

Pan Ocean M&A Pitch Book Presentation to Harim Group

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1. Executive Summary

About Pan Ocean M&A Deal

Pan Ocean was up for sale in October 1, 2014, stirring Korean and global M&A market. Harim Group, represented by Jeil Holdings, aims to become a global grain distributor. For that, Harim Group needs to strengthen its grain supply capability, which Pan Ocean's EGT terminal management experience shall help. Also, Harim Group will not be able to maintain a grain distribution business without seaborne bulk transportation business. Considering that it is hard for Harim Group to start from scratch financially and technically, it is the right time with right motives for Harm Group to acuiqre Pan Ocean.

It is either now or never.



1.1 Executive Summary



Harim group must acquire a seaborne transport capability to operate a functioning grain firm



Why Pan Ocean?



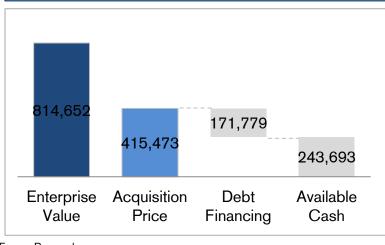
- No major grain firms have yet survived without its own shipping company, due to cost burden and operation inefficiency.
- To accomplish Harim Group's goal of becoming a global grain distributer, Harim needs to intensify its foothold in grain procurement abroad and start seaborne trade from scratch.

PAN OCEAN

- Pan Ocean has outstanding grain shipping experience, transporting approximately 80% of grain inbound to Korea
- Pan Ocean maintains close relationships with major grain manufacturers and distributers.
- Pan Ocean had once managed a 800-million-ton-scale grain terminal in Washington, US, being an unprecedented domestic firm owning and operating a world-wide grain business

2

How much would it cost?



- Harim Group acquires Pan Ocean priced at KRW 814,652 million added 10% premium, at an acquisition rate of 51%.
- To cover the acquisition price of KRW 415,473 million, Harim Group covers 58% of the price with Jeil Holding's available cash and covers the rest of 42% by debt financing.
- Jeil Holdings has KRW 383 bn cash and cash equivalents, yet has 142 billion received as security.
- To lower target percentage of debt, Jeil Holdings is highly recommended to execute extra financing after an IPO of NS Home Shopping (Owned 47% by Harim Group)

2. Corporate Overview on Pan Ocean

2.1 Company Overview

About Pan Ocean

Pan Ocean is a Korea-based global shipping company, providing seaborne transportation services with bulkers, tankers, LNG carriers, and container ships. In particular, Pan Ocean's bulk cargo shipping transports more than 120 million tons of cargo a year, ranking 7th among global shipping companies. Pan Ocean once transported over 80% of grain inbound to Korea, having a loyal customer base around the world



2.1 Company Overview

Pan Ocean is a seaborne trading company, unrivaled in Korea for its bulk vessel business

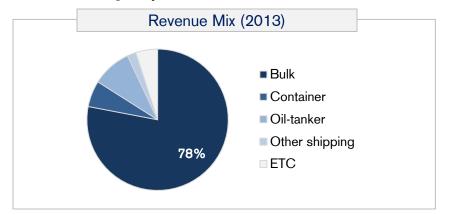
Profile



- Established in May 1966
- Headquarters: Seoul, South Korea
- Reference Index: KOSPI (KSE: 028670.KS) / STRAITS TIMES INDEX (SGX: TO9.SI)
- Market Cap.: KRW 564,235mn (USD 429.78B)
- Number of Employees: 2,310 (On-land 388, Maritime 1,922)

Business Overview

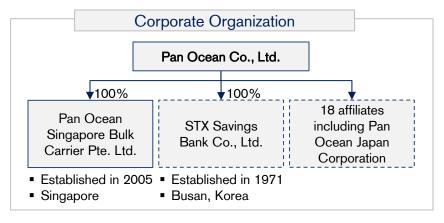
- Pan Ocean is a Korea-based global shipping company, providing seaborne transportation services with bulkers, tankers, LNG carriers, and container ships.
- In particular, Pan Ocean's bulk cargo shipping transports more than 120 million tons of cargo a year, ranking 7th among global shipping companies.
- Pan Ocean once transported over 80% of grain inbound to Korea, having a loyal customer base around the world



Source: DART, Thomson One Analytics, Pan Ocean

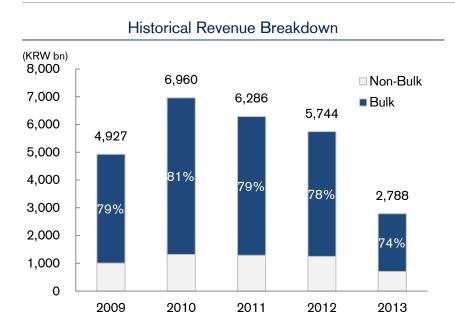
Key Management and Board

- Kim, Yoo Shik(Representative Director): Pan Ocean, Vice President & CEO
- Kim, Bo Yeon(Director): Pan Ocean, Management Support Director
- Ahn, Joong Ho(Director): Pan Ocean, Sales Director
- Daniel, Christopher A.(Non-executive Director): Advocatus Law LLP, Managing Partner



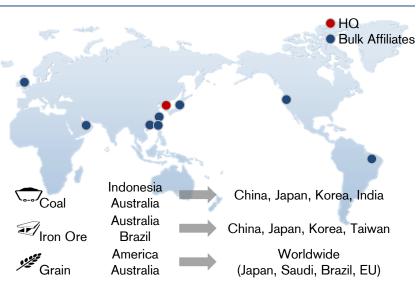
Pan Ocean ranks #7 globally and #1 in Korea by DWT of bulk vessels

Pan Ocean's Bulk Business Overview



- The bulk shipping business comprises approximately 78% of Pan Ocean's business by revenue.
- Significant drop in recent bulk revenue is due to a slowdown in Chinese economy coupled with oversupply of bulk vessels.
- Pan Ocean's performance is highly likely to improve thanks to successful corporate rehabilitation process and downscale of non-bulk shipping business.
- Shipping industry is expecting to have a cyclical comeback, which shall boost Pan Ocean's performance

International Presence

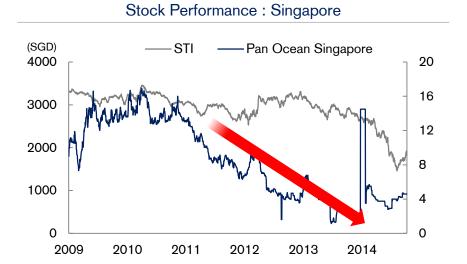


- Pan Ocean operates its bulk business with eight affiliating companies, transporting dry bulk products such as steel product, wood pulp, cement, fertilizer, scrap, coal, pet coke, sugar, and grain from 49 countries en route from 16 ports.
- In 2012, Pan Ocean transports 90% of Brazilian products and 80% of grain inbound to Asia
- Pan Ocean has 59 bulk carriers (7,643,130 DWT) aged 5.1 year on average, owning the most and the high-tech vessels, unrivaled by domestic competitors

