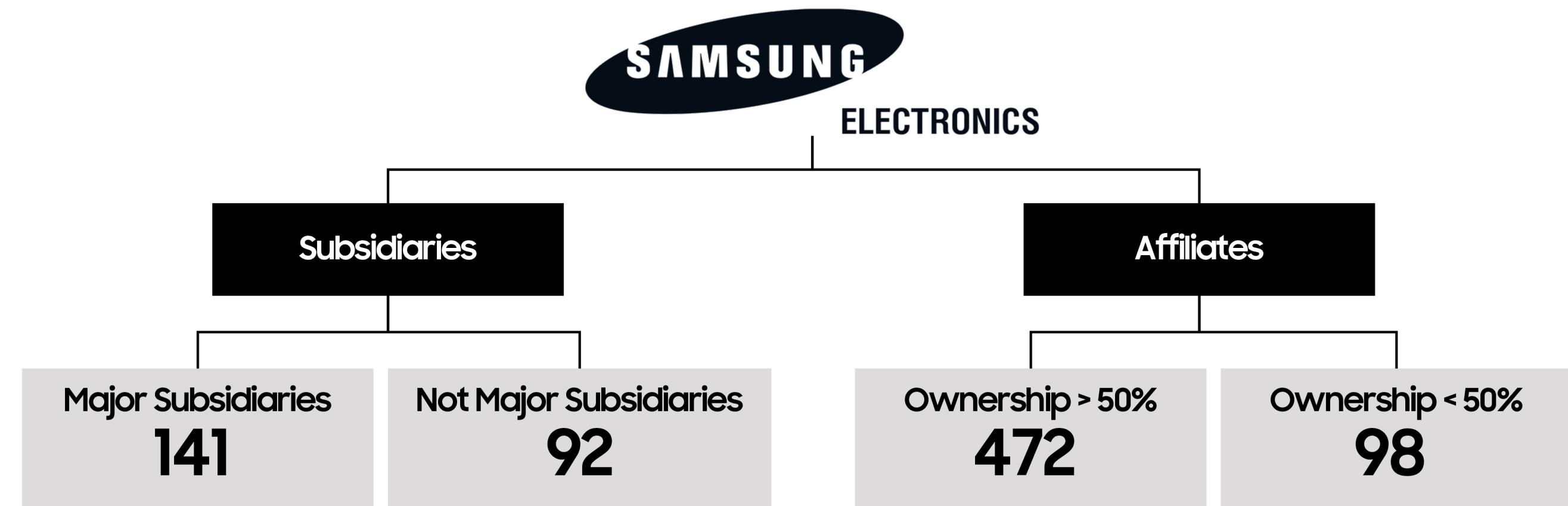
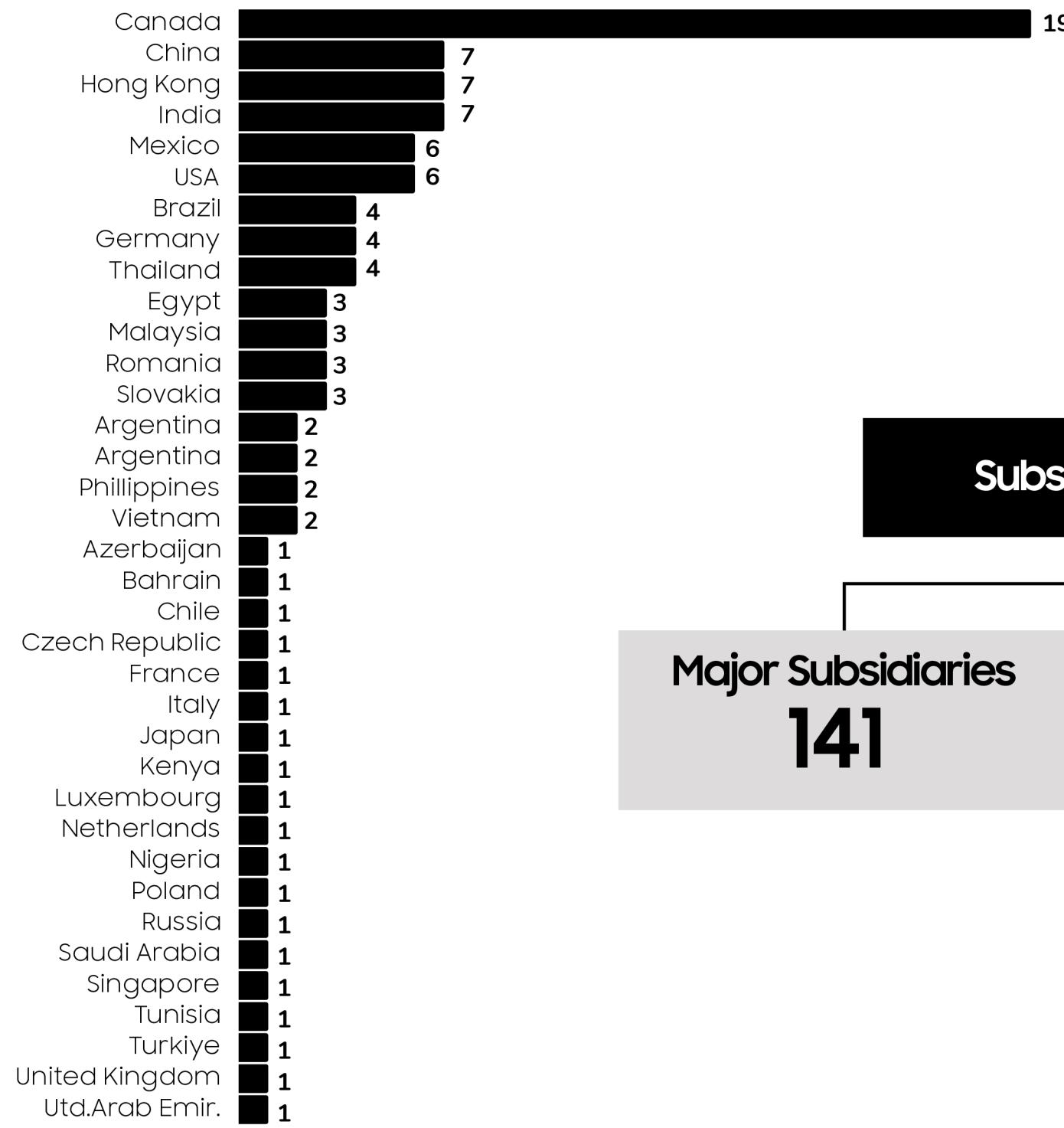
233 subsidiaries

