



M&A Pitch Book for

# GS HomeShopping & Yes 24

SG Fenero

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# *Agenda*

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- 1. Executive Summary**
- 2. Acquired Company Analysis**
- 3. Preliminary Valuation**
- 4. Synergy Analysis**
- 5. Transaction Structure**
- 6. Conclusion**

# *Introduction of the deal*

## *1. Executive Summary*



This is the material pitching to **GS HomeShopping** for the acquisition of **Yes24**.

The pitch book is to make a proposal of acquiring online bookstore distributor Yes24 to GS HomeShopping in order to reinforce competitiveness in its online channel.

The material will provide in-depth analysis on online bookstore business and industry dynamics, including analysis on the target company, Yes24.

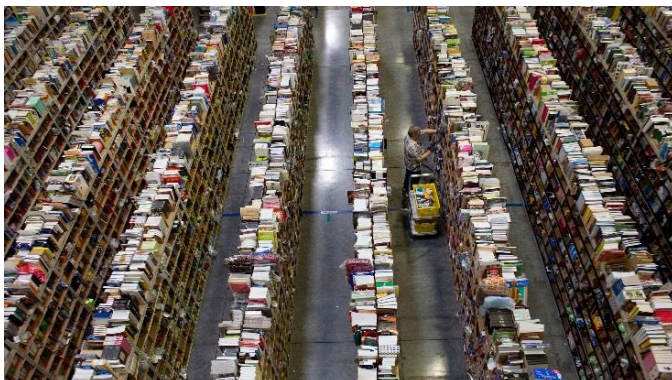
Based on our analysis, we'll prove that the investment on Yes24 will provide a number of benefits on GS HomeShopping, and we will provide preliminary valuation and aid GS HomeShopping to get a basic understanding of reasonable price.

SG Fenero(SG Fenero or We) is presenting our thoughts on Online Bookstore business opportunity to GS HomeShopping (GSHS) and the following material will be covering

- Analysis on Korean online bookstore business
  - Analysis on target company as acquired
  - Preliminary valuation
  - Synergy analysis
- 
- GSHS has been leading player in Home shopping industry, however, due to severe competition in its online channel, its growth opportunity has been restricted recently
    - Domestic home shopping business is highly fragmented
    - Its online channel is declining with the growth of other platforms
    - Its ability to obtain new customers is forecasted to be restricted
  
  - Yes24 has been leading player in online bookstore industry, with strength in strong customer base, delivery services and price competitiveness. However,
    - Book business itself shows limited potential due to its intimate low profitability
    - Hansae Yes24 Holdings seems to have no capacity to expand its product portfolio
    - Adding bookstore business to GSHS is expected to create synergy in terms of customer sharing and cost reduction
  
  - According to our preliminary valuation analysis on the target company, it indicated the price per share range of **6,800 to 7,800 KRW** with **110bn to 125bn of EV**

# Yes24

## 2. Acquired Company Analysis



**Yes24** is a leading player in online bookstore business. Regardless of some possible risk factors regarding the business, we believe that the investment in Yes24 will contribute to GSHS to gain competitiveness in its online channel.

Following are the investment considerations that we think that it will contribute to GSHS

- **Its firm and stable position in its online bookstore business**
- **Its strong customer base and competitiveness in delivery services**
- **Its highly stable financial position**

# Overview of Acquired Company

## Analysis Coverage Matrix

|                    |          | Coverage                | Status & Projection                                   | Potential Synergy  |
|--------------------|----------|-------------------------|---|--|
| Book               | Industry | Retail & Consumption    | Increasing online consumption                         | ➤ Analysis related to the reason for Yes24 to expand its business            |
|                    |          | e-Commerce Market       | Market transition to general and on-off market        |  |
|                    |          | Market Growth           | Aggravating overall market and decreasing demand      |  |
|                    |          | Risk Factor             | Risk of fixed book price regulation                   |  |
|                    | Yes24    | Growth & Market Share   | Keeping main position in online book market           |  |
|                    |          | Customer Loyalty        | Strong database with high customer loyalty            |  |
|                    |          | Distribution            | Wide distribution coverage and huge volume            |  |
| e-Book             | Industry | Market Growth           | High growth in domestic market                        | ➤ Analysis related to the potential synergy when acquired by GSHS            |
|                    |          | Contents & Publication  | Growth of contents and publication of e-book          |  |
|                    |          | Risk Factor             | Various risk factors slowing down the market growth   |  |
|                    | Yes24    | Growing Portion         | Revenue and its portion constantly increasing         |  |
|                    |          | High Profitability      | Relatively high operating profit margin               |  |
| Ad & Ticket        | Industry | Growth & Structure      | Online ad market growth and ticket market structure   | ➤ Its financial circumstance also alerts the firm to enter into new business |
|                    | Yes24    | Profitability & Low M/S | Hard to expand its sales even with high profitability |  |
| Financial Analysis |          | Profitability           | Worsened ROE and fluctuating operating profit         |  |
|                    |          | Solvency                | Borrowing figures, c/f showing aggravated solvency    |  |
|                    |          | Liquidity               | Increasing inventories and worsened turnover          |  |

# Acquired Company Analysis

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- Introduction
- Corporate Governance Structure
- Business domain

### Macro & Industry Overview

### Online Bookstore Business

### Non-Book Business

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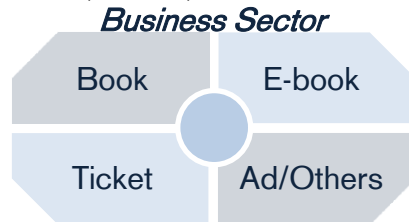


### Profile



- CEO : Kim Gi Ho

- Establishment date: 1999. 04. 01
- Listed date: 2008. 05. 07
- Market Value: 98,500,000,000 Won
- # of Shares Outstanding: 17,200,000
- Closing Price: 5,760 Won  
(2014. 10. 02)
- 52 l/h : 6,300 / 4,040



Source: Dart, SG Fenero Research

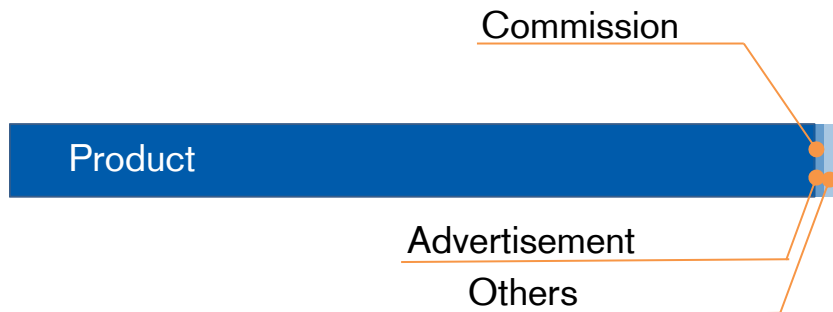
### Stock Price Trend

(Unit: KRW)

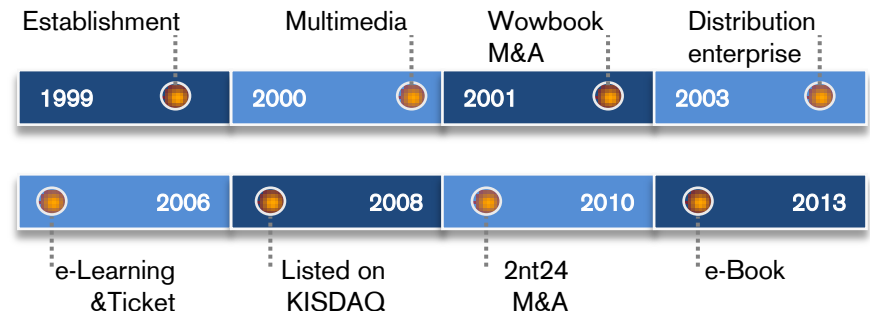


Source: KRX, SG Fenero Research

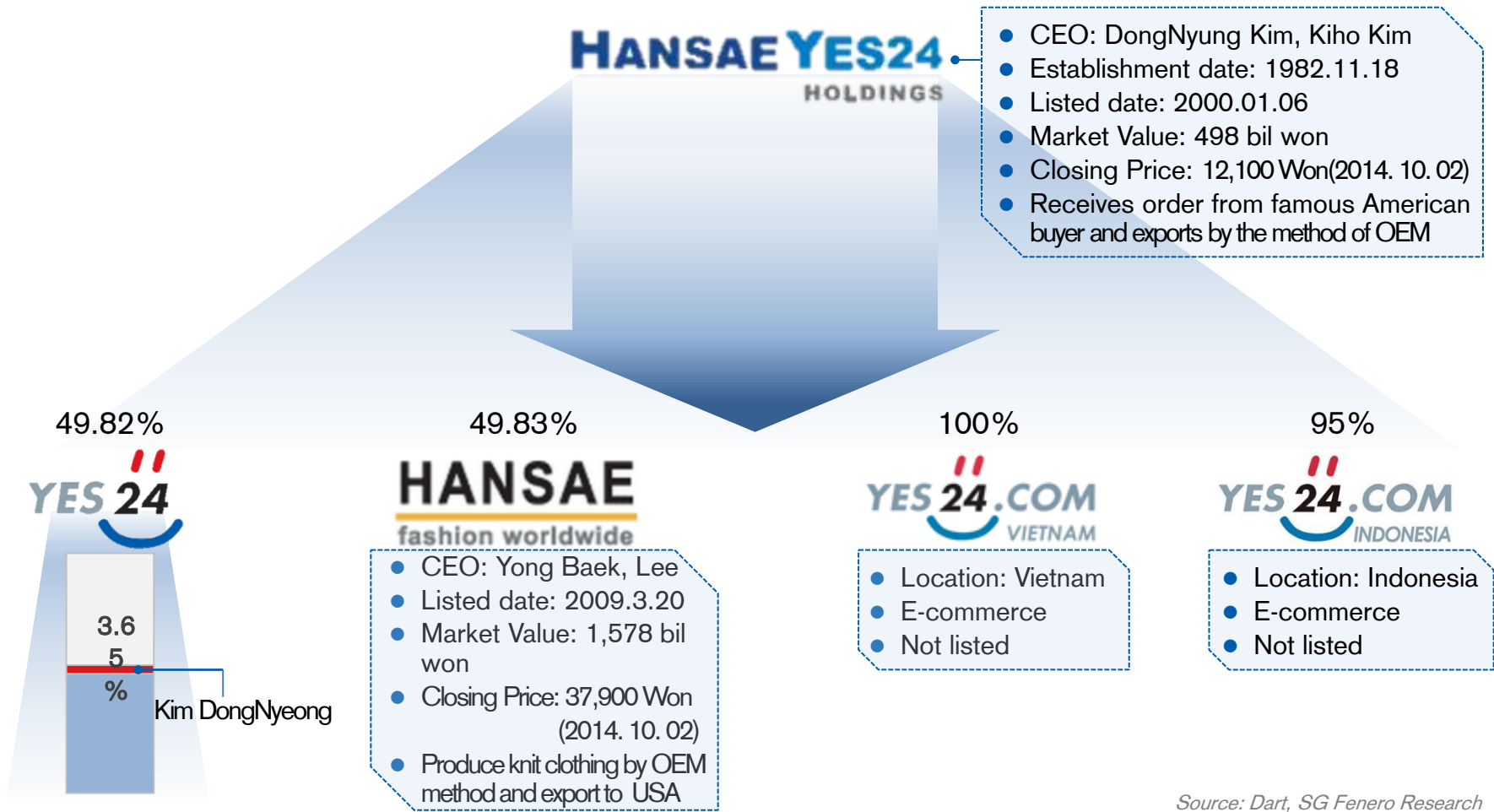
### Revenue Breakdown by Business(2013)



### History



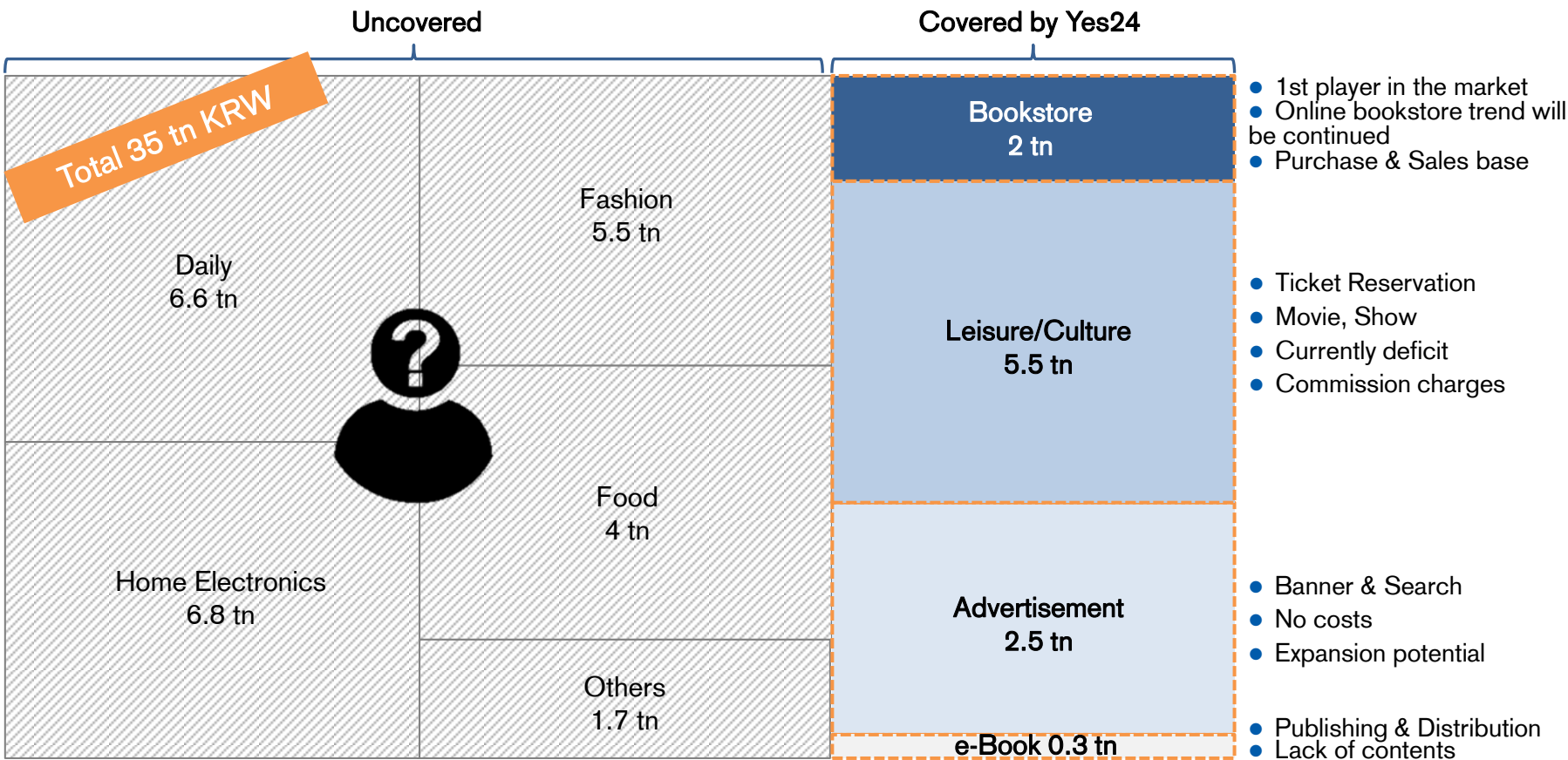
Governance Structure



Source: Dart, SG Fenero Research

Business domain overview

Korean e-Commerce Market Size



Yes 24 has a potential to expand its business domain in e-Commerce market

# Acquired Company Analysis

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- e-Commerce Analysis

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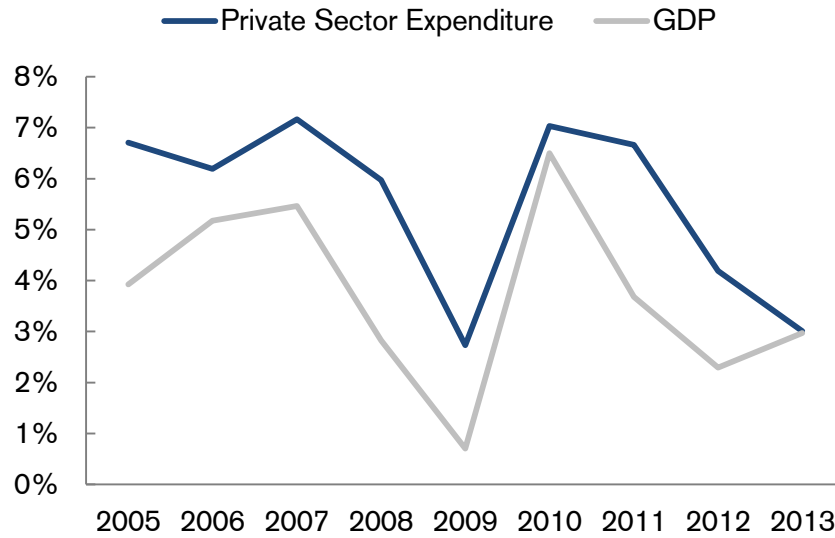
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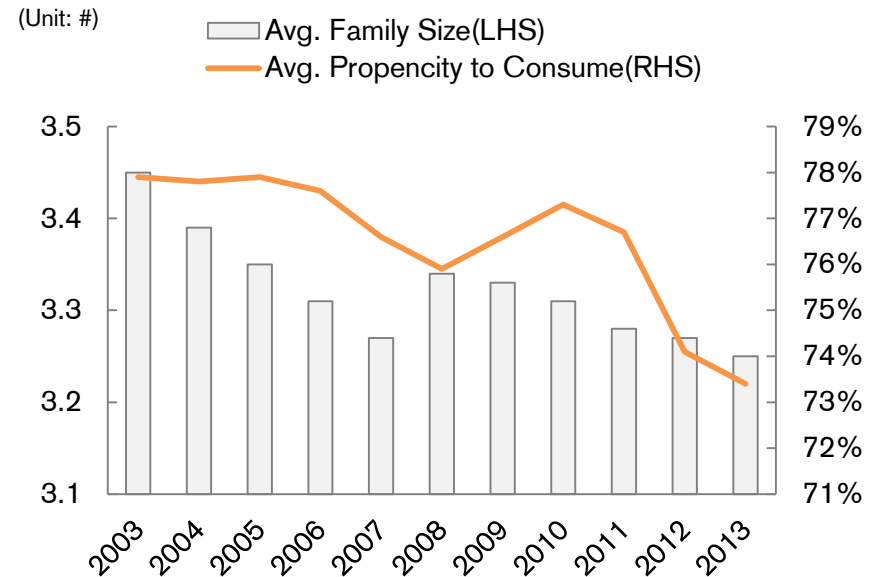
## Stagnant economic consumption

### GDP & Private Sector Expenditure YoY



Source: Statistics Korea, SG Fenero Research

### Consumption Rate



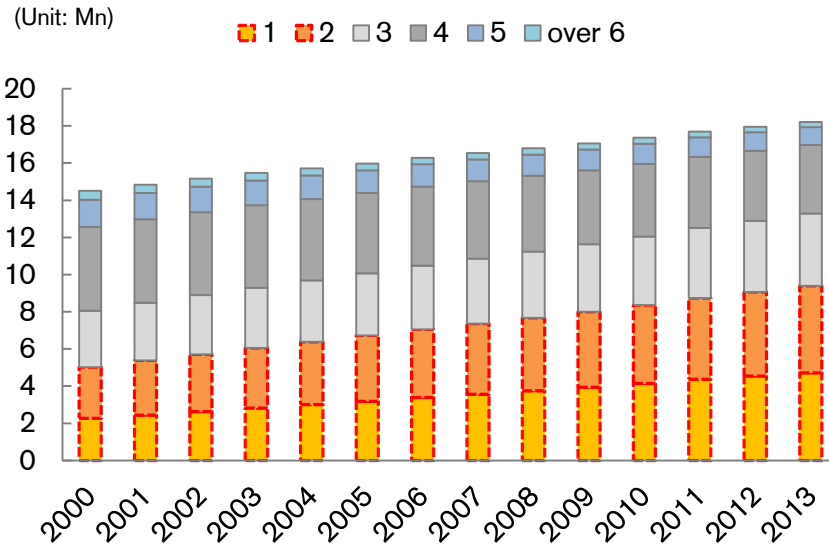
Source: Statistics Korea, SG Fenero Research

- Domestic GDP and private sector expenditure moves along, showing high correlation
- Recent economic growth of Korea seems stagnant, resulting in lower growth in expenditure
- Average family size and propensity to consume is decreasing

Recently slowed economic growth resulted in lower consumption

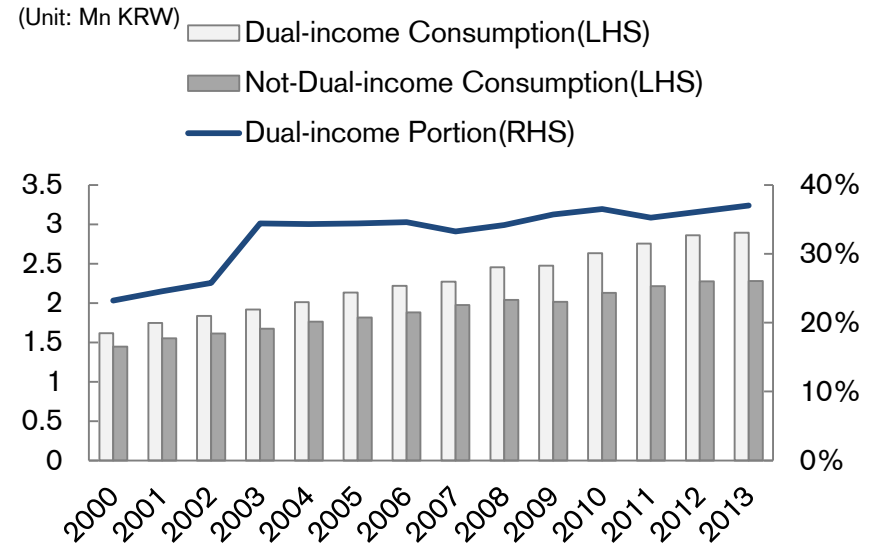
## Changing composition of population

### Number of People in Household



Source: Statistics Korea, SG Fenero Research

### Dual-income Trend



Source: Statistics Korea, SG Fenero Research

- Composition of population is changing due to the growing portion of households with single and two
- It indicates the changing consumption trend, particularly in consumers' putting more importance on the price of goods and convenience in shopping
- Dual-income family is increasing and their spending out of total expenditure is also increasing

**Change in composition of population leads to the change of consumption trend**

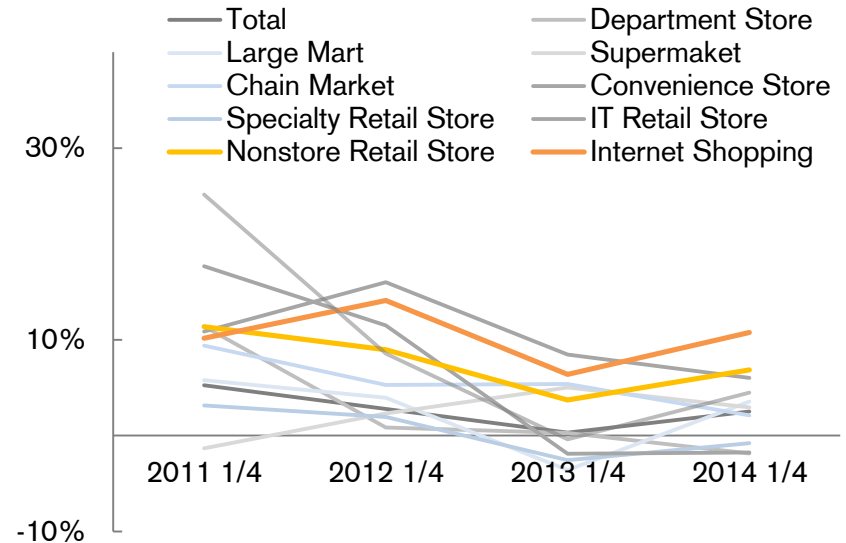
## Retail sales in Korea slows down

### Korea GDP & Retail Sales YoY



Source: Statistics Korea, SG Fenero Research

### Retail Sales Index YoY by Categories



Source: Statistics Korea, SG Fenero Research

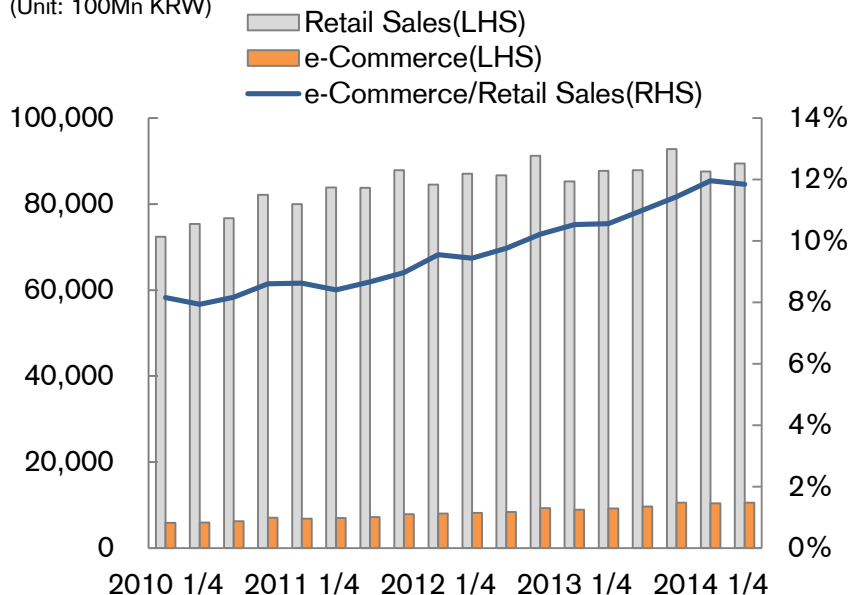
- GDP and private sector expenditure affects retail sales, and due to its lowered growth, retail sales volume is also decreasing
- Retail sales growth breakdown by categories show slowed growth
- However, Internet shopping and non-store is showing highest growth among the categories

Though retail sales is decreasing, online shopping is still growing

## Continuous growth of e-Commerce market

### Total Contract Value

(Unit: 100Mn KRW)



Source: Statistics Korea, SG Fenero Research

### Contract Volume for Single Household

| (Unit: %)       | Large Supermarket | Online Mall | Local Store | SSM | Specialty Store | Etc  |
|-----------------|-------------------|-------------|-------------|-----|-----------------|------|
| Fresh Food      | 36.8              | 30.4        | 13.6        | 4.8 | 0.4             | 7.6  |
| Processed Food  | 42.4              | 30.4        | 10.8        | 7.2 | 0               | 8.8  |
| Fashion/Clothes | 7.2               | 63.6        | 0.8         | 0   | 10.4            | 16.8 |
| CE              | 20.8              | 53.2        | 1.2         | 1.6 | 17.6            | 5.2  |
| Shoes           | 10.4              | 52.8        | 2.4         | 0   | 15.6            | 17.2 |
| Cosmetics       | 12.8              | 52          | 2.8         | 0.8 | 20.8            | 10.8 |
| Household Items | 38.4              | 41.6        | 7.6         | 3.2 | 2               | 6    |

Source: Korean Retail Association, SG Fenero Research

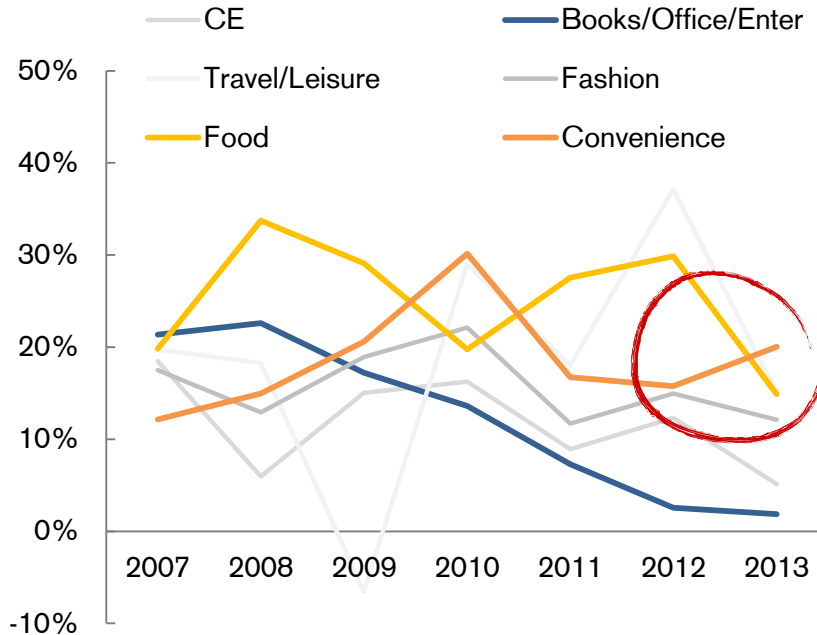
- Among whole retail sales, the proportion of online is continuously increasing, and still has a lot of growth potentials
- Constantly growing as CQGR (2010 1Q – 2014 2Q) 4.25%, CAGR('10-'13) 11.17%, mobilization continues the trend
- Trend of single household is expected to contribute to the further growth of e-Commerce market

## Fast growing e-Commerce market shows potential in retail sector



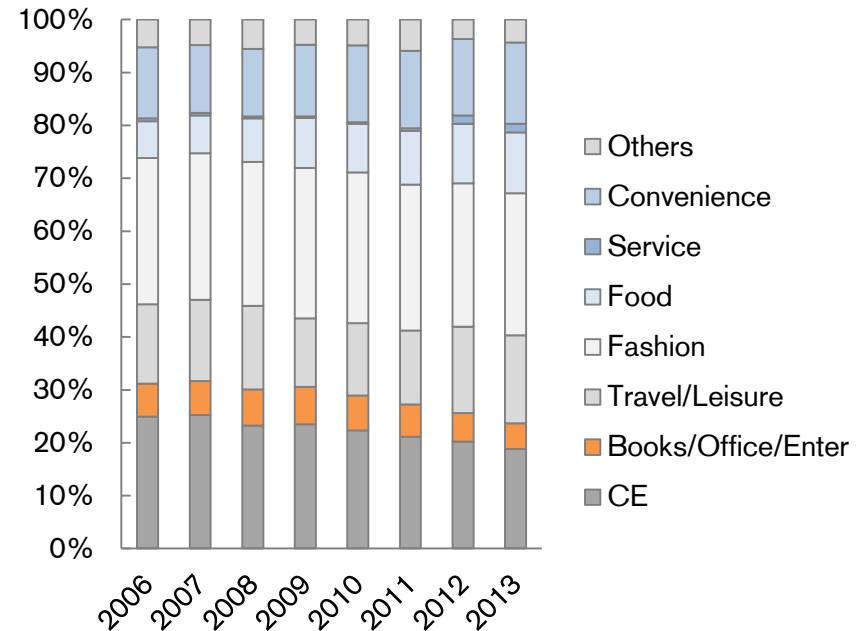
## Changing trend of e-Commerce industry

### Online Growth Rate of Transaction Volume



Source: Statistics Korea, SG Fenero Research

### Online Transaction Proportion



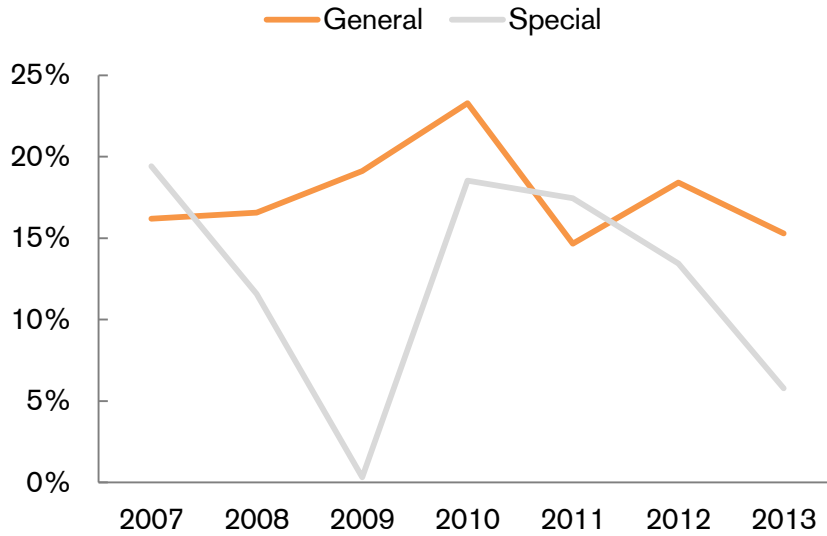
Source: Statistics Korea, SG Fenero Research

- Growth of online transaction volume shows different condition according to items.
- Especially, decrease in Books/Office/Enter sector is significant, Convenience, Food, Travel/Leisure shows rapid growth.
- Accordingly, online transaction proportion change continuously proceeds.