Source: DART, Thomson One Analytics, Pan Ocean

Stock price of Pan Ocean has been plunging, yet started to recover from 1Q14





Analysis on Stock Performance

Phenomenon

- Stock performances and sales trend show similar patterns
- Stock performance in Korea and Singapore decreased visibly starting from late 2010 and early 2011 till 2014, and 2014 showed possibilities of positive outlook
- Sales trend of Pan Ocean decreased starting from late 2010 and early 2011, but no big signs of high profits are shown

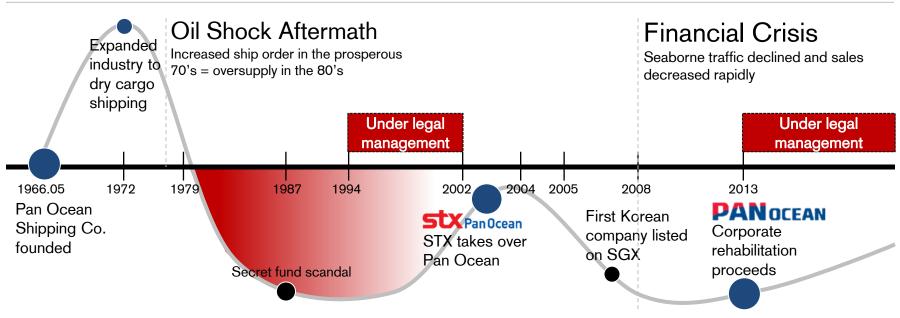
Estimated Cause

- Impractical issue of company stock: shortage of capital for ship production → issued company stock
 → stock expired starting from 2011 → not enough ability to pay back
- Enforcement of M&A: Attempted M&A during recession (2011)
- Vertical Model of Business: Shipbuilding to transportation- almost 90% on STX subsidiaries ->
 economic recession made the whole STX to collapse

Source: KRX, Yahoo Finance, SG Fenero Resarch

Pan Ocean has went through multiple crises, now facing corporate rehabilitation process





Corporate Rehabilitation Process

Recession

- STX failed to sell STX Pan Ocean (March 9, 2013)
- Main creditor KDB considered taking STX Pan Ocean over but retrieved due to huge debt

Separation from STX

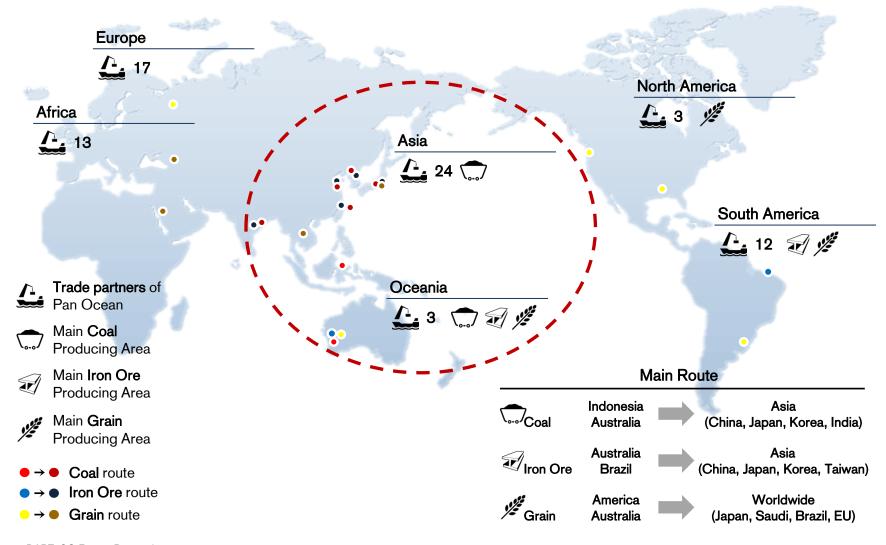
- STX Pan Ocean went into receivership (June 7, 2013)
- Pan Ocean split from STX group and ranamed to Pan Ocean
- Yooshik Kim took office as CEO

Public notice of sale

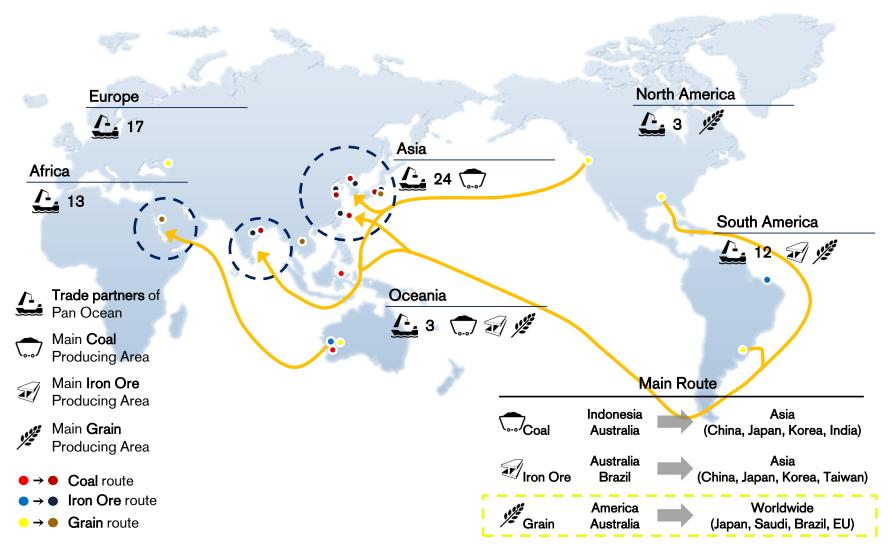
- Pan Ocean lowered debt ratio from 2000% to 700% after separation
- During 1Q-2Q14, Pan Ocean earned positive operation profits
- Pan Ocean announced public sales (Oct 1, 2014)

Source: Pan Ocean, SG Fenero Research

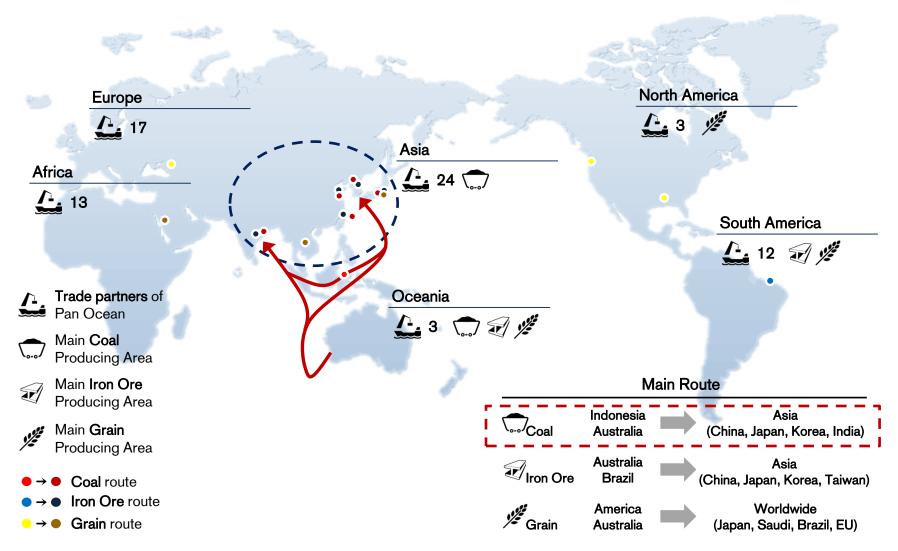
Pan Ocean's bulk business is centered in Asia and Oceania Region