Top 5 countries

Korea	35	companies
Canada	31	companies
China	30	companies
The U.S.	29	companies
Germany	11	companies

Subsidiaries & Affiliate Summary

List of affiliates companies have under 50% ownership



Subsidiaries Network

Reasons why Samsung creates so many

Diversification	<ul style="list-style-type: none">• Maintain multiple revenue channels and spread risk across industries and markets.• Market Power & Synergy<ul style="list-style-type: none">◦ Positioning in an attractive industry by cross-subsidization
Knowledge Exchange	<ul style="list-style-type: none">• MNE headquarters in newly industrialized countries (NICs) can absorb knowledge from their worldwide subsidiaries.• Procedural knowledge-sharing among peer GACs Sustained competitive advantages
Tax Reduction	<ul style="list-style-type: none">• Having advanced processes and financial resources Ensures that taxes are computed fairly and effectively, helping to optimize financial structure.• Positioned in countries that have low corporate tax rates in order to reduce its global tax burden
Brand Positioning	<ul style="list-style-type: none">• Ensure consistency across the entire brand• Create distinctiveness and positioning for each market based on local requirements and culture.

Transfer Pricing Methods Overview

DEFINITIONS

- **Transfer pricing:** the setting of price for transactions between related parties
- **Transfer pricing methods:** ways of establishing arm's length prices or profits from transactions between associated enterprises

Help assure that controlled transactions conform to the arm's length standard.

(OECD, 2022)

ARM'S LENGTH STANDARD

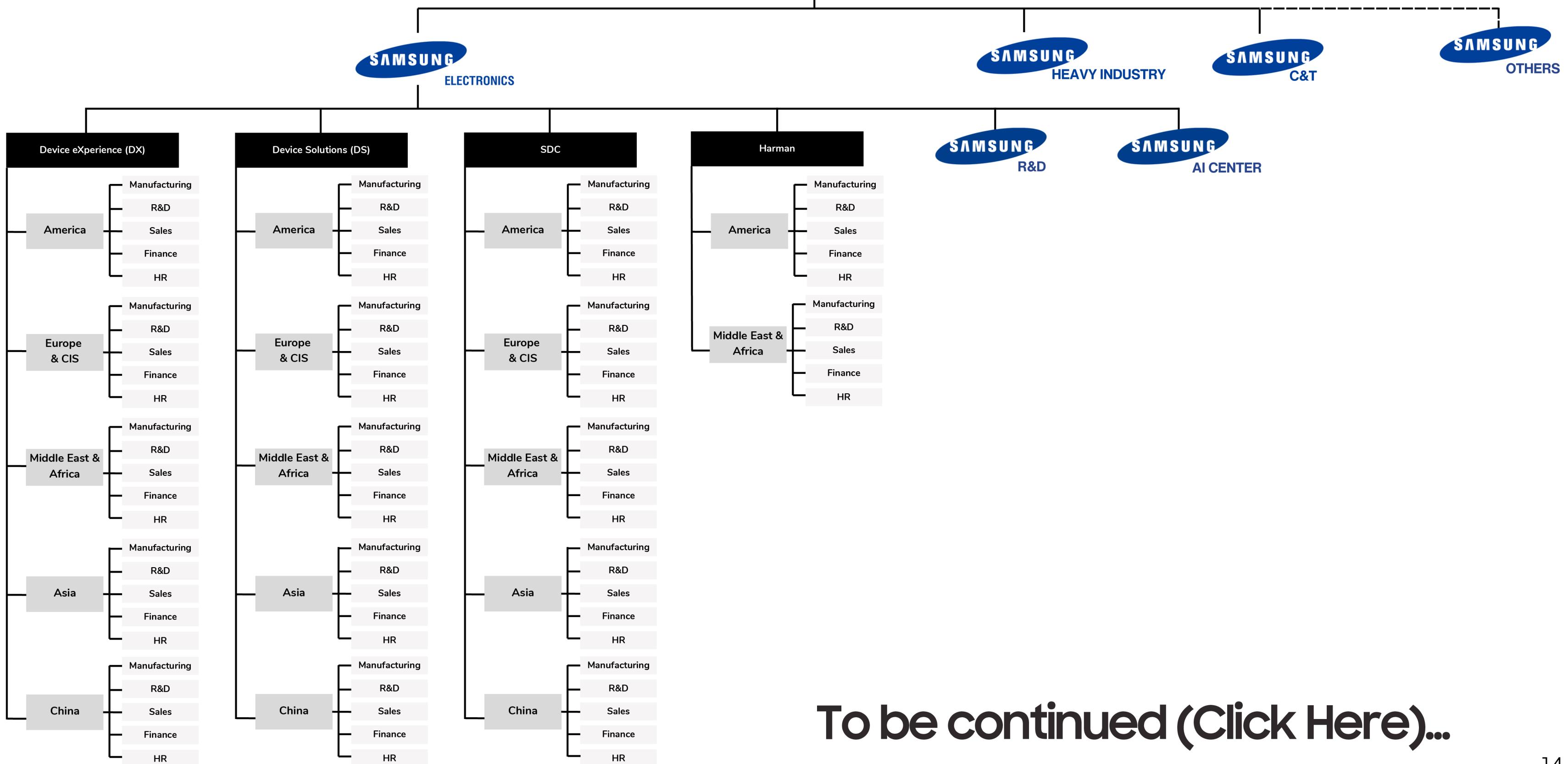
- The international standard
- Compares the price between related entities with the price of independent entities