Transition of trend brings different landscape of online items

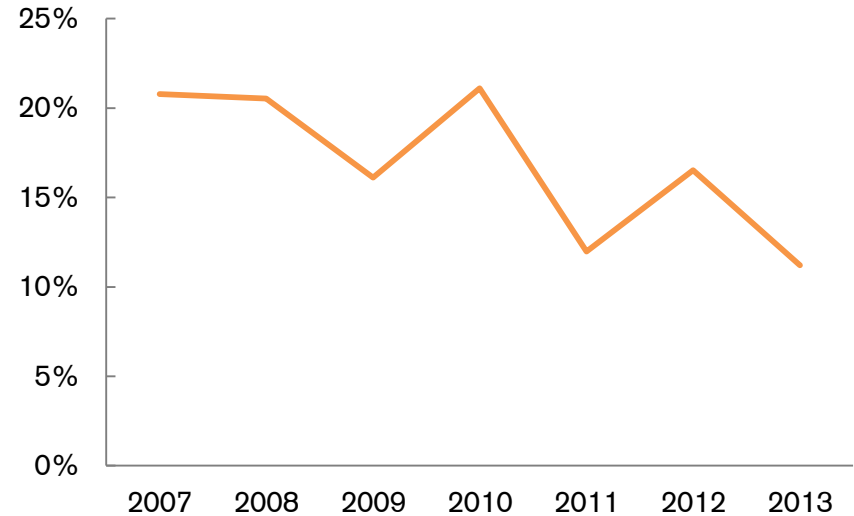
## Changing trend of e-Commerce industry

### General Professional Growth Rate YOY



Source: Statistics Korea, SG Fenero Research

### Growth Rate of Online Mall



Source: Statistics Korea, SG Fenero Research

- Online shopping mall can be categorized into general mall and professional mall
- Growth rate of general mall is higher than that of professional mall
- Also, online mall is showing high growth rate

**The trend of online mall is its transition to general mall dealing a variety of products**

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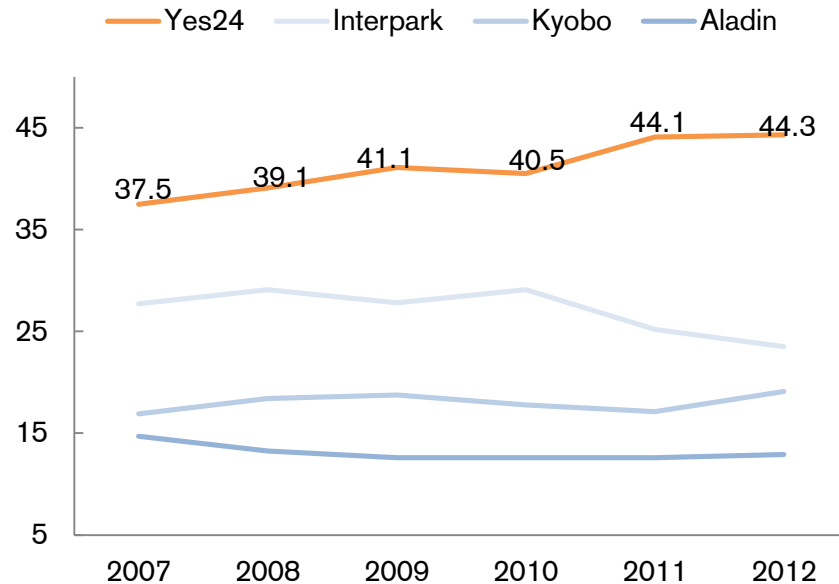
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## Online Bookstore Business

### Online Bookstore Market Share

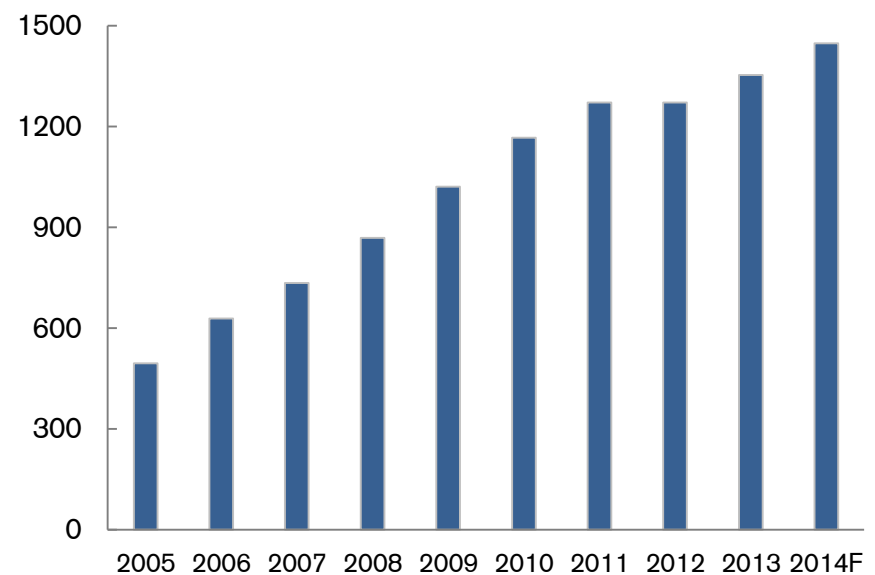
(Unit: %)



Source: Company IR, SG Fenero Research

### Online Bookstore Market Size

(Unit: Bn KRW)



Source: National Statistical Office, SG Fenero Research

- The firm is maintaining exclusive market share in the online-book store business
- While the book market is stagnant, rapid growth of online bookstore market size and also the proportion in bookstore market is positive sign to the firm

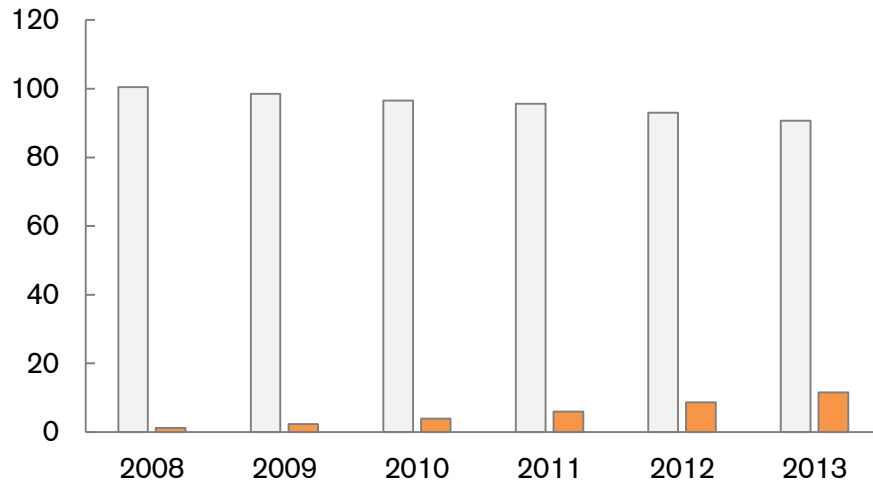
**YES 24 is exclusive leading company in growing online bookstore market**

## Book market overview

### Worldwide Book Market Trend

(Unit: 100mn USD)

□ Paperbook   ■ E-book



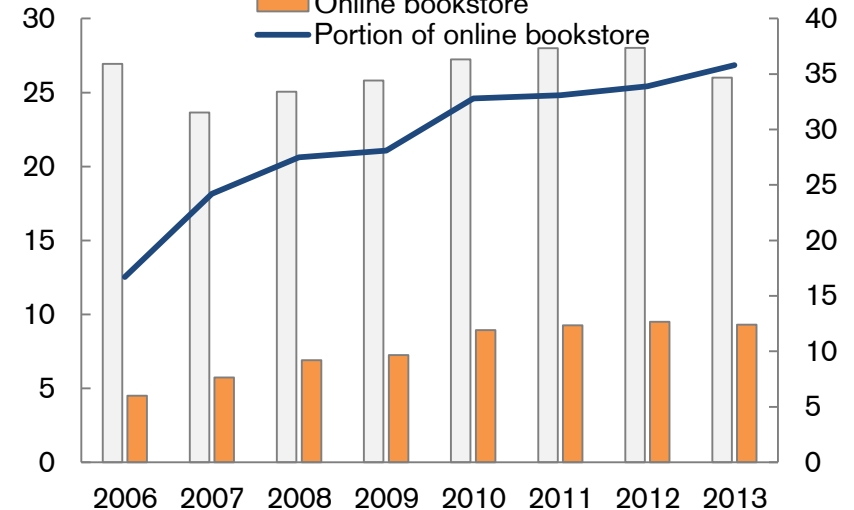
Source: PWC, SG Fenero Research

### Domestic Book Market Trend

(Unit: 100bn KRW)

(Unit: %)

□ Book market  
■ Online bookstore  
— Portion of online bookstore



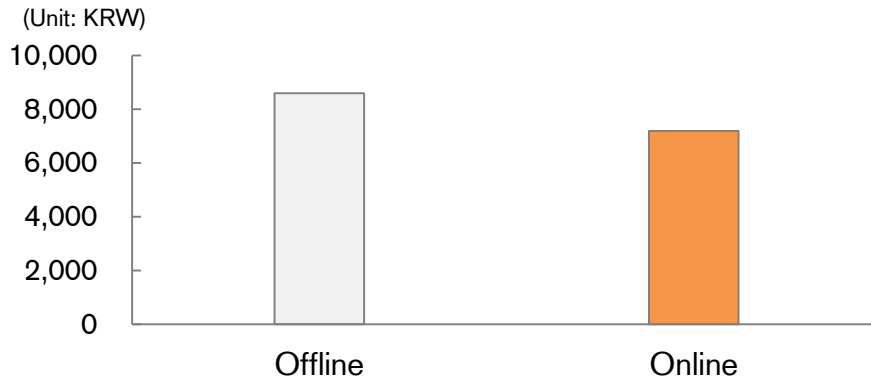
Source: Korean Publishers Association, SG Fenero Research

- In the book market, portion of online bookstore is growing along with increase of e-book market
- Domestic book market is phasing decreasing trend since 2011
- Among the decreasing trend of total book market, online bookstore penetration rate is increasing

**In spite of depression in the book market, growth of online bookstore is remarkable**

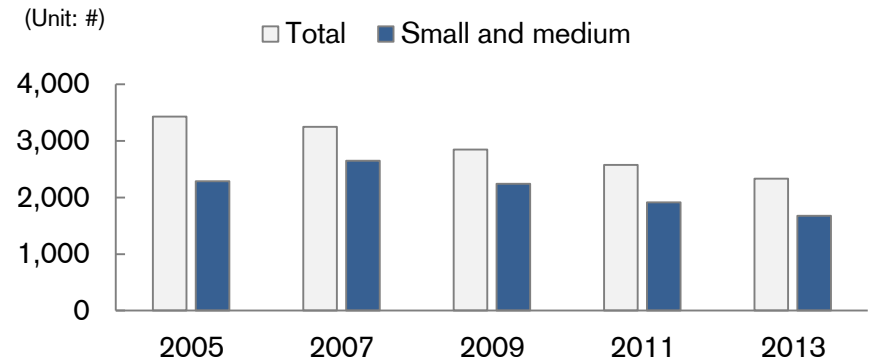
## Price has been the driver for online book store business

### Average Price of 10 Domestic Bestsellers



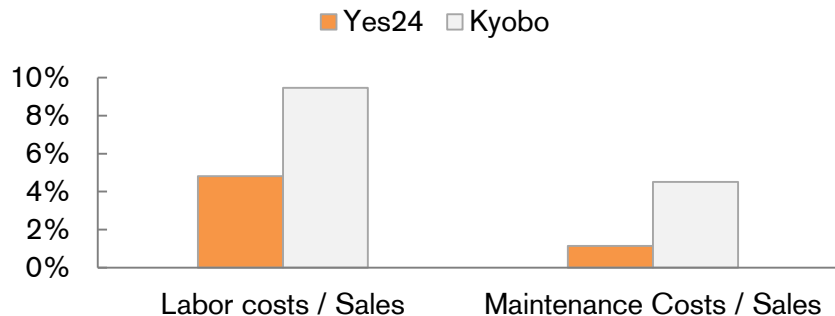
Source: Company IR, SG Fenero Research

### Change in Small and Medium Bookstore



Source: Korea Federation of Bookstore Association, SG Fenero Research

### Labor Costs and Maintenance Costs



Source: DART, SG Fenero Research

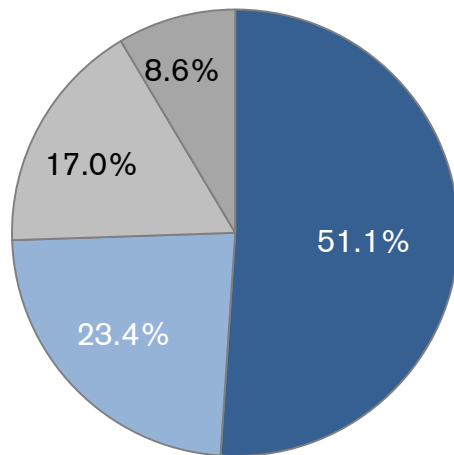
- Lower price compared to offline bookstore is one of the main reasons for using online bookstore
- By offering points, mileage and other benefits, online bookstore's avg. price is lower
- Since it requires less costs to maintain store and human resources, online bookstore has cost benefit
- However, due to the intense price competition, only the large online bookstores are alive but small and medium bookstores are decreasing

**Price competitiveness have led the growth of online bookstores**

## *Standardizing price and delivery service as industry driver*

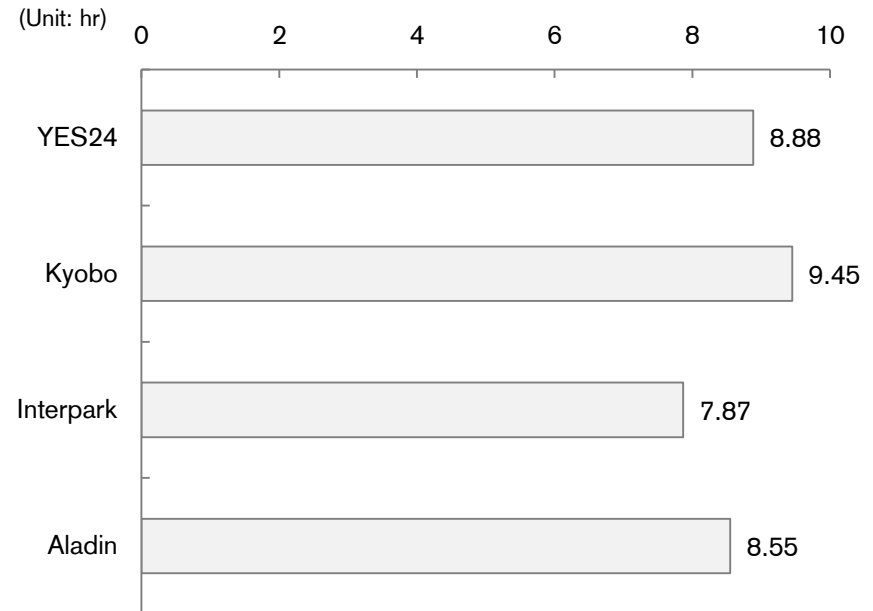
### Choice Standard of Internet Bookstore

■ Price ■ Delivery Time ■ Number of book types ■ ETC.



Source: Korea Federation of Bookstore Association, SG Fenero Research

### Overnight Delivery Time



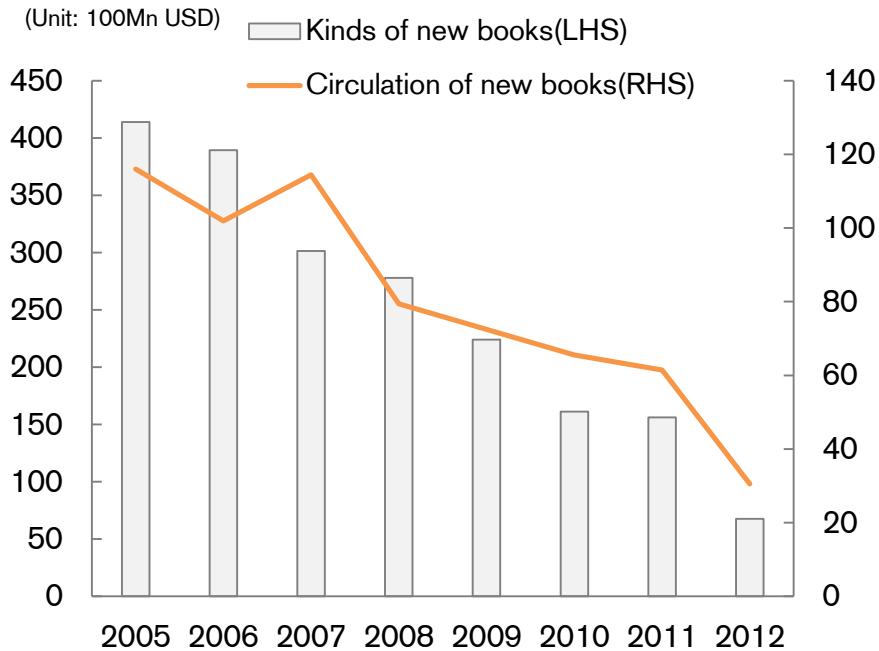
Source: EBN News research, SG Fenero Research

- When choosing Internet bookstore, price and delivery time has the biggest influence
- However, price is almost the same among internet bookstores and they offer same kinds of benefits
- Competition of delivery service has been fierce and recently, delivery service time has become almost the same

**Previously secured customers are important due to disappeared differences**

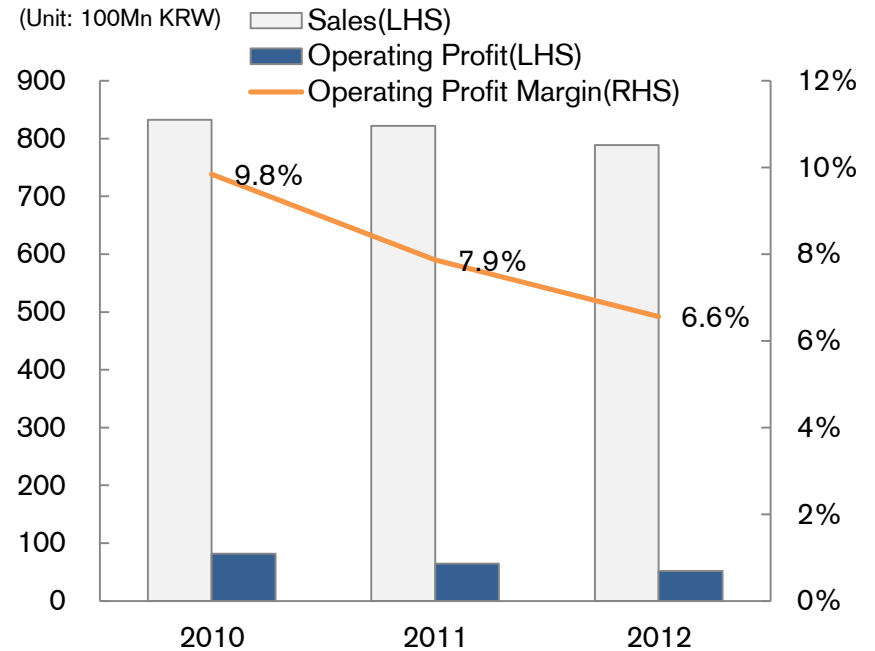
## *Publishers as supplier for bookstore business*

### Change in a Circulation of New Books



Source: Korea Creative Content Agency, SG Fenero Research

### Avg. OPM of Publishing Business(72firms)



Source: Publication Industry Promotion Agency, SG Fenero Research

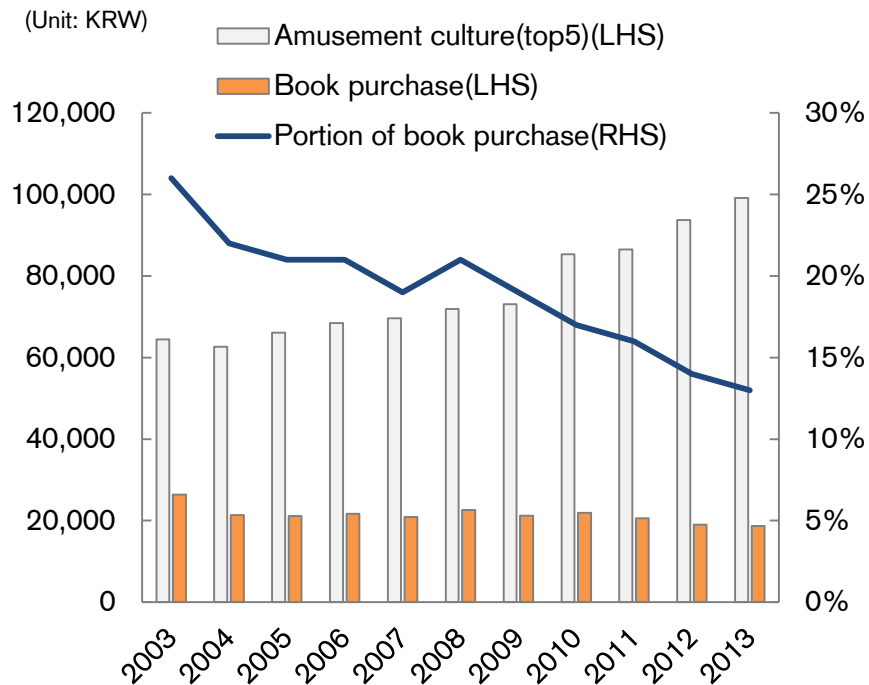
- According to the current fixed book prices, the books published more than 18months have no limit on price discount
- Because of sales concentration on old books, new book circulations are steadily decreasing
- Deterioration of publishing company's margin caused shortage of funds

**Vicious cycle of publishing business continues with the decline of book business**



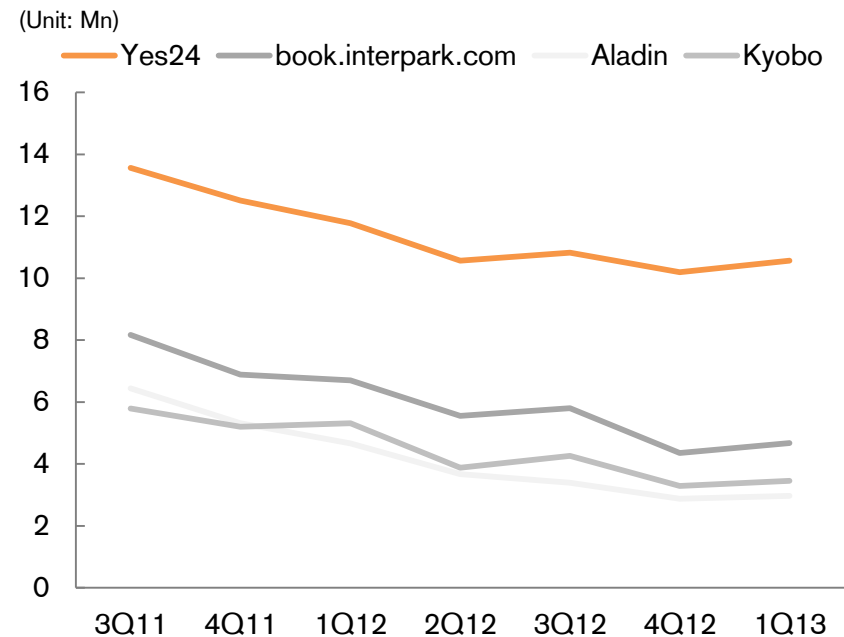
## Decreasing demand in bookstore business

### Monthly Mean Book Purchase per Household



Source: Publication Industry Promotion Agency, SG Fenero Research

### Number of Visitors



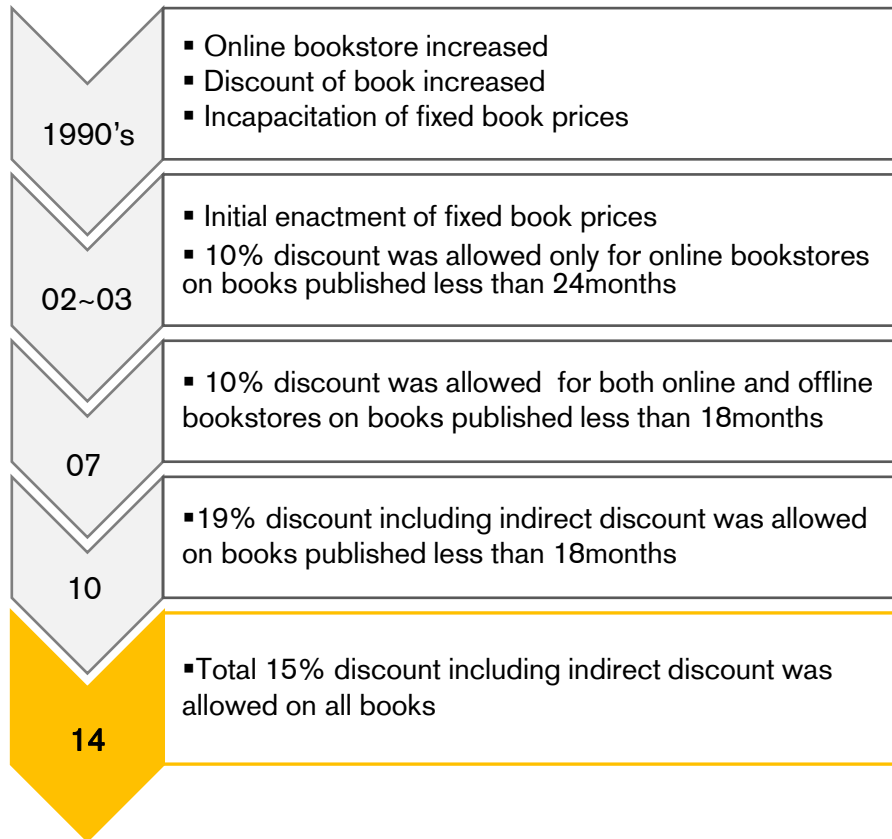
Source: Ranky.com, SG Fenero Research

- Amusement culture spending is increasing but among them, book purchase is decreasing
- Due to the depression of book demand, unique visitor of online bookstore also decreases

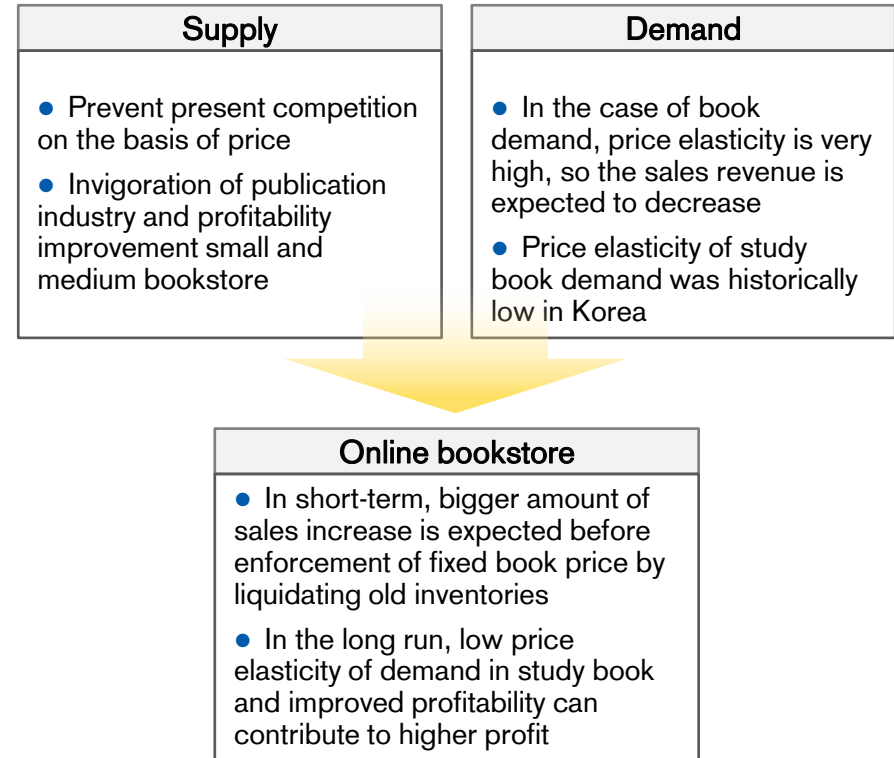
**Despite the decreasing demand, YES 24 still has distinct number of customers**

## *Fixed book prices affects the industry*

### Fixed Book Price System



### Influence



**Online bookstore is expected to make higher profit due to fixed book price system**

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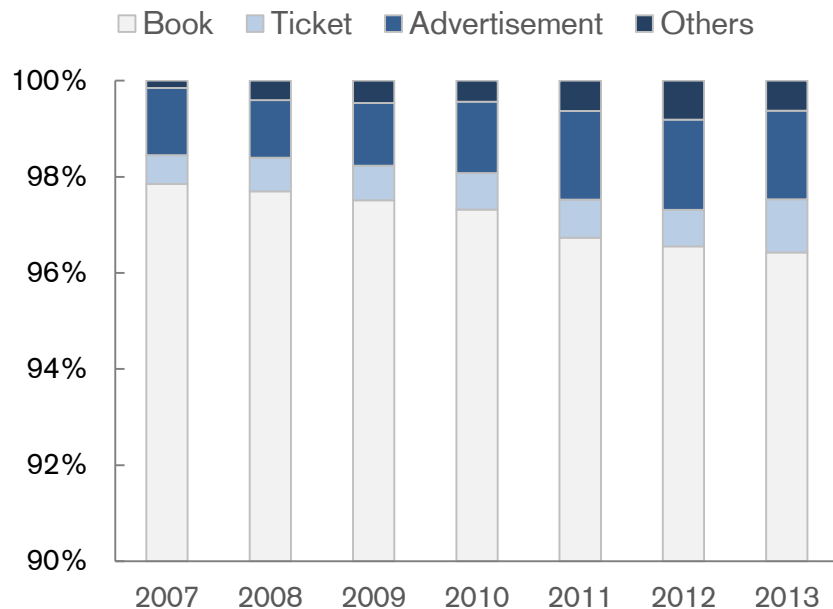
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## Non-book business

