

SAMSUNG

# COMPANY ANALYSIS

Lecturer: Mr. Tran Minh Hieu

IFM2 | Group 3

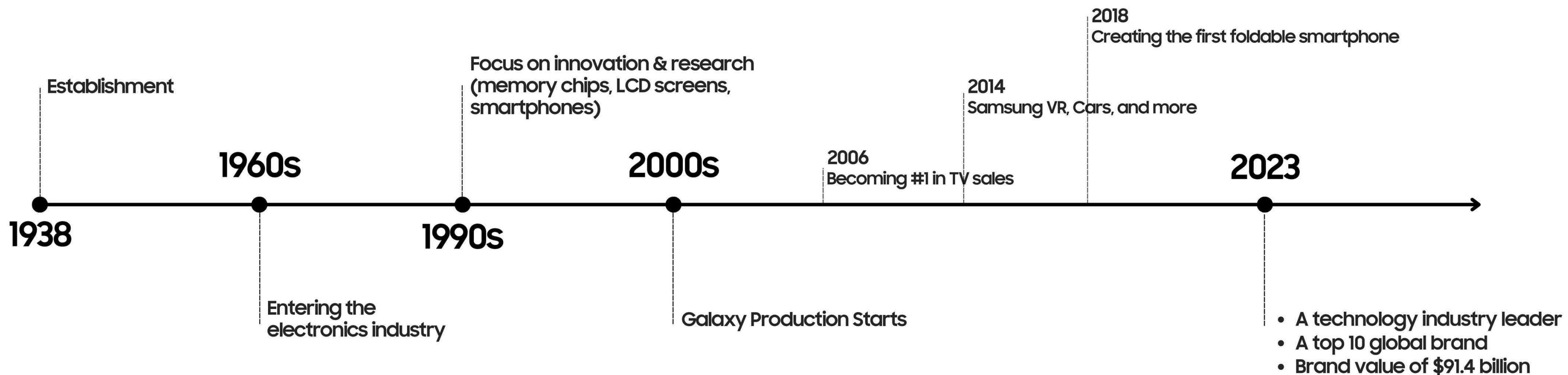


# Agenda

- 
- 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

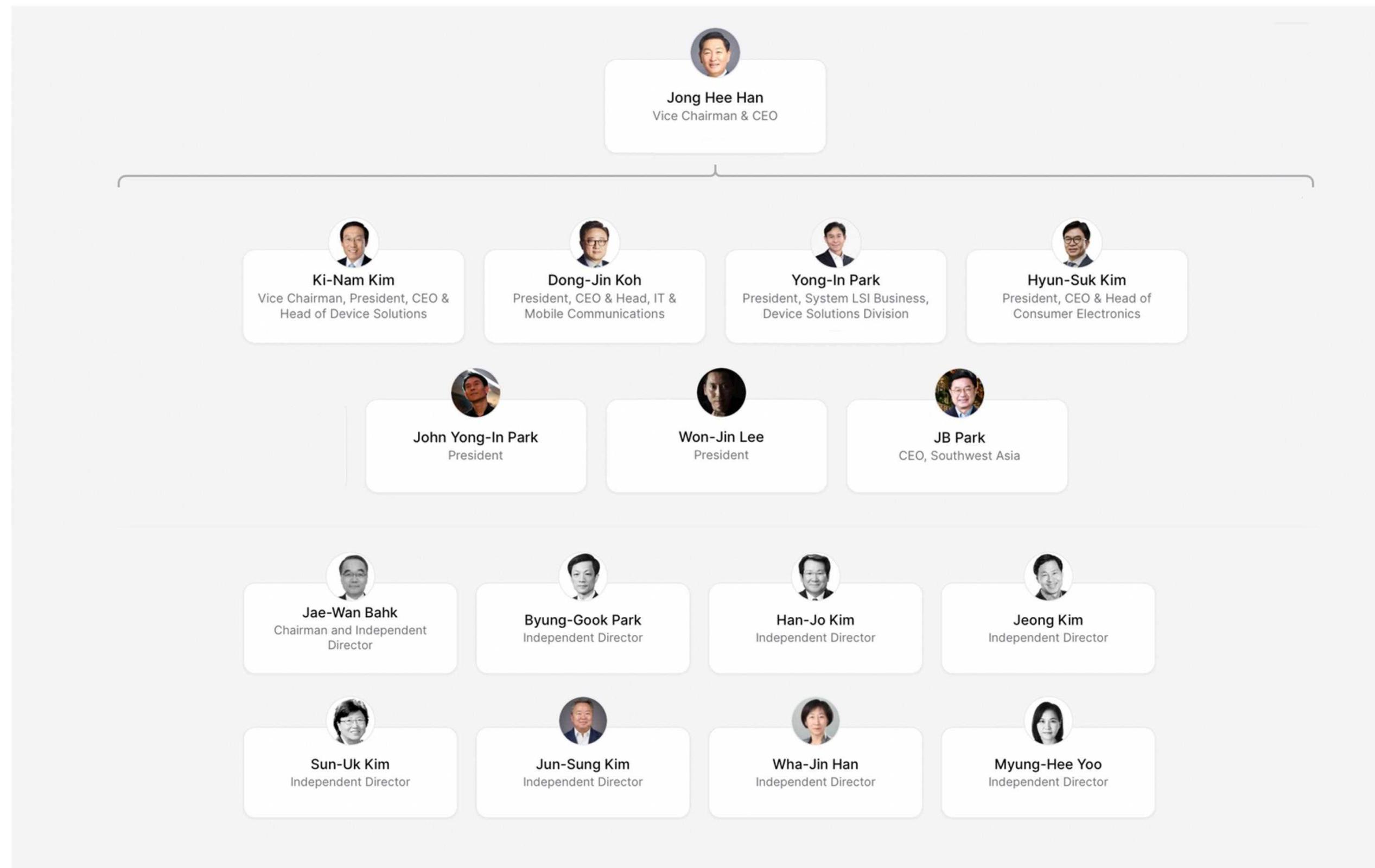
## Consumer Electronics

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

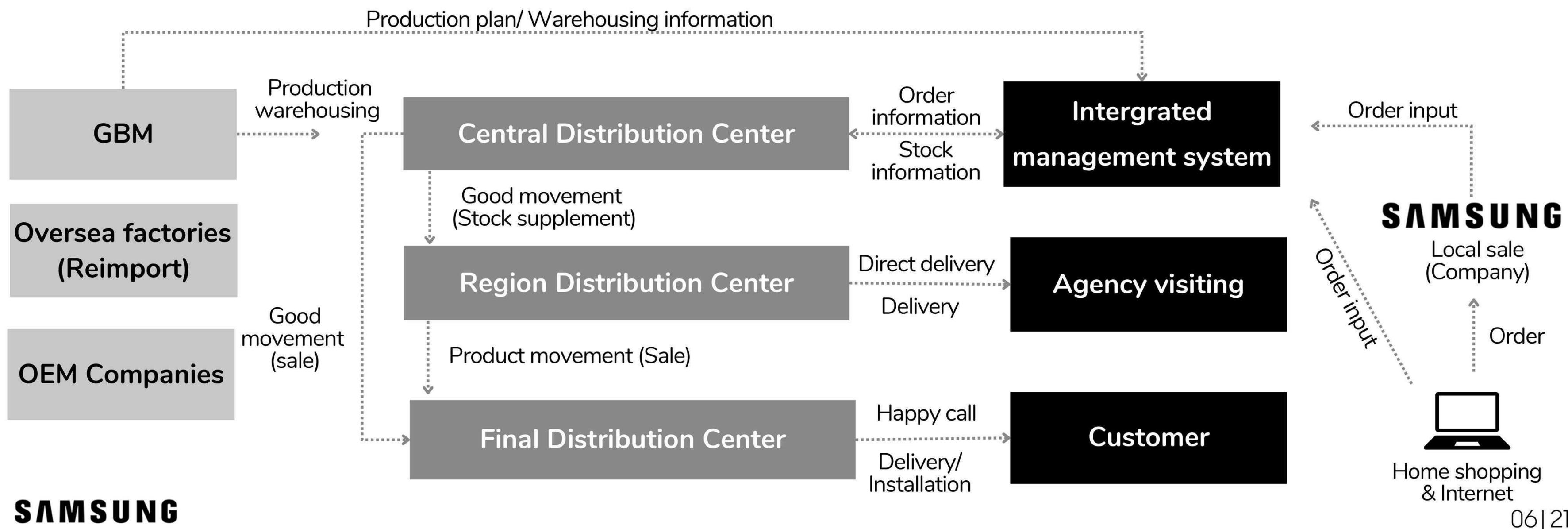
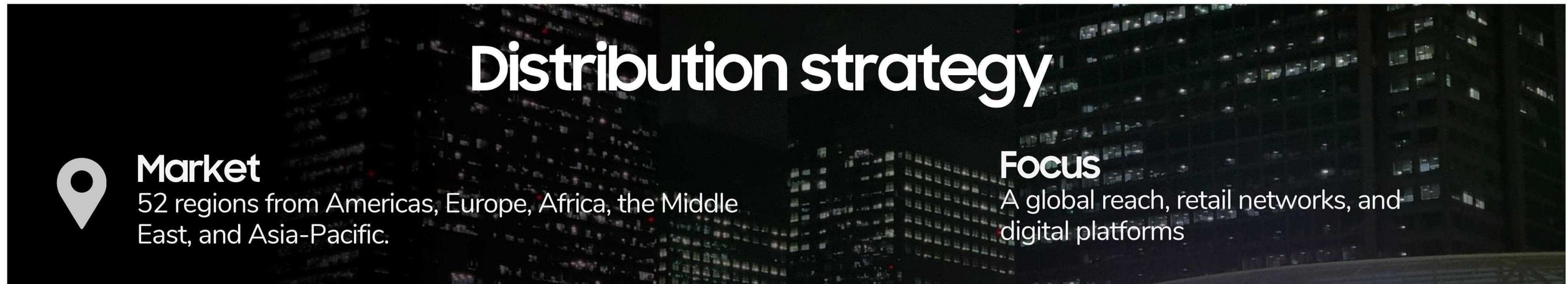
Samsung Heavy Industries  
Samsung C&T Engineering  
Construction Group  
Samsung Engineering