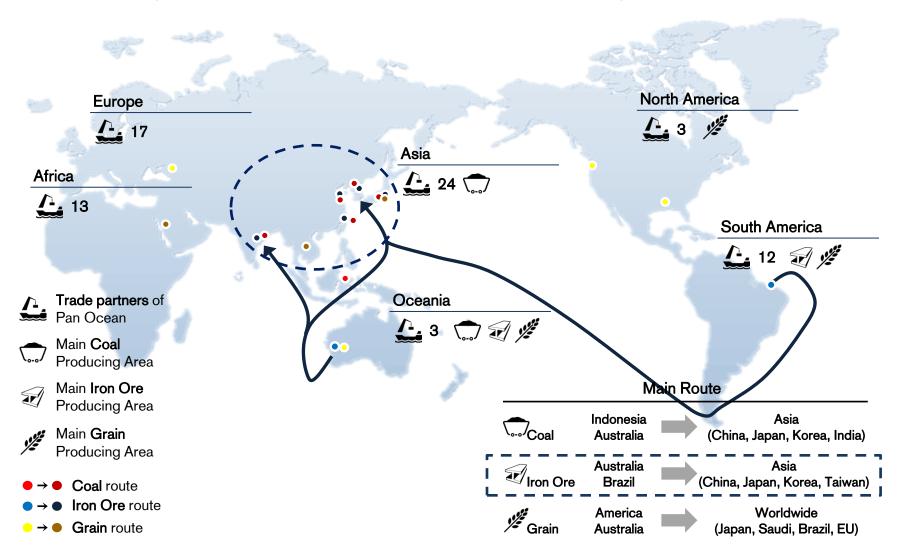
Pan Ocean transports grain from the Americas and Australia to many countries in the world



Pan Ocean transport coal mainly from Australia to China, Japan, Korea, and India



Pan Ocean transports iron ore from Australia and Brazil to China, Japan, Korea, and Taiwan



3. Key Investment Highlights

- 3.1 Why Pan Ocean?
- 3.2 Grain Terminal Managing Experience
- 3.3 Promising Industry Outlook
- 3.4 Great Competitiveness in Bulk Shipping
- 3.5 Strong Client Network
- 3.6 Legal Management and Financial Recovery

About Pan Ocean's Strengths

Pan Ocean is well known for its bulk vessel know-hows, and undoubtedly recognized as one of the top bulk shippers.

Not only its seaborne transportation capabilities are extraordinary, it once managed EGT grain terminal in Washington, USA, as the first and the last Korean firm. Through this, Pan Ocean once grasped a firm ground in grain distribution business, as well as maintaining close relationships with global top grain manufacturers and traders.



3.1 Why Pan Ocean?



Pan Ocean has four attractions to Harim Group along its way of becoming a global grain firm

Four attractions of Pan Ocean







PAN OCEAN





3.2 Grain Terminal Managing Experience



1

Pan Ocean has experience in grain procurement, once owning and managing EGT

EGT Management Experience

 Grain terminal which could store, trade and distribute grain.



- Manage 800 million tons which is 60% of domestic grain import and its own management profit is 200 million dollar.
- EGT could increase portion of Pan Oceans grain freight volume 15% to 50%.
- Pan Ocean used to have experience what Harim group is needed to be major grain corporation.
- The result was failure, however, it was not because of lack of ability of Pan Ocean but because of lack of cash retention of STX group.

Purchas ing EGT share

- •Bunge and Itochu, which are major grain corporation, proposed STX Pan Ocean to build grain terminal at longview port.
- •Reason why Itochu proposed STX Pan Ocean was that STX Pan Ocean has confidential relationship with Itochu because of COA between them.

Support ing by ADM

- •STX Pan Ocean needed more money and stable customer and ADM helped STX Pan Ocean by supporting money and being stable customer.
- •Reason why ADM helped STX Pan Ocean was that STX Pan Ocean has confidential relationship with ADM because of COA between them.

Failure

- •Selling for decreasing money burden of STX.
- •Bunge and Itochu purchased share of STX Pan Ocean.

Timeline of Governmental Grain Procurement Plan

Foundation of aT

- Aims to construct grain delivery system for food security.
- STX seeks to secure foreign grain distribution routes by establishing aT grain company with CJ, aT, and aT, Samsung CNT.

aT failed due to 4 foreign grain majors

Hereafter, government contracted MOU with STX Pan Ocean, which had 20% share of EGT, and attempted grain transport.

STX, suffering from financial problems gives up EGT

 Government attempted share purchase, but failed because Bunge and Itochu exerted purchase priority.

Failed business handed over to private companies

- Government announced business failure, deleted 2014 budget.
- Now considering Harim, CJ, and Nong-Hyup Feed.

3.3 Promising Industry Outlook – Iron Ore

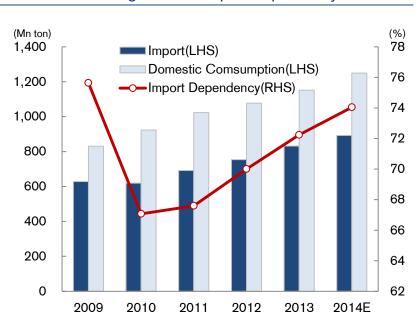


2

Seaborne trade volume via Pan Ocean's main iron transport route will increase

Demand Drivers of Iron Ore

Increasing Iron Ore Import Dependency



- Import dependency(=import volume/domestic consumption) of china is extreme, increased to over 70% after 2013.
- Domestic production and import volume of china increases consistently.
- As a result, Increasing volume of iron ore import will lead to increase seaborne trade volume of iron ore.

Increasing Crude Steel Production



High Cost of Iron Ore Production



- Quality: Fe 40%
- AverageProduction cost:\$115/ton



- Quality: Fe 59%
- Average production cost: \$40/ton
- Despite decreasing rate of china GDP, Production of crude steel still increases consistently.
- It is expected that high import dependency of Iron ore will not change because of high production cost of Iron ore(100~130 \$/ton) in china and difficulties for developing foreign mine.