### Non-Book YoY



Source: Dart, SG Fenero Research

### High-profitability of Non-Book

|               |                     | 2011 | 2012 | 2013 |
|---------------|---------------------|------|------|------|
| Books         | Sales               | 343  | 328  | 318  |
|               | COGS                | 281  | 267  | 261  |
|               | Gross Profit Margin | 18%  | 19%  | 18%  |
| Tickets       | Sales               | 2    | 2    | 3    |
|               | COGS                | 0    | 0    | 0    |
|               | Gross Profit Margin | 100% | 100% | 100% |
| Advertisement | Sales               | 6    | 6    | 6    |
|               | COGS                | 0    | 0    | 0    |
|               | Gross Profit Margin | 100% | 100% | 100% |
| Others        | Sales               | 2    | 2    | 2    |
|               | COGS                | 0    | 0    | 0    |
|               | Gross Profit Margin | 100% | 100% | 100% |

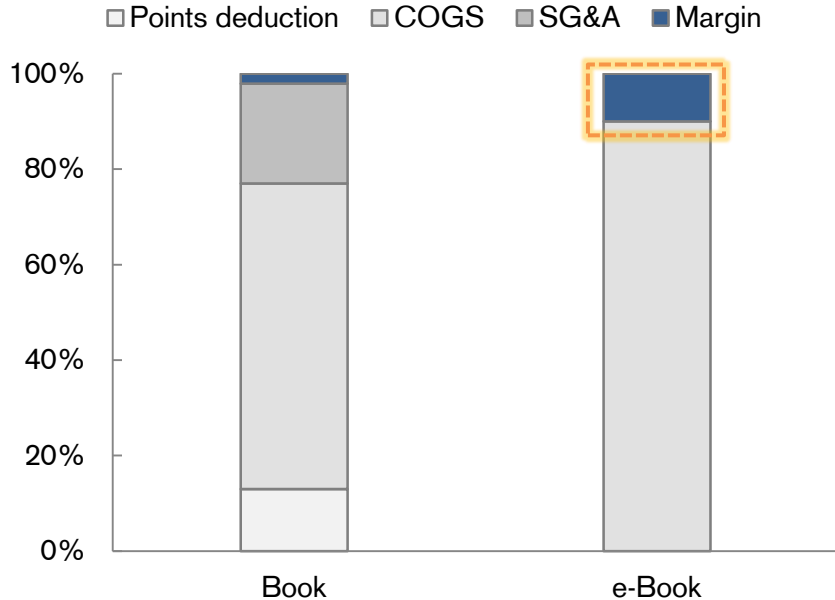
Source: Dart, SG Fenero Research

- Although the portion of the non-book business is still low, revenue portion of the non-book business is increasing steadily
- Since the COGS solely consists of book sales, costs incurred by non-book business is low compared to that of book's

**Highly profitable non-book business is expected to expand**

## e-Book business

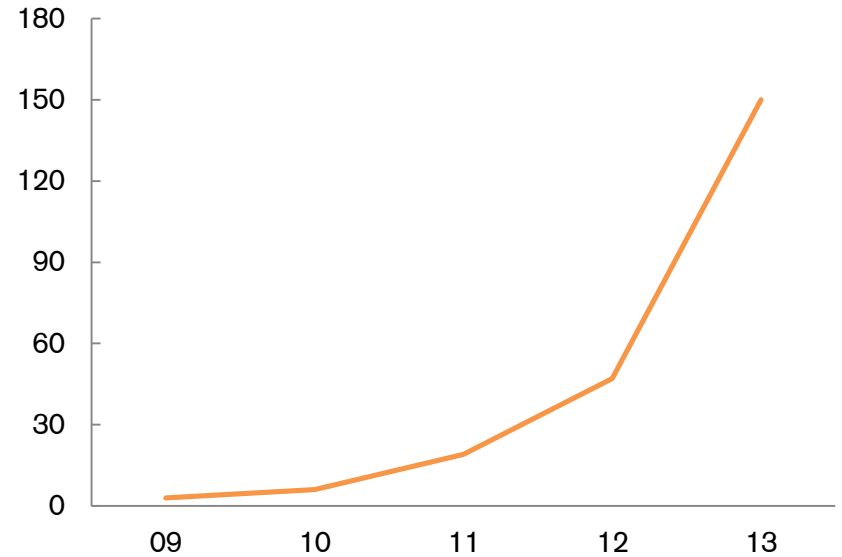
### Gross Merchandise Sales



Source: Dart, SG Fenero Research

### e-Book Revenue Trend

(Unit: 100 Mn KRW)



Source: Company IR, SG Fenero Research

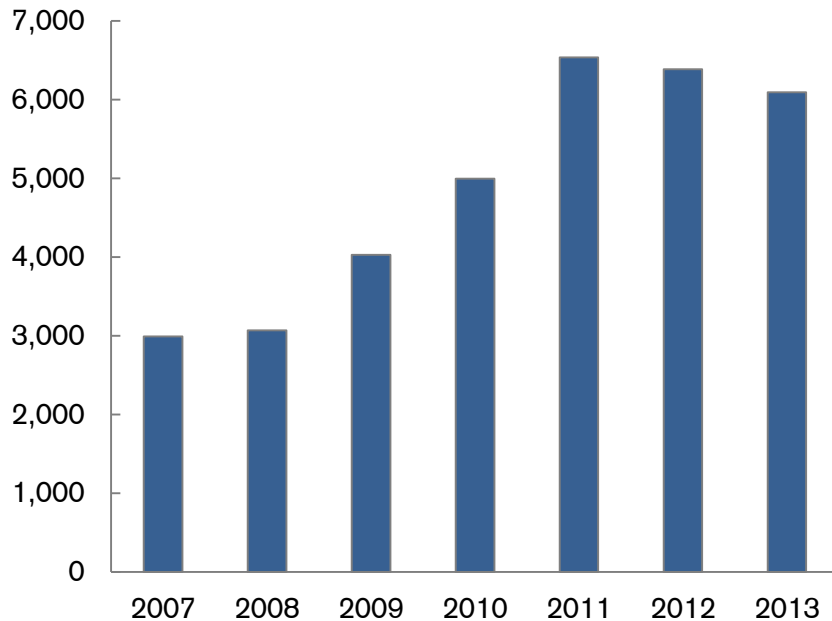
- For the book business, margin is calculated after deducting points and other costs, whereas the margin from e-Book is five-times higher
- Also, revenues from e-Book business is expected to show rapid growth

**e-Book is expected to contribute to improvement in profitability**

## Online Advertisement

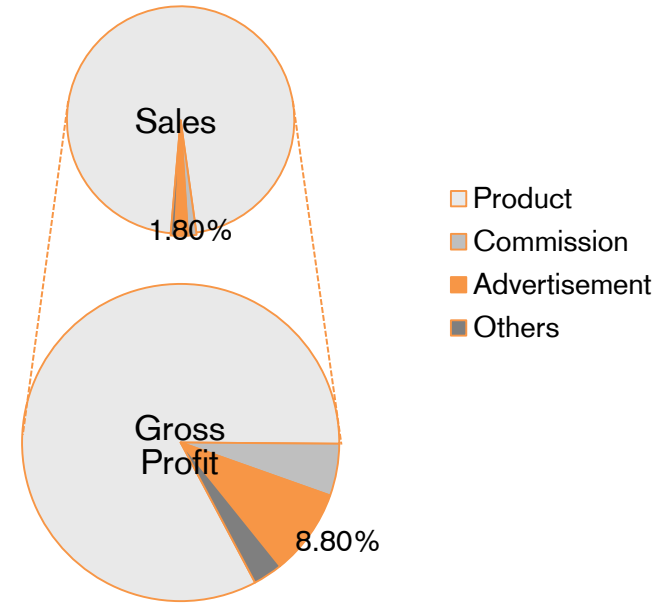
### Advertisement Sales

(Unit: Mn KRW)



Source: Dart, SG Fenero Research

### Profitability of Advertisement



Source: Company IR, SG Fenero Research

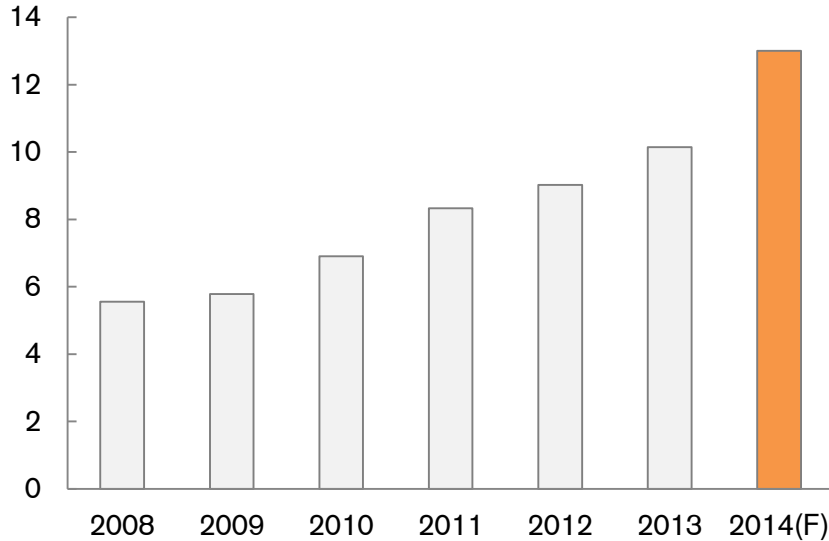
- The sales from the advertisement is highly profitable
- Even though the trend is showing the increase revenue from advertisement, and the firm is having strong customer base, it fails to increase its revenue as expected

**Have a potential to increase according to its strong customer base when diversified**

## e-Book market overview

### Domestic E-book Sales

(Unit: 10 Bn KRW)



Source: Publication Industry Promotion Agency, SG Fenero Research

### e-Book Publication

(Unit: Mn)



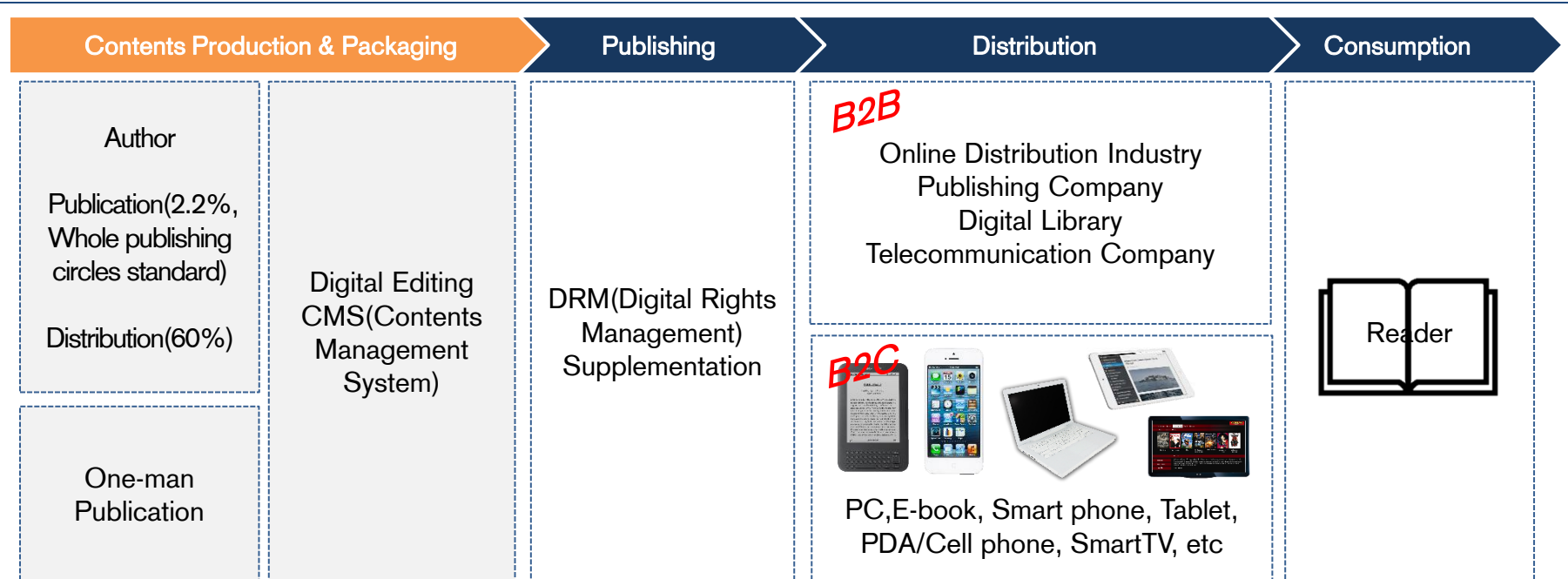
Source: Korean Contents Center, SG Fenero Research

- Despite the stagnation of the book market, e-Book market pie is increasing
- Certified electronic publication increased in order to get VAT exemption
- Electronic publication related businesses have increased 119%, 105 firms in 2007 to 230 firms in 2009.

**e-Book market shows fast growth regardless of declining book business**

## *Contents is key driver in e-Book business*

### Value Chain



- Profit source is diversified through B2B and B2C distribution
- E-book business model is not limited to exclusive terminal, and is expanding to open policy to maximize contents supply
- E-book market is seeking to expand the market size by open source policy

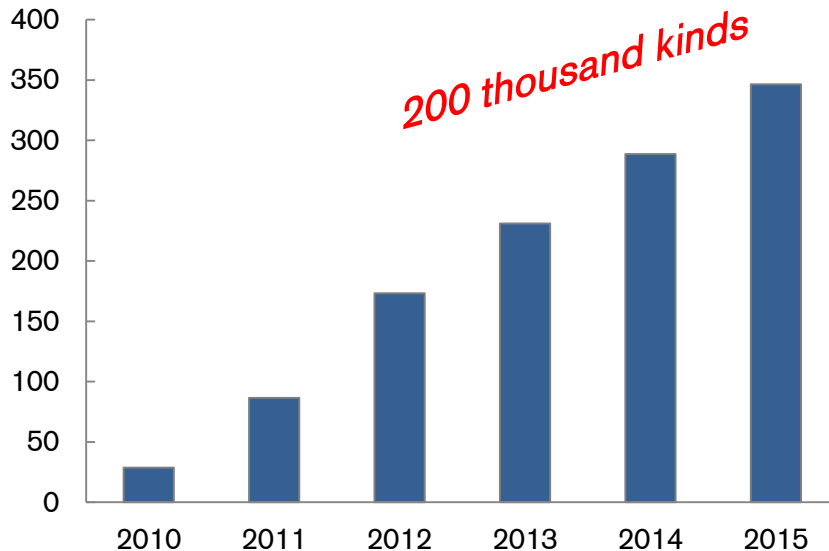
**Success factor of e-book business is moving from device to contents basis**



## Contents is key driver in e-Book business(Cont'd)

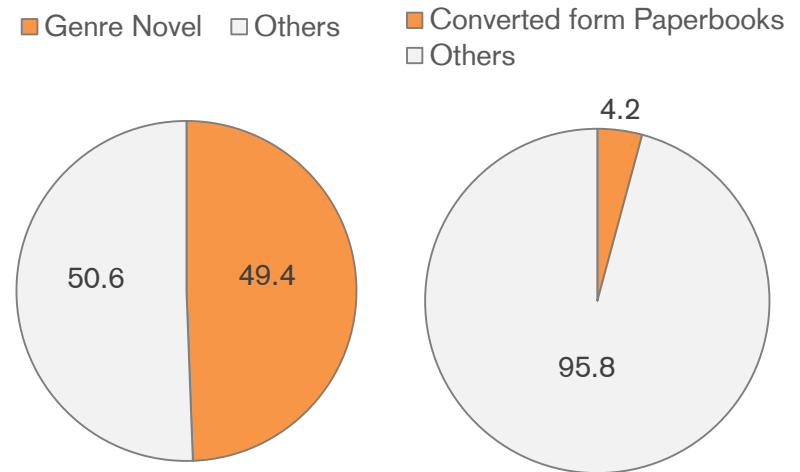
### e-Book Contents Market

(Unit: bn KRW )



Source: Ministry of Culture, SG Fenero Research

### e-Book Contents Composition



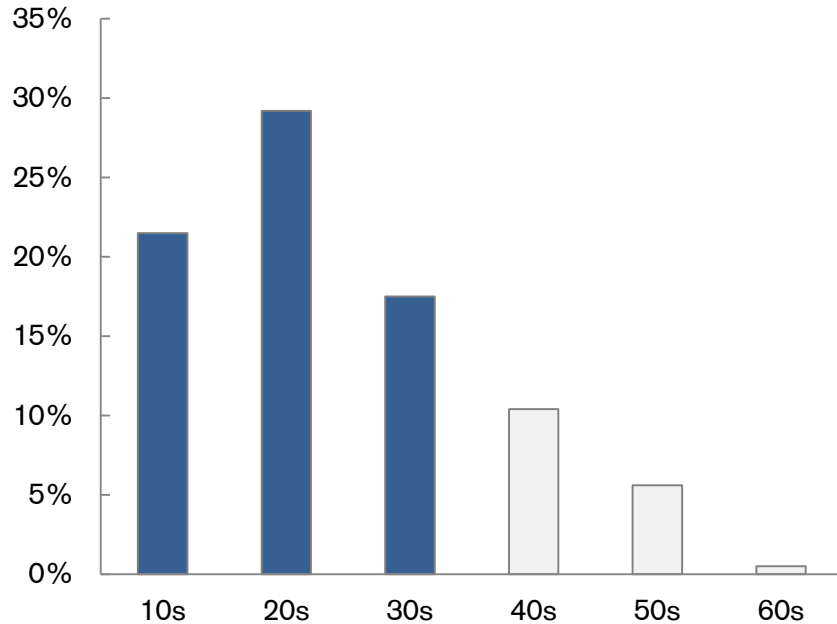
Source: Ministry of Culture, SG Fenero Research

- Most of e-Book contents are concentrated in genre novels, which doesn't satisfy the various needs for contents
- Conversion rate from book to digital is less than 5%, and the rest 95% are mainly electronic dictionary, digital research paper, journals and so on
- However In accordance with the increasing importance with contents in the business, the market is also on increasing trend and the diversification of the contents is expected

**e-Book contents are still limited in diversity but are expected to improve**

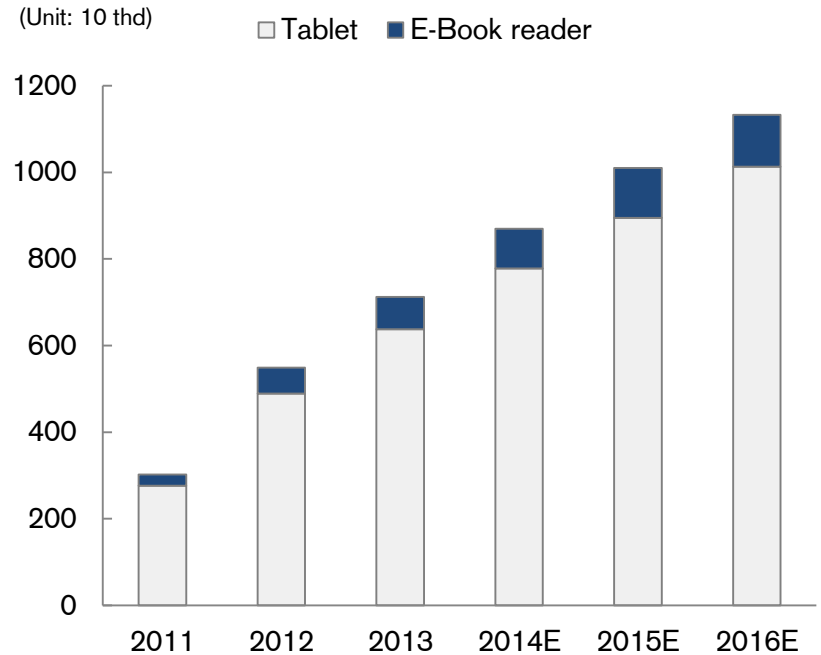
## Prospect of demand for e-Book

### e-Book Reading Rate



Source: Ministry of Culture, SG Fenero Research

### Domestic Shipments of e-Book devices



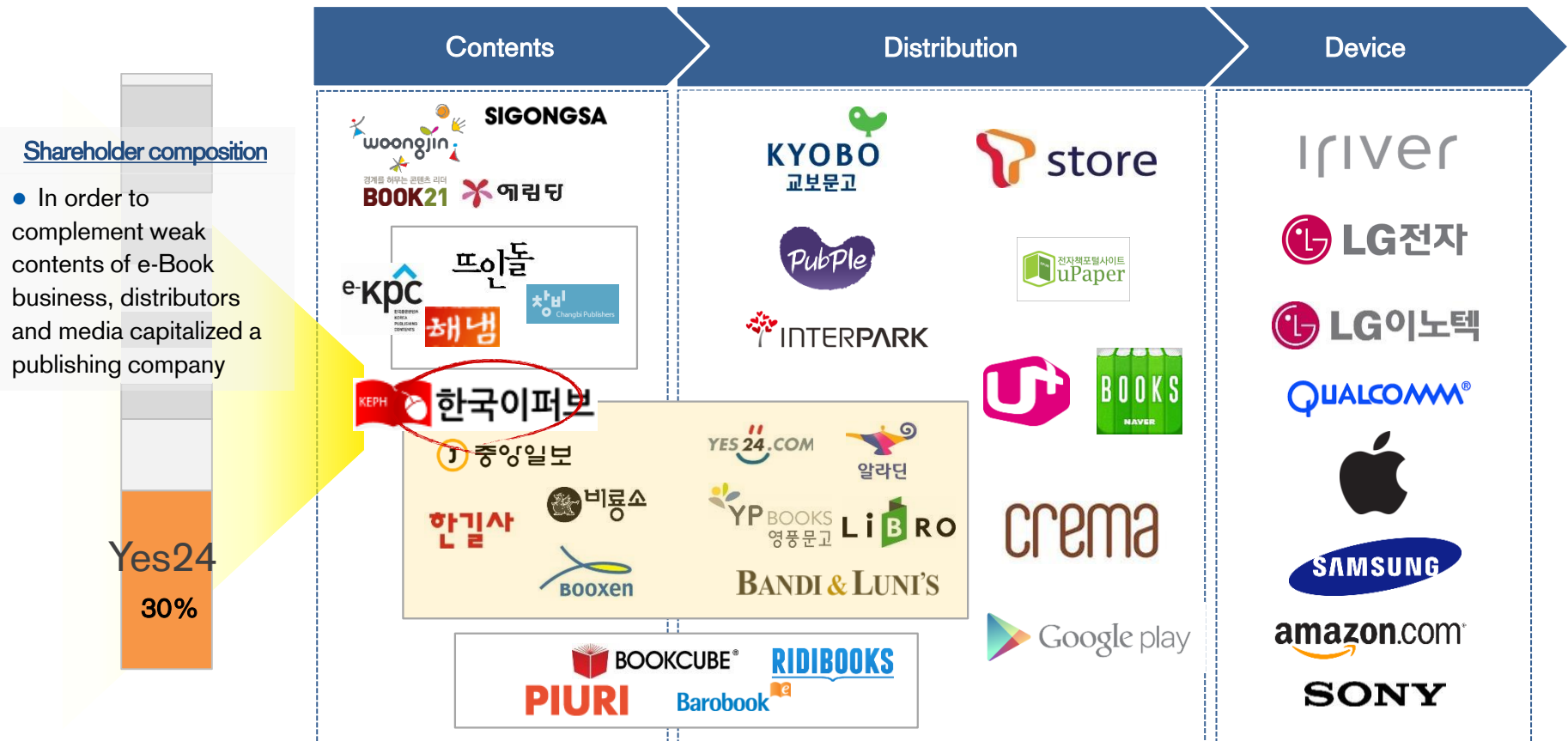
Source: Ministry of Culture, SG Fenero Research

- Shows high e-Book reading rate among 10s to 30s, whose utilization rate for portable electronic devices is high
- Domestic shipments of e-Book reading devices shows stable and high growth

**Demand for e-Book is expected to increase due to the spread of devices**

## *e-Book related companies and competition*

### Competitive Composition



Joint venture between content and distribution sectors will improve weak contents

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- Customer Analysis
- Distribution Analysis
- Other Issues

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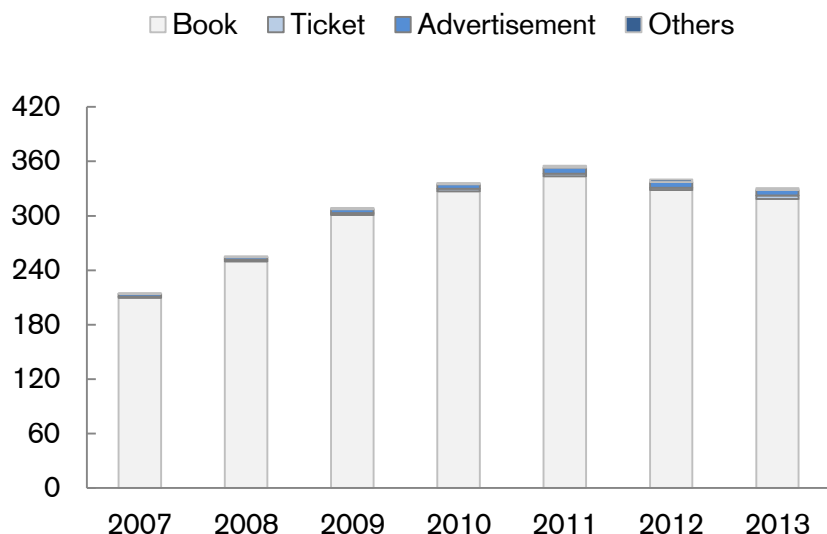
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## Historical Performance

### Historical Revenue Breakdown

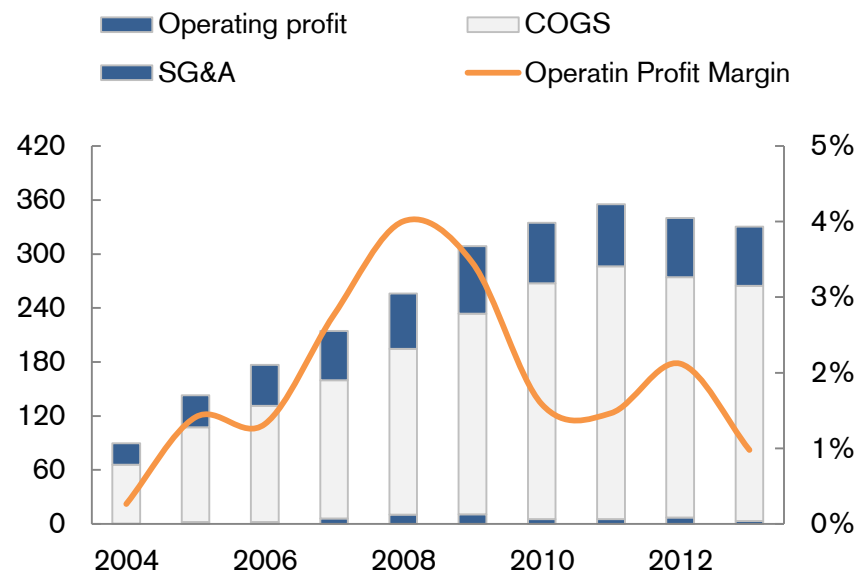
(Unit: Bn KRW)



Source: Dart, SG Fenero Research

### Historical Operating Profit

(Unit: Bn KRW)



Source: Dart, SG Fenero Research

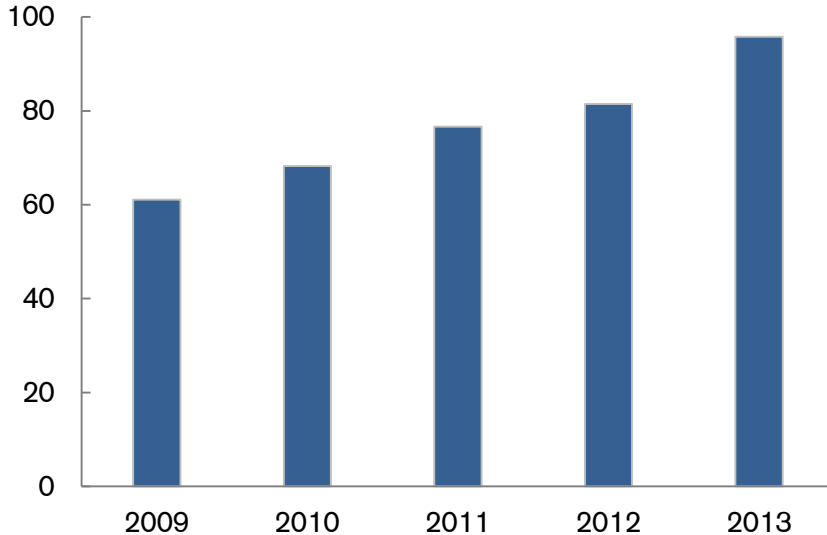
- Historically, their revenue is mainly composed of book sales and total revenue seems stagnant.
- Since they are currently in the high-cost industry, their operating profit margin seems low and volatile

**It seems that book sales are still the key driver to firm's profit**

## Core-Asset, customers

### Member Trend

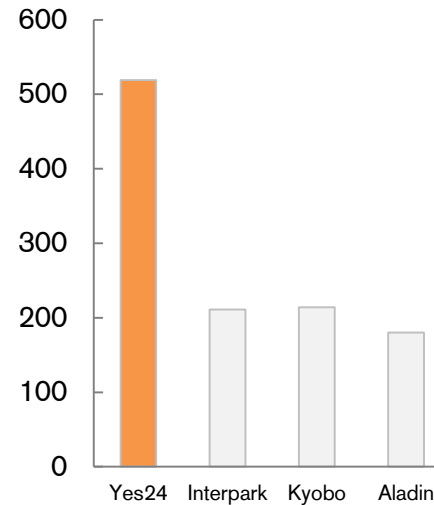
(Unit: ten thousand)



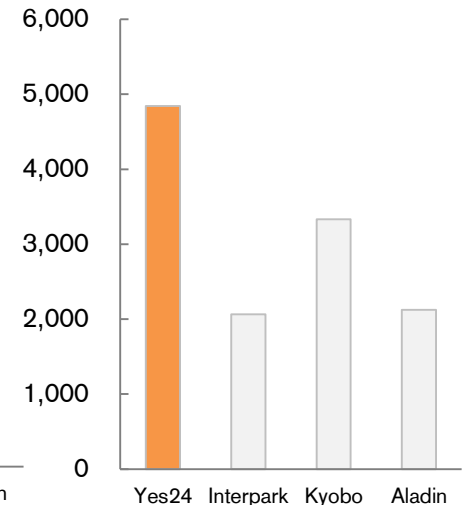
Source: Korean Click, SG Fenero Research

### Average Daily Visitors & Page View

(Unit: People)



(Unit: View)



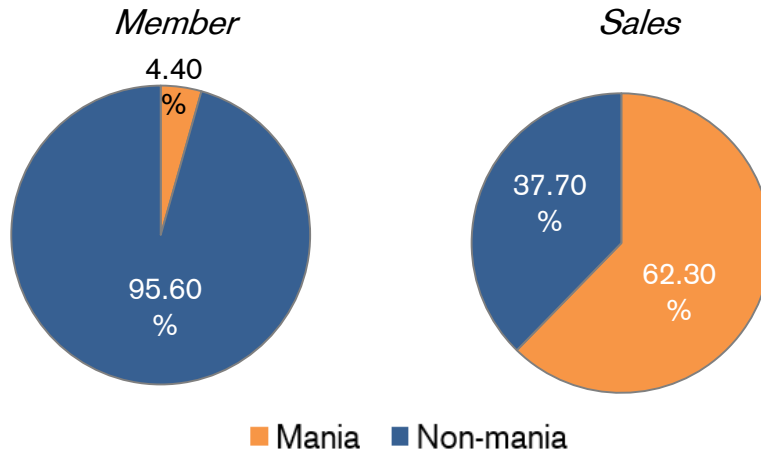
Source: Company IR, SG Fenero Research

- The number of registered members is increasing and secured largest number compared to competitors
- Also, the average number of visitors to the web is more than twice as bigger than that of the competitors