## Financial Services

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

## Services & Others

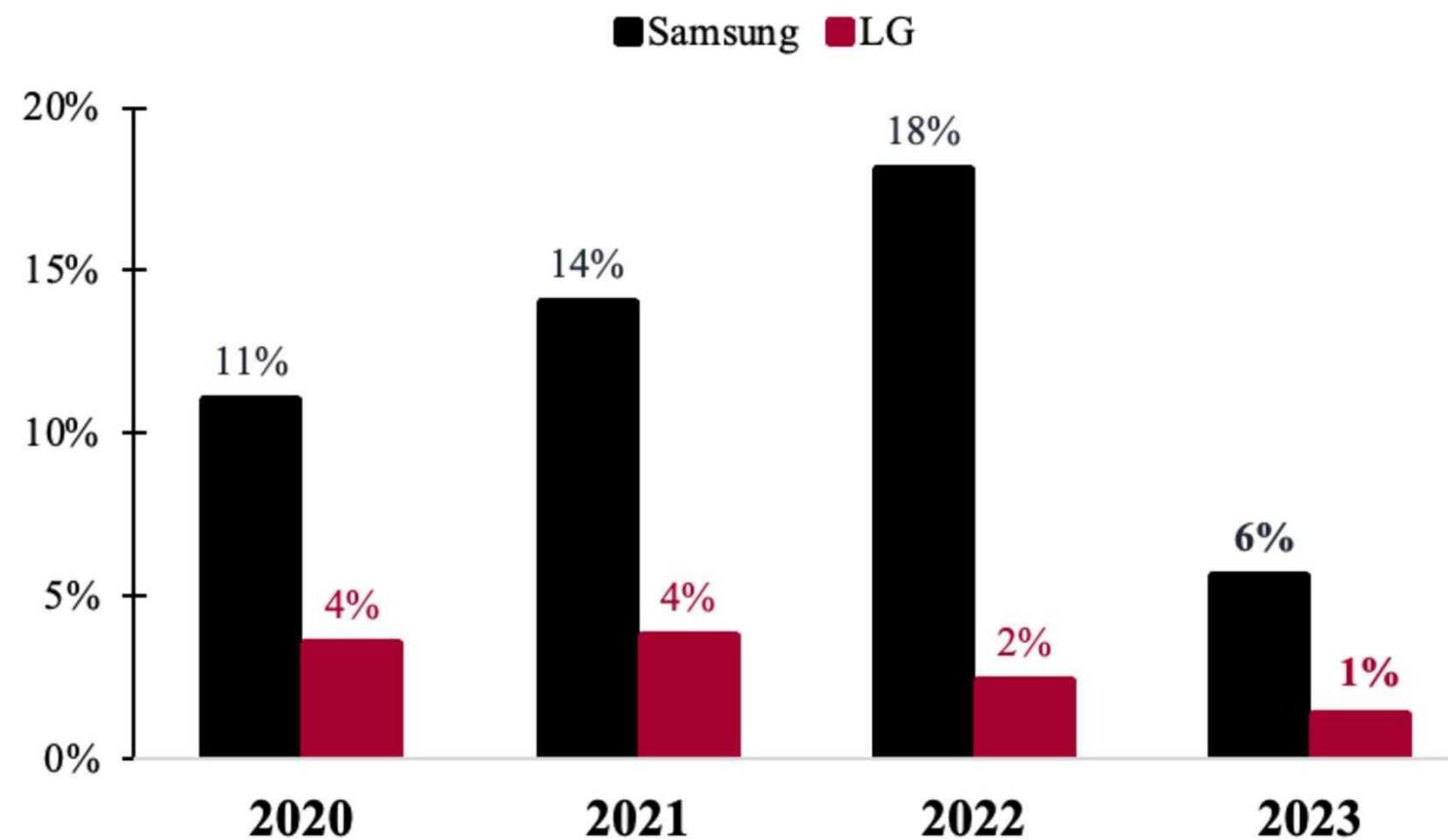
Samsung C&T Trading & Investment  
The Shilla Hotels & Resorts  
Cheil Worldwide  
S-1 Corporation  
Samsung Economic Research Institute  
Samsung Medical Center  
Samsung Biologics  
Samsung Bioepis  
Samsung Welstory  
Samsung fashion  
Samsung resort