Source: KOSIS, KORES, UBS, SG Fenero Research

3.3 Promising Industry Outlook – Iron Ore (Cont'd)



2

POSCO, Pan Ocean's major customer will demand more iron ore due to business expansion

Demand Drivers of Iron Ore



POSCO's Expansion of Steel Sheet Plants

- Pan Ocean contracted COA(Contract of Affreightment) with POSCO started from 2011 to 2031.
- Contract size with POSCO was 12% of Pan Ocean's sales (4000 billion won). Thus POSCO is undoubtedly an is important customer for Pan Ocean, requiring analysis on its activities which will derive iron ore demand.
- POSCO recently constructed three plants where steel sheet demand is highly likely to grow.
- As a result, contract with POSCO could bring high return to Pan Ocean.

China

- POSCO activated steel sheet plant, manufacturing steel products for automobiles, in Fuchan, China.
- China is the top car production country, and its automobile manufacturing volume is increasing 10% a year.
- Increasing car production in China will lead to similar increase of demand of steel sheet.

Turkey

- POSCO activated STS cold rolling plant which is the only STS plant in Turkey.
- Turkish government is nurturing automobile manufacturing industry and home appliance industry as its main industry.
- In a similar growth rate to Turkish industries, iron production in Turkey will grow consistently.

Indonesia

- POSCO activated integrated steel mill in Cilegon, Indonesia.
- With higher GDP growth rate than G7, Indonesia's import dependency of Iron ore is high.

Source: POSCO, SG Fenero Research

3.3 Promising Industry Outlook - Coal

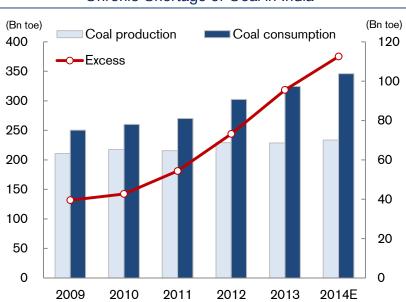


2

Seaborne trade volume via Pan Ocean's main coal transport route will increase

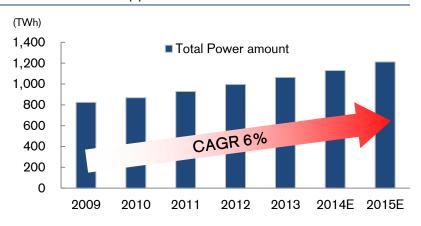
Demand Drivers of Coal

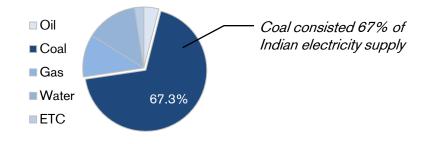
Chronic Shortage of Coal in India



- India's coal consumption exceed its own coal production and total excess amount increases consistently.
- India filled shortage by import because most of Indian coal is non-cocking coal which can not be used to generate electricity.
- Therefore, increasing demand for coal in India will lead to more seaborne trade, possibly increasing coal contract volume of Pan Ocean and Coal & Oil Co.

Governmental Support on Coal-fired Power Generation





• Modinomics, Indian economic growth plan, conducted Ultra Mega Power Projects(UMPP) to expand electricity supply. This will lead to increased demand of coal.

Source: BP Statistical Review of World Energy 2014

3.3 Promising Industry Outlook – Grain

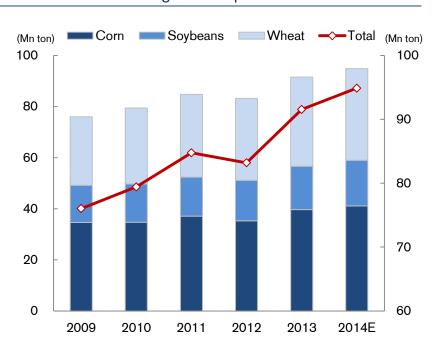


2

Seaborne trade volume via Pan Ocean's grain route will grow due to Asia's demand expansion

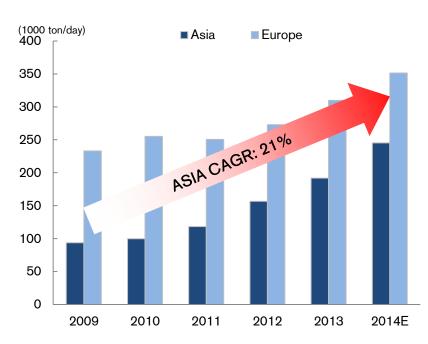
Demand Drivers of Grain

Increasing Grain Imports to Asia



- The big import giant Asia is keep enlarging the quantity of import to meet its need for human consumption and industrial use
- As Pan Ocean's largest customer is in Asia, Asia's grain import increase will pose positive impacts to Pan Ocean's revenue

Increasing Biofuel Production



 Asia is in the expanding stage of biofuel production using grains and dramatically enlarging the production compared to Europe

Source: US Energy Information Administration, OECD, USDA

3.3 Promising Industry Outlook - Grain (Cont'd)

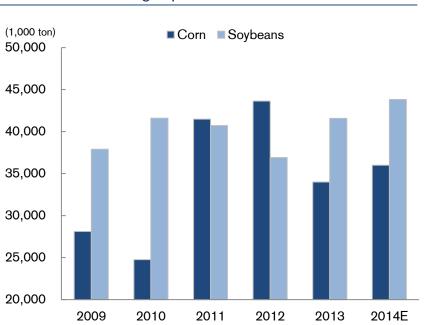


2

Pan Ocean's biggest grain supplier Latin America supplies vast amount of grains to the world

Demand Drivers of Grain

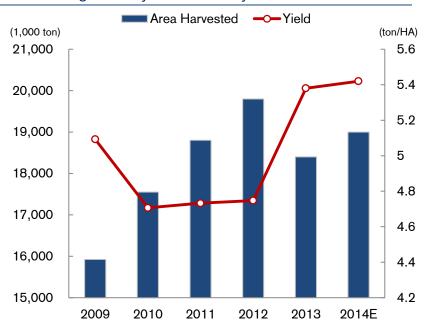
Increasing Export from Latin America



The export from Latin America has traditionally been inclined

- This incline was somewhat damaged due to severe draught in 2012, but has started recovering
- For grain, supply and demand relationship is stable and inelastic. Therefore, Latin America's increased grain supply will increase Pan Ocean's seaborne trade volume

Increasing Quantity and Efficiency of Corn Production



- The corn harvest area has traditionally increased but declined due to climate in 2013
- Yet, yield efficiency increased instead, minimizing the downfall in production
- This trend indicates that Latin America's corn production volume is likely to increase