Compared to competitors, the firm has solid range of customers

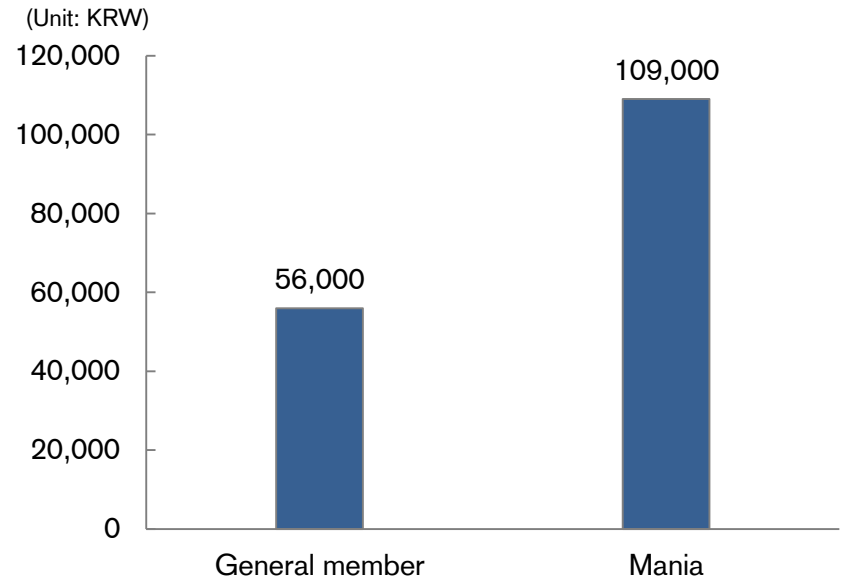
## Customer loyalty

### Maniac Members and their Contribution



Source: Company IR, SG Fenero Research

### ARPU



Source: Company IR, SG Fenero Research

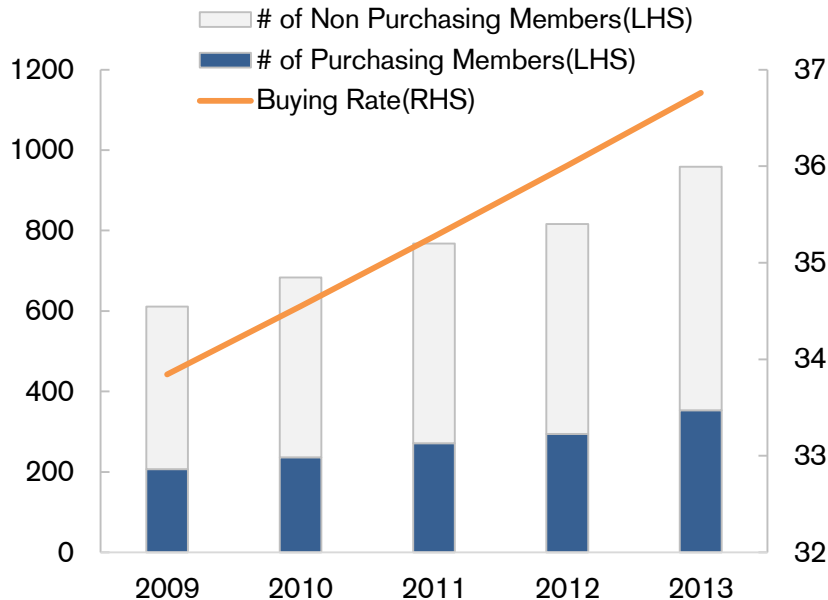
- The proportion of maniac members are only 4.4% but their contribution to the revenue is more than 60%
- The average revenue per users(ARPU) for maniac members is more than twice of that of general members

**The contribution of maniac members to the revenue is huge**

## Customer loyalty(Cont'd)

### Purchasing Rate

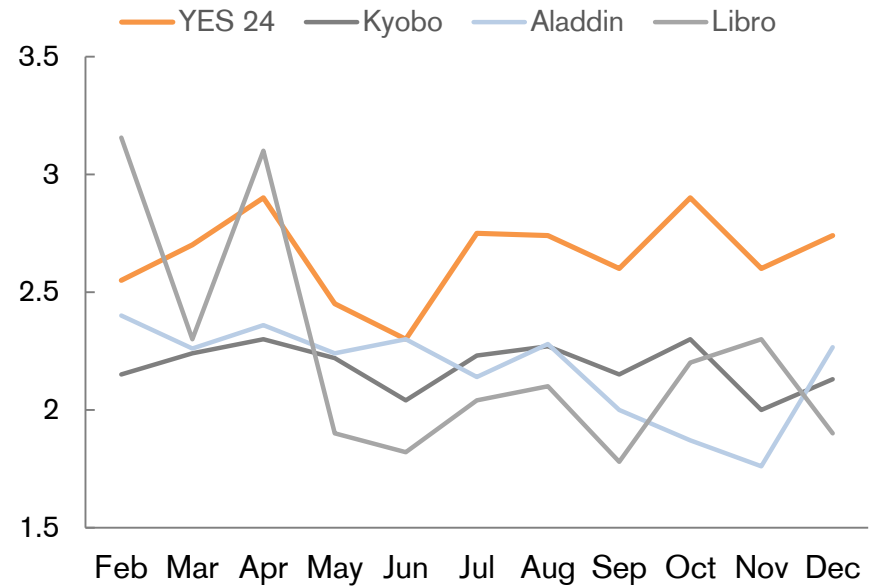
(Unit: ten thousand KRW / %)



Source: Dart, SG Fenero Research

### Number of Revisit days per month

(Unit: Days)



Source: Korean Click, SG Fenero Research

- The purchasing rate of the total customers is increasing
- Also, the number of purchasing customers is increasing
- YES24 shows high revisit rate of customers and it indicates that the firm has the attractiveness to raise customer loyalty

**The number of customers as well as customer loyalty is increasing**



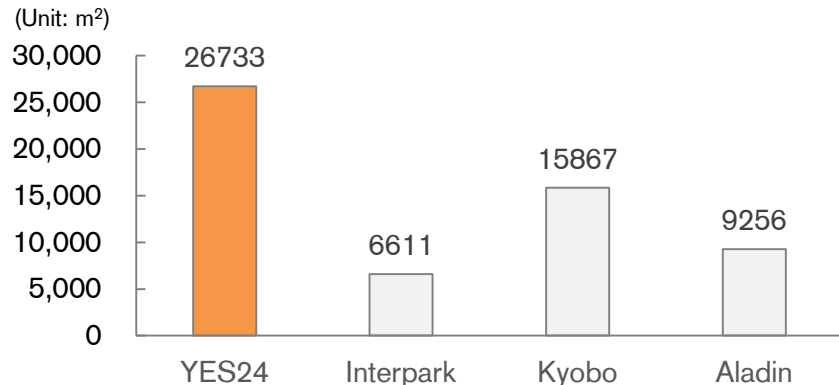
## *Distribution center is the core asset of the Yes24*

### Yes24 Distribution Center Overview

#### 1 Paju Distribution Center 2 Daegu Distribution Center

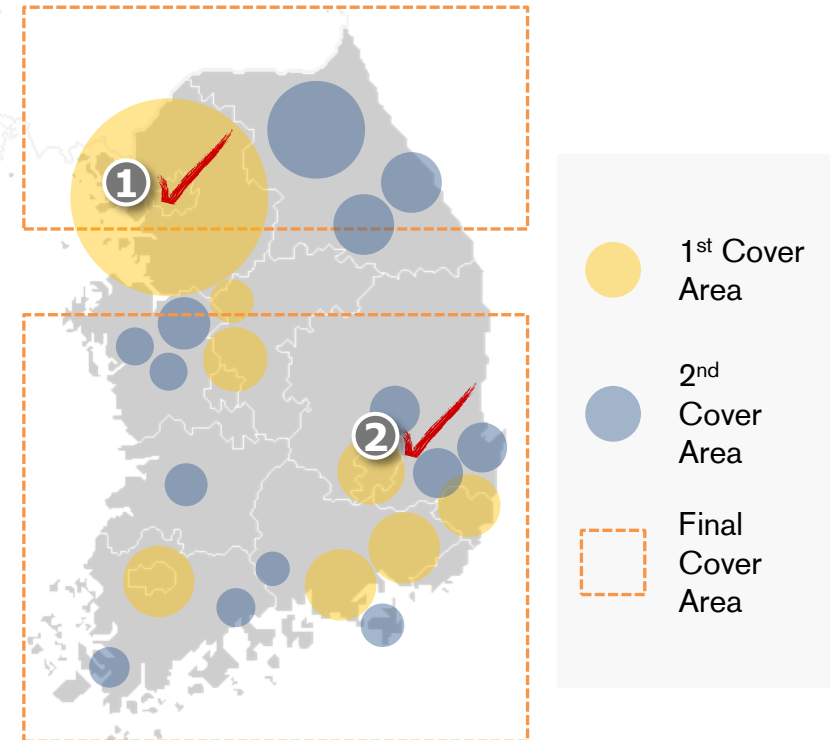
|                              |                      |                              |                      |
|------------------------------|----------------------|------------------------------|----------------------|
| <b>Location</b>              | Paju, Gyunggi        | <b>Location</b>              | Daegu                |
| <b>Extent</b>                | 29,421m <sup>2</sup> | <b>Extent</b>                | 19,008m <sup>2</sup> |
| <b>Inventory Volume</b>      | 2.5mn                | <b>Inventory Volume</b>      | 2mn                  |
| <b>Daily Handling Number</b> | 3~50,000             | <b>Daily Handling Number</b> | 30,000               |

### Comparison with Competitors



Source: Company IR, SG Fenero Research

### Delivery Coverage and Service



- Yes24 takes just one-day to deliver books with their WMS(Warehouse Management System), DAS(Digital Assort System) based on their accumulated sales data.

## *Distribution Process*

### Contents Provider

- Paper book market is not bright
- Failed to obtain enough providers in non-book online businesses

### Website@

- All revenues are created through the website
- Cutthroat competition in the market aggravates profitability

### Customers

- Customer loyalty and large DB is the firm's main asset
- Potential to be extended to other businesses

### In-bound Logistics

- Only Books are stocked for inventories
- Revenues from non-book sales are not related to its distribution center

### Out-bound Logistics

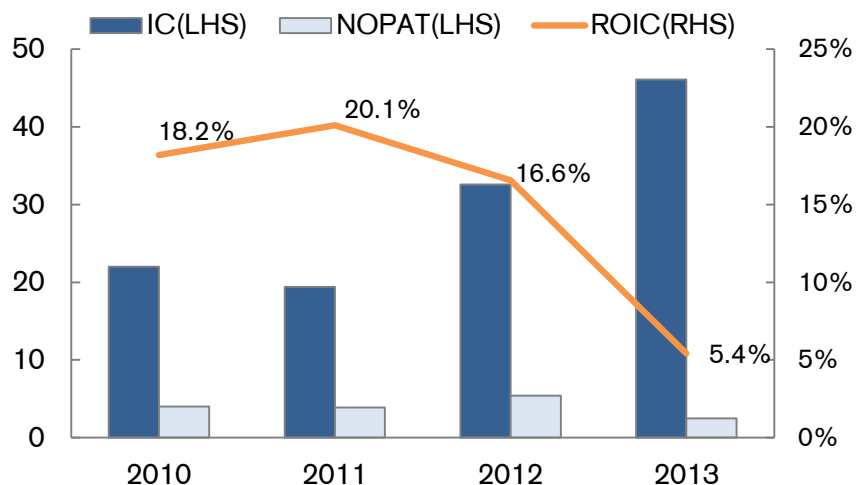
- Day delivery service is core competency of Yes24
- Strong alliance with delivery servicing companies and the largest distribution center

**Daily delivery service is the firm's core competency**

## Expanding distribution center impacts on the figures

### ROIC

(Unit: Bn KRW)



Source: Dart, SG Fenero Research

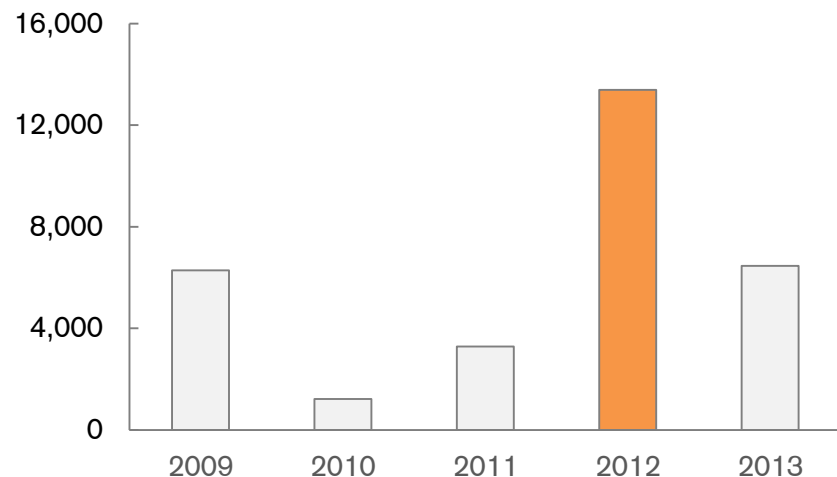
(\*NOPAT: Net Operating Profit After Tax)

(\*ROIC: Return On Invested Capital)

- Invested capital increased consistently from 2011 since investment on distribution in Daegu had started from 2011.
- However, the low growth of NOPAT influences the ROIC ratio to be in downward tendency, even in 2013, it decreased by more than 10%.

### CAPEX

(Unit: Mn KRW)



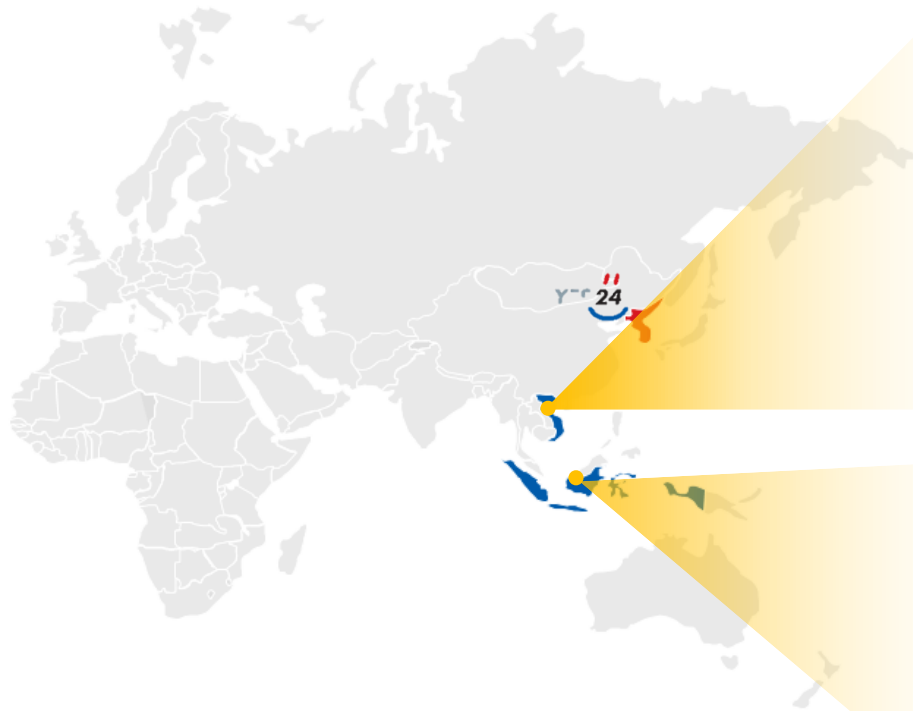
Source: Dart, SG Fenero Research

(\*CAPEX: Capital Expenditures)

- Daegu center started during 2012, which is reflected in CAPEX in 2012. It increased rapidly in 2012.
- However, Daegu center completed in June, 2013 which is connected to decreased CAPEX in 2013.

**Expansion did not contribute to the firm's profit**

### *Entering into Asia market*



- Location : Ho Chi Minh
- Target Customer: 20s to 30s who lead the latest trend
- 61% of Vietnam Internet users has purchased through the Internet more than once
- Vietnam government announced investment plan in online market infra from 2014 to 2020
- Yes24 is included among 200 web-sites in Vietnam



- Location : Jakarta
- Target Customer: 20s to 30s who have the spending power
- Main Product: Indonesian books, English books, Korean books
- Proceeding aggressive marketing/promotion using SNS and off-line events

*Source: Company IR, SG Fenero Research*

- Merging Yes24-Vietnam and Yes24-Indonesia corporation which are subsidiaries of Yes24 in March, 2014, it started to expand its business globally

**Attempting to diversify its revenue source by accelerating globalization**

## Alliances & M&A Issue

- A variety of alliance sources have a potential to successfully diversify its business domain in the future

### Media

- Affiliated with DongA.com, The Korea Economic Daily, Hankyeore Newspaper and etc.
- Provide information contents of the books of YES24
- Joint operation of book information corner at homepages of the press

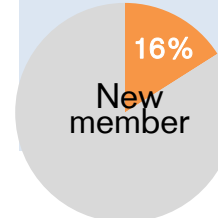
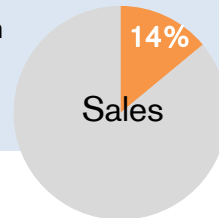
### Telecommunication

- KT, LG Information & Communications, etc
- Provide discount events with customers who have the telecommunication cards

### Internet Portal

- Established strategic alliances with major internet sites such as Naver, Yahoo, Daum and etc.
- Reinforced an influx of customers through various channels
- Provide better book distribution service

■ Alliance
 ■ Others



### Others

## 두산동아

- Yes24 agreed to acquire Doosan Donga (100% stake) at cost of 25 billion won.
- It plans to assume Doosan Donga's net borrowings and retain Doosan Donga's employees.
- Yes24 decided to acquire Doosan Donga expecting to improve business portfolio and create synergy in e-text book market.
- However, **it will severely increase the firm's debt burden after M&A**

Source: Press Search, SG Fenero Research

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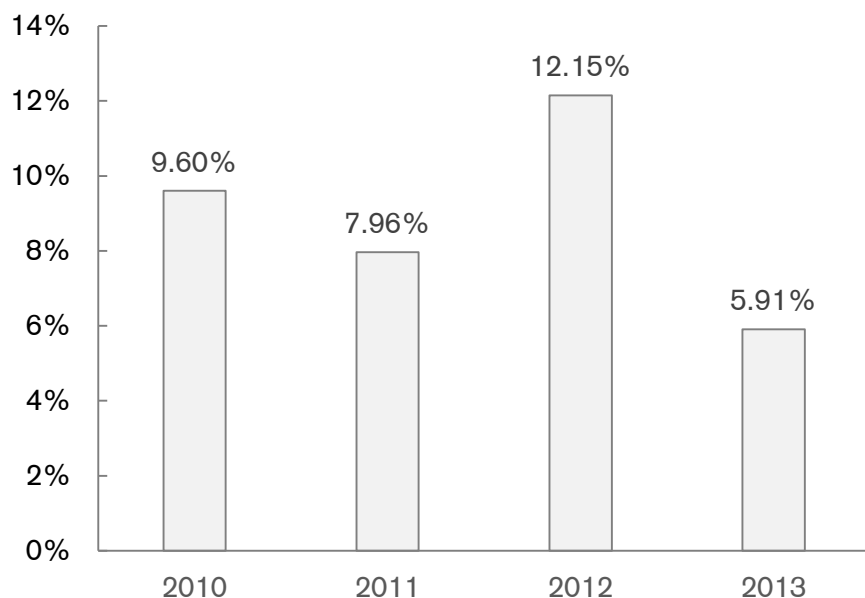
- **Profitability Analysis**
- **Solvency Analysis**
- **Liquidity Analysis**
- **Financial Statement Summary**

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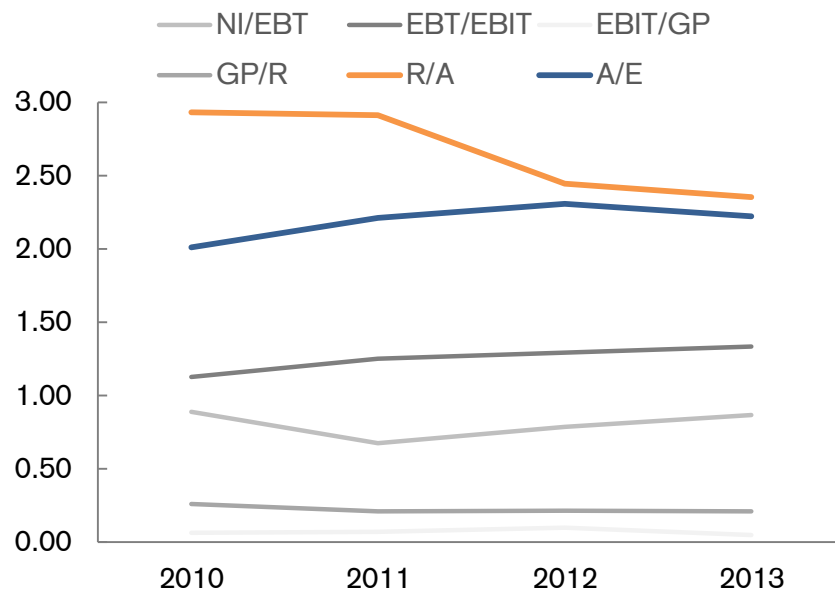
*ROE indicates that total asset t/o of 2013 worsened*

## ROE changing trend



Source: Dart, SG Fenero Research

## DuPont analysis



Source: Dart, SG Fenero Research

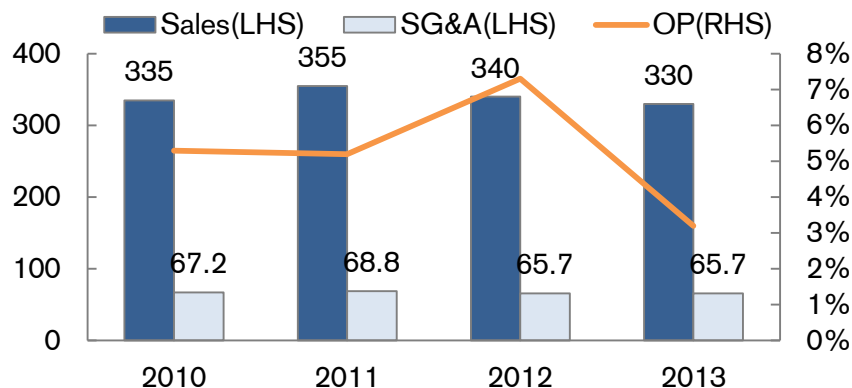
- Typically, ROE indicates 'Return On Equity' which means how equity covers the net income of company.
- From 2010 to 2011, ROE did not change much, but in 2012, it increased quite a lot because of the rapid increase of NI.
- In 2013, the figure sharply decreased. Through DuPont analysis, we found out that the total asset turnover has impacted on it while the other ratios are constantly maintained.

**Decrease in revenue aggravated its ROE**

## SG&A & Operating Income

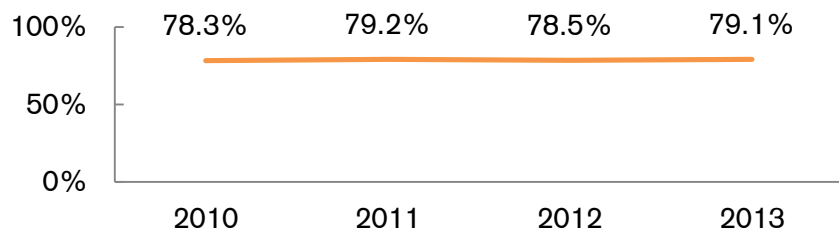
### Changing trend of Sales & OP

(Unit: Bn KRW)



Source: Dart, SG Fenero Research

### COGS ratio



Source: Dart, SG Fenero Research

### Classification of SG&A

(Unit: Mn KRW)

|                            | 2010   | 2011   | 2012   | 2013   |
|----------------------------|--------|--------|--------|--------|
| Total SG&A                 | 67,264 | 68,828 | 65,750 | 65,670 |
| Fixed SG&A                 |        |        |        |        |
| Wage of administrator      | 11,331 | 14,410 | 14,912 | 15,340 |
| Depreciation               | 1,340  | 2,037  | 2,007  | 2,320  |
| Advertising cost           | 4,017  | 3,529  | 2,918  | 2,670  |
| Total                      | 39,323 | 44,346 | 42,416 | 42,670 |
| (Proportion of fixed cost) | 58.5%  | 64.4%  | 64.5%  | 65.0%  |

Source: Dart, SG Fenero Research

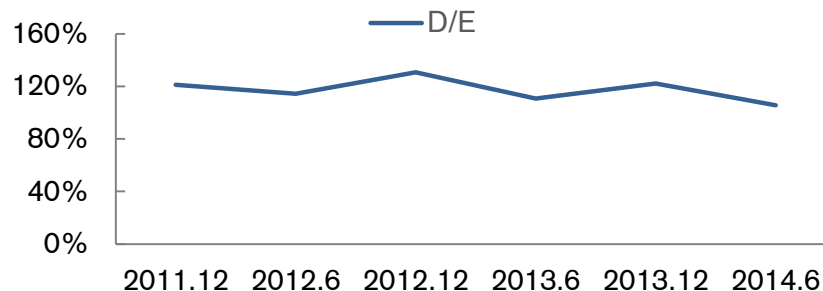
- OP extremely fluctuated while sales and SG&A were relatively stable.
- High proportion of fixed SG&A was a major reason of the fluctuation of OP because COGS ratio was in a consistent trend.

**Corporate has a risk of fluctuating OP in bookstore business.**

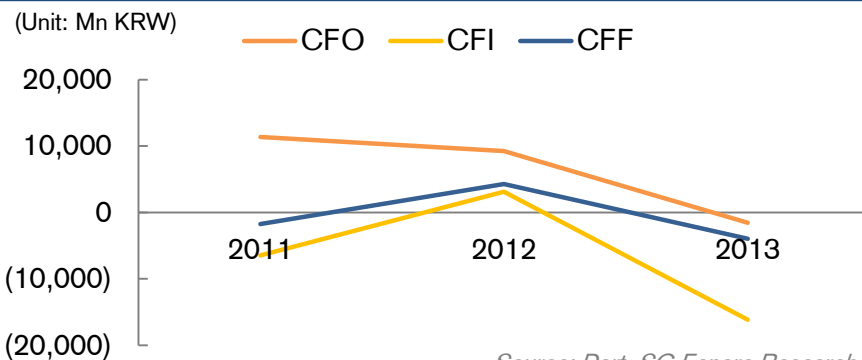


## Solvency Analysis

### Debt/Equity Ratio

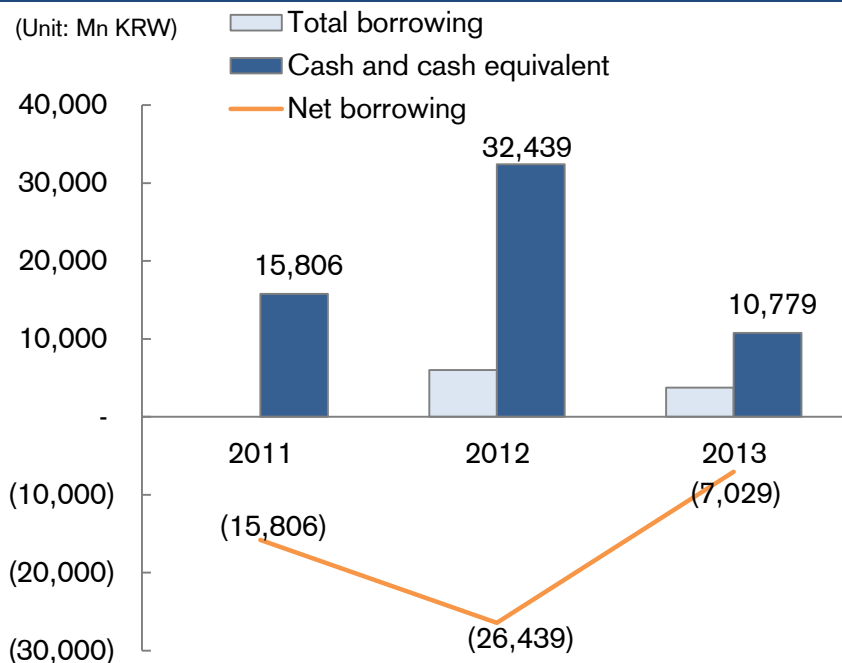


### Cash Flow



Source: Dart, SG Fenero Research

### CCE, Borrowing figures



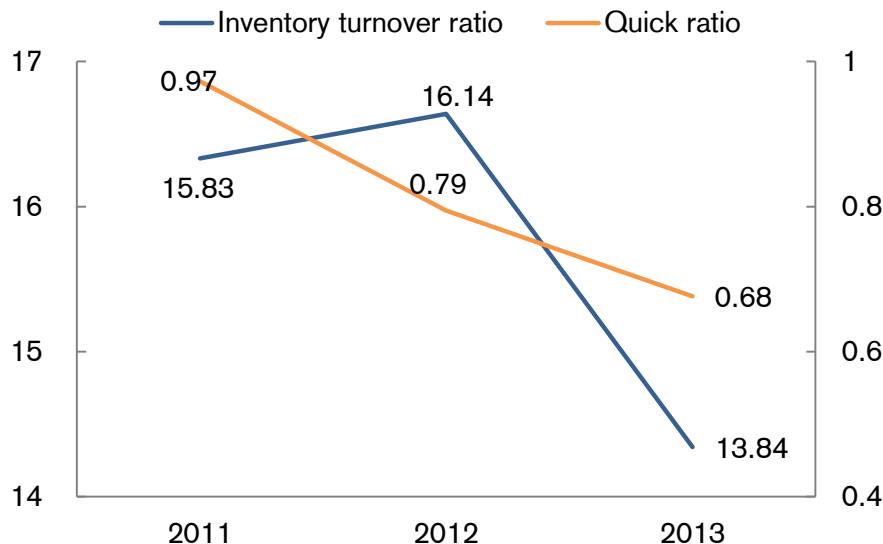
Source: Dart, SG Fenero Research

- At first glance, despite of the huge investment on the distribution center, Debt/Equity ratio has remained quite stable.
- However, it is because Yes24 repay enormous borrowing with their CCE(cash and cash equivalent).