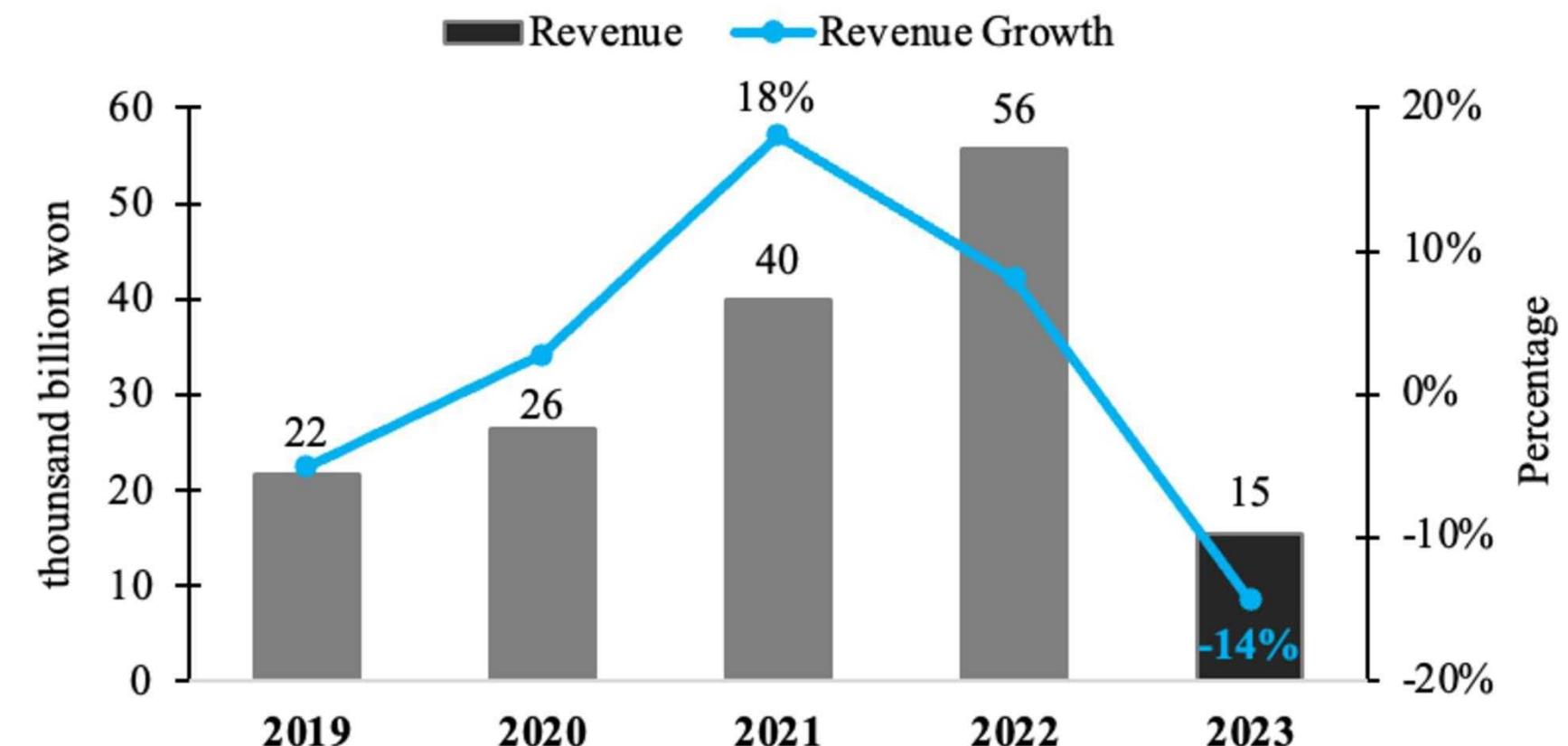
# Financial highlights

## Revenue

Net Profit Margin of Samsung and LG



Revenue and revenue growth of Samsung and LG



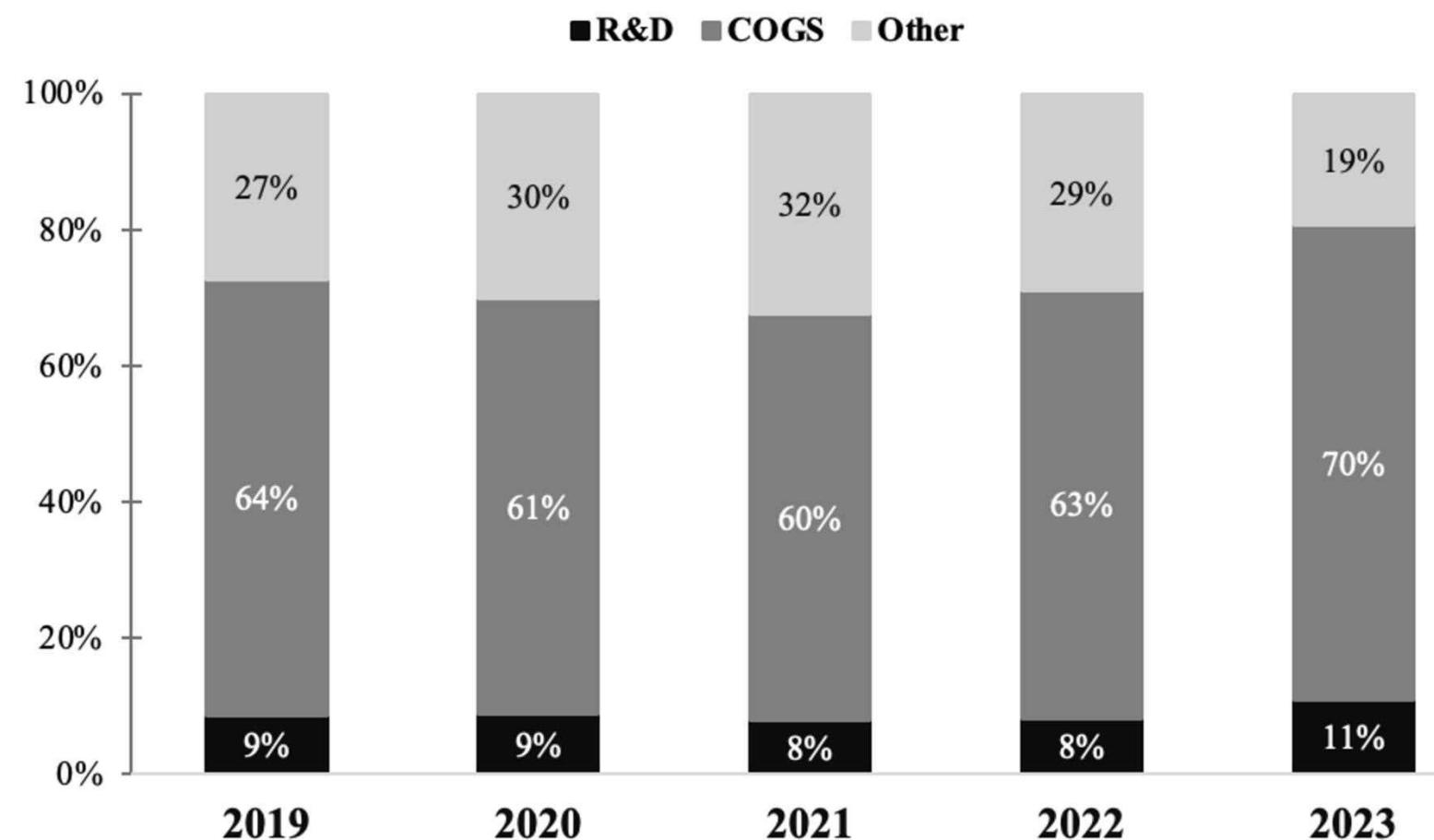
- Samsung Electronics has **outperformed** compared to LG Electronics
- NPM of Samsung in 2023 was significantly lower than the previous year at 6%

- 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.