Source: US Energy Information Administration, OECD, USDA

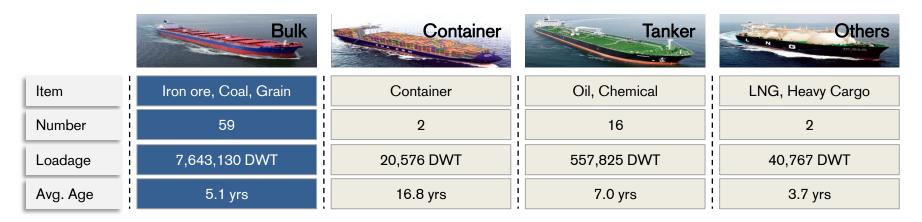
3.4 Great Competitiveness in Bulk Shipping



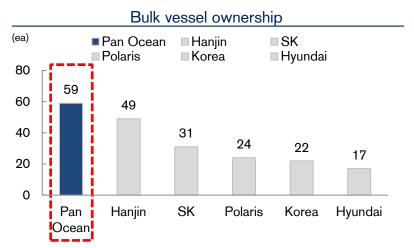
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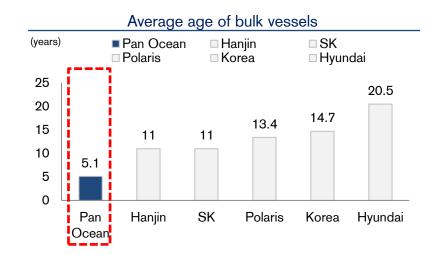
Pan Ocean's bulk vessels outperform and outnumber every domestic bulk seaborne traders

Ship-holding Status of Pan Ocean



Competitiveness of Pan Ocean's Bulk Vessels





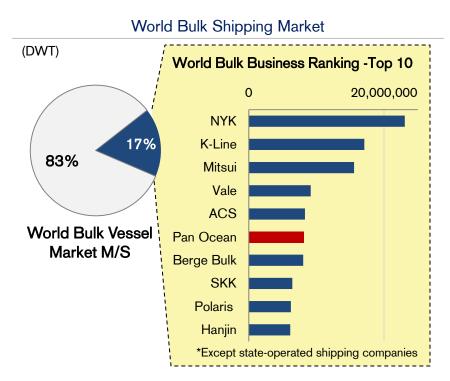
Source: Pan Ocean, SG Fenero Research

3.4 Great Competitiveness in Bulk Shipping (Cont'd)



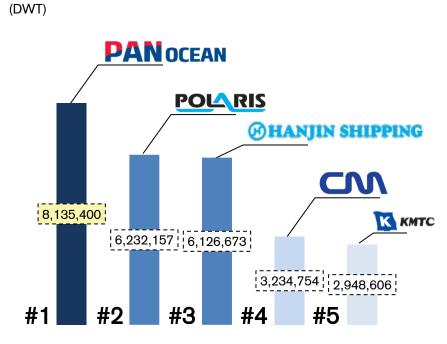
3

Among global bulk vessel players, Pan Ocean ranks 6th globally and 1st in Korea



- Among total 8,000 bulk vessel companies, top 10 companies control 17% of bulk vessel capacity. Compared to container vessel market, in which top 3 companies take 35% market share, bulk vessel market is a perfectly competitive market
- Competitive ecosystem of bulk vessel market makes bulk vessel companies compete viciously for awarding occasional contracts





- Major international bulk carrier market and domestic market show differences in capacity competitiveness
- However, Pan ocean, Polaris shipping and Hanjin shipping are gradually securing global bulk carrier market position
- Domestic bulk carrier companies are not to be overlooked for they Korea as their main place of landing

Source: Clarkson Shipping Review Database

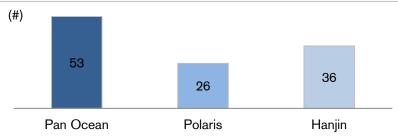
3.5 Strong Client Network



4

Long-term shipping contracts with loyal clients worldwide guarantees stable source of Revenue

Pan Ocean and long-term contracts (2014)

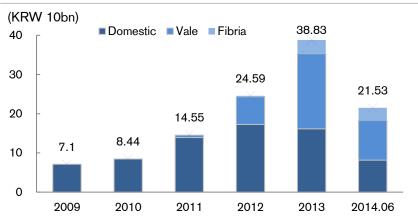


- Pan Ocean has performed more than 50 long-term shipping contracts that are usually unaffected by freight market volatility. (CVC#28, COA#25).Other competitors such as Polaris shipping have about 30 long-term contracts (Polaris shipping#26, Hanjin shipping#36)
- Long-term shipping contracts guarantee Pan Ocean stable source of revenue, and therefore a competitive edge compared to domestic rivals

Pan Ocean's unrivaled specialty in grain transport

- Pan Ocean transports 80% of wheat, corn, and soybeans from Brazil and US to Korea
- Most of Korean grain importers, usually food and milling industries, have maintained their contracts with Pan Ocean over 20-30 years
- Pan Ocean's knowhow and close relationship with loyal customers makes it irreplaceable to other domestic competitors

CVC Contract Revenue (2014)



Pan Ocean has been signing mega deals with domestic and foreign clients, with CVC revenue growing at a rate of 53% until 2012. The remaining CVC contract term is 17.8 years, and expecting to yield stable revenue during the remaining terms.

Long-term Contract Status (2014)

Type	Client	Vol.	# of	Average	Remaining
Турс	Olient	(USD bn)	Contracts	Term	Term
CVC	Vale	4.5	7	25(years)	23.3(years)
	FIBRIA	1.6	5	25	23.7
	POSCO	3.8	16	16.7	13.5
COA	Anonymous	1.0	6	9	6.1
	ETC	0.5	19	1.6	1.3

^{*}CVC(Consecutive Voyage Contract): Long term contract assigning vessels to specific routes

Source: Pan Ocean, SG Fenero Research

^{**}COA(Contract of Affreightment): Long term contract regularly operating vessels without assigning vessels

3.6 Legal Management and Financial Recovery

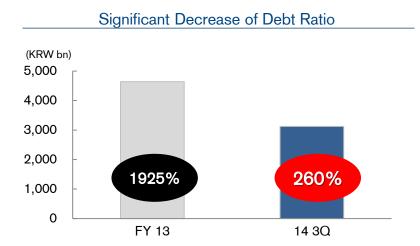


Significant decrease in Debt shall resurrect Pan Ocean from its financial conundrum

Current Progress of Legal Management

13.06.07	Application for Commencement of Rehabilitation Procedure				
13.06.17	Rehabilitation Procedure Initiation Decision Approval				
13.11.22	The Rehabilitation Proposal Approval				
13.11.28	Capital Reduction (Reverse Stock Split) Affiliated Companies and Executives 1- 10 Reverse Split [STX Corporation, STX Offshore & Shipbuilding Co., Ltd, STX Engine Co., Ltd, Kang Duk-soo] General Stockholders 1-2 Reverse Split Free incineration of 1,127,526 Treasury Stocks				
13.12.12	Debt-Equity swap Newly Issued Common Shares 1,116,879,112 Issue Price 1,000 Won				
13.12.26	Capital Reduction (Reverse Stock Split) 1-10 Reverse Split Stock of Par-Value 10,000 due to 1-10 Reverse Split				
14.03.31	■ Newly Issued Common Shares 28,384,096 ■ Issue Price 10,000 Won (1,000 x 10 Stock Merge Consideration)				
14.06.30	■ Newly Issued Common Shares 14,142,399 ■ Issue Price 10,000 Won (1,000 x 10 Stock Merge Consideration)				
14.09.30	■ Newly Issued Common Shares 51,124,464 ■ Issue Price 10,000 Won (1,000 x 10 Stock Merge Consideration)				

Significant Recovery in Debt and Cash Flow



Decrease in Uncertainty of Unexpected Cash Outflow



4. Industry Analysis

- 4.1 Overview of Shipping Industry
- 4.2 Bulk Shipping Industry Outlook

About Shipping Industry

It is difficult to quantify the value of volume of world seaborne trade in monetary terms, as figures for trade estimates are traditionally in terms of tonnes or tonne-miles, and are therefore not comparable with monetary-based statistics for the value of the world economy.