Example: A Parent Company purchases products from its subsidiaries

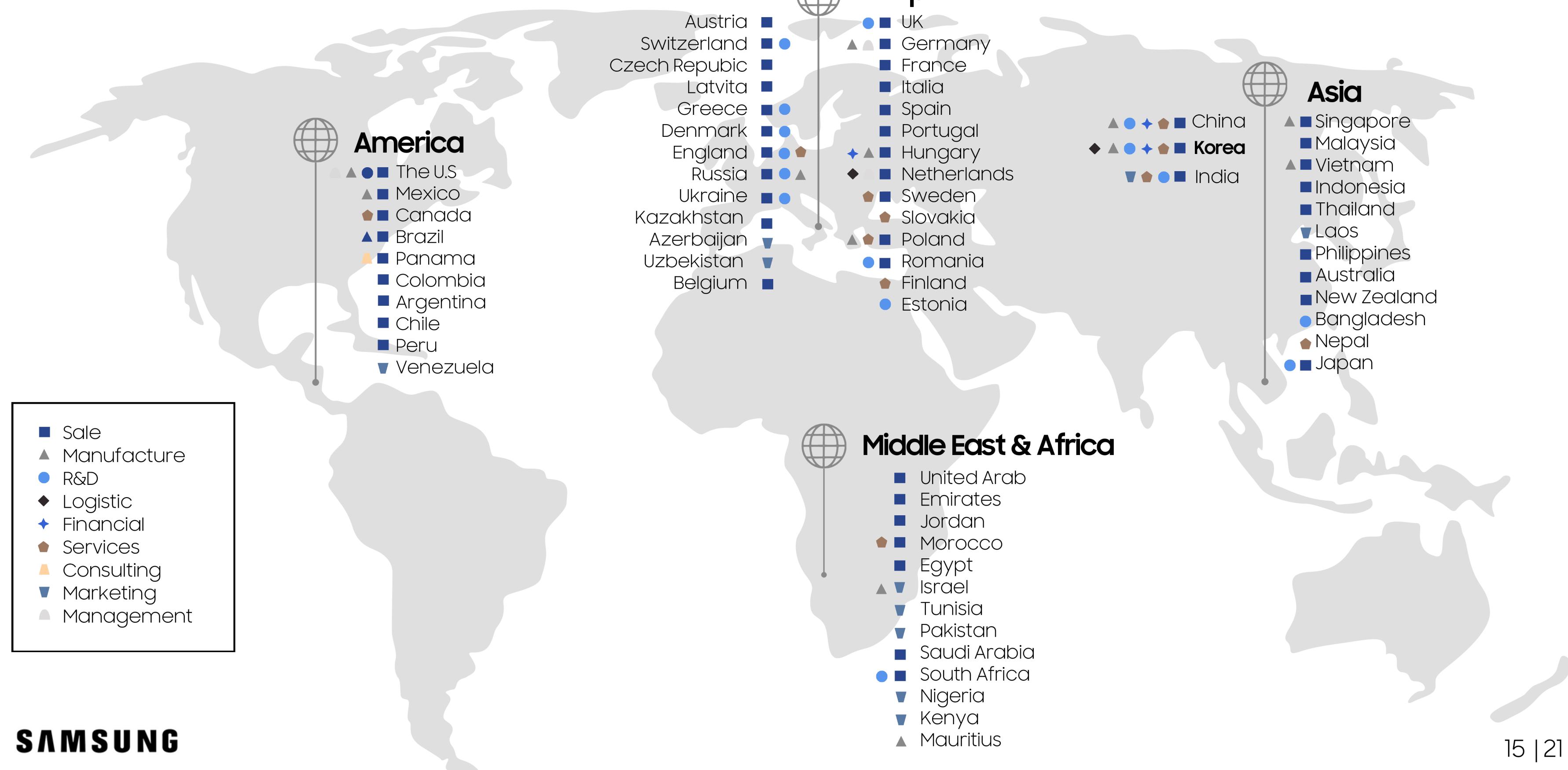
The Parent company designs the profit and local income tax of subsidiaries by setting the price.