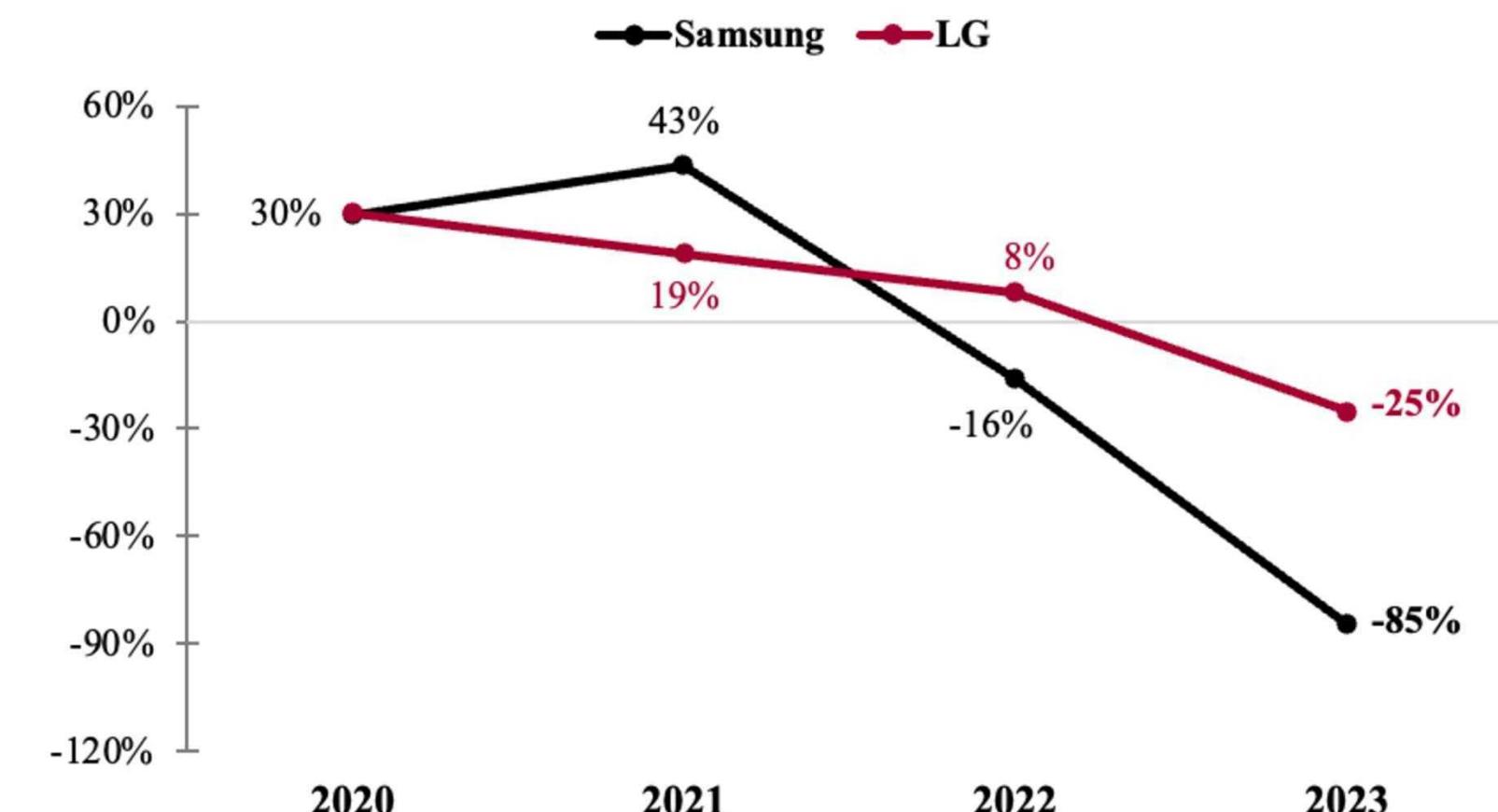
# Financial highlights

## Profitability

### Manufacturing Expense/Revenue



### Operating Profit Margin



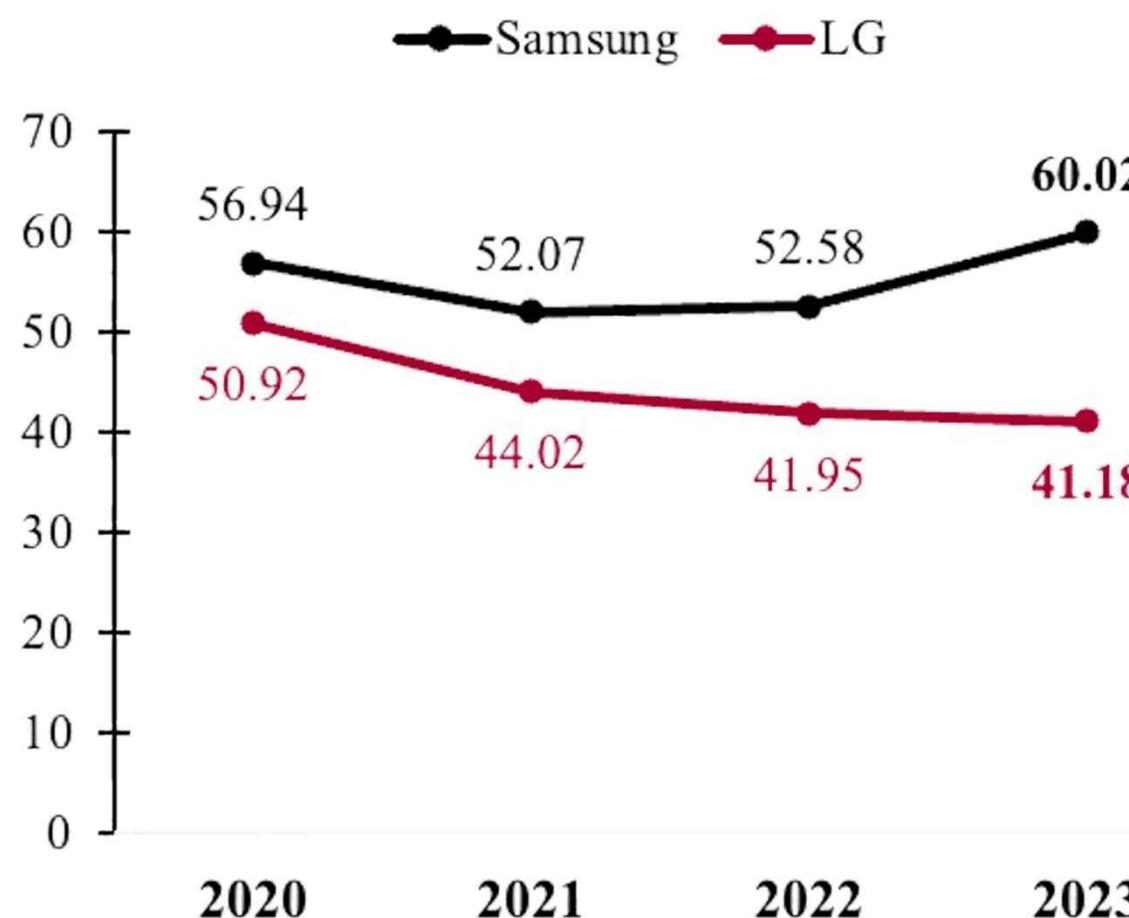
- Under detrimental macro factors and unstable geopolitical in supply chain, Samsung Electronic incurred **70% of earned revenue in COGS**
- R&D expense also rose to 11% over total revenue**

- 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.

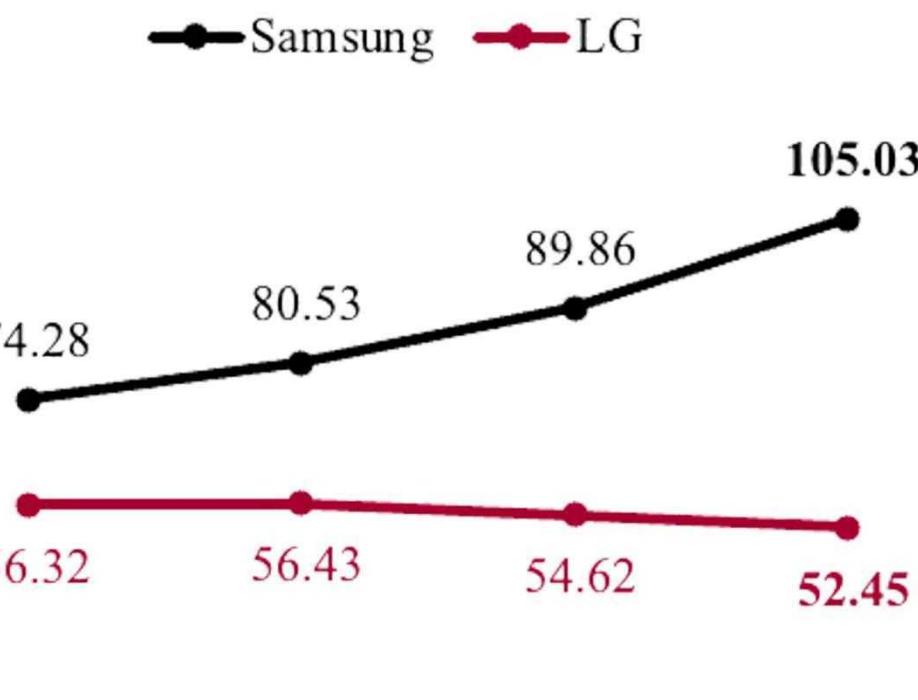
# Financial highlights

## Efficiency

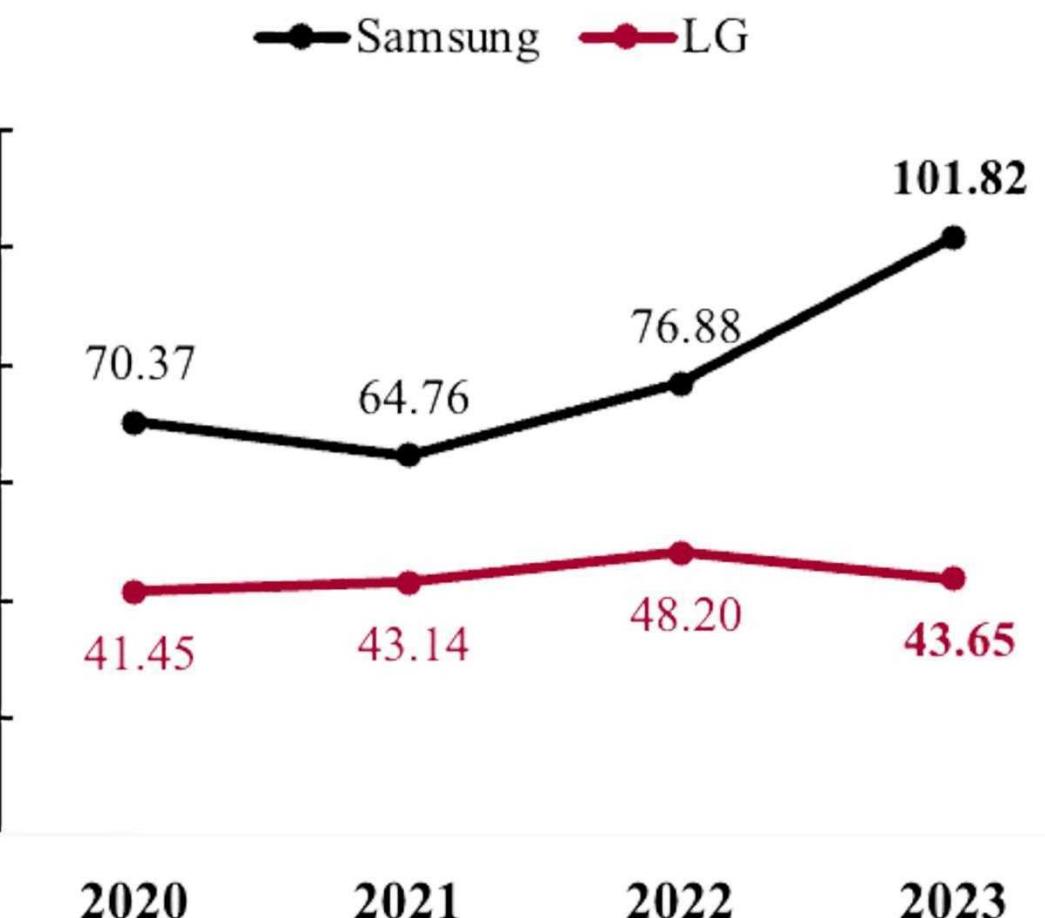
**Days in Sales Outstanding**



**Days in Inventory Outstanding**



**Cash Conversion Cycle**



**Low purchasing power**

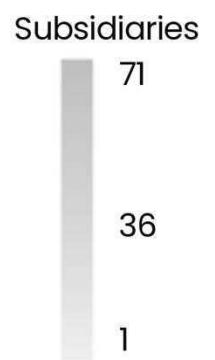
**Pessimistic indicators  
from macroeconomy**