However, the United Nations Conference on Trade and Development (UNCTAD) estimates that the operation of merchant ships contributes about US\$380 billion in freight rates within the global economy, equivalent to about 5% of total world trade.



4.1 Overview of Shipping Industry



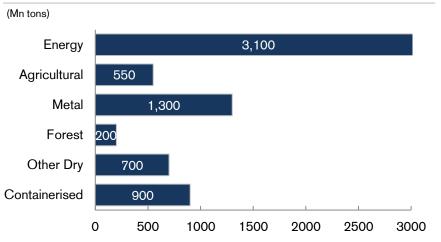
Shipping industry is unlike any other industries due to its complexity, volatility, and ecosystem

Global Market Volume

Difficult to quantify the value of volume of world seaborne trade in monetary terms, as figures for are in tons or miles, not comparable with monetary value in the world economy.

Operation of Ships Worldwide = 5% of World Trade
US\$380 billion in Freight Rates

Market Volume by Commodities



Characteristics of Shipping Industry

Capital Intensive Industry

Requires substantial capital investment to acquire, maintain, and demolish vessels

Service Industry

Transports various goods of exporters and importers to contracted regions and deadlines

Basic / Key Industry

Transports raw materials and goods that are crucial to sustain export-centered economies

Vulnerable to Economic Fluctuations

Impacted by global economic trends and indexes as well as freight volume

Market Differentiation by Vessel Types

Depending on vessel types, shipping firms handle different market players as customers

Competitive Yet Oligopolistic

Competition among over 8,000 shipping firms are perfectly competitive or oligopolistic

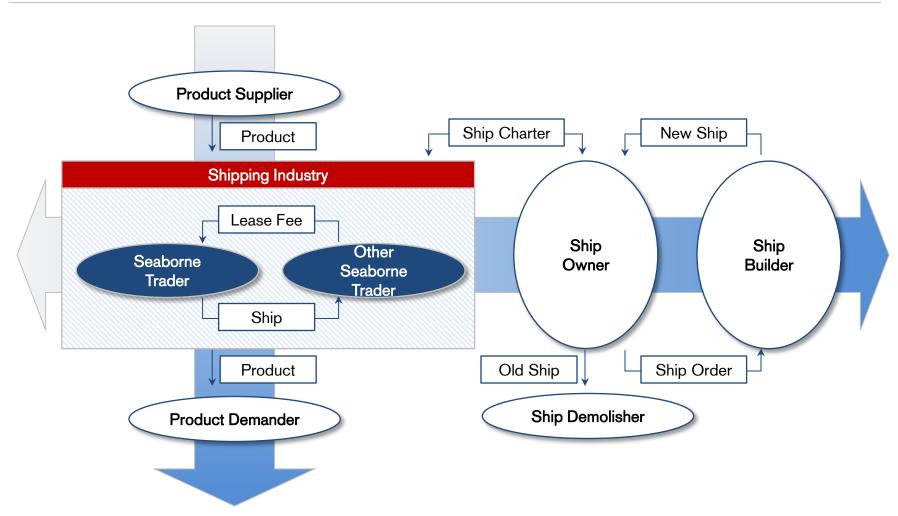
Source: United Nations Conference on Trade and Development. IHS Fairplay, World Fleet Statistics 2012, Ministry of Land Transport Maritime Affairs, Alphaliner

4.1 Overview of Shipping Industry (Cont'd)



Seaborne traders transport various goods in bulk via ocean, and relate to different industries

Flow Chart of Shipping Industry

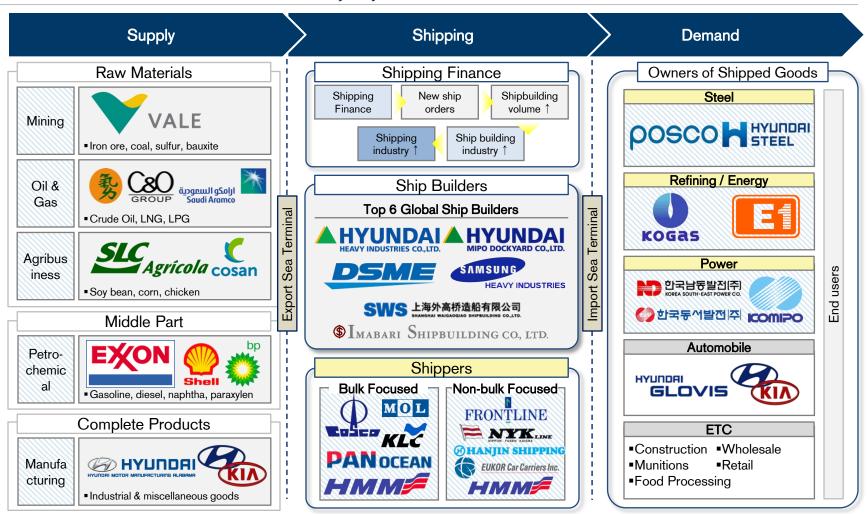


4.1 Overview of Shipping Industry (Cont'd)



In shipping industry, multiple value chains of diverse industries and key players are interlinked.