**The analysis indicates that their solvency is not really healthy**

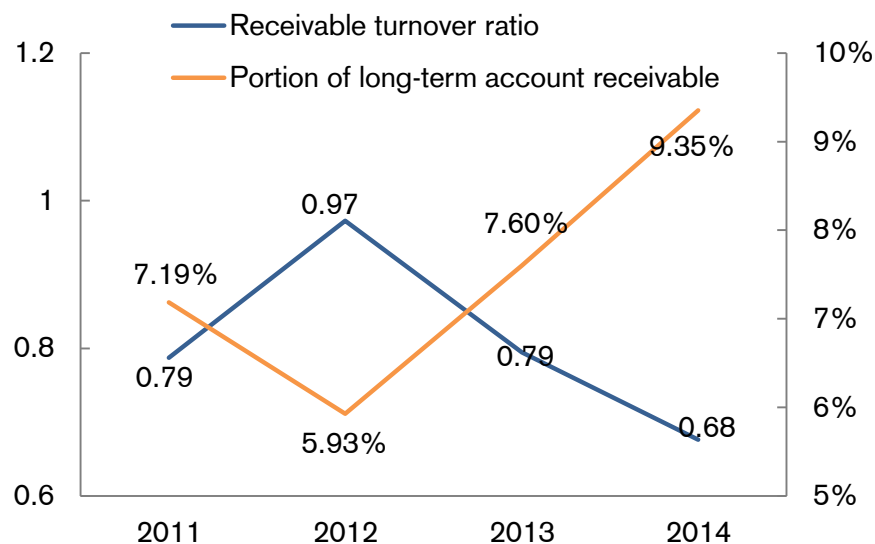
## *Liquidity ratios indicate company's worsening liquidity*

### Inventory t/o & Quick ratio



Source: Dart, SG Fenero Research

### Receivable t/o & L-T AR



(\*Portion of long-term account receivable is long-term account receivable to total account receivable)

Source: Dart, SG Fenero Research

- Decreasing inventory turnover ratio means the company's average inventory increased significantly.
- Steadily decreasing quick ratio signifies the company's deteriorated liquidity
- Decreasing receivable turnover means company has trouble in turning accounts receivable into cash.
- Increasing the portion of L-T accounts receivable intensifies company's liquidity problem.

**Company's inventories are increasing and index related with receivables is worsening**

## Consolidated Financial Statement

| Balance sheet                              | (Unit: Mn KRW) |                |                |
|--|----------------|----------------|----------------|
|  | 2014 1H        | 2013           | 2012           |
| <b>Assets</b>                              | <b>129,874</b> | <b>140,371</b> | <b>139,131</b> |
| Current assets                             | 71,308         | 82,236         | 87,965         |
| Cash and cash equivalent                   | 4,544          | 10,779         | 32,439         |
| Accounts receivables                       | 12,101         | 13,768         | 14,400         |
| Inventories                                | 30,398         | 26,537         | 21,209         |
| Non-Current assets                         | 58,566         | 58,136         | 51,166         |
| Long-term accounts receivables             | 1,249          | 1,133          | 908            |
| Property, plant and equipment              | 39,867         | 40,195         | 35,200         |
| <b>Liabilities</b>                         | <b>66,708</b>  | <b>77,204</b>  | <b>78,819</b>  |
| Current liabilities                        | 60,480         | 70,099         | 68,629         |
| Accounts payable                           | 24,204         | 34,955         | 34,147         |
| Short-term borrowings                      | 491            | 0              | 0              |
| Current portion of long-term borrowings    | 2,250          | 3,000          | 2,250          |
| Non-Current liabilities                    | 6,229          | 7,105          | 10,191         |
| Long-term borrowings                       | 0              | 750            | 3,750          |
| <b>Shareholder's equity</b>                | <b>63,166</b>  | <b>63,168</b>  | <b>60,312</b>  |
| Equity attributable to owners of the Group | 63,141         | 63,168         | 60,312         |
| Capital stock                              | 8,600          | 8,600          | 8,600          |
| Retained earnings                          | 25,218         | 25,979         | 23,206         |
| Non controlling interests                  | 26             | 0              | 0              |

Source: Dart, SG Fenero Research

| Income Statement                      | (Unit: Mn KRW) |                 |                |
|---------------------------------------|----------------|-----------------|----------------|
|                                       | 2014 1H        | 2013            | 2012           |
| <b>Sales revenue</b>                  | <b>169,797</b> | <b>330,427</b>  | <b>340,055</b> |
| <b>COGS</b>                           | <b>134,646</b> | <b>261,523</b>  | <b>267,095</b> |
| <b>Gross profit</b>                   | <b>35,152</b>  | <b>68,905</b>   | <b>72,961</b>  |
| <b>SG&amp;A</b>                       | <b>34,439</b>  | <b>65,671</b>   | <b>65,751</b>  |
| <b>Operating income</b>               | <b>714</b>     | <b>3,234</b>    | <b>7,211</b>   |
| Interest income                       | 114            | 670             | 1283           |
| Taxable income                        | 1,430          | 4,311           | 9,323          |
| Income tax expense                    | 491            | 578             | 1,996          |
| <b>Net income</b>                     | <b>940</b>     | <b>3,733</b>    | <b>7,327</b>   |
| <b>Cash flow statement</b>            | <b>2014 1H</b> | <b>2013</b>     | <b>2012</b>    |
| <b>Cash flow for operating</b>        | <b>(8,079)</b> | <b>(1,535)</b>  | <b>9,236</b>   |
| Net income                            | 940            | 3,733           | 7,327          |
| <b>Cash from investment</b>           | <b>4,550</b>   | <b>(16,157)</b> | <b>3,118</b>   |
| Acquisition of available-for-sale     | (25,754)       | (53,668)        | (22,322)       |
| Acquisition of PP&E                   | (210)          | (6,475)         | (13,388)       |
| <b>Cash from financing</b>            | <b>(2,708)</b> | <b>(3,970)</b>  | <b>4,281</b>   |
| Borrowings                            | 513            | 0               | 6,000          |
| Repayment of borrowings               | (1,500)        | (2,250)         | 0              |
| <b>Net increase(decrease) in cash</b> | <b>(6,235)</b> | <b>(21,661)</b> | <b>16,634</b>  |
| Cash at Beg                           | 10,779         | 32,439          | 15,806         |
| Cash at End                           | 4,544          | 10,779          | 32,439         |

Source: Dart, SG Fenero Research

- Current assets is decreasing with drastic increase of inventory and decrease of cash and cash equivalent and accounts receivable.
- Operating income and net income are more decreased than sales revenue.
- Cash flow for operating turned to minus in 2013 and the trend still continues in 2014.

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## *Investment considerations and concerns*

|                   | Investment Considerations  | Benefit to GSHS   |
|-------------------|--|---|
| Distributions     | <ul style="list-style-type: none"> <li>➤ Best performer with their daily delivery service system in the industry</li> <li>➤ Recent expansion of their distribution center can be adapted to future new products</li> </ul>                                 | <ul style="list-style-type: none"> <li>➤ GSHS can be benefited from its delivery service by adopting its daily delivery service to GSHS's current business</li> <li>➤ Recent distribution center can be utilized with GSHS's other products</li> </ul>  |
| Business Domain   | <ul style="list-style-type: none"> <li>➤ The most dominating number of members and visitors to the web is their core asset</li> <li>➤ Regardless of the decreasing industry, the firm is expected to gain more MS with its strong customer base</li> </ul> | <ul style="list-style-type: none"> <li>➤ GSHS can obtain 10mn customers which is about a 80% of its current customers with a significant number of highly loyal customers</li> <li>➤ It is expected to contribute to revenue growth in existing business of GSHS by customer sharing</li> </ul> |
| Capital Structure | <ul style="list-style-type: none"> <li>➤ The firm currently is not bearing no significant amount of debt</li> <li>➤ Compared to the competitors, the firm is relatively maintaining stable D/E ratio</li> </ul>  | <ul style="list-style-type: none"> <li>➤ Yes24's highly stable financial position seems attractive to acquire</li> <li>➤ Its recently deteriorated quality is due to the decreasing sale, which GSHS has a potential to make up by creating synergies</li> </ul>                                |

**Regardless of its recent weak performances, Yes24 is still attractive investment for GSHS**

## *Investment considerations and concerns*

|                   | Investment Concerns   | Strategic Position after Acquisition  |
|-------------------|---|---|
| Distributions     | <ul style="list-style-type: none"> <li>➤ Capital expenditure expansion turns out to be risky investment in the current business</li> <li>➤ Decreasing in sales is leading to the abrupt increasing in inventory</li> </ul>                          | <ul style="list-style-type: none"> <li>➤ Over capacity problem in its distribution center can be overcome by utilizing it with different product categories (i.e. clothing)</li> <li>➤ Costs regarding inventory and distribution mgmt. can be reduced by GSHS</li> </ul> |
| Business Domain   | <ul style="list-style-type: none"> <li>➤ Due to the high cost of the online book-store business, the profitability is low</li> <li>➤ The portion of revenues from non-book business is still significantly low</li> </ul>                           | <ul style="list-style-type: none"> <li>➤ Though profitability is low, its inherent strength in capturing loyal customers can contribute to GSHS online channel</li> <li>➤ GSHS has a will to expand its position in e-Book business</li> </ul>                            |
| Capital Structure | <ul style="list-style-type: none"> <li>➤ Even though maintaining stable D/E ratio, the quality of their capital structure is worsening</li> <li>➤ Inadequate management of operating cash flow results in the weakened capital structure</li> </ul> | <ul style="list-style-type: none"> <li>➤ Regulation issues and consolidation of market is expected to settle the issues</li> <li>➤ By integrating product sold in online channel, the problems regarding weak sales can be solved</li> </ul>                              |

**Although there exists a few concerns, GSHS can overcome the issues after acquisition**

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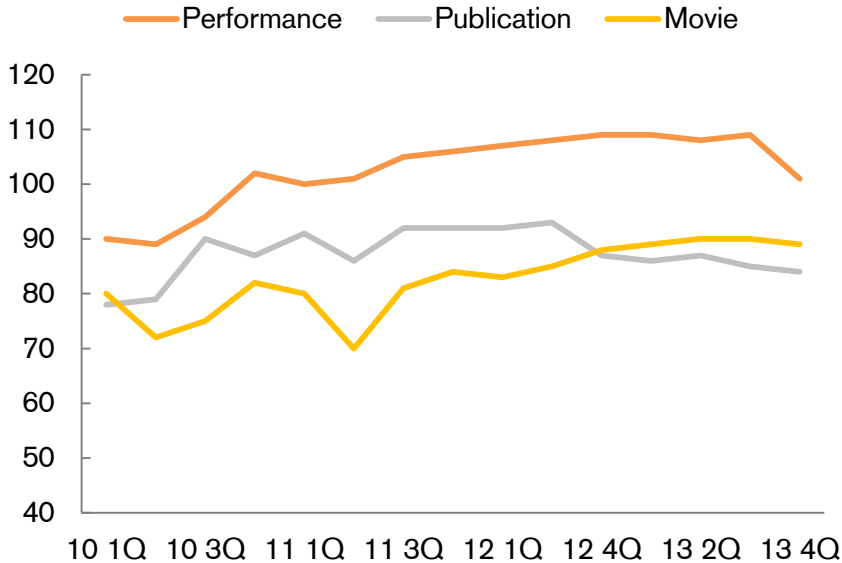
Summary

Appendix

- Ticket Reservation Industry
- Online Advertisement Industry

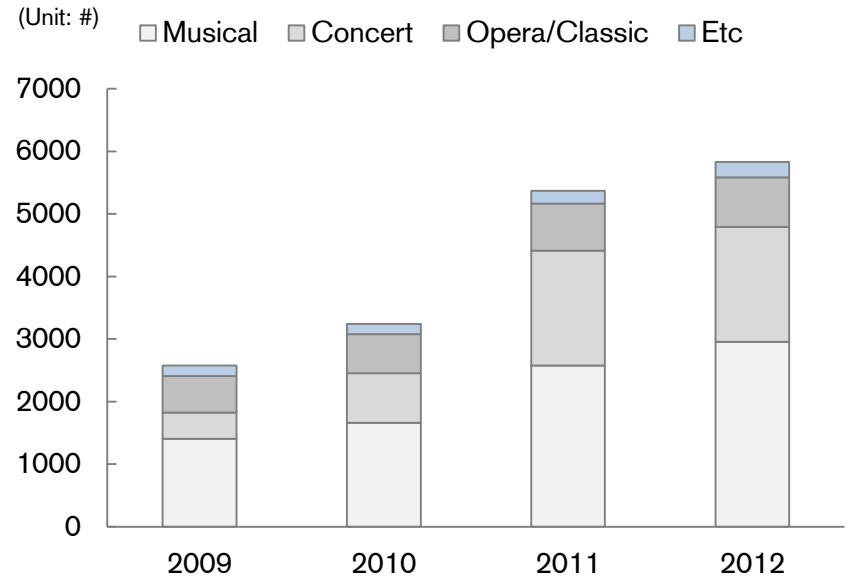
## Performing arts industry overview

### Cultural Industry Index



Source: Statistics Korea, SG Fenero Research

### Domestic Theater



Source: Statistics Korea, SG Fenero Research

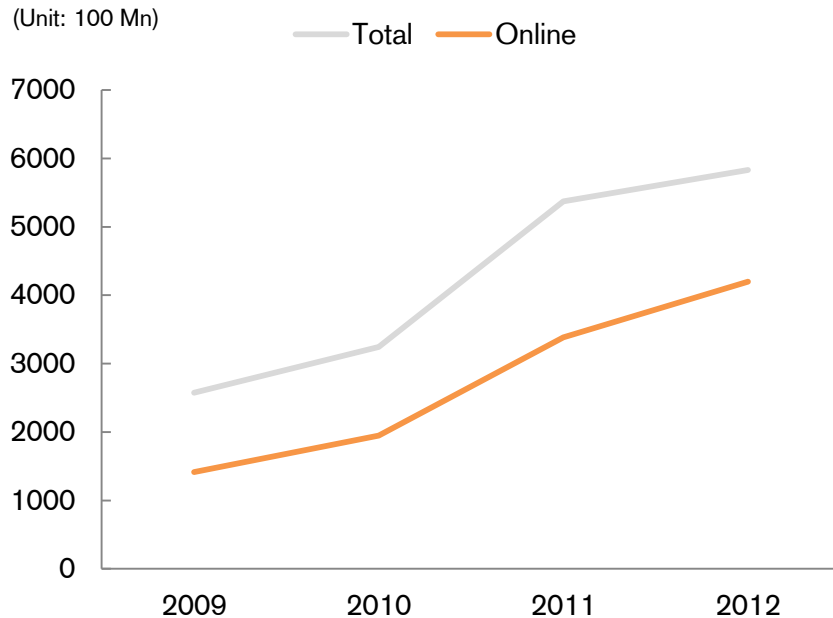
- According to cultural industry related index, performance index is constantly higher than publication or movie.
- Also, the number of domestic theater is increasing, and the growth rate is getting bigger.

**Supply of performance industry continuously increases, future growth expected**



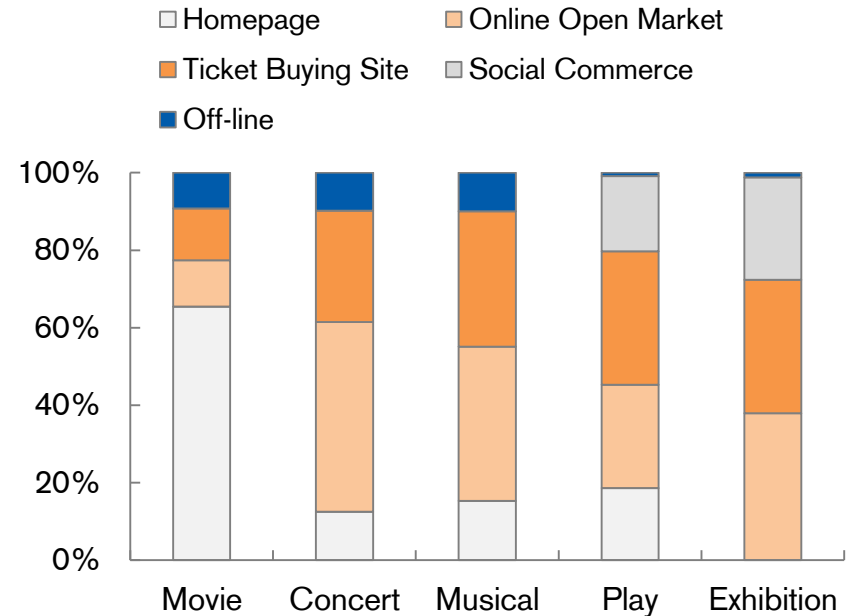
### *Ticket reservation service becoming key factor in the industry*

#### Online Performance Market Size



Source: Dart, SG Fenero Research

#### Proportion of Online Ticket Reservation

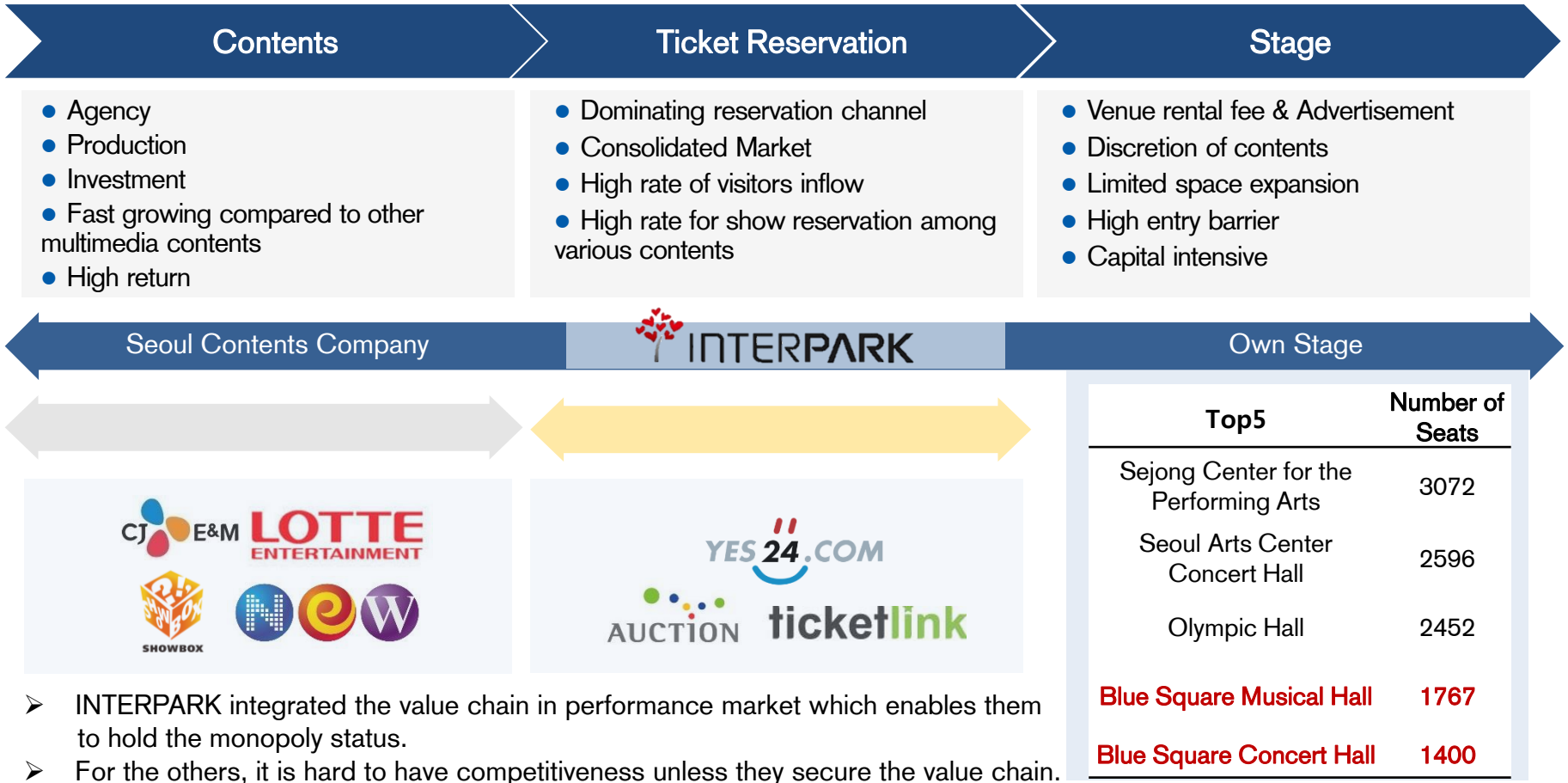


Source: Dart, SG Fenero Research

- Among performance market increasing, online ticket reservation market is growing remarkably.
- Also majority of cultural ticket reservation media is proceeded online.

**Importance of online ticket reservation in performance market is significant**

Ticket reservation



KSF is the integration of value chain, but Yes24 is not likely to achieve it

## Online Advertisement

### Online Advertisement Structure

#### Display

- Leads the users to web-sites with banners that include text, image, video advertisement

#### Search

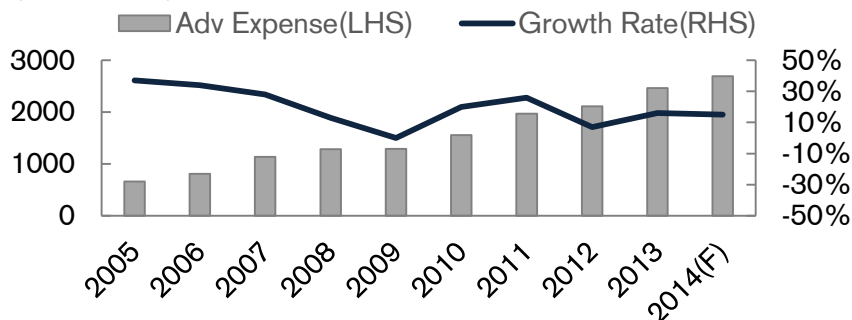
- Leads the users to web-sites when the users search the name like 'key-words' searching

#### Mobile

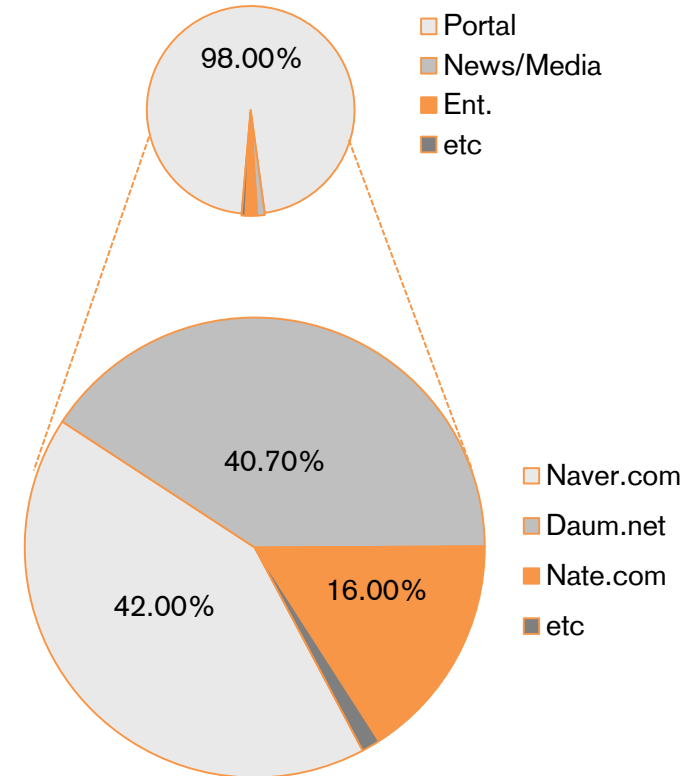
- Leads the users to click the banners and sponsor advertisement like mobile application

### Online Advertisement Market Growth

(Unit: Bn KRW)



### Concentration on Portal



Advertising is expected to grow, but concentrated on portals, not related to Yes24

# *Target Price of Yes24*

## *3. Preliminary Valuation*



In the preliminary valuation, we provide the first glance of the target company's fair price and appropriate percentage of managerial rights premium paid.

**In order to find out Yes24's intrinsic value as a stand-alone basis,**

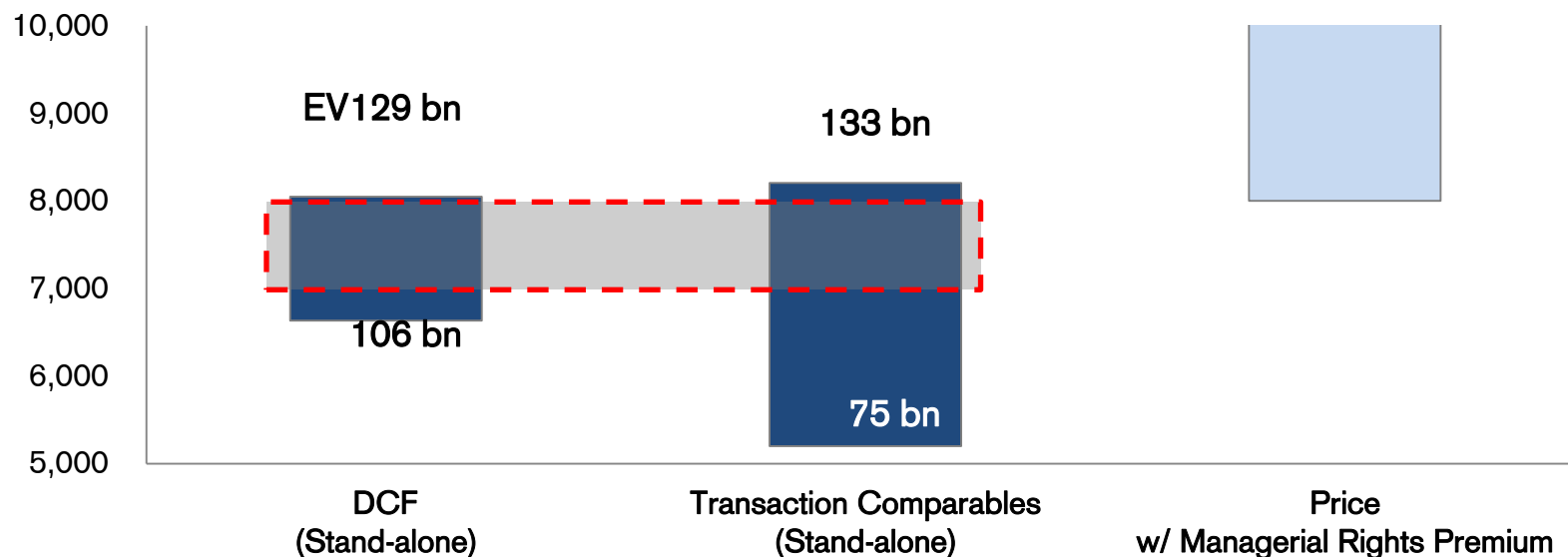
- **We applied DCF valuation method**
- **We applied transaction comparisons multiples**

Also, we compared the premium paid through the analysis of transactions in similar industry

\* We leave out comparable companies multiple since it is impossible to find appropriate peer groups, since Yes24 is the only firm that solely focuses in online bookstore business.

## Results of the analysis

(Unit: KRW)



Preliminary valuation analysis on Yes24 indicated the range of 6,800 – 7,800 KRW per share, 110bn – 125bn KRW of EV with 18% - 20% managerial rights premium

## DCF Summary of the Target Company

| DCF Results                   | (Unit: KRW)      |
|-------------------------------|------------------|
| WACC                          | 15.41%           |
| Terminal Growth Rate          | 1.00%            |
| Enterprise Value              | 116,464,196,149  |
| PV of FCFF(5)                 | 41,287,467,054   |
| PV of Terminal Value          | 75,176,729,095   |
| Net Debt                      | -(8,528,292,000) |
| Equity Value                  | 135,092,488,149  |
| # of Shares Outstanding       | 17,200,000       |
| (Price as of June 30th, 2014) | 5,310            |
| <b>Target Price</b>           | <b>7,267</b>     |

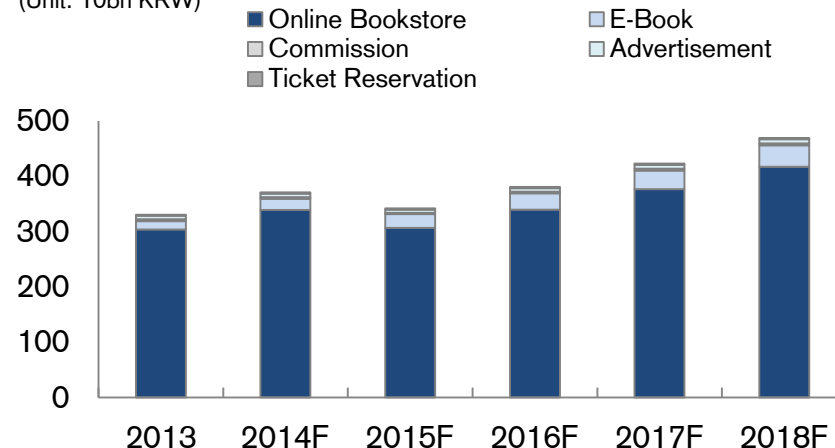
| Sensitivity Analysis |       | (Unit: KRW) |        |        |
|----------------------|-------|-------------|--------|--------|
|                      |       | WACC        |        |        |
|                      |       | 14.41%      | 15.41% | 16.41% |
| Terminal Growth Rate | 0.50% | 7,637       | 7,100  | 6,633  |
|                      | 1.00% | 7,835       | 7,267  | 6,775  |
|                      | 1.50% | 8,050       | 7,446  | 6,927  |

- Applying a DCF analysis yields an TP of 7,267 KRW with Enterprise Value of 116 bn KRW and Equity Value of 135 bn KRW
- Throughout a sensitivity analysis varying terminal growth rate and WACC, the price ranges from 6,633 – 8,050 KRW
- According to the results, price of Yes24 is currently undervalued and its intrinsic value has 36% upside potential
- ❖ Yes24 has been rumored to acquire Doosan Donga since July, and the price significantly appreciated. At the time of our analysis been taking, it was not able to applying the effect of Doosan Donga M&A so the analysis does not include it. Therefore, we compared the results with the price when there was no rumor of M&A, which was June 30<sup>th</sup>, 2014.