Higher level of stocks in inventory  
Lengthen the inventory turnover process

Lower account receivable turnover

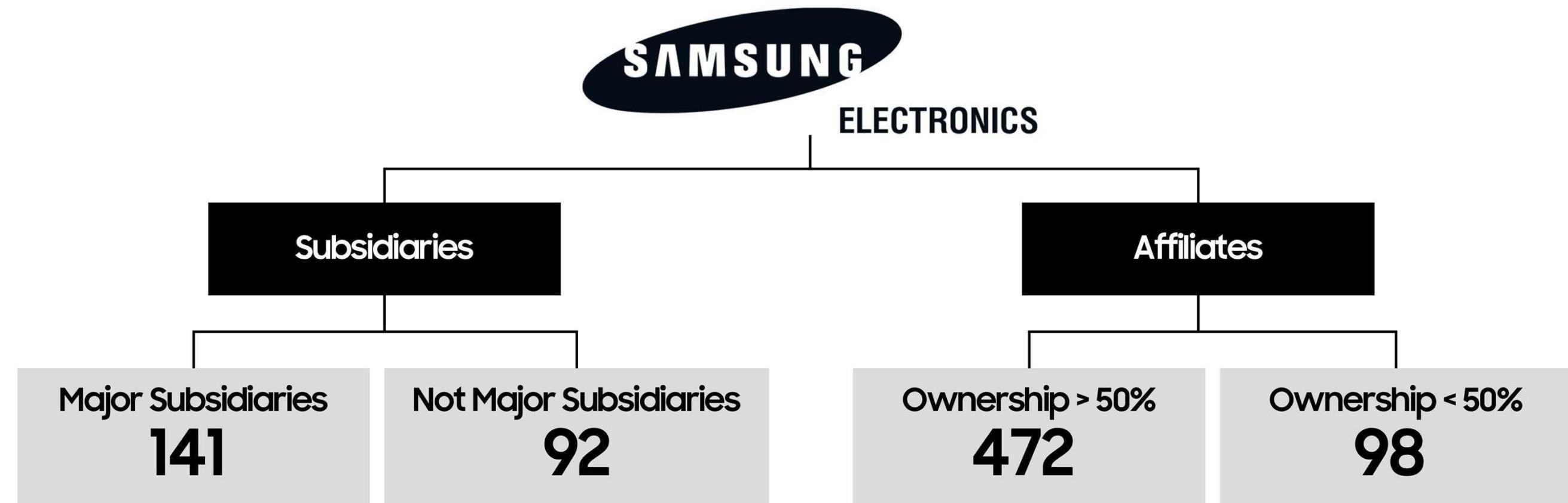
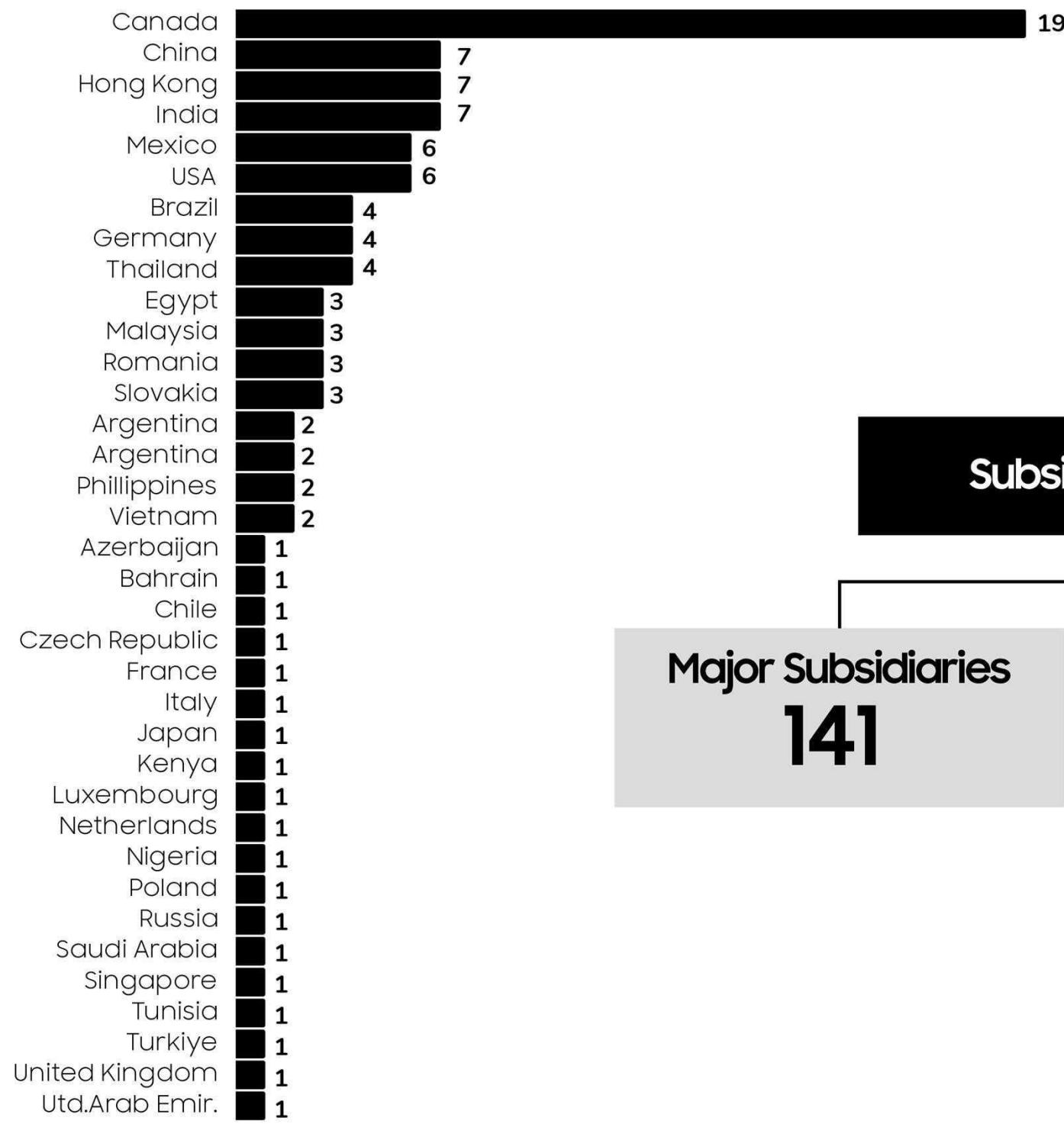
**Increase in cash conversion cycle**  
from 76 in 2022 to 101 in 2023

# Subsidiaries & Affiliate Network



# Subsidiaries & Affiliate Summary

## List of affiliates companies have under 50% ownership



# Subsidiaries Network

## Reasons why Samsung creates so many

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

# 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

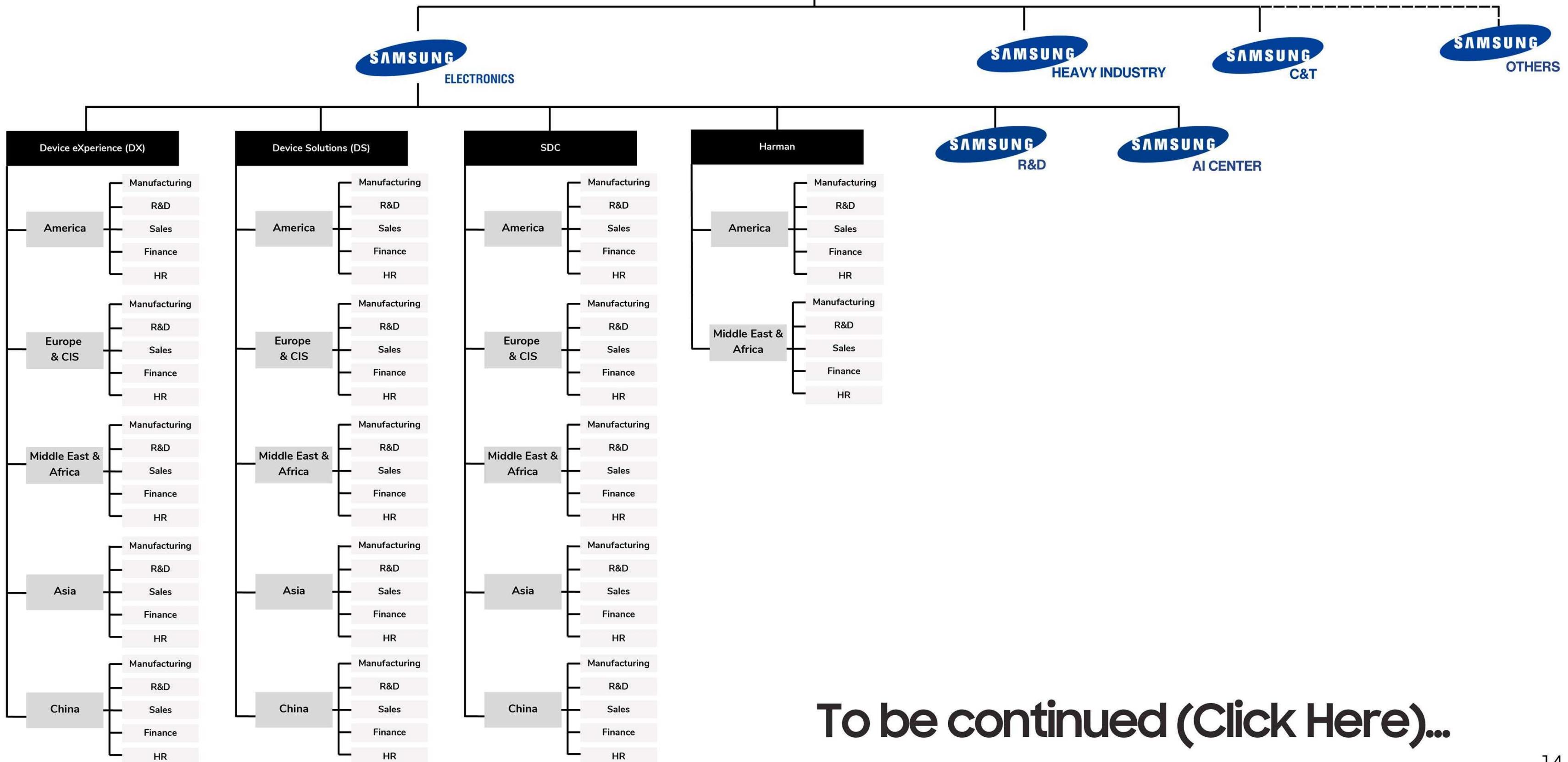
- The international standard
- Compares the price between related entities with the price of independent entities