The Organisation for Economic Co-operation and Development (OECD) issued The OECD Transfer Pricing Guidelines (OECD Guidelines)

SAMSUNG

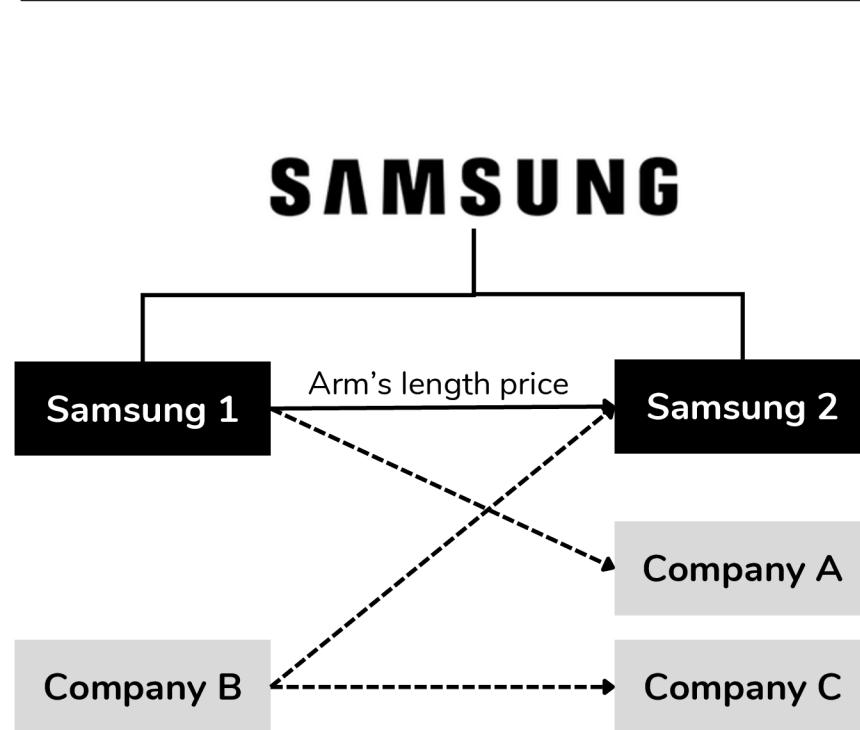


Global Network