### Sales Forecast

- For the online bookstore sales forecasting, we forecasted price trend of the book and number of books sold by Yes24
- We applied the effects of fixed book prices on the book prices which we anticipate to have positive effects
- We forecasted the number of reading populations, and estimated MS and members (Mania & Non-mania) trend of Yes24
- For e-Book sales forecasting, we estimated contents price and buying rate, and the growth of devices
- The reason for abrupt sales increase in 2014 is due to the temporary effects of fixed book prices

(Unit: 10bn KRW)



(Unit: bn KRW)

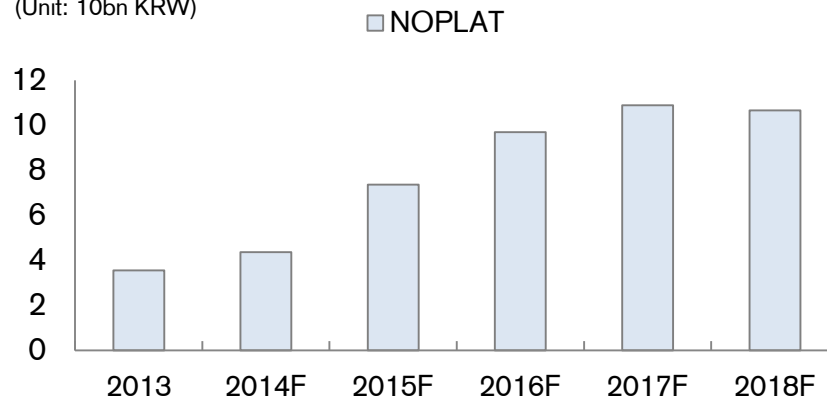
| Sales              | 2013         | 2014F        | 2015F        | 2016F        | 2017F        | 2018F        |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Online Bookstore   | 3,036        | 3,390        | 3,067        | 3,397        | 3,763        | 4,168        |
| E-Book             | 150          | 202          | 245          | 291          | 339          | 386          |
| Commission         | 36           | 30           | 27           | 30           | 33           | 37           |
| Advertisement      | 60           | 63           | 57           | 63           | 69           | 77           |
| Ticket Reservation | 20           | 23           | 23           | 23           | 23           | 23           |
| <b>Total Sales</b> | <b>3,304</b> | <b>3,709</b> | <b>3,420</b> | <b>3,805</b> | <b>4,229</b> | <b>4,693</b> |
| YoY, %             | -2.83%       | 12.26%       | -7.79%       | 11.26%       | 11.14%       | 10.96%       |

## FCFF (Cont'd)

### Net Operating Profit Less Adjusted Taxes

- Due to Fixed book prices, we assumed that COGS ratio will drop down 2%p average, 76.79%
- We assumed that the portion of SG&A from sales goes constantly throughout the forecasting years
- Added forecasted depreciation and amortization considering existing expenses and for new capital expenditures
- We applied effective tax rate of historical years, which is 19.51%

(Unit: 10bn KRW)



(Unit: bn KRW)

| NOPLAT                             | 2013      | 2014F     | 2015F     | 2016F     | 2017F      | 2018F      |
|------------------------------------|-----------|-----------|-----------|-----------|------------|------------|
| Sales                              | 3,304     | 3,709     | 3,420     | 3,805     | 4,229      | 4,693      |
| COGS                               | (2,615)   | (2,922)   | (2,626)   | (2,922)   | (3,248)    | (3,604)    |
| % of Sales                         | 79.15%    | 78.79%    | 76.79%    | 76.79%    | 76.79%     | 76.79%     |
| SG&A                               | (655)     | (732)     | (702)     | (762)     | (846)      | (956)      |
| Depreciation Expense               | (14)      | (17)      | (18)      | (15)      | (25)       | (44)       |
| Amortization Expense               | (8)       | (10)      | (12)      | (15)      | (21)       | (39)       |
| Earnings Before Interest and Taxes | 33        | 54        | 91        | 120       | 135        | 132        |
| Operating Cash Taxes               | 2         | (10)      | (17)      | (23)      | (26)       | (25)       |
| <b>NOPLAT</b>                      | <b>35</b> | <b>43</b> | <b>73</b> | <b>96</b> | <b>108</b> | <b>106</b> |

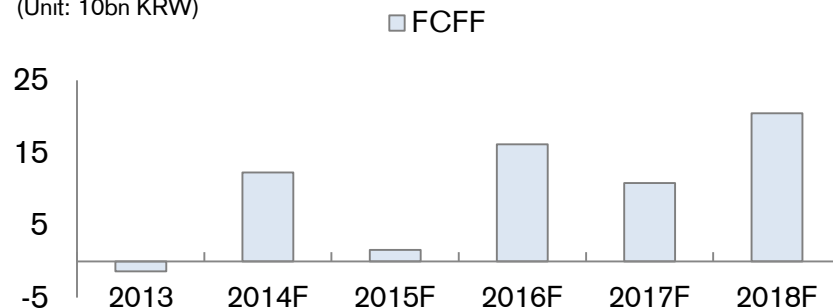


## FCFF (Cont'd)

### FCFF Summary

- For forecasting non-cash charges, we estimated depreciation and amortization with estimated useful life and remaining useful life to consider dep & amort on existing assets and new capital expenditures. Also, we considered NCC on retirement benefit
- We forecasted working capital by using turnover ratios
- We estimated useful life and remaining useful life, and applied percentage of purchases per sales to forecast CAPEX

(Unit: 10bn KRW)



(Unit: bn KRW)

| Free Cash Flow to the Firm | 2013        | 2014F      | 2015F     | 2016F      | 2017F      | 2018F      |
|----------------------------|-------------|------------|-----------|------------|------------|------------|
| NOPLAT                     | 35          | 43         | 73        | 96         | 108        | 106        |
| Add: NCC                   | 32          | 37         | 42        | 41         | 58         | 96         |
| Depreciation               | 14          | 17         | 18        | 15         | 25         | 44         |
| Amortization               | 8           | 10         | 12        | 15         | 21         | 39         |
| Retirement Benefit         | 15          | 16         | 17        | 17         | 18         | 19         |
| Less: $\Delta$ in NWC      | 8           | (64)       | (78)      | (54)       | 13         | (36)       |
| Less: CAPEX                | 67          | 23         | 21        | 31         | 45         | 34         |
| CAPEX on PP&E              | 64          | 12         | 11        | 15         | 18         | 20         |
| CAPEX on Intangibles       | 24          | 10         | 10        | 15         | 27         | 13         |
| <b>FCFF</b>                | <b>(13)</b> | <b>122</b> | <b>15</b> | <b>161</b> | <b>108</b> | <b>204</b> |

## WACC & Terminal Value

### WACC & Terminal Value

- Yes24 has been maintained non-levered management, except for a few years, and the debt amount is expected to be completely redeemed at 2014.
- Used US Treasury Bond (10yr) as risk free rate and S&P 500 as market risk premium. Then, added Korean CDS spread to get country risk premium.
- Since the firm is unlevered, applied beta of 2.23 which is the unlevered beta of online shopping retailers.
- For the terminal growth rate, we applied expected population growth since population is highly related to the book demand in the long term.

(Unit: bn KRW)

#### Weighted Average Cost of Capital & Terminal Value

|                        |        |
|------------------------|--------|
| Risk Free Rate (10yrs) | 4.69%  |
| Country RP             | 0.90%  |
| Country Risk Free Rate | 5.59%  |
| Market Risk Premium    | 4.41%  |
| Beta(Unlevered)        | 2.23   |
| Ke                     | 15.41% |
| Kd                     | 0      |

#### WACC 15.41%

|                      |                 |
|----------------------|-----------------|
| Terminal growth rate | 1.00%           |
| Terminal Value       | 143,301,080,485 |

#### PV of Terminal Value 75,176,729,095

| Ratio Analysis                      | 2013  | 2014F | 2015F | 2016F |
|-------------------------------------|-------|-------|-------|-------|
| <b>Growth Ratio</b>                 |       |       |       |       |
| Sales Growth                        | -3%   | 12%   | -8%   | 11%   |
| EBIT Growth                         | -54%  | 63%   | 68%   | 32%   |
| NI Growth                           | -49%  | 41%   | 58%   | 28%   |
| <b>Profitability Ratio</b>          |       |       |       |       |
| Gross Profit Margin                 | 21%   | 21%   | 23%   | 23%   |
| Operating Profit Margin             | 1%    | 1%    | 3%    | 3%    |
| Net Profit Margin                   | 1%    | 1%    | 2%    | 3%    |
| EBITDA Margin                       | 2%    | 2%    | 4%    | 4%    |
| ROE                                 | 6%    | 8%    | 11%   | 12%   |
| ROA                                 | 3%    | 4%    | 6%    | 7%    |
| ROIC                                | 10%   | 18%   | 24%   | 39%   |
| <b>Solvency&amp;Liquidity Ratio</b> |       |       |       |       |
| Debt-to-Equity Ratio                | 6%    | 1%    | 0%    | 0%    |
| Current Ratio                       | 117%  | 111%  | 128%  | 114%  |
| Quick Ratio                         | 79%   | 81%   | 91%   | 79%   |
| <b>Valuation Ratio(KRW)</b>         |       |       |       |       |
| EPS                                 | 218   | 308   | 484   | 620   |
| BPS                                 | 3,673 | 3,880 | 4,365 | 4,985 |

# Transaction Comparables & Premium

## Selected e-Commerce M&A transactions



(Unit: mn USD)

| Announced Date               | Target Company          | Target Business               | Acquiror Name              | Acquiror Business              | Enterprise Value | Equity Value (Prior) | Value of Transaction (100%) | EV/ EBITDA (LTM) | EV/ EBIT (LTM) | Transaction P/ EPS | Transaction P/ BPS | Premium paid for Managerial Rights |
|------------------------------|-------------------------|-------------------------------|----------------------------|--------------------------------|------------------|----------------------|-----------------------------|------------------|----------------|--------------------|--------------------|------------------------------------|
| 2011-03-27                   | GSI Commerce Inc        | Pvd e-commerce solution svcs  | Gibraltar Acquisition Corp | Pvd ecommerce retail services  | 2,176.59         | 1,492.04             | 2,404.74                    | 23.20            | 216.86         | -65.88             | 3.72               | 61.17%                             |
| 2012-05-14                   | Stylife Corp            | Pvd ecommerce retail svcs     | Rakuten Inc                | Pvd electronic ecommerce svcs  | 30.96            | 12.10                | 19.15                       | -18.55           | -6.20          | -2.90              | 0.92               | 58.34%                             |
| 2007-01-03                   | Blair Corp              | Pvd ecommerce ret svcs        | Investor Group             | Investor group                 | 128.86           | 127.75               | 165.25                      | -362.99          | -15.88         | 826.24             | 1.35               | 29.36%                             |
| 2003-11-16                   | Internet Auction Co Ltd | Pvd online auction services   | eBay Inc                   | Pvd ecommerce retail servicess | 661.88           | 607.24               | 780.05                      | 30.78            | 39.85          | 48.75              | 7.92               | 28.46%                             |
| 2004-08-31                   | Internet Auction Co Ltd | Pvd online auction services   | eBay Inc                   | Pvd ecommerce retail servicess | 1,275.57         | 1,112.39             | 1,412.19                    | 39.78            | 48.40          | 66.30              | 11.75              | 26.95%                             |
| 2004-08-31                   | Internet Auction Co Ltd | Pvd online auction services   | eBay Inc                   | Pvd ecommerce retail servicess | 1,259.77         | 1,112.39             | 1,391.12                    | 44.51            | 53.25          | 73.22              | 12.22              | 25.06%                             |
| 2012-02-20                   | Nissen Holdings Co Ltd  | Own,op mail order houses      | UCC Holdings Co Ltd        | Prod,whl coffee prod           | 406.04           | 230.17               | 286.96                      | 7.32             | 11.53          | 9.29               | 0.86               | 24.67%                             |
| 2013-02-04                   | Stylife Corp            | Pvd ecommerce retail svcs     | Rakuten Inc                | Pvd electronic ecommerce svcs  | 23.79            | 14.20                | 17.55                       | n/a              | -7.52          | -1.72              | 1.48               | 23.59%                             |
| 2013-02-04                   | Stylife Corp            | Pvd ecommerce retail svcs     | Rakuten Inc                | Pvd electronic ecommerce svcs  | 23.79            | 14.20                | 17.53                       | n/a              | -7.52          | -1.72              | 1.48               | 23.45%                             |
| 2005-06-01                   | Shopping com Ltd        | Pvd ecommerce retail svcs     | eBay Inc                   | Pvd ecommerce retail servicess | 523.73           | 541.84               | 667.14                      | n/a              | 38.88          | 48.34              | 3.69               | 23.13%                             |
| 2007-03-15                   | Stylife Corp            | Pvd ecommerce retail svcs     | Samantha Thavasa Japan Ltd | Mnfr,whl bags,jewelry          | 36.52            | 39.21                | 46.90                       | n/a              | 36.52          | 39.08              | 2.30               | 19.62%                             |
| 2005-12-02                   | Provide Commerce Inc    | Pvd online e-commerce svcs    | Liberty Media Corp         | Pvd cable TV svcs              | 402.16           | 396.28               | 462.56                      | 23.54            | 28.58          | 51.97              | 5.73               | 16.73%                             |
| 2005-05-25                   | Blair Corp              | Pvd ecommerce ret svcs        | Blair Corp                 | Pvd ecommerce ret svcs         | 295.50           | 299.11               | 346.39                      | -27.96           | -14.99         | 23.25              | 1.22               | 15.81%                             |
| 2011-01-07                   | Image Holdings Co Ltd   | Pvd catalog mail-order svcs   | TKM Holdings               | Special purpose acq vehicle    | 92.66            | 47.20                | 53.11                       | 9.21             | 11.42          | 4.43               | 0.79               | 12.51%                             |
| 2011-01-07                   | Image Holdings Co Ltd   | Pvd catalog mail-order svcs   | TKM Holdings               | Special purpose acq vehicle    | 92.66            | 47.20                | 53.11                       | 9.21             | 11.42          | 4.43               | 0.79               | 12.50%                             |
| 2008-08-14                   | GMarket Inc             | Pvd e-commerce retail svcs    | eBay Inc                   | Pvd ecommerce retail servicess | 975.64           | 1,143.67             | 1,233.94                    | 20.37            | 24.42          | 27.18              | 7.29               | 7.89%                              |
| 2006-03-14                   | Jimos Co Ltd            | Pvd ecommerce ret svcs        | Cybird Co Ltd              | Prd mobile contents svcs       | 78.99            | 96.37                | 103.40                      | 9.20             | 10.97          | 33.36              | 2.41               | 7.30%                              |
| 2005-09-08                   | Ottakar's PLC           | Retail books                  | HMV Group PLC              | Retail pre-recorded music      | 156.22           | 109.83               | 117.62                      | 5.89             | 9.90           | 14.00              | 2.46               | 7.09%                              |
| 2005-03-01                   | Jimos Co Ltd            | Pvd ecommerce ret svcs        | Cybird Co Ltd              | Prd mobile contents svcs       | 105.99           | 134.84               | 141.88                      | 8.67             | 9.00           | 21.83              | 4.87               | 5.22%                              |
| 2001-01-08                   | Internet Auction Co Ltd | Pvd online auction services   | eBay Inc                   | Pvd ecommerce retail servicess | 190.01           | 234.52               | 237.64                      | -18.17           | -16.47         | -23.76             | 3.16               | 1.33%                              |
| 2006-11-29                   | Flying Brands Ltd       | Pvd ecommerce retail services | West Coast Capital         | Venture capital firm           | 142.48           | 155.06               | 149.93                      | 12.13            | 16.50          | 19.73              | 5.37               | -3.31%                             |
| * Excluded Max & Min Numbers |                         |                               |                            |                                |                  | MEAN                 |                             | 8.97x            | 20.16x         | 23.95x             | 3.62x              | 20.65%                             |
|                              |                         |                               |                            |                                |                  | MEDIAN               |                             | 9.21x            | 20.40x         | 21.83x             | 2.46x              | 18.17%                             |
| * Excluded Negative Numbers  |                         |                               |                            |                                |                  | MEAN                 |                             | 18.75x           | 65.61x         | 81.96x             | 3.89x              |                                    |
|                              |                         |                               |                            |                                |                  | MEDIAN               |                             | 12.13x           | 28.14x         | 30.27x             | 2.46x              |                                    |
|                              |                         |                               |                            |                                |                  | MAX                  |                             | 44.51x           | 638.73x        | 826.24x            | 12.22x             | 61.17%                             |
|                              |                         |                               |                            |                                |                  | MIN                  |                             | -362.99x         | -40.88x        | -65.88x            | 0.79x              | -3.31%                             |

- According to the transaction comparables multiple, the resulted target price range from **4,892 to 8,207 KRW** with 75bn to 132bn KRW enterprise value
- Including the premium paid for managerial rights, the target price range from **9,309 to 13,289 KRW** according to the transaction data

# *GS HomeShopping*

## *4. Synergy Analysis*



In the synergy analysis of the deal, the materials will be covering the following issues.

- Company overview of GSHS
- Acquisition Propriety
- Financial Review of Acquisition
- Synergy Analysis

We believe that the acquisition of Yes24 will create synergies in the following points.

- **Revenue growth by customer sharing and channel expansion**
- **Cost reduction in distribution and advertising**
- **Potential in market expansion and new business by acquisition**

## *Analysis Coverage Matrix*

|  | Coverage                        | Description   |
|--|---------------------------------|---|
| <b>Acquiring Company Overview</b>      | Overview                        | GS HS is an aggressive investor in acquiring companies                      |
|  | Retail Overview                 | Weak retail channel due to the economic downturn                            |
|  | Sales Trend                     | Though showing stable growth, it has been stagnant                          |
|  | Product Mix                     | GS HS is expecting to improve its profitability by improving product mix    |
| <b>Acquisition Propriety</b>           | Competition                     | GS HS is struggling to gain MS due to severed competition                   |
|  | Customer                        | Increasing customers are solely generated from mobile channel               |
|  | Mobile Trend                    | Though diminishing revenue from online channel, platform is still important |
|  | Mobile Trend (Cont'd)           | GS HS is aggressively investing in mobile, Yes 24 can contribute to it      |
| <b>Synergy Analysis</b>                | Revenue in Online & Mobile      | Customer base for both firms can contribute each other to increase rev.     |
|  | Sharing Customers               | Customer characteristics can be shared for both firms                       |
|  | e-Book                          | Yes24 can satisfy GS HS's will to enter e-Book market                       |
|  | Cost Reduction                  | Cost reduction in distribution and advertising is expected                  |
|  | Abroad Market                   | Abroad strategy and targeting market can be shared                          |
| <b>Financial Review of Acquisition</b> | Solvency Analysis               | Stable financial structure and strong cash flow has no risk in investing    |
|  | Profitability Analysis          | Expanding online & mobile will contribute to profitability improvement      |
|  | Profitability Analysis (Cont'd) | Strong profitability compared to peers reduces the risks of M&A             |
|  | Liquidity Analysis              | GS HS can generate more profit by investing its excess cash                 |

# *Table of Contents*

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## Company Overview

- Introduction
- Governance Structure & M&A History
- HomeShopping Industry Overview
- GS HS Performance Overview

## Acquisition Propriety

## Synergy Analysis

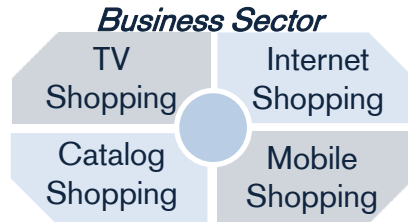
## Summary

## Introduction of GS HomeShopping

### Profile

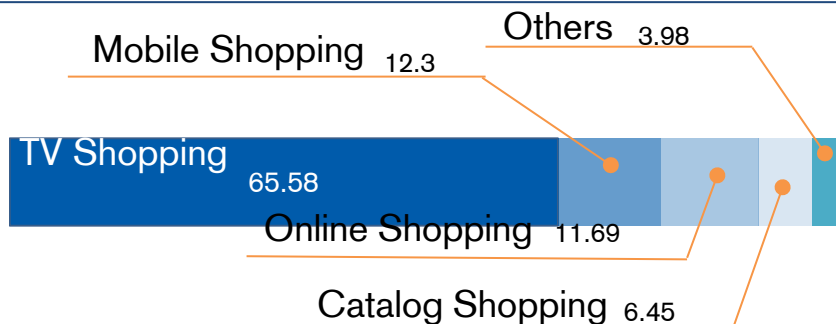


- Establishment date: 1994.12.23
- Listed date: 2000.01.20
- Market Value: 1,378,100,000,000Won
- # of Shares Outstanding: 6,562,000
- Closing Price: 200,000  
(2014. 11. 18)
- 52 l/h : 312,000 / 183,500

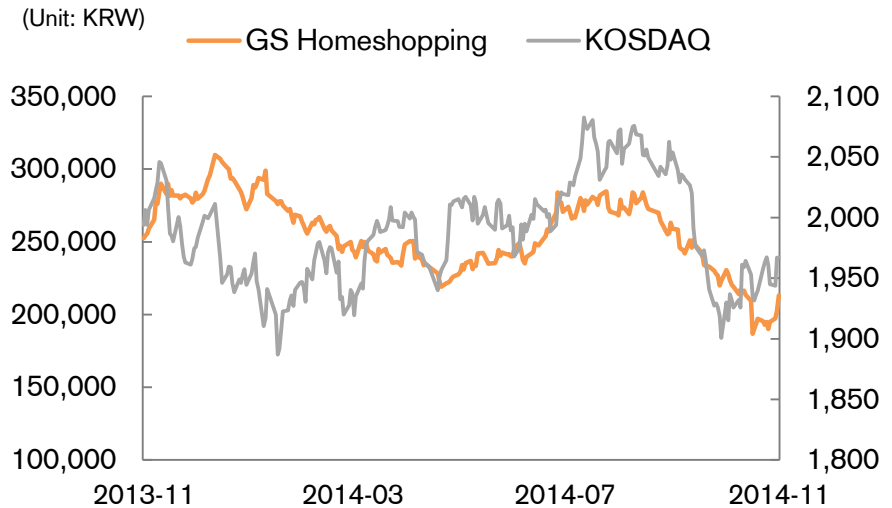


Source: Dart, SG Fenero Research

### Revenue Breakdown by Business(2014)

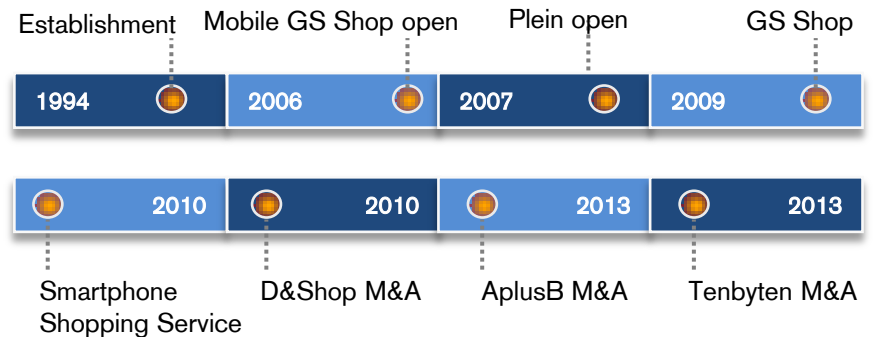


### Stock Price Trend



Source: KRX, SG Fenero Research

### History





### GS HomeShopping M&A History



(Unit: bn KRW)

|                   | moglue            | BUZZNI                    | nomad connection      | spoqq                  | ingleton           | TABON BOOKS        | 10X10                  |
|-------------------|-------------------|---------------------------|-----------------------|------------------------|--------------------|--------------------|------------------------|
| Investment Amount | 60<br>(25% share) | 100<br>(25% share)        | 150<br>(25% share)    | 100<br>(25% share)     | 100                | 230<br>(30% share) | 1600<br>(80% share)    |
| Core Field        | E-book solution   | Movie, restaurant recomm. | Mobile media solution | Integrated saving card | Interest based SNS | E- book            | Living online shopping |



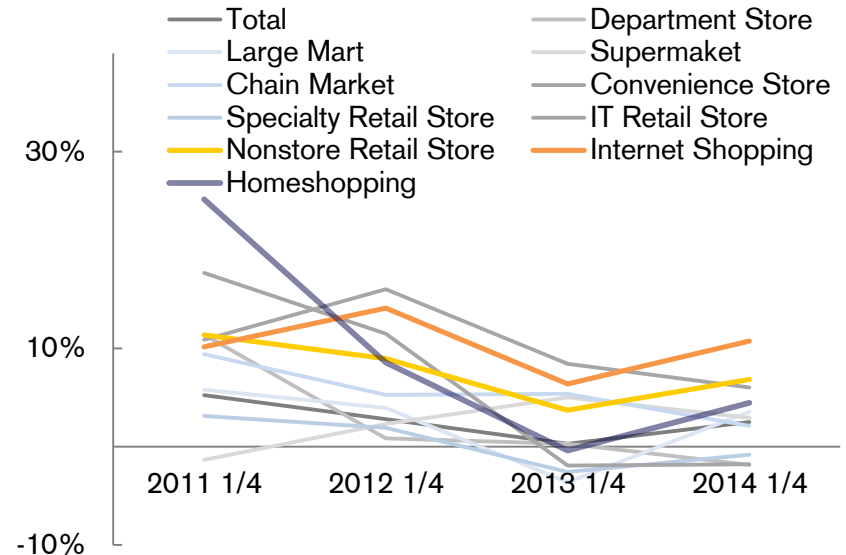
## Turning point of Home-Shopping Industry

### Korea GDP & Retail Sales YoY



Source: Statistics Korea, SG Fenero Research

### Retail Sales Index YoY by Categories



Source: Statistics Korea, SG Fenero Research

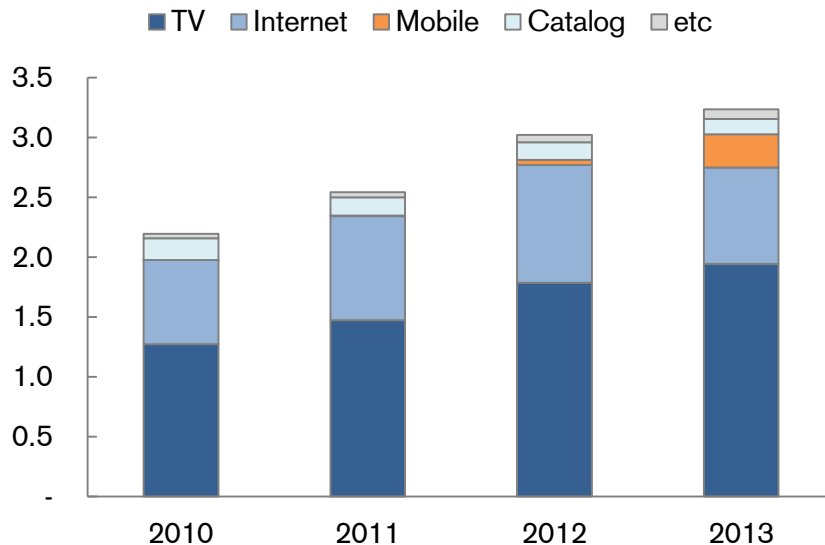
- Since retail industry is highly co-related with GDP, the stagnant economy leads the weak domestic demand showing the sales of retail industry slowing down
- Also, though now the home-shopping industry shows the lowest point of the downturn, it has maintained the highest increase in all categories since 2011, implying that from now, it is expected to grow further

**The growth of Home-shopping industry is expected to increase again**

## Performance of GS Home-Shopping

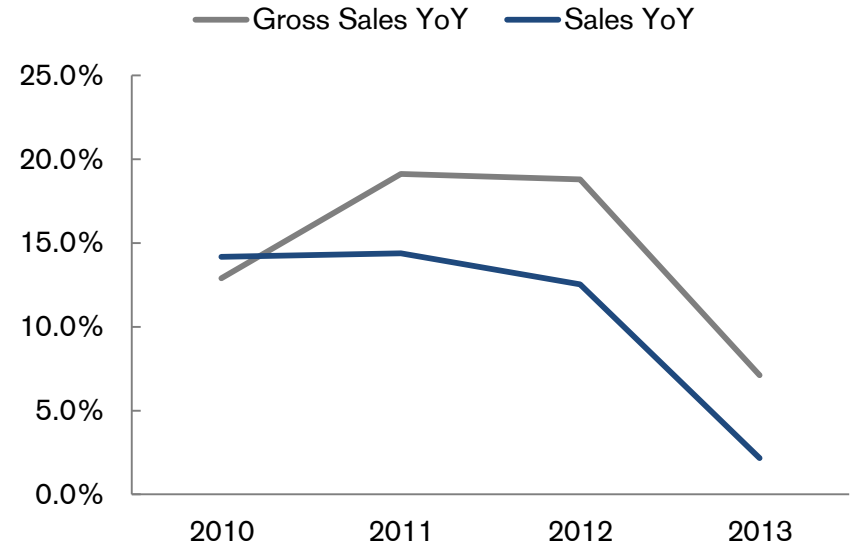
### Gross Sales Trends

(Unit: Tn KRW)



Source: Company IR, SG Fenero Research

### Gross Sales, Sales YoY

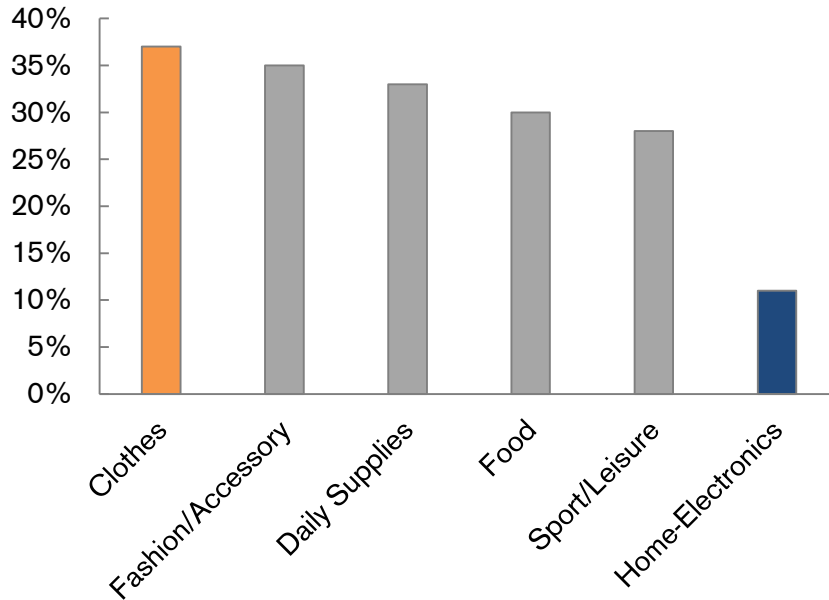


Source: Company IR, SG Fenero Research

- The estimation of volume of Home-Shopping industry is often conducted by using 'Gross Sales', which refers to the size of total sales including deals with vendors and sales of its PB products
- GS Home-Shopping has constantly increased total gross sales while Mobile volume is growing rapidly
- Due to the weak domestic demand and stagnant economy, the growth rate of total sales and gross sales show decreases though still appears the positive growth

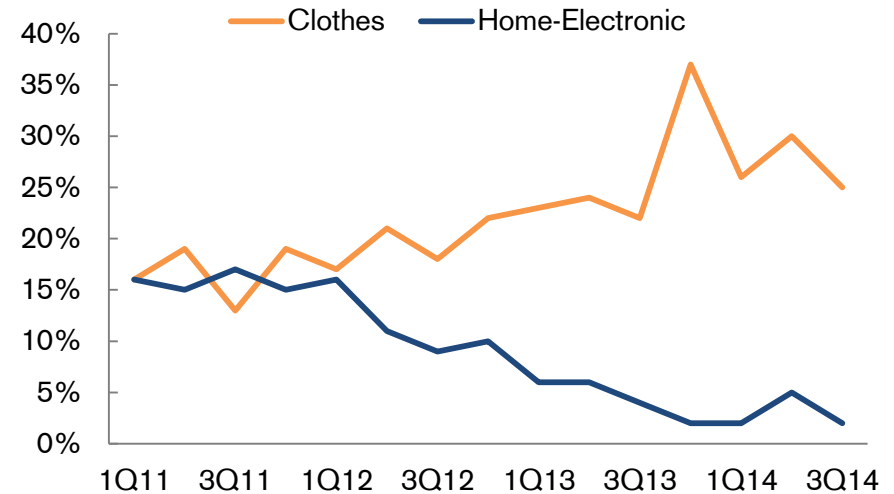
**Though expanding its volume, the growth rate of sales and volume is in decline**

### Gross Profit Margin by Items



Source: Fair Trade Commission(FTC), SG Fenero Research

### Changes of Product Mix



Source: GS Home-shopping, SG Fenero Research

- GPM(Gross Profit Margin) of each items in home-shopping market is shown differently with high GPM in Clothes, Fashion and Daily supplies while Home-Electronic shows relatively low GPM
- For this reason, GS Home-Shopping continuously changes its product mix, emphasizing clothes which has high GPM