## Example: A Parent Company purchases products from its subsidiaries

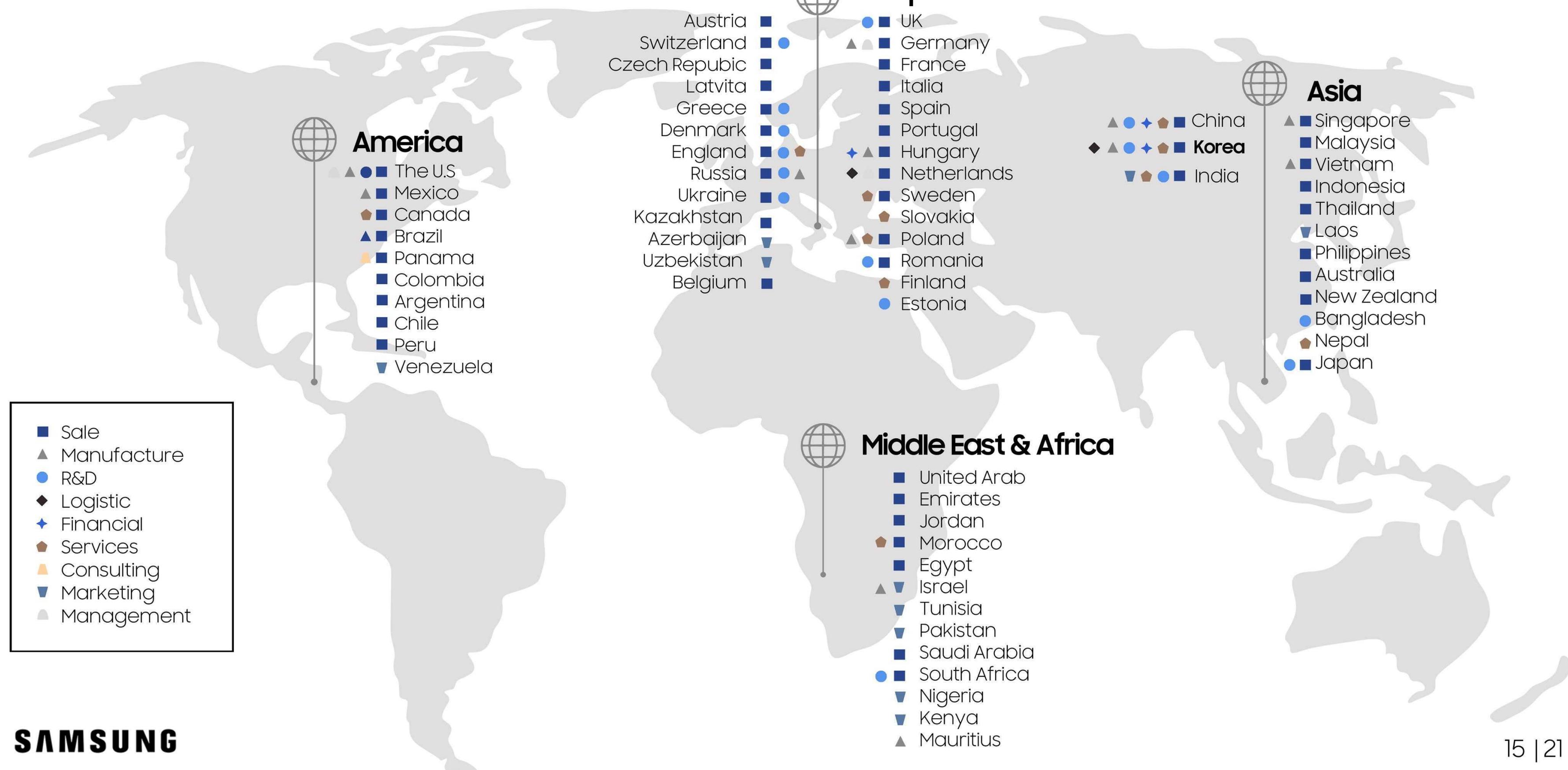
The Parent company designs the profit and local income tax of subsidiaries by setting the price.