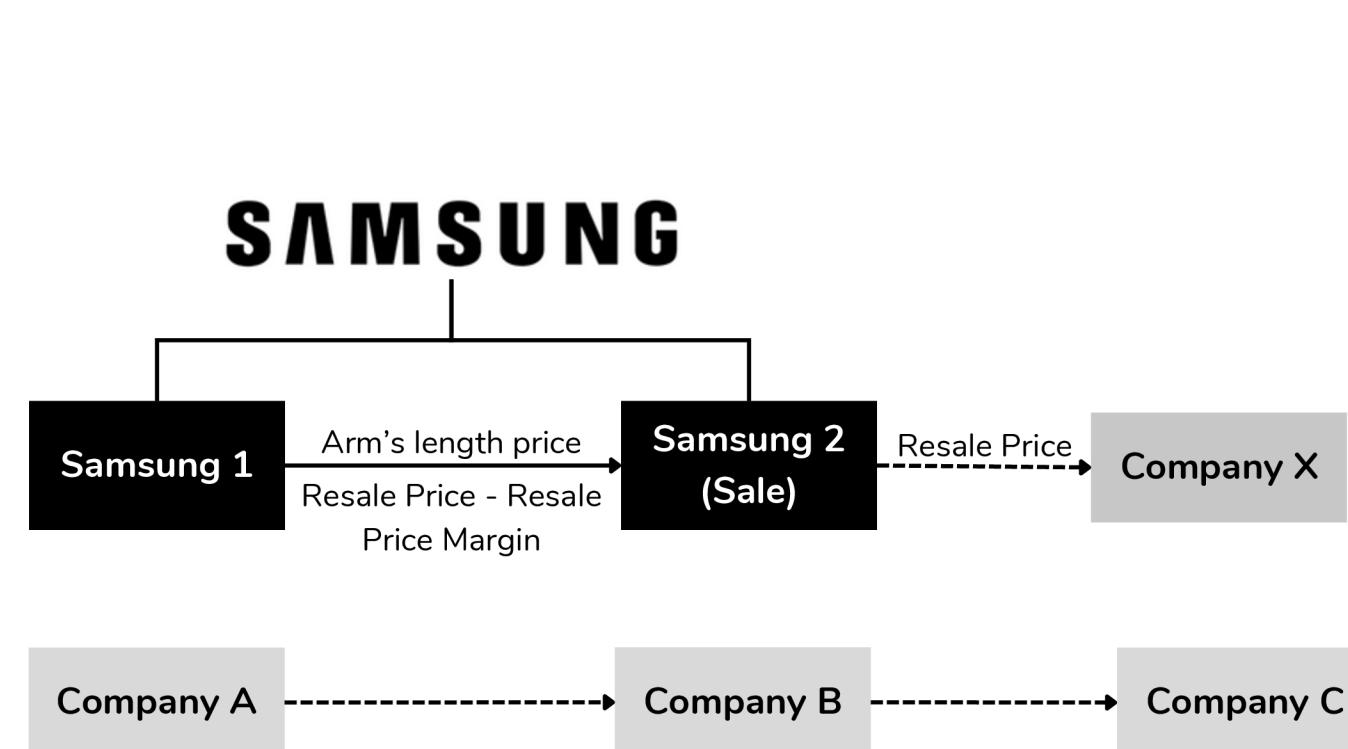


Traditional Transaction Methods

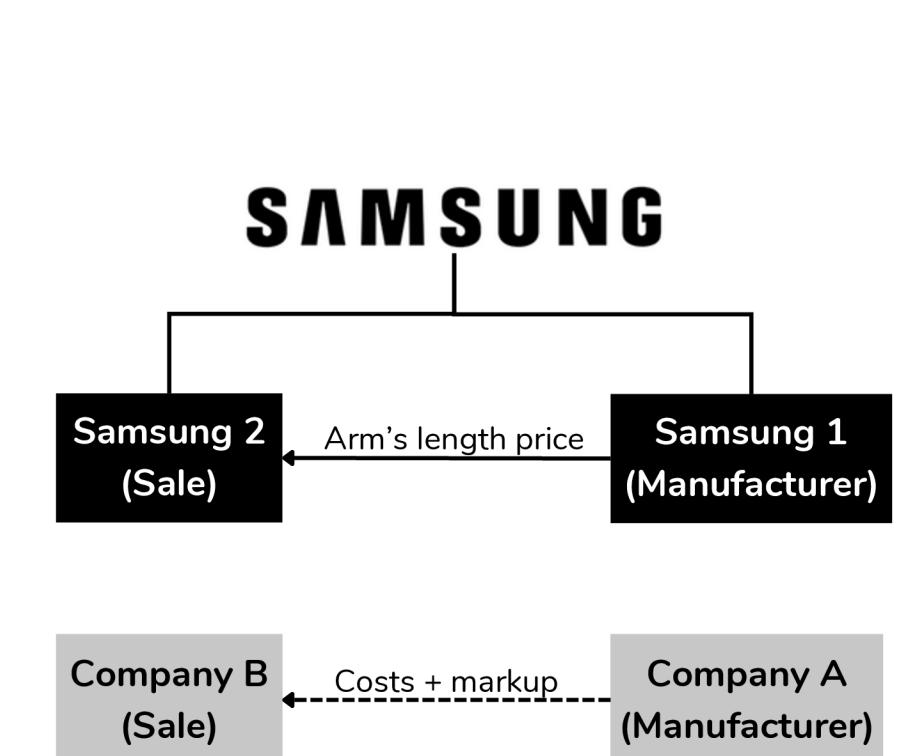
Comparable Uncontrolled Price (CUP)



Resale Price Method (RPM)



Cost Plus Method



Formula:

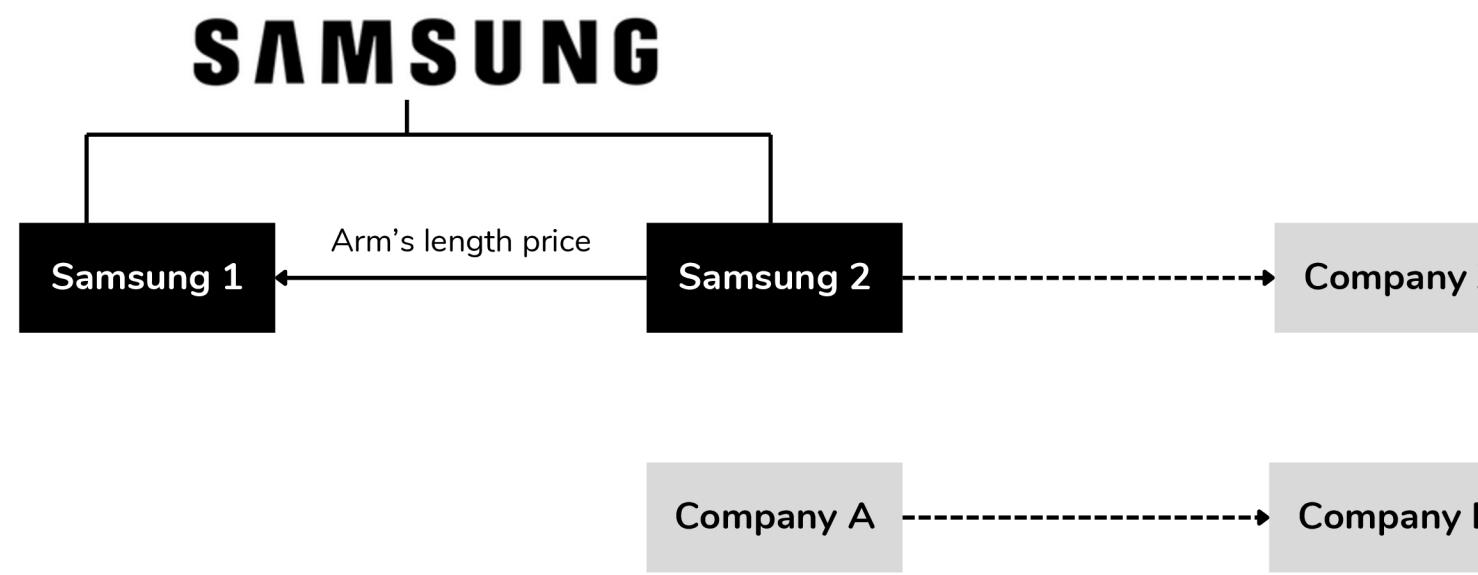
$$TP = RSP \times (1 - GPM)$$

Formula:

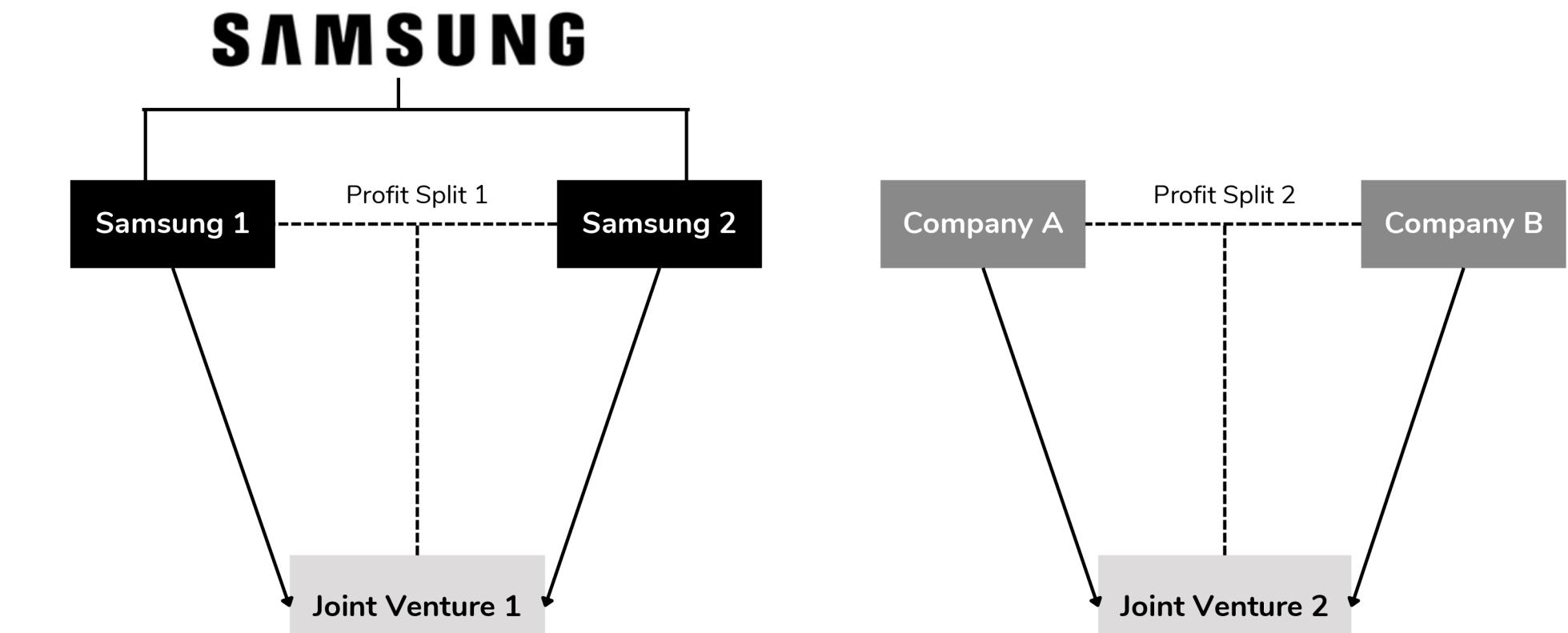
$$TP = COGS \times (1 - Cost \text{ plus Markup})$$

Traditional Transaction Methods

Net Margin Method (TNMM)



Profit Split Method (PSM)



Tax Heaven of Samsung

Country	Number of Companies
Brit. Virgin Is.	1
Cayman Islands	4
Netherlands	11
Switzerland	3
Luxembourg	2
Hong Kong	14
Singapore	13
Utd.Arab Emir	11

Data: Countries classified as Tax Haven according to Tax Justice Network

Samsung heir cleared of tax evasion allegations



Chang Dong-woo

All News · 09:43 March 03, 2022



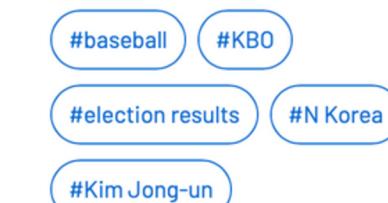
SEOUL, March 3 (Yonhap) — Samsung Group heir Lee Jae-yong has been cleared of allegations that he evaded taxes through the establishment of a paper company in the British Virgin Islands, according to police Thursday.