**The firm is trying to improve its profitability by improving its product mix**

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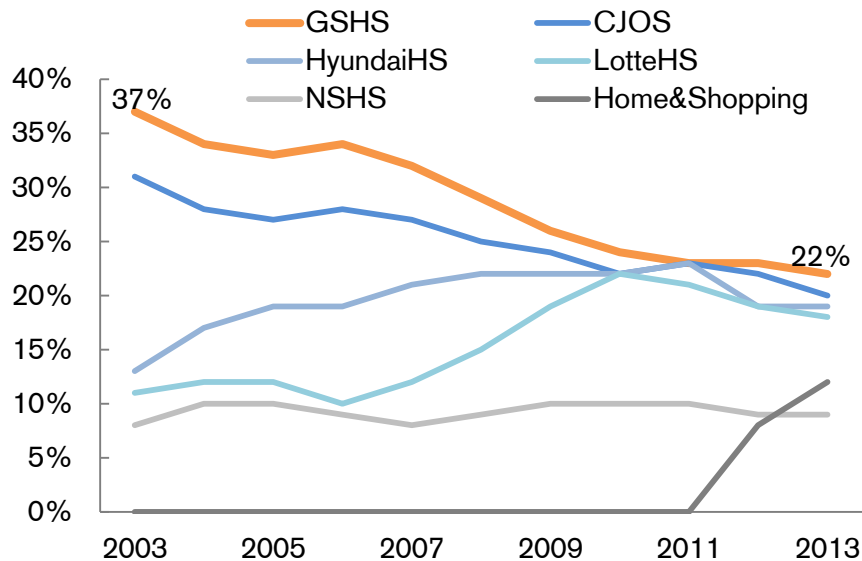
## Acquisition Propriety

- Market Share and Competition
- Customers Trend
- Mobile Market

Synergy Analysis

Summary

### Changes of Market Share



Source: KOLSA(Korea On-Line Shopping Association)

### New released Market Issues



SHINSEGAE

- Trying to enter into the Home-Shopping industry targeting Home-shopping as a strategic position with SSG.com, its online shopping mall



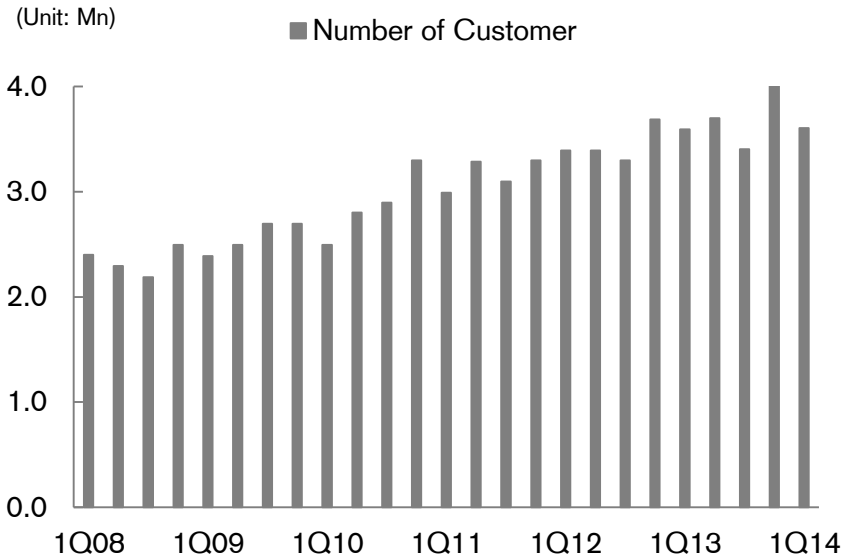
미래창조과학부  
Ministry of Science, ICT and  
Future Planning

- Planning to open a new Home-shopping mall which will be established as a non-profit organization
- Distributing products of small business and agro-fishery products

- With already saturated home-shopping market, newly entered Home&Shopping accounts for 12% market share
- GS Home-shopping has lost its market share constantly from 2003 though it remains the 1<sup>st</sup> with 22% of market share
- Recently, Ministry of Science, ICT and Future Planning announces to open a new home-shopping mall focusing on products of smaller business and agro-fishery products

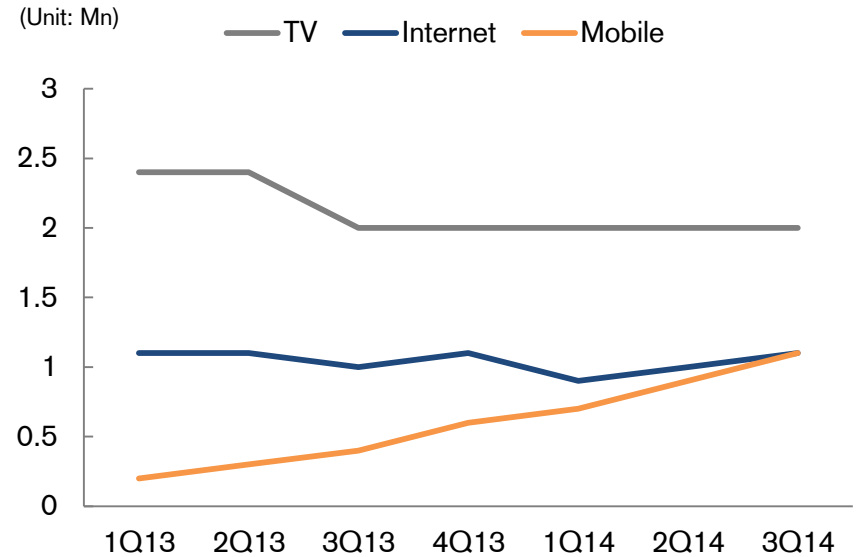
**Although the firm maintains dominant market share, there are risk elements**

## Trends of the Number of Customers



Source: Company IR, SG Fenero Research

## Customers by Business Sectors



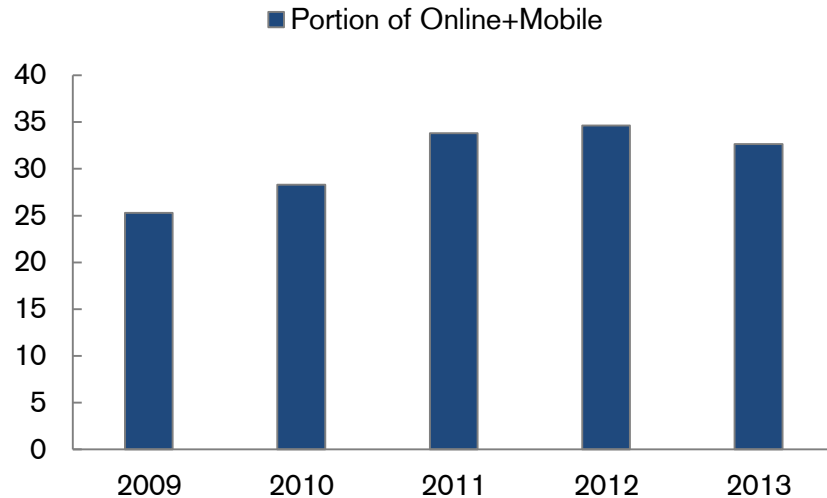
Source: Company IR, SG Fenero Research

- The total number of customers is steadily increasing from 2008, which signals that GS Home-Shopping still has a influential power attracting to customers
- Specifically, the number of customers who purchase products through mobile has shown a sharp increase, which catch up that of Internet sectors in 3Q14
- TV, maintaining its customer volume to 2 million, indicates that it has the stable customer class in this industry

**With stable customer in TV and Internet, mobile newly attracts to huge customers**

## Increasing Online&Mobile Portion in Sales

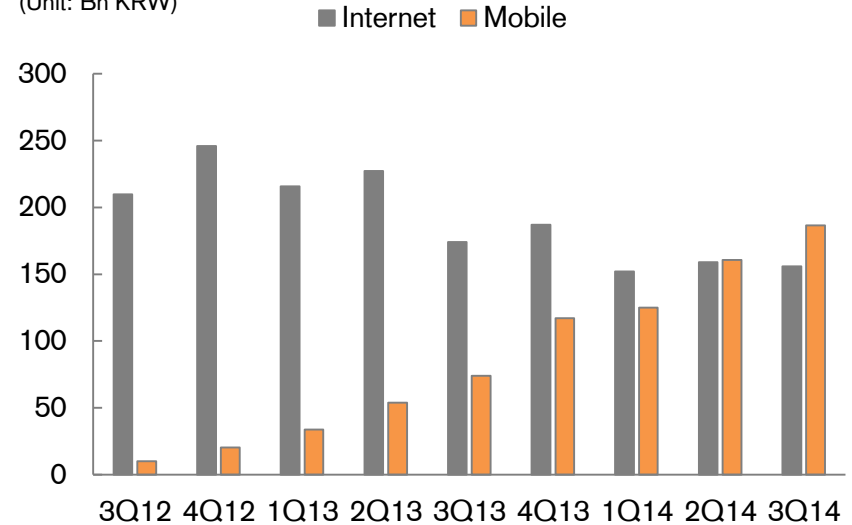
(Unit: %)



Source: GS Homeshopping, SG Fenero Research

## Gross Sales Changes

(Unit: Bn KRW)



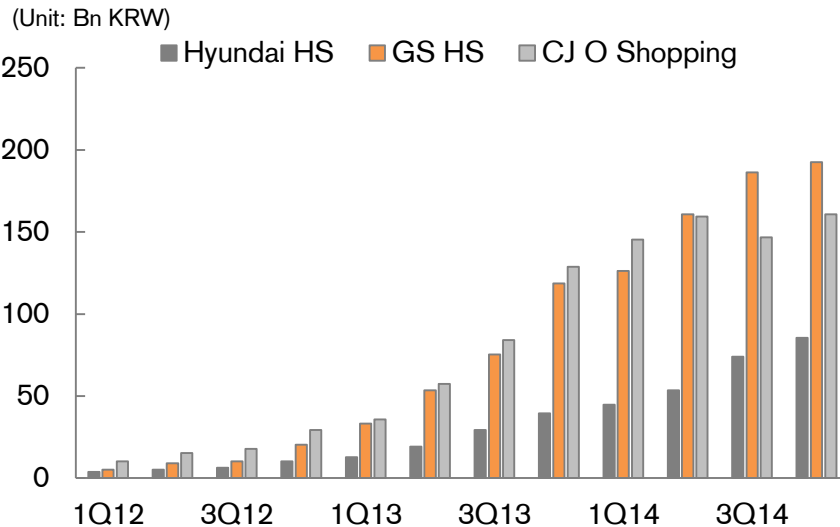
Source: Company IR, SG Fenero Research

- In total sales, online and mobile proportion is showing an increasing trend
- Gross sales YOY in Internet is stagnant, while gross sales YOY in mobile is increasing dramatically. Therefore, increasing revenue in mobile seems important in future growth of GS Homeshopping
- However, due to diminishing sales of online, the sum of online and mobile market shows slowed growth
- Still online channel is important in terms of constructing the total platform of the firm that it can be the herb of the channels

**Mobile seems to be the key factor for future growth**

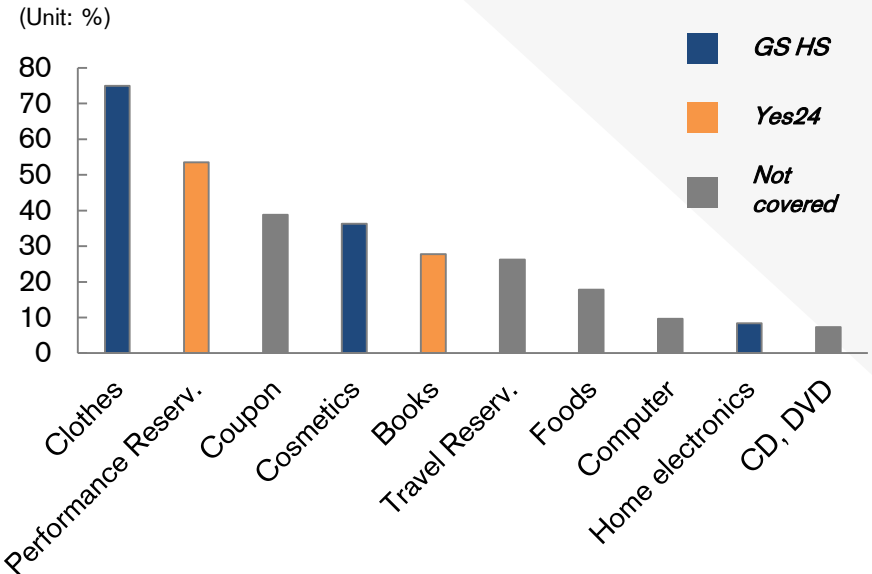
## Growing Mobile Market(Cont'd)

### Gross Sales of Mobile



Source: Company IR, SG Fenero Research

### Mobile Purchasing Products



Source: Korea Internet & Security Agency

- Gross sales of mobile sector in all home-shopping malls have expanded, among them GS Home-shopping shows significant growth in mobile sector which signals that GS HS dominates the mobile market with constant investment
- Respondent from survey announced that over 70% of people who have experienced mobile purchasing have purchased clothing which already covered by GS HS
- Next target products of GS HS can be performance reservation and books which are covered by Yes24 recorded as 50%, 30% of purchasing experiences

**The firm is expected to predominate the emerging products in mobile market**



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Acquisition Propriety

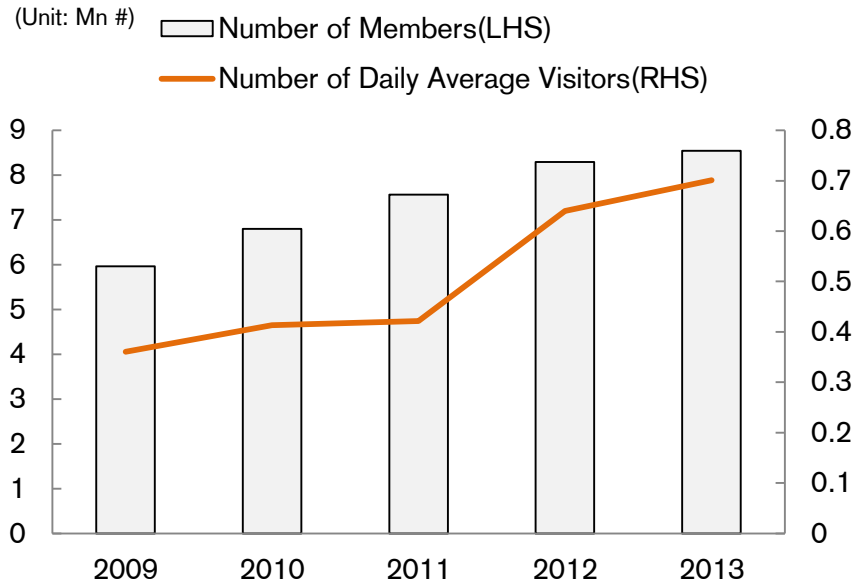
## Synergy Analysis

- Synergy from Revenue Increase
- Synergy from Cost Reduction
- Other Synergies

Summary

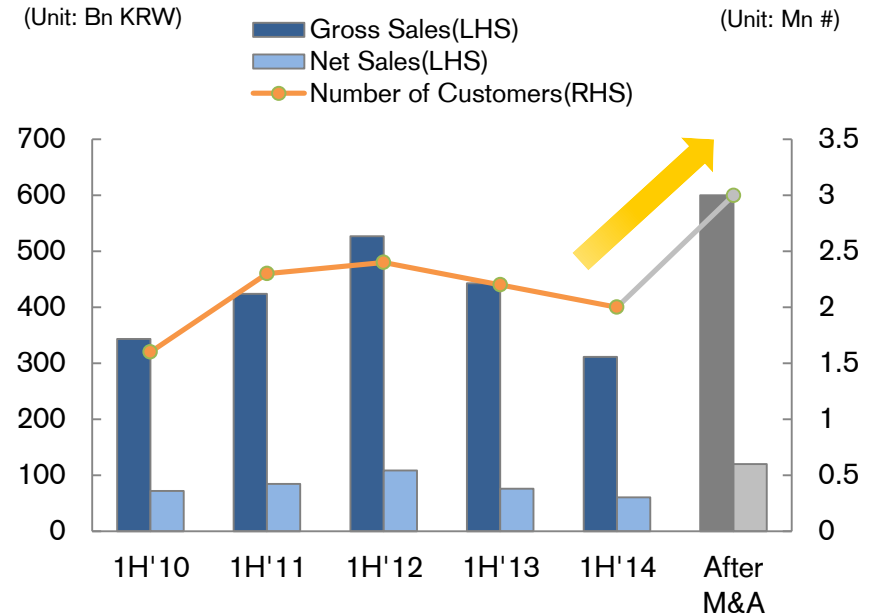
## Synergy from Revenue Increase in Online Channel

### The Number of Yes24 Members & Visitors



Source: Yes24, SG Fenero Research

### Sales & the Number of Customers of GS HS



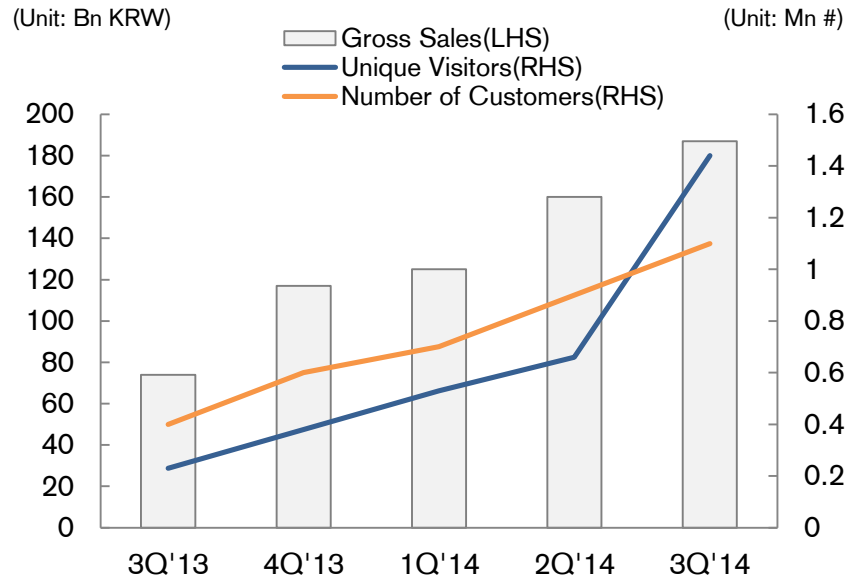
Source: GS Home Shopping, SG Fenero Research

- The number of Yes24 members and daily average visitors shows continuous increase in which Yes24 is in the first place.
- Members of Yes24 are expected to increase the number of GS Home Shopping's customers in online channel, which will affect sales in positive way.

**Increasing number of Yes24 members raises sales and customers of GS HS**

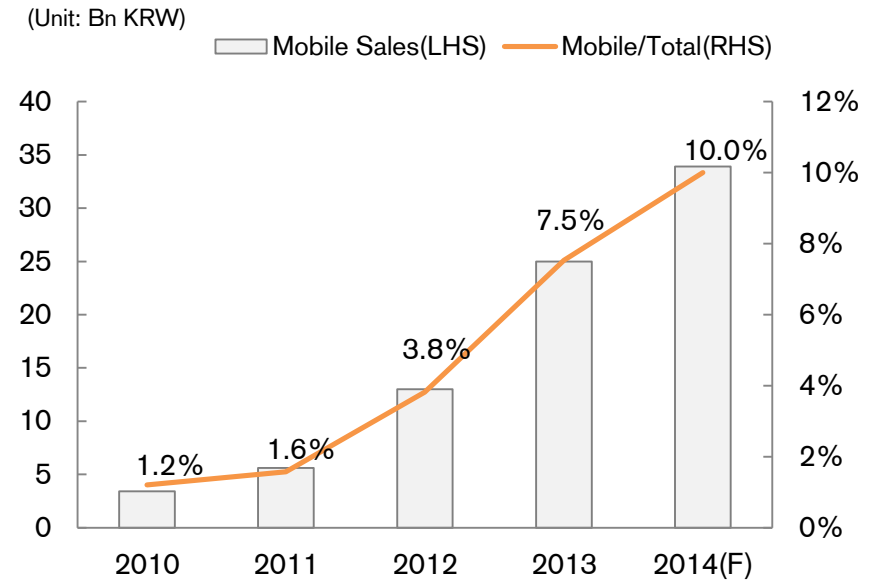
## Synergy from Revenue Increase in Mobile Channel

### Sales & the Number of Customers of GS HS



Source: GS Home Shopping, SG Fenero Research

### Yes24 Mobile Sales & Portion of Sales

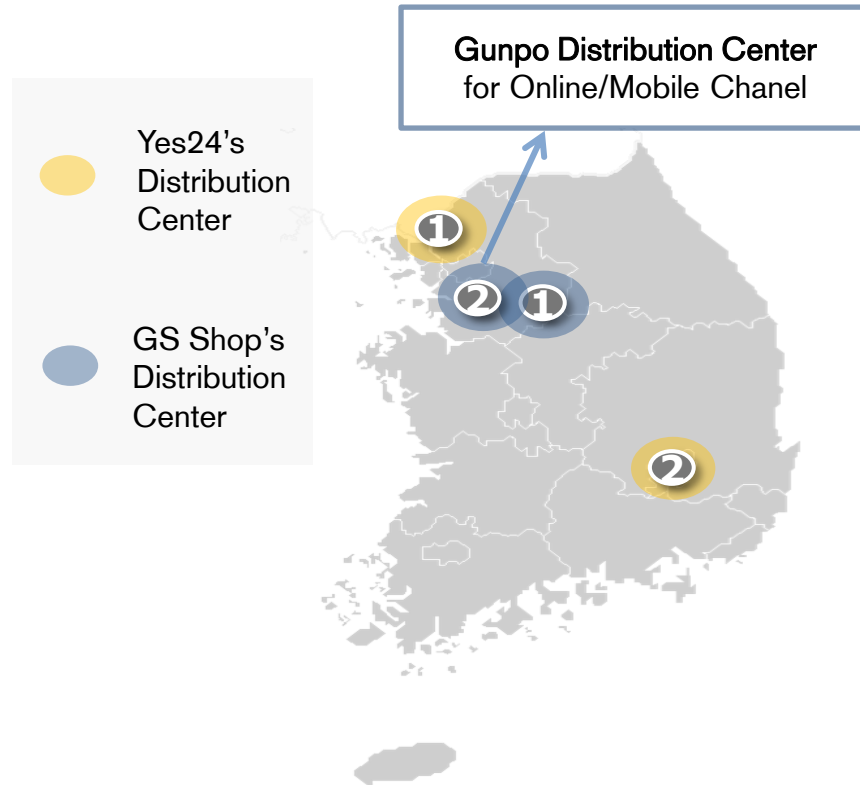


Source: Yes24, SG Fenero Research

- The number of mobile shopping customers in GS Home Shopping is keep increasing which can benefit mobile part of Yes24.
- In addition, mobile sales of Yes24 is also increasing which makes it possible to create synergy with GS Home Shopping.

**On the contrary to online, mobile business of Yes24 can be benefited by GS HS**

### Location of Distribution Center



Source: Company data, SG Fenero Research

### Synergy in Distribution

#### Yes24

##### 1 Paju Distribution Center

|          |                      |
|----------|----------------------|
| Location | Paju, Gyunggi        |
| Extent   | 29,421m <sup>2</sup> |

##### 2 Daegu Distribution Center

|          |                      |
|----------|----------------------|
| Location | Daegu                |
| Extent   | 19,008m <sup>2</sup> |

Idle capacity is  
expected

#### GS HomeShopping

##### 2 Gunpo Distribution Center

|          |                        |
|----------|------------------------|
| Location | Gunpo, Gyunggi         |
| Extent   | 7,458m <sup>2</sup>    |
| Capa     | 300,000 box<br>(month) |

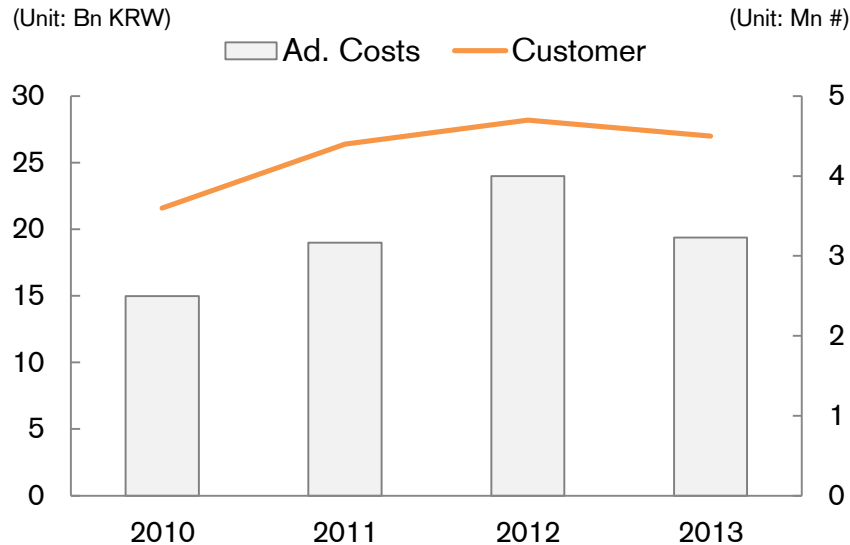
Extension of  
Capacity is needed  
in the near future

Source: Company data, SG Fenero Research

**Synergy is expected by utilizing Yes24's idle capacity for GS HomeShopping**

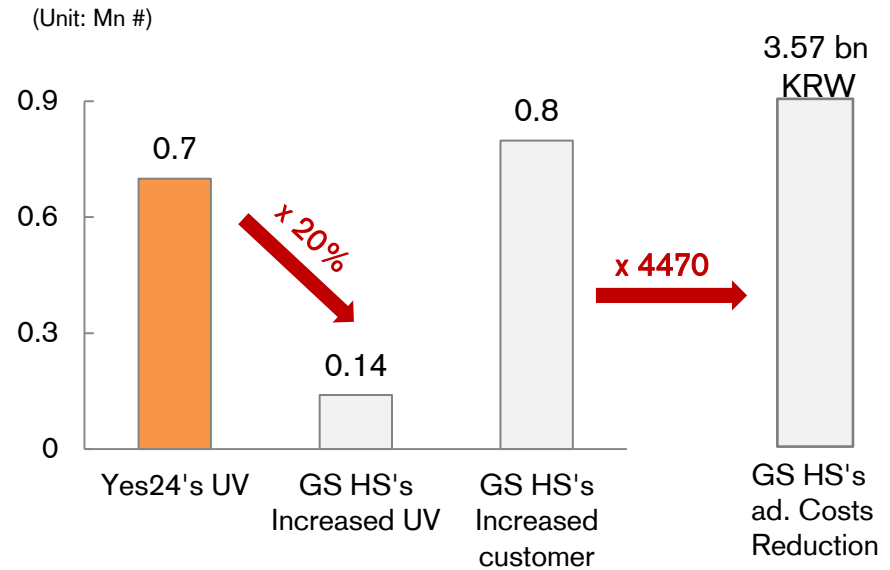
## Synergy from Cost Reduction in Advertising

### Change in Ad. Costs of GS Home Shopping



Source: DART, GS Home Shopping, SG Fenero Research

### Reduction of Ad. Costs in Online Channel

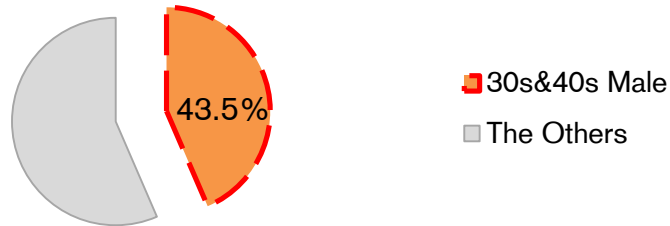


Source: Company IR, SG Fenero Research

- Average costs incurred in advertising per 1 customers for GS HomeShopping is 4,470 KRW
- Multiplied 20%(est.) of 0.7mn UV of Yes24(13'), 0.14mn customers is expected to flow in for GS HS
- Multiplied the increased UV by total customers per UV of GS HS, 5.75 resulting 0.8mn increased customers for GS HS
- Multiplied 4.47 which is the average advertising costs per 1mn customers and estimated cost reduction in advertisement by 3.57bn(18%)

**Customers inflow from Yes24 is expected to contribute in saving advertising costs**

### Portion of Crema Purchase by 3040 Male

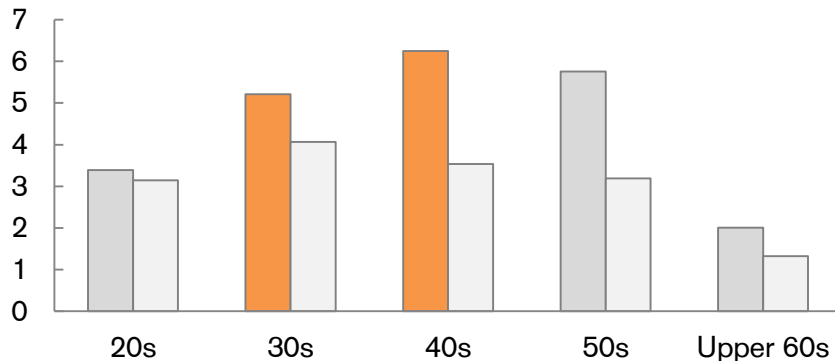


Source: Yes24, SG Fenero Research

### Monthly Average Wage by Age & Sex

(Unit: Mn KRW)

Male Female

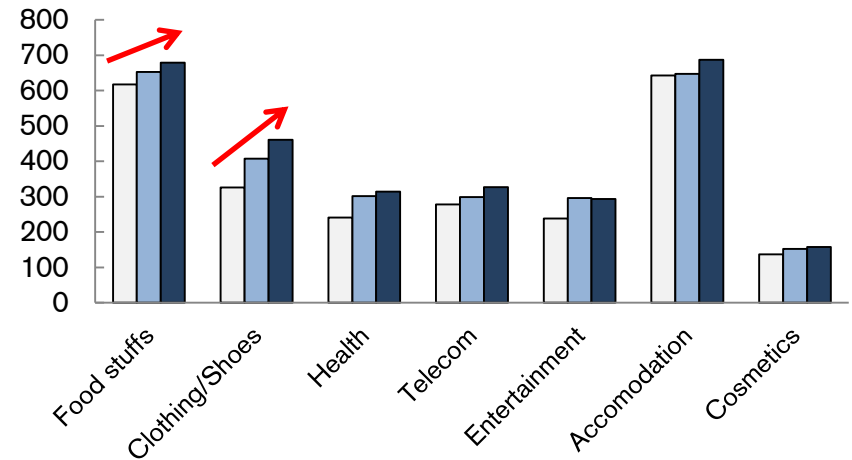


Source: Ministry of Employment and Labor, SG Fenero Research

### Monthly Average Consumption of 3040 Male

(Unit: 1,000 KRW)

2008 2010 2012

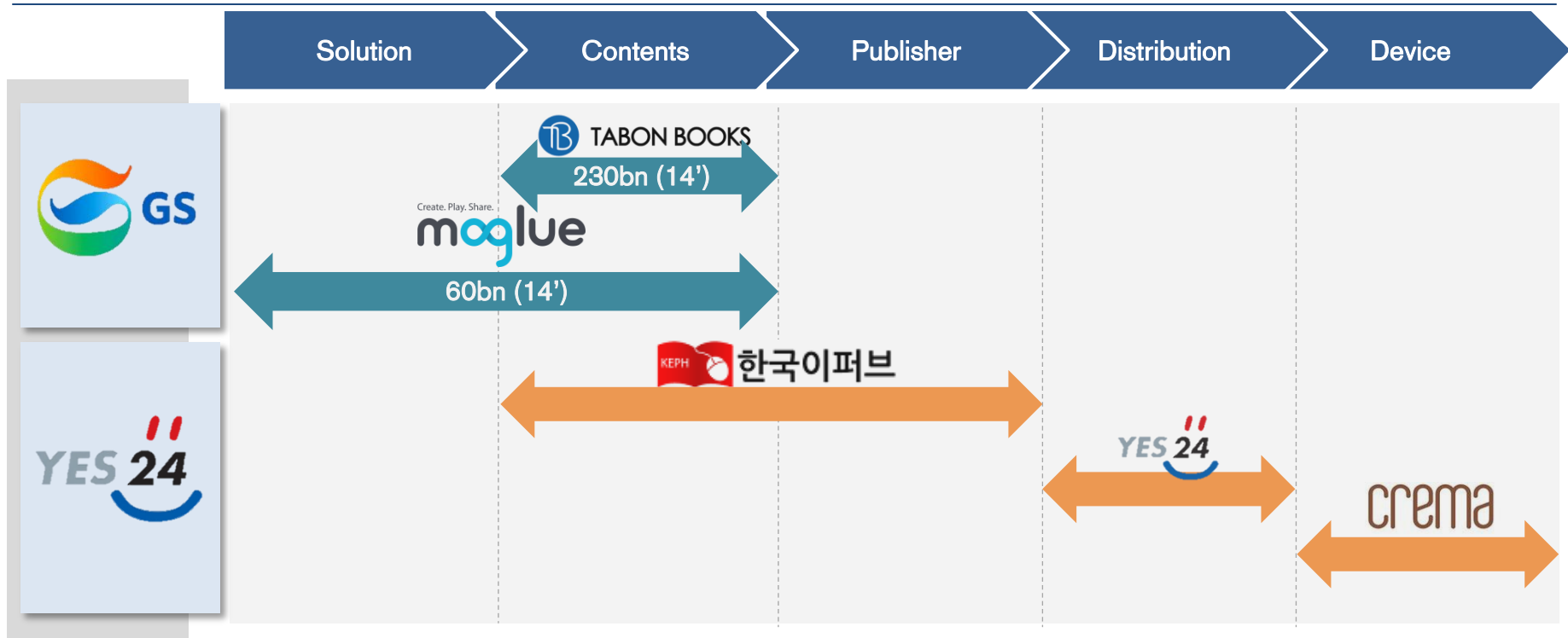


Source: Statistics Korea, SG Fenero Research

- Main customers of Crema turned out to be 30s & 40s males, which account for 43.5% of total Crema purchases.
- In addition, 30s & 40s males have high purchasing power and their consumption trends show high correlation with product mix of GS Home Shopping.