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

# SAMSUNG

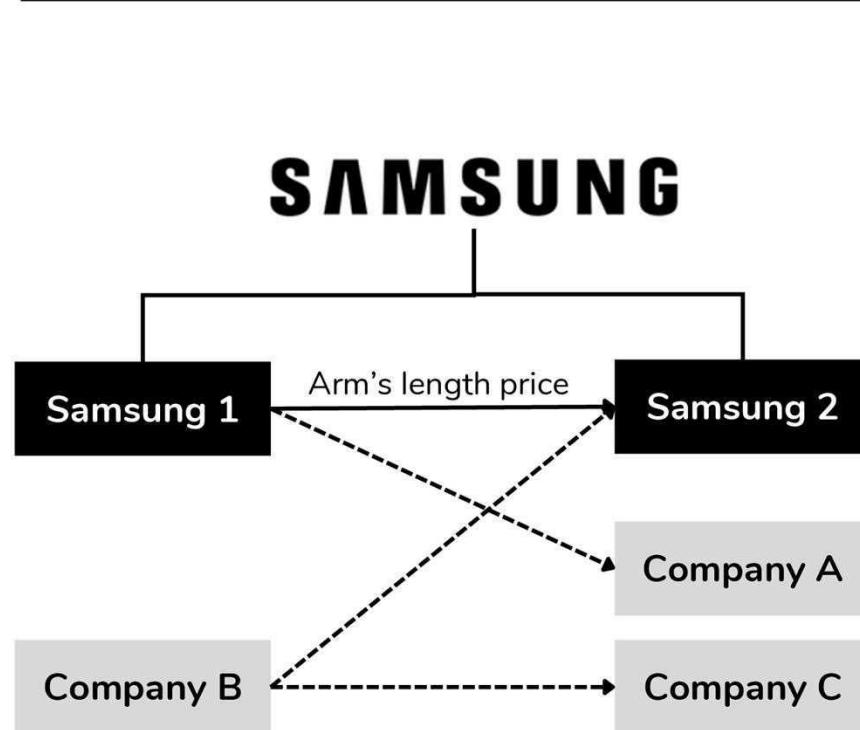


# Global Network

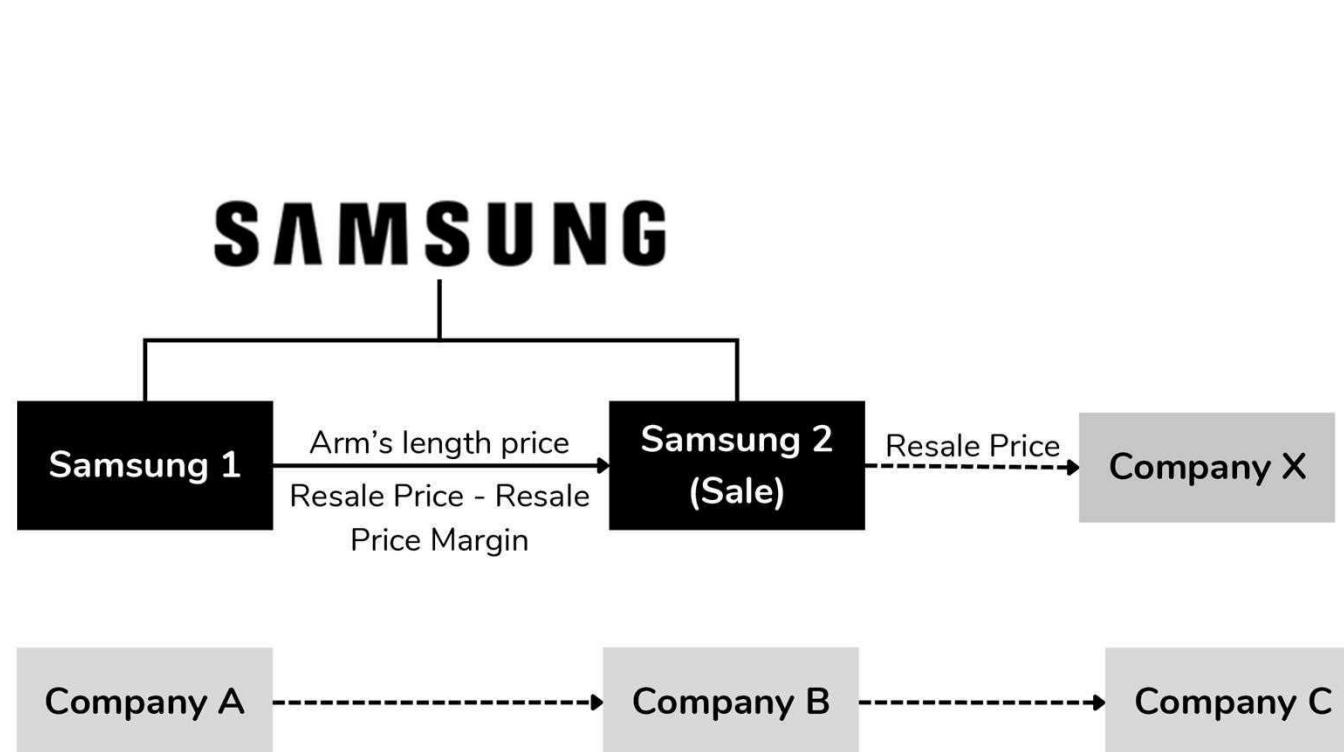


# Traditional Transaction Methods

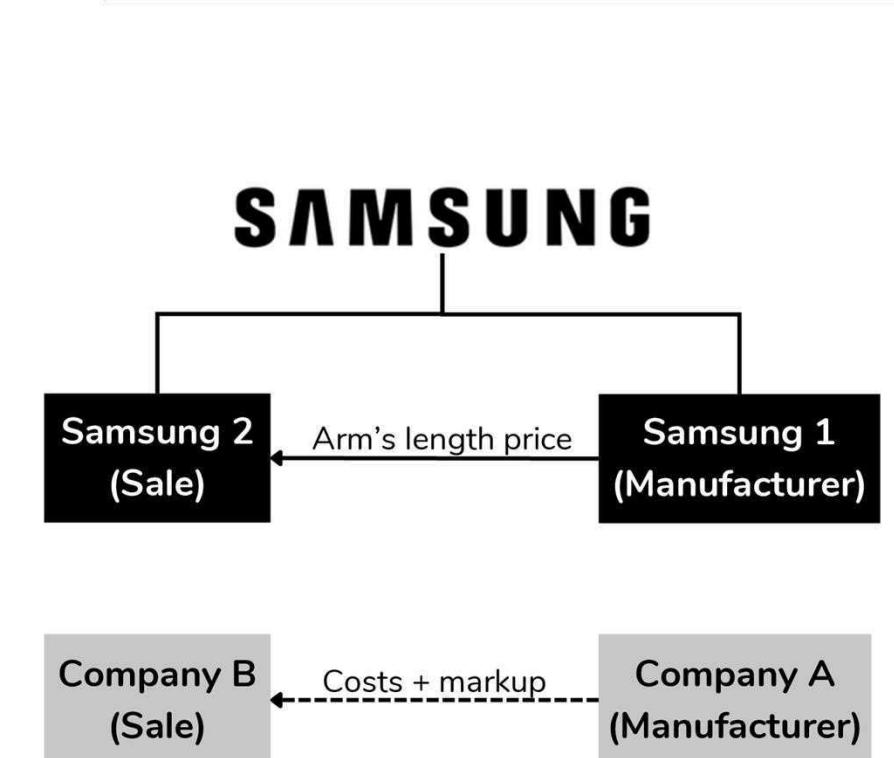
## Comparable Uncontrolled Price (CUP)