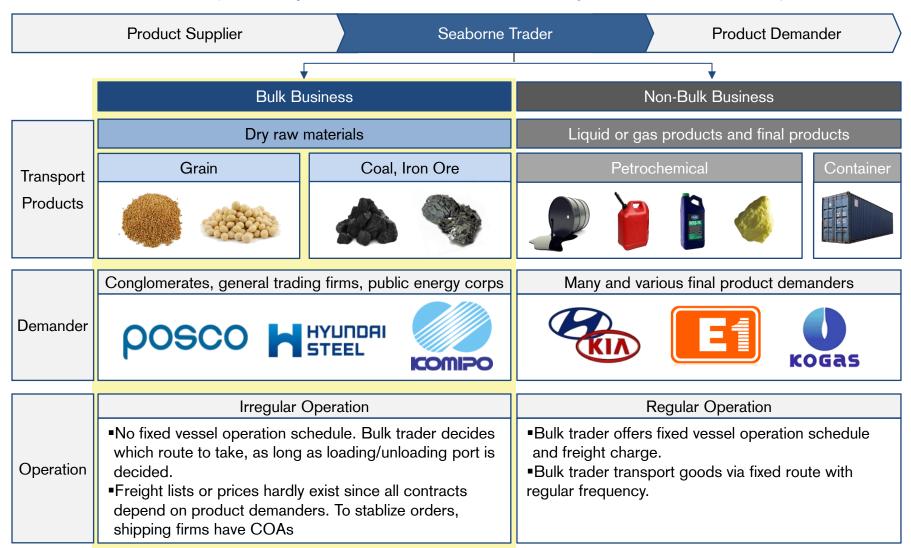
Key Players of the Flow Chart



4.1 Overview of Shipping Industry (Cont'd)



Bulk Business, among two major sectors of seaborne industry, is Pan Ocean's weapon

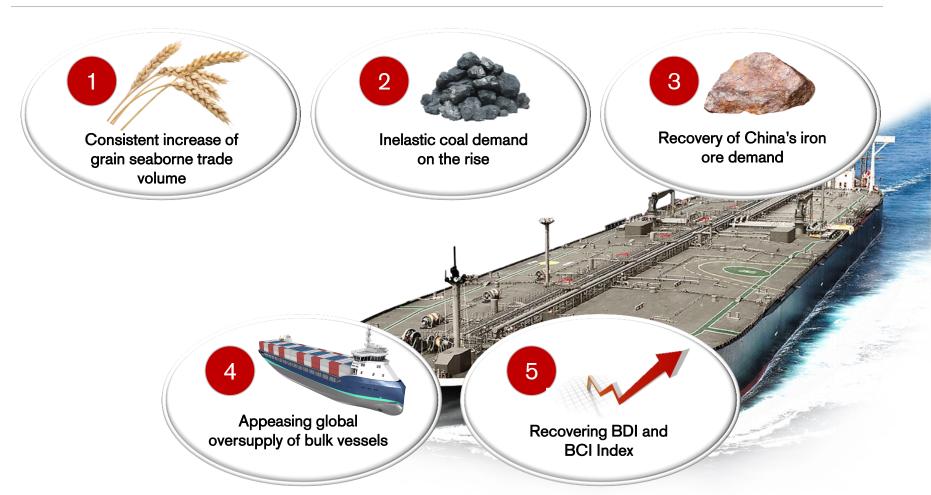


4.2 Bulk Shipping Industry Outlook



Pan Ocean has four attractions to Harim Group along its way of becoming a global grain firm

Four attractions of Pan Ocean



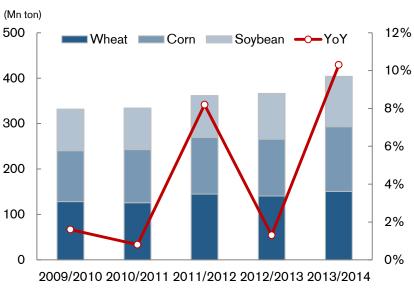


1

Global demand of seaborne trade of grain is gradually increasing, with seasonal fluctuations

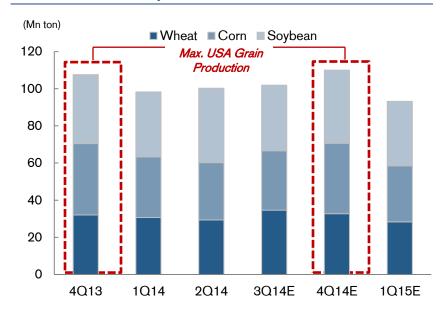
World Seaborne Trade Volume: Grain

Increasing Seaborne Grain Trade Volume



- *2009/2010 season: 2009 Harvest time~ 2010 Summer
- The above actually shows world grain trade volume. However, since almost 100% of grains are transported via sea, total world grain trade volume equals seaborne trade volume.
- World grain trade is increasing continuously from 2009.
 Especially 2013/2014 season grain trade increased
 10.3% compared to previous season

Seasonal Cycles of Seaborne Grain Trade



■ The expected value on grain volume per quarter shows that the number of goods transported will be larger in the first half than the second half. Especially, the fourth quarter of every year shows a big increase in the number of goods transported. This occurs for the fourth quarter is the maximum production period in the U.S.

Source: Clarkson, SSY Dry Bulk Forecaster

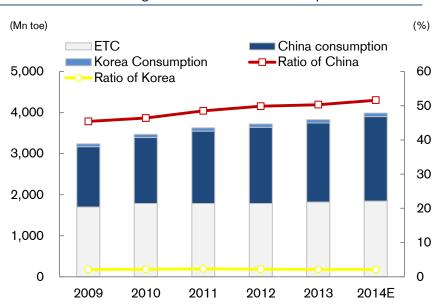


2

Demand for seaborne coal trade is very consistent, slowly recovering from a dramatic drop

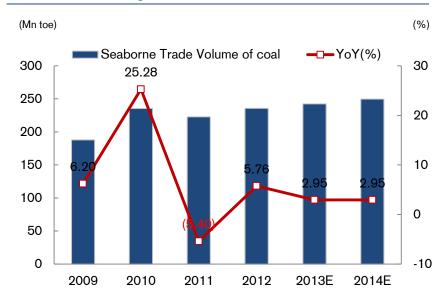
World Seaborne Trade Volume: Coal

Increasing Total Volume of Coal Import



- Nearly 100% of coal are transferred by ship
- China composed almost 50% of world coal consumption and increased consistently
- Korea composed 2% of world coal consumption and but with high inelasticity

Recovering Seaborne Trade Volume of Coal



- Global seaborne trade volume of coal is recovered from 2012 after a disastrous drop in 2011
- The decline is due to a rapid growth in coal inventory of China, wrong demand forecast of Asian mine companies, environmental restrictions in the US and Chia, and lastly postponed restructuring of coal industry in China

Source: BP Statistical Review of World Energy 2014, KMI

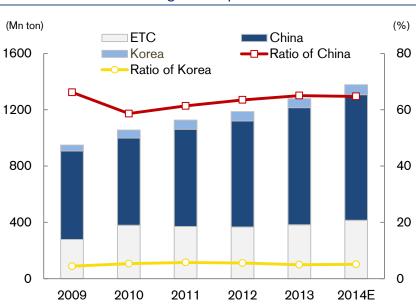


3

Global demand of seaborne iron ore trade is gradually on the rise

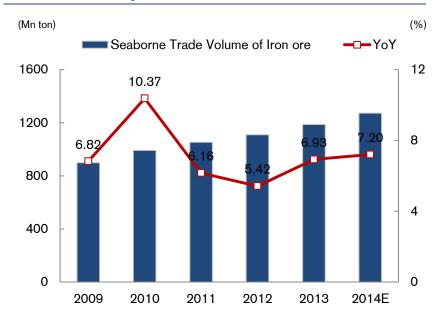
World Seaborne Trade Volume: Iron Ore

Increasing Iron Import Volume



- Nearly 100% of iron ore are transferred by ship
- China composed almost 70% of world iron ore import and increased consistently.
- Korea composed 7% of world iron ore import only. However, it has consistent and inelastic import demand, contributing consistently to world iron import volume.