The financial crime unit of the Seoul Metropolitan Police Agency said it decided not to file tax evasion and other charges against the Samsung Electronics Co. vice chairman in a case launched after the Youth Justice Party filed a criminal complaint last year.

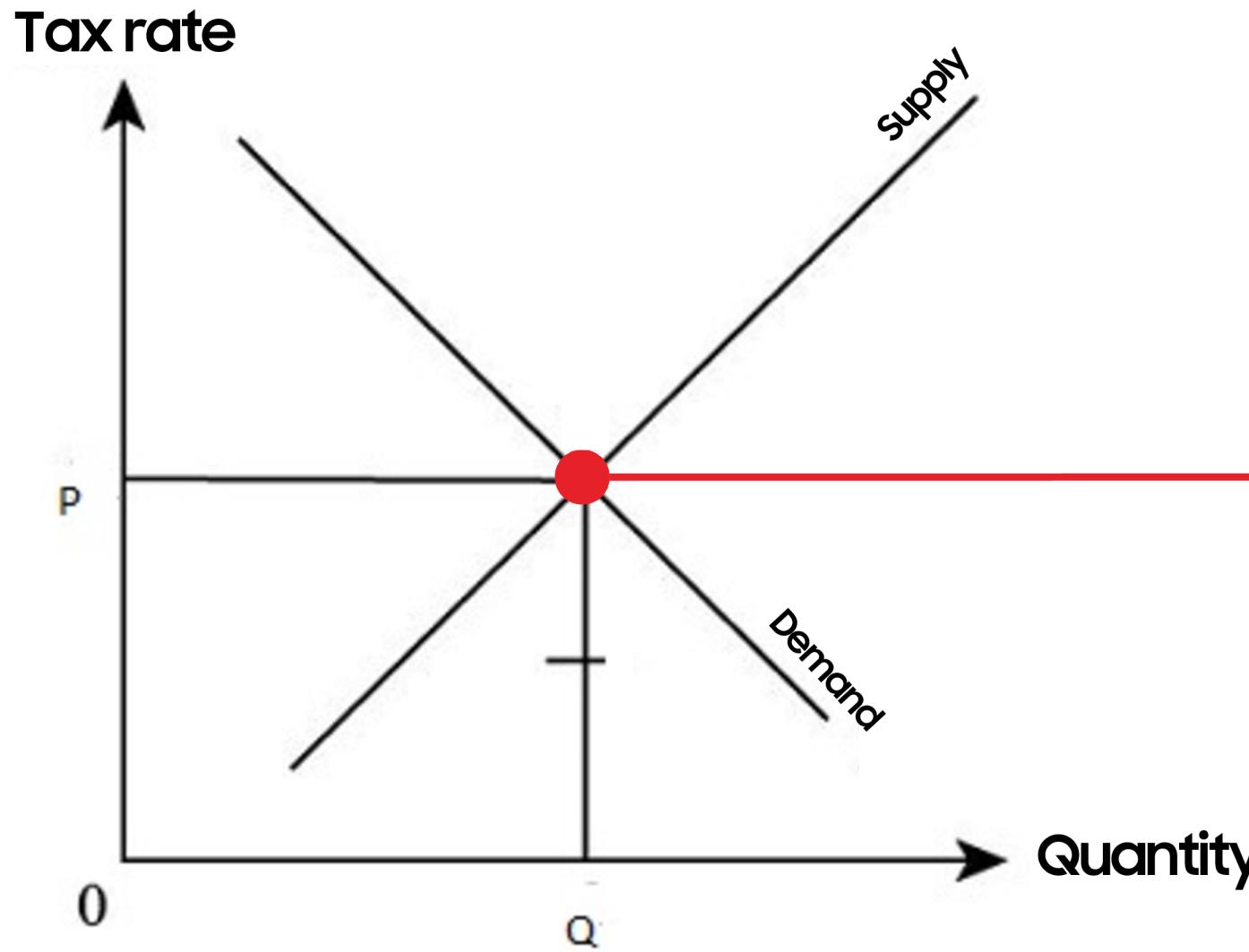
The party filed the complaint after Lee was purported to have created a paper company in the Virgin Islands in order to create a Swiss bank account in 2008. The suspicion was first raised by online news outlet Newstapa in October of last year.

Police reportedly failed to confirm specific criminal offenses, as they were unsuccessful in obtaining evidence from overseas despite seeking cooperation from British and Swiss law enforcement authorities.

Issue Keywords



Why don't Europe stop tax havens? Any benefit?



Supply = International business

Tax Equilibrium

*Do not want to decrease tax rate so allow tax heaven to gain tax equilibrium

Demand = Government

- When tax demand > tax supply (high tax rate), quantity decrease (international enterprise avoid to join high tax-rate market)
- When tax demand < tax supply (low tax rate), quantity increase (international enterprises are willing to join market)

Why governments in developed countries allow the existence of tax heavens ?