## Resale Price Method (RPM)



## Cost Plus Method

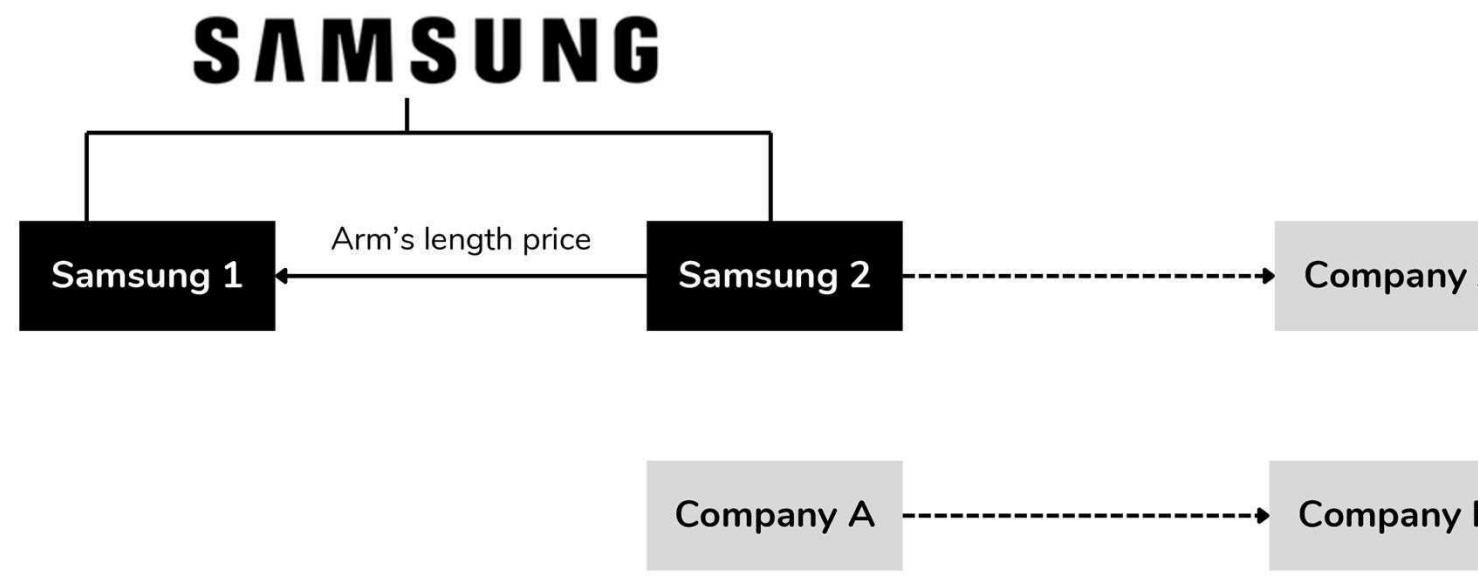


**Formula:**  
 $TP = RSP \times (1 - GPM)$

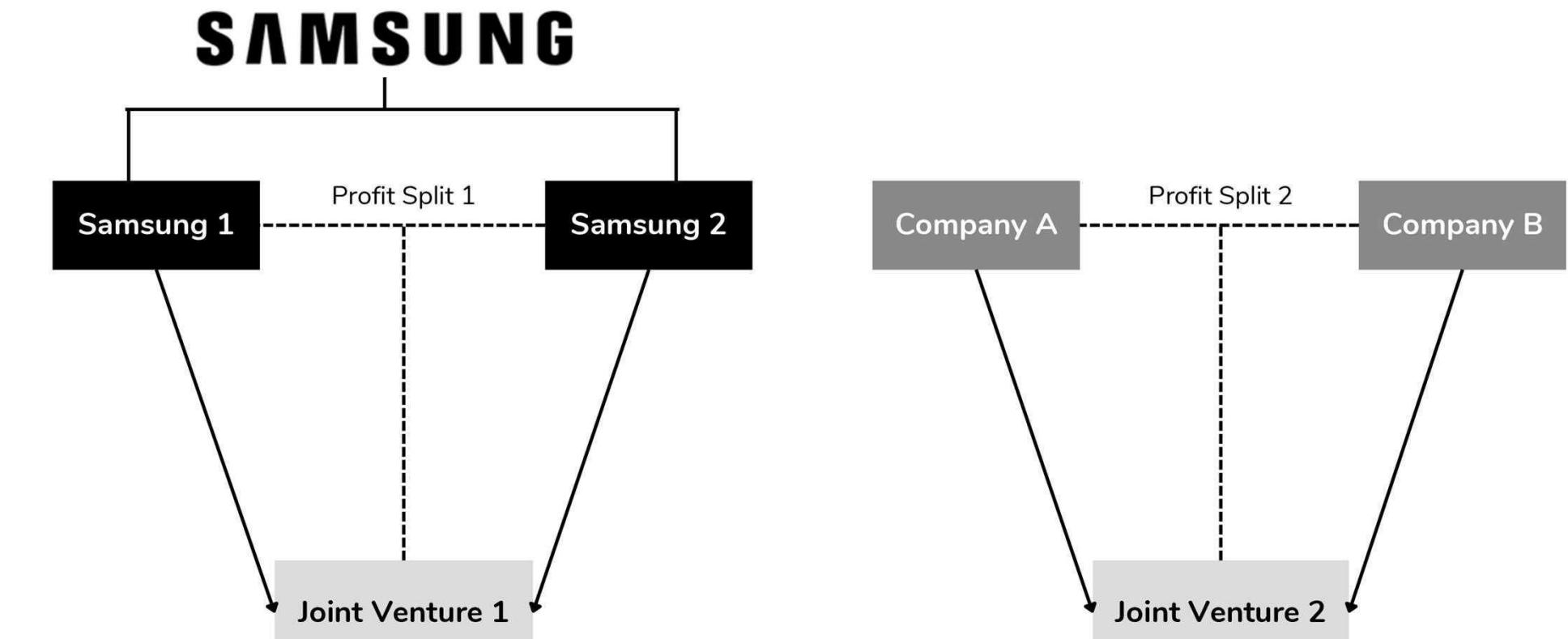
**Formula:**  
 $TP = COGS \times (1 - Cost\ plus\ Markup)$

# 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.

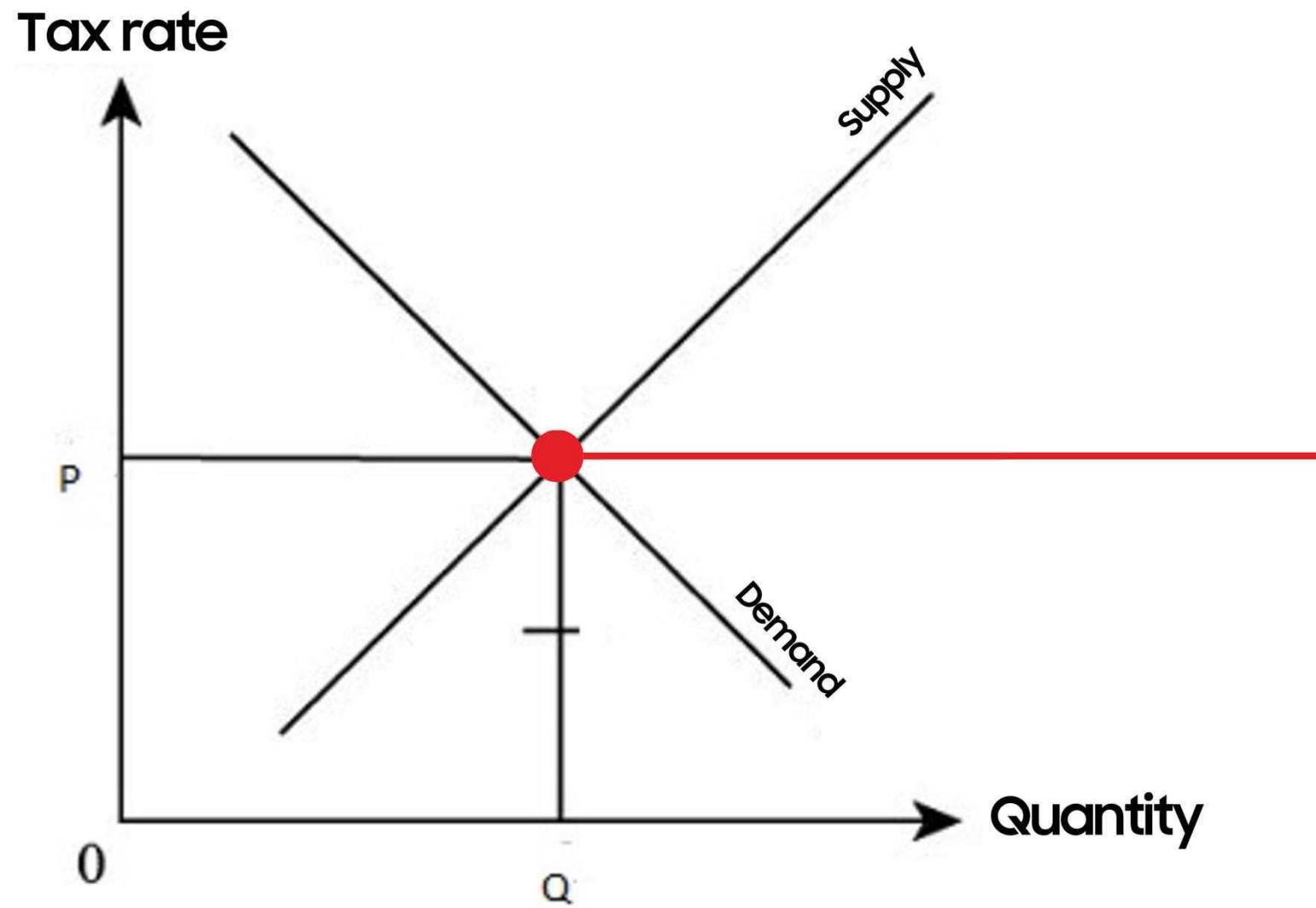
The party filed the complaint after Lee was purported to have created a paper company in the Virgin Islands in order to create a Swiss bank account in 2008. The suspicion was first raised by online news outlet Newstapa in October of last year.

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

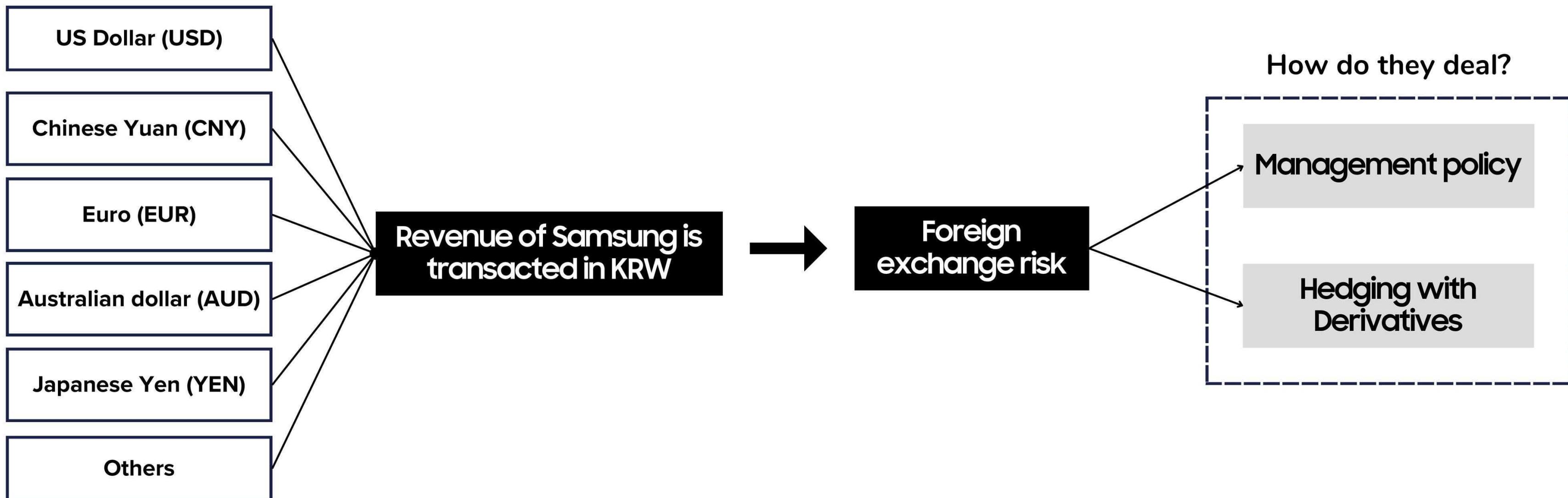
**Economic  
Growth**

- 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

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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
<b>Contribution</b>	10	10	10	10	10	10	10
<b>Availability for team meetings</b>	10	10	10	10	10	10	10
<b>Quality of tasks done</b>	10	10	10	10	10	10	10
<b>Work ethics/ attitude</b>	10	10	10	10	10	10	10
<b>Collaboration</b>	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**