Customers of Yes24 contribute to increase of GS Home Shopping customers

### GS HomeShopping e-Book Value Chain



- GS HomeShopping is investing in e-Book solution company 'Moglue' and e-Book contents provider 'TABON BOOKS'
- Also, YES 24 has constructed value chain of e-Book business from making and providing of contents to device

**GS HomeShopping can integrate its value chain and reinforce e-Book by acquisition**

## Synergy from Overseas Expansion

### Overseas Expansion of GS Home Shopping

| Country   | Period  | Investment<br>(Unit : mn \$) | % of Shareholding | Net Income (Unit : bn KRW) |       |
|-----------|---------|------------------------------|-------------------|----------------------------|-------|
|           |         |                              |                   | 2012                       | 2013  |
| India     | 2009.11 | 32.6                         | 15.4              | -26.9                      | -20.9 |
| Thailand  | 2011.05 | 2.8                          | 35                | -1.4                       | -2.0  |
| China     | 2012.05 | 40.0                         | 20                | 7.7                        | 13.6  |
| Vietnam   | 2012.05 | 1.5                          | 30                | -0.1                       | -0.2  |
| Indonesia | 2012.08 | 3.0                          | 40                | -0.02                      | -1.5  |
| Turkey    | 2013.05 | 6.0                          | 30                | -                          | -9.4  |
| Malaysia  | 2014.03 | 0.6                          | 40                | -                          | -     |

Source: GS Homeshopping, SG Fenero Research

### Overseas Expansion of Yes24

| Country   | Period  | % of Shareholding |
|-----------|---------|-------------------|
| Vietnam   | 2014.03 | 100               |
| Indonesia | 2014.03 | 95                |

Source: Yes24, SG Fenero Research

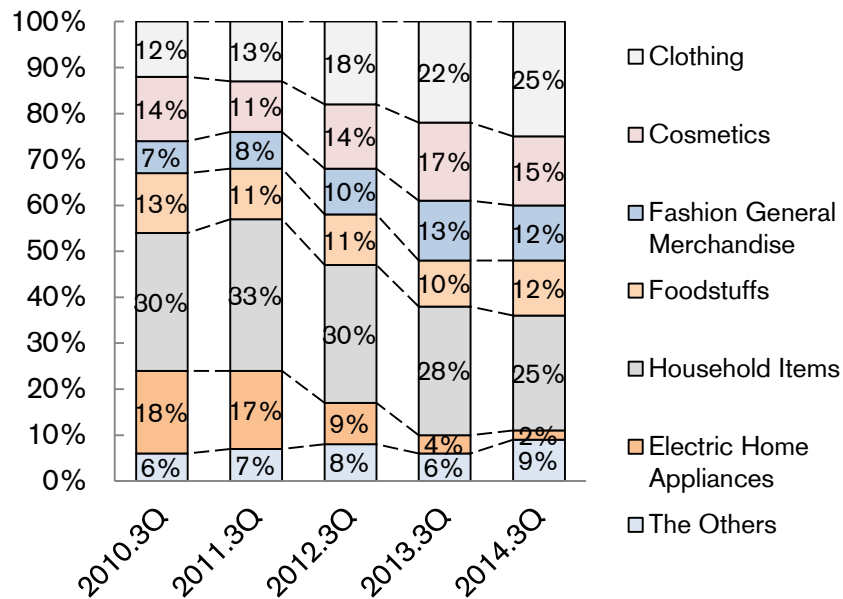
- Both GS Home Shopping and Yes24 has expanded to Vietnam and Indonesia.
- Therefore, it is possible to make synergy in Vietnam and Indonesia in terms of increasing sales and saving costs from abroad

Overseas business corresponds between GS Home Shopping & Yes24



## Stage of Growth and Target Product Mix

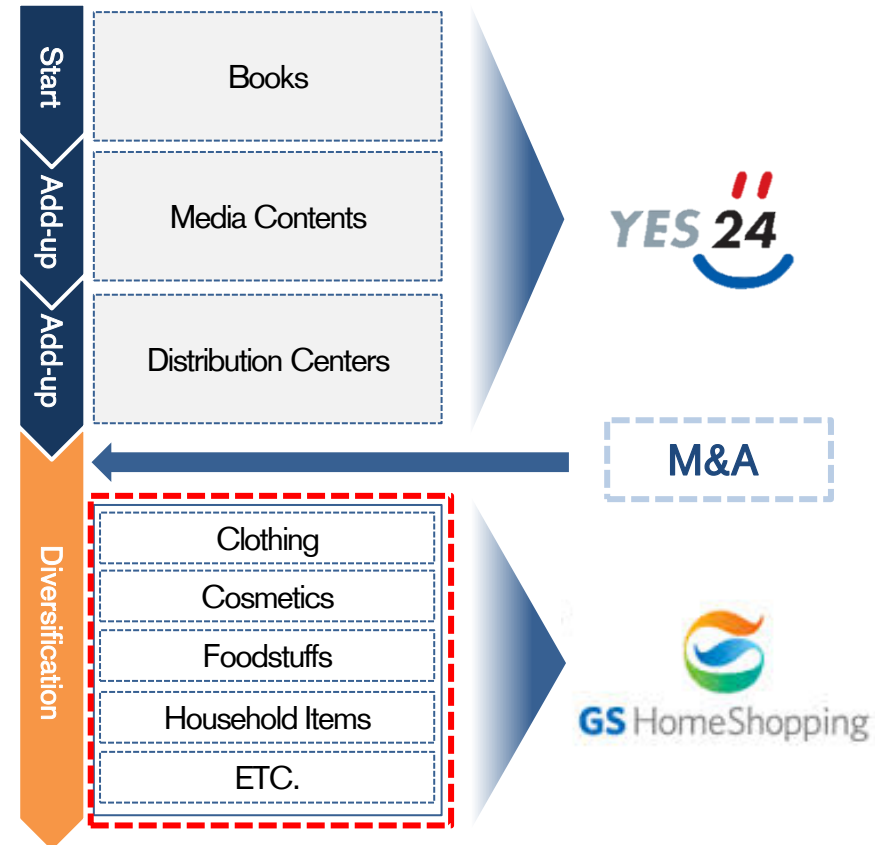
### Trend of Product Mix Change



Source: GS Homeshopping, SG Fenero Research

- In general, company penetrates into the market by book sale, secures media contents and expands distribution centers before diversification.
- As Yes24 has already completed three stages, it is ready for diversification to create synergy after M&A.

### Stage of Growth by Diversification



The timeliness deal would satisfy both Yes24 & GSHS by allowing diversification

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### Prospect of GS Home Shopping's Growth Structure in Domestic Market

#### Acquisition Propriety

- Stagnant growth and matured industry requisites inorganic growth
- MS and customers are key to expand online and mobile business
- GS HS can achieve firm platform base and reinforce mobile channel

#### Acquisition Validity

- Stable financial structure and volume of excess cash holdings can be used for financing the acquisition
- GS HS's financial position shows capacity for aggressive expenditure

#### Revenue Driver: Customer Sharing

- Reinforcement of customized marketing
- Increase of purchase customers

#### Cost Driver: Advertisement cost

- Cost efficient way of obtaining customers
- High exposure to more potential customers

#### Revenue Driver: Channel Strategy

- Reinforcement of mobile shopping
- Expansion of channel synergy

#### Cost Driver: Distribution Environment

- Expansion of online shopping
- Rational pattern of consumption

#### Network in e-Book

- Expansion of strategic business partner in e-Book

#### Link of Overseas Business

- Export of products to countries where home shopping has already expanded

**Sustainable  
Growth  
&  
Increase of  
Market Share**

**Sustainable growth and increase of market share are expected by synergy**

# *GSHS & Yes24*

## *5. Transaction Structure*



Preliminary valuation results implies that investment in Yes24 is not burdening GSHS's financial position.

We provide analysis on GSHS's capacity to pay for acquisition by analysis on

- Solvency
- Profitability
- Liquidity

According to the analysis, we believe that it is best for **GSHS to pay it with 100% cash** since the firm has significant amount of excess cash that can be invested into other assets.

## Financial statement Overview



|  | (Unit: Mn KRW)   |                  |                |
|--|------------------|------------------|----------------|
| <b>Balance sheet</b>                       | 2013             | 2012             | 2011           |
| <b>Assets</b>                              | <b>1,179,261</b> | <b>1,055,811</b> | <b>969,827</b> |
| Current assets                             | 856,033          | 750,663          | 716,008        |
| Cash and cash equivalent                   | 268,345          | 200,512          | 319,754        |
| Accounts receivables                       | 537,926          | 506,372          | 346,770        |
| Inventories                                | 23,969           | 19,045           | 41,950         |
| Non-Current assets                         | 323,229          | 305,149          | 253,820        |
| Property, plant and equipment              | 104,643          | 77,292           | 64,111         |
| Intangible asset                           | 45,111           | 21,017           | 23,805         |
| Long-term prepaid expense                  | 26,571           | 47,091           | 67,758         |
| <b>Liabilities</b>                         | <b>395,411</b>   | <b>373,234</b>   | <b>363,412</b> |
| Current liabilities                        | 384,610          | 364,562          | 351,921        |
| Accounts payable                           | 298,911          | 275,773          | 273,043        |
| Accrued payable                            | 220,130          | 214,737          | 213,171        |
| Non-Current liabilities                    | 10,802           | 8,672            | 11,491         |
| Long-term Accounts payable                 | 2,515            | 2,152            | 6,614          |
| <b>Shareholder's equity</b>                | <b>783,850</b>   | <b>682,577</b>   | <b>606,416</b> |
| Equity attributable to owners of the Group | 782,970          | 682,577          | 606,416        |
| Capital stock                              | 32,813           | 32,813           | 32,813         |
| Capital adjustment                         | (28,243)         | (27,961)         | (16,940)       |
| Retained earnings                          | 698,337          | 594,680          | 511,016        |
| Non controlling interests                  | 881              | 0                | 0              |

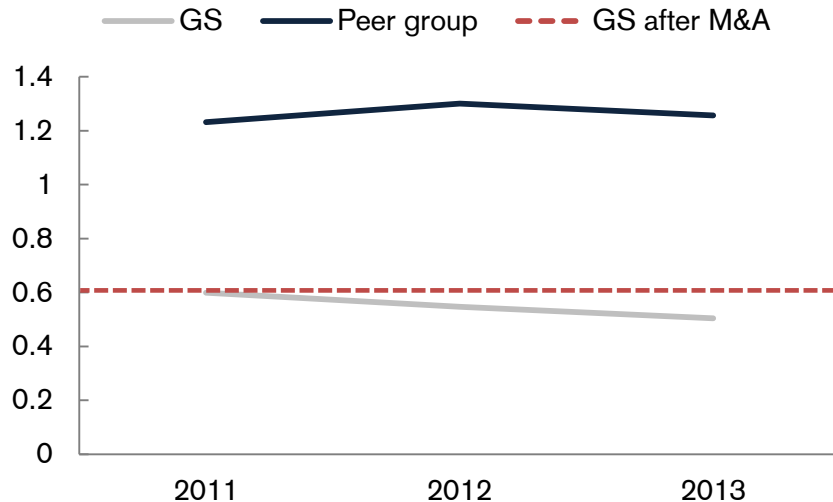
Source: DART, SG Fenero Research

|   | (Unit: Mn KRW)   |                  |                 |
|---|------------------|------------------|-----------------|
| <b>Income Statement</b>                       | 2013             | 2012             | 2011            |
| <b>Sales revenue</b>                          | <b>1,049,119</b> | <b>1,016,381</b> | <b>921,613</b>  |
| <b>COGS</b>                                   | <b>128,911</b>   | <b>197,827</b>   | <b>205,253</b>  |
| <b>Gross profit</b>                           | <b>920,208</b>   | <b>818,555</b>   | <b>716,361</b>  |
| <b>SG&amp;A</b>                               | <b>766,465</b>   | <b>683,496</b>   | <b>612,963</b>  |
| <b>Operating income</b>                       | <b>153,743</b>   | <b>135,059</b>   | <b>103,398</b>  |
| <b>Non-Operating income</b>                   | <b>11,003</b>    | <b>12,107</b>    | <b>(11,343)</b> |
| <b>Taxable income</b>                         | <b>164,746</b>   | <b>147,166</b>   | <b>92,055</b>   |
| <b>Income tax expense</b>                     | <b>42,799</b>    | <b>37,934</b>    | <b>29,644</b>   |
| <b>Net income</b>                             | <b>121,807</b>   | <b>106,615</b>   | <b>200,230</b>  |
| <b>Cash flow statement</b>                    | 2013             | 2012             | 2011            |
| <b>Cash flow for operating</b>                | <b>172,311</b>   | <b>153,310</b>   | <b>12,619</b>   |
| Net income                                    | 121,807          | 106,615          | 200,230         |
| Interest income                               | 23,160           | 22,727           | 17,912          |
| <b>Cash from investment</b>                   | <b>(85,088)</b>  | <b>(239,204)</b> | <b>276,040</b>  |
| Net decrease in short-term deposit            | (12,039)         | (153,379)        | (45,113)        |
| Acquisition of PP&E                           | (47,262)         | (17,378)         | (16,464)        |
| Disposal of group classified as held for sale | 0                | 0                | 360,488         |
| <b>Cash from financing</b>                    | <b>(19,420)</b>  | <b>(33,258)</b>  | <b>(20,691)</b> |
| Dividend paid                                 | (18,783)         | (22,237)         | (18,861)        |
| <b>Net increase in cash</b>                   | <b>67,833</b>    | <b>(119,242)</b> | <b>268,096</b>  |
| <b>Cash at Beg</b>                            | <b>200,512</b>   | <b>319,754</b>   | <b>51,659</b>   |
| <b>Cash at End</b>                            | <b>268,345</b>   | <b>200,512</b>   | <b>319,754</b>  |

Source: DART, SG Fenero Research

- GS home shopping is unlevered company and has large amount of CCE.
- Net income of 2011 was remarkably high because of disposal of GS Gangnam and Ulsan broadcasting.
- GS home shopping has stable interest income and cash outflow from financing is mostly dividend paid.

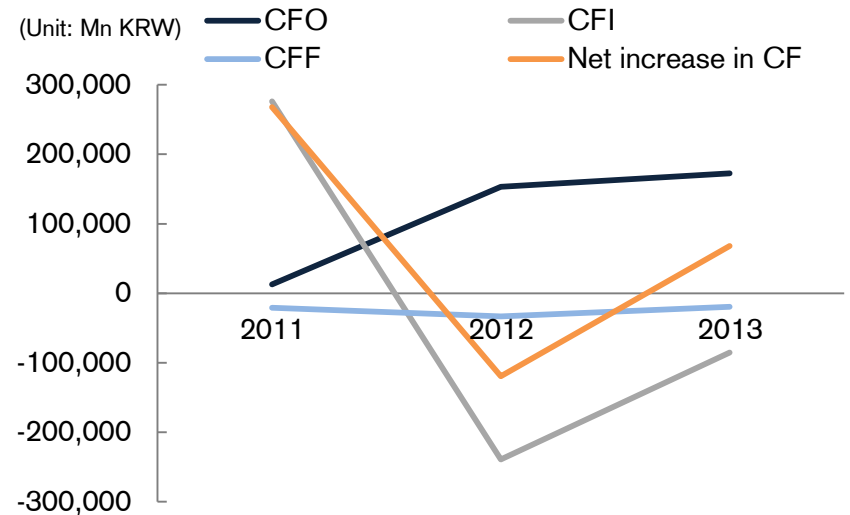
### Debt / Equity ratio



(\*Peer group : CJ O shopping, Hyundai h mall and Lotte shopping)

Source: DART, SG Fenero Research

### Cash Flow



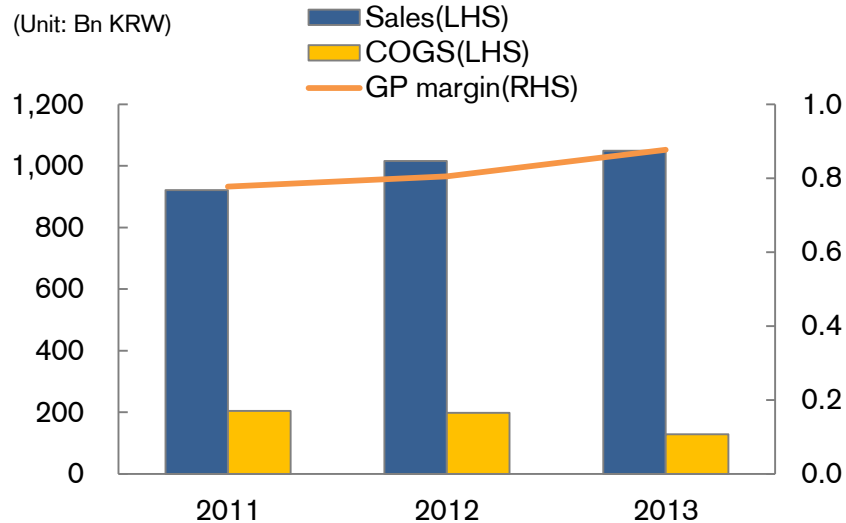
Source: DART, SG Fenero Research

- GS home shopping's D/E ratio is stable with no fluctuation and relatively lower than peer group's.
- When GS home shopping acquire YES24, D/E ratio increases about 10% and still much lower than peer group's.
- Cash flow from operating is always plus and cash flow from investment and financing is minus except for 2011 when the company sold its subsidiary companies which are GS Gangnam and Ulsan broadcasting.

**Acquiring YES24 is riskless deal to GS because of stable Solvency and Cash flow**

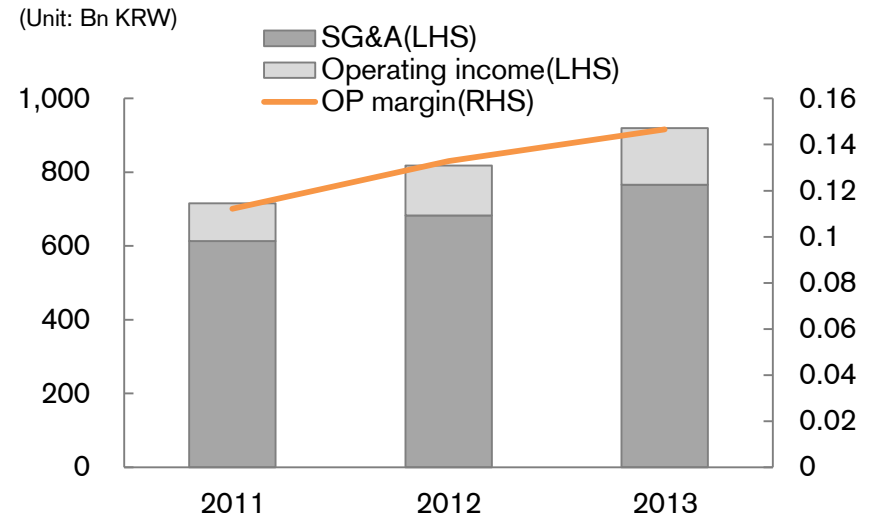
## Profitability Analysis

### Sales, COGS and GP margin



Source: DART, SG Fenero Research

### SG&A and OP margin

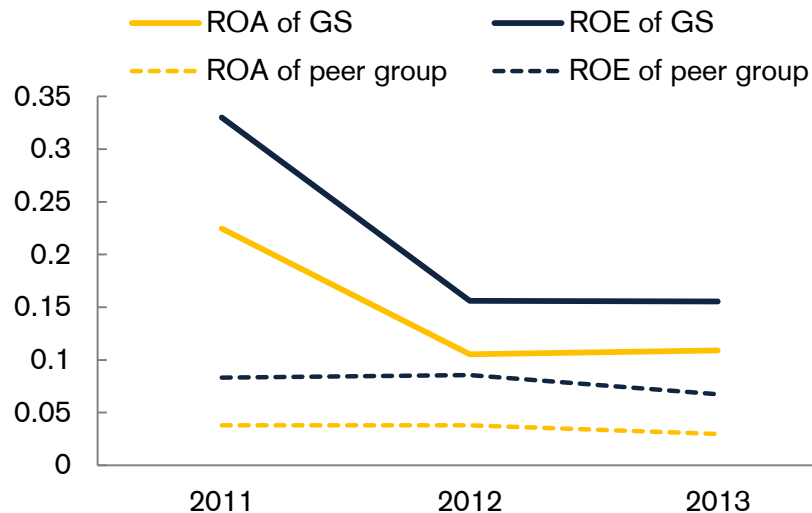


Source: DART, SG Fenero Research

- The expenses related to commission revenue becomes SG&A, not COGS.
- Increasing sales revenue and decreasing COGS because of rising portion of commission revenue results in growing gross profit margin.
- Even though SG&A is increasing, due to faster grow of operating income, operating margin is increasing.

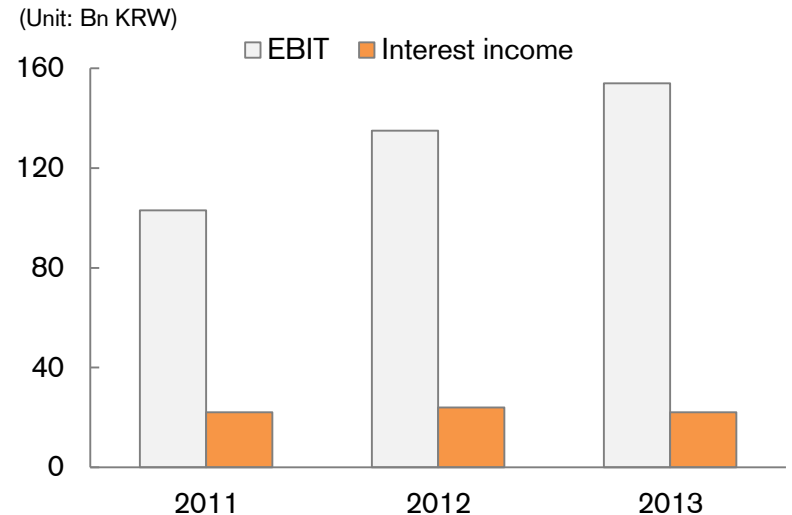
**Improving operating-related profitability enables GS to acquire YES24**

### ROA & ROE



Source: DART, SG Fenero Research

### EBIT & Interest income



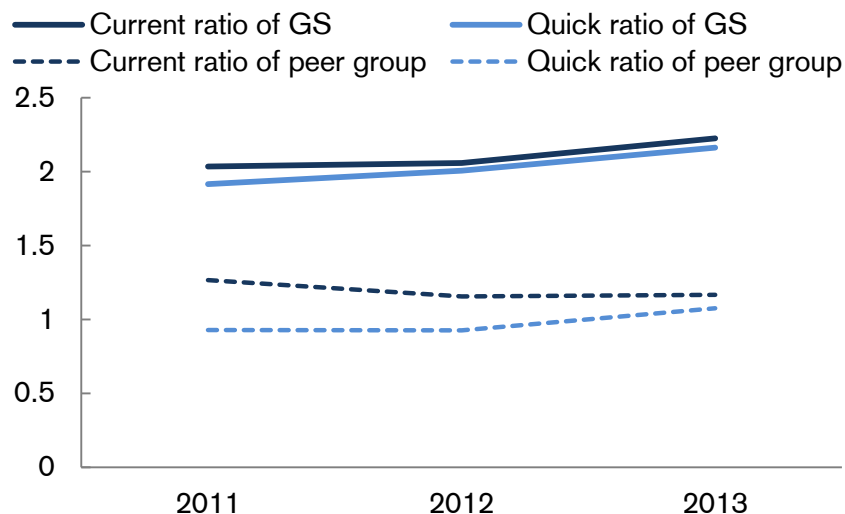
Source: DART, SG Fenero Research

- ROA and ROE of GS home shopping in 2011 was high because net income was influenced by disposal of group classified as held for sale.
- GS home shopping's ROA and ROE is generally higher than peer group's.
- Despite the decreasing relative size of interest income to EBIT,, interest income still has significant influence on the company's profitability and it is risky because interest rate is decreasing recently.

**GS needs to reduce dependence on interest income to maintain stable profit**

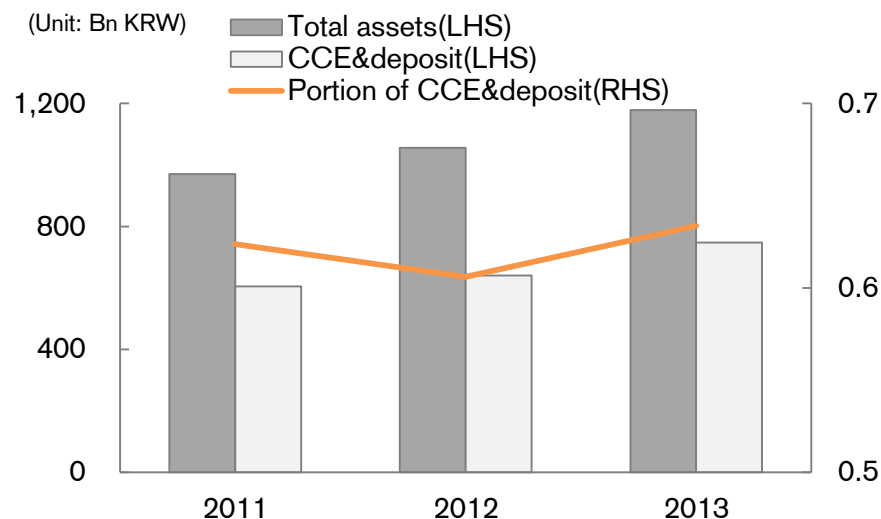


### Current ratio & Quick ratio



Source: DART, SG Fenero Research

### CCE & Short-Term deposit to Total assets ratio



Source: DART, SG Fenero Research

- GS home shopping has current ratio and quick ratio which both are above 2 times.
- The company's CCE and short- term deposit in financial institution which creates interest income accounts for 60% of total assets.
- Because the company has no borrowings, lower D/E ratio, and large amount of assets easy to convert into cash, liquidity is sufficiently secured.

**GS has sufficient liquidity but also has chance to improve its profitability**

### Options

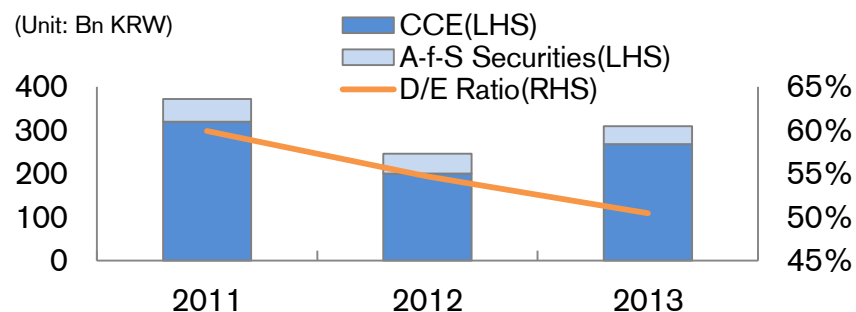
#### Cash Payment

- GSHS is holding 300bn excess cash as of '13
- Expected transaction value of Yes24 is only 25% of CCE
- GSHS is stable in terms of cash generating

#### Debt Financing

- GSHS is maintaining low D/E Ratio
- 100% debt financing would not affect the firm's solvency
- However, firm is currently targeting zero debt firm with no interest bearing debt

(Unit: Bn KRW)



### Transaction Value

#### Transaction Value Forecast paid with 100% Cash

|                                     |            |
|-------------------------------------|------------|
| # of Shares Outstanding             | 17,200,000 |
| Available stake                     | 49.82%     |
| Target Price(w/o Premium)           | 7,300 KRW  |
| Target Price (w/ Premium of 20.65%) | 8,800 KRW  |

|                                   |                  |
|-----------------------------------|------------------|
| <b>Expected Transaction Value</b> | <b>75 bn KRW</b> |
|-----------------------------------|------------------|

|   |     |
|---|-----|
| % of CCE & A-f-S Securities of GSHS (as of 13') | 25% |
|---|-----|

**Although debt financing would not heavily affect the firm's capital structure, it is appropriate to pay it with cash considering GSHS's excess cash**

# *GSHS & Yes24*

## *6. Conclusion*



The reason for GSHS to acquire Yes24 is as following

- **Yes24 is the leading player in online bookstore business, currently undervalued**
- **It is expected to create synergies in both revenue enhancement and cost reduction**
- **GSHS is capable of paying for the potential investment in the transactions**

Therefore, we concluded that it is the well-timed, well-priced and attractive deal for GSHS to bid for the acquisition of Yes24.

## *Opportunity for GSHS to gain strength in its online channel*

*Sell Side*

### Yes24

- 'Hansae' started with the aim of expanding its business to **integrated content distribution** network, intensifying its online market
- However, still, their business is focused on book-market even those book-market has downsized
- Although E-book sales is anticipated to increase with acquisition of Doosan-donga, there still remains doubt on expansion of business
- Current price takes a favorable turn, signaling that it is an optimal time for selling

#### Why M&A?

- Yes24 has a strong customer base as a leading player in the online bookstore industry, shown in their dominant MS, customers and delivery
- GS HomeShopping can make an inorganic growth in their MS by adding strong customer bases of Yes24 by achieving customer and category expansion, which will contribute to both online and mobile businesses

#### Expected

*Buy Side*

### GS HomeShopping

- GS HomeShopping is no.1 in HomeShopping industry, however the firm is showing stagnant growth
- The firm is struggling obtaining more customers since the industry itself has entered at its mature stage and the competition has been severed
- **Inorganic growth** by M&A is needed in order to be positioned as a dominant player in home shopping industry

Purpose of sale is Hansae's limited capacity to expand its business, and we believe that GSHS is not only capable of running online bookstore business, but also its potential synergy will contribute to existing business

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