**Encourage
harmony tax
systems**

- The existatnce of tax havens would create a tax competitions among countries and it might help create a more harmony tax systems

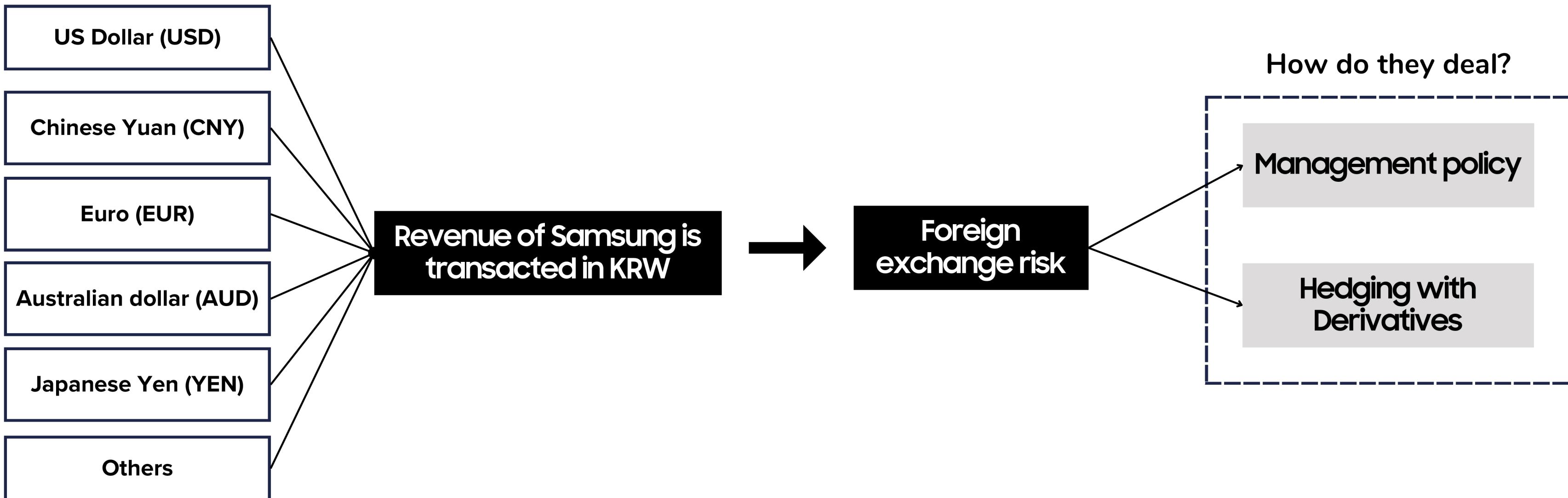
**Economic
Growth**

- Tax havens can indirectly facilitate economic growth in high-tax countries by reducing the cost of financing investment in those countries.

Samsung deals with exchange risk

Why does Samsung suffer exchange risk?

Global Operations and Multi-Currency Revenue: Samsung operates manufacturing facilities and sales globally, generating revenue in various currencies, despite fluctuating exchange rates due to economic factors.



Samsung deals with exchange risk

Instruments used

Currency forward contract

Samsung Heavy Industries (SHI)

- With each new shipbuilding contract, the company sets the currency of payment, allowing it to forecast cash flow by currency at the point of signing.
- With these cash flow forecasts, the shipbuilder can determine its long and short FX positions by currency, then write appropriate buy and sell forward contracts.
- At the point of contract signing, profit-margin targets are fixed and FX volatility risk removed.

	Asset	Liabilities	Valuation gain	Valuation loss	Unit: KRW mil
Currency forward	132,578	64,774	625,471	763,850	

- Currency forwards are bought through a bank for the purpose of trade and hedging.
- 30/09/2023, Samsung had **2,646 currency forward contracts** involving **36 foreign currencies**, such as USD, EUR, and JPY

THANK YOU FOR LISTENING

Lecturer: Mr. Tran Minh Hieu

IFM2 | Group 3



GROUP EVALUATION FORM

TRIMESTER 2 – 2023

Team member 1: Trần Thị Hoài Lam

Team member 2: Trần Bảo Long

Team member 3: Nguyễn Hà Phước Trọng

Team member 4: Đỗ Minh Thy

Team member 5: Nguyễn Thị Vân Anh

Team member 6: Trần Ngọc Thùy Ngân

Team member 7: Phạm Minh Hồng Hạc

Please rate the performance of each person on your team using the grid below. Write each person's name at the top of this evaluation form. For each item, rate each team member on a scale of 1 to 10. The peer evaluation form should be attached by the end of your group report. **Any group not completing this evaluation form will receive a 10% deduction on the grade.**

Criteria	Trần Thị Hoài Lam	Trần Bảo Long	Nguyễn Hà Phước Trọng	Đỗ Minh Thy	Nguyễn Thị Vân Anh	Trần Ngọc Thùy Ngân	Phạm Minh Hồng Hạc
Contribution	10	10	10	10	10	10	10
Availability for team meetings	10	10	10	10	10	10	10
Quality of tasks done	10	10	10	10	10	10	10
Work ethics/ attitude	10	10	10	10	10	10	10
Collaboration	10	10	10	10	10	10	10

Note: The evaluation form's purpose is to provide your lecturer feedback regarding team members' cooperation and participation. The evaluation is used for reference.

The instructor reserves the right to make changes regarding this evaluation if (s)he believes necessary.

Signature

1. Lam
2. Long
3. Trọng
4. Thy
5. Anh
6. Ngân
7. Hạc

Date: 12th April, 2024