Recovery of Seaborne Iron Trade Volume



- Although the recent grow rate of seaborne iron trade has slowed down, the volume itself is consistently increasing until now.
- YoY of seaborne iron trade rebounded in 2012 and showed recovery due to China's contribution.

Source: KMI, Korea Ship-owners Associaton

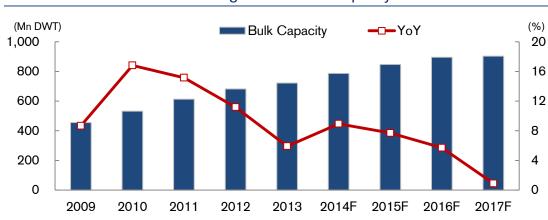


4

Oversupply of bulk vessels has appeased as order backlog and vessel price increases

Bulk Vessel Supply

Decreasing Rate of Bulk Capacity

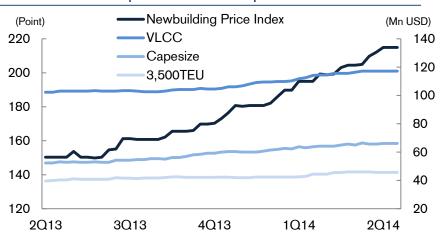


- Vessel capacity is steadily increasing while the increasing rate of vessel capacity is keep decreasing since 2010
- Residual quantity of orders in declining trend shows that the supply of ships will falter afterwards when considering the difference between orders(2~3years cycle) and transportation
- Adding the increasing ship rice, supply increase will be alleviated in general

Decreasing Order Leftover



Upside Trend of Ship Price



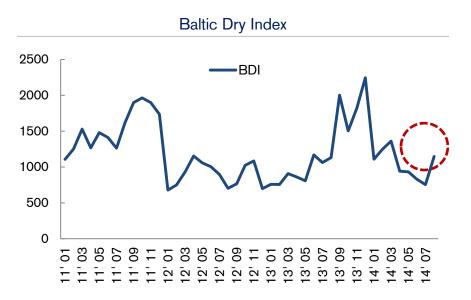
Source: Clarkson, KRX

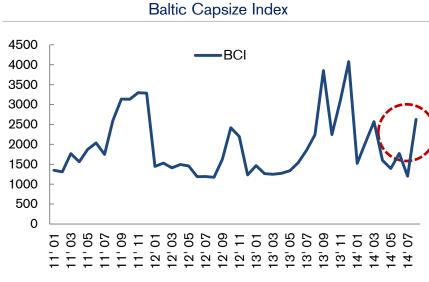
4.2 Bulk Shipping Industry Outlook (Cont'd)



5

Recovery of BDI and BCI Index shows positive outlook on Pan Ocean's freight rate





5. Financial Analysis

- 5.1 Profitability Analysis
- 5.2 Coverage Analysis
- 5.3 Financial Flexibility & Tax Effect

Financial status of Pan Ocean

Pan Ocean has gone through a serious financial downturn in the recent years, due to disappointing sales performance.

However, at the first quarter of 2014, Pan Ocean showed extreme financial turnaround thanks to successful legal management.

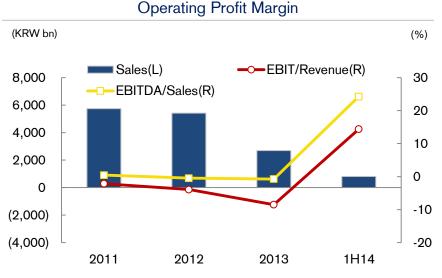
Pan Ocean's financial performance history can be divided into three parts: 1. profitability analysis, 2. coverage analysis, 3. financial flexibility and tax effect.



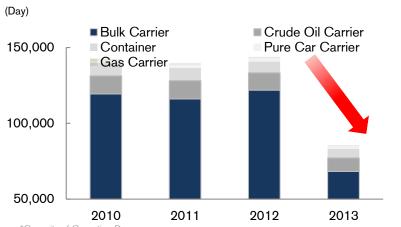
5.1 Profitability Analysis



Profitability is recovering despite the temporal sales decrease

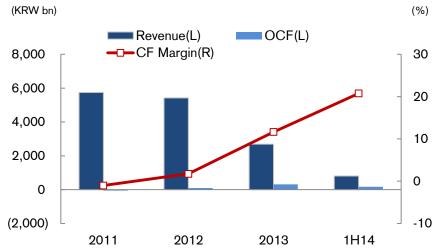


Capacity of Operating Days



*Capacity of Operating Days= Feasible Operating Days [(Number of Vessel Owned x 365) + Days of Chartered Ships Operating]



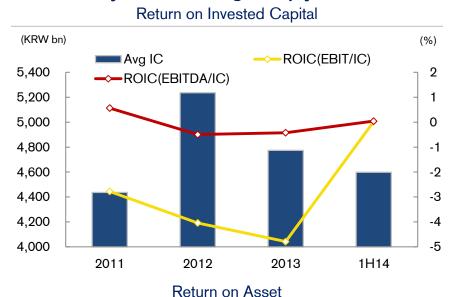


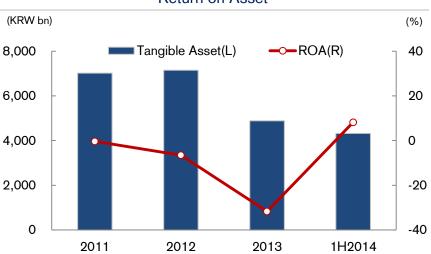
- First half of this year had EBIT surplus due to cost reduction and disposal of assets according to the approved revitalization plan
- Termination of the charter party can be demonstrated by the decrease of the Capacity of Operating Days
- Complements to Operating Margin Profit have been made by EBITDA Margin since Sales and Operating Margin Profit may not accurately reflect the profitability due to the burden of noncash expense such as depreciation
- Considering the consistent decrease of Cash, Operating Cash
 Flow Margin demonstrates the efficiency of Sales conversion to
 Cash and may also be an indication of high earnings quality

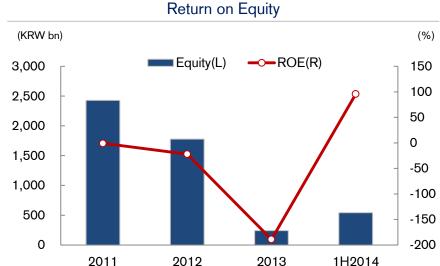
5.1 Profitability Analysis (Cont'd)



Profitability is recovering sharply due to effects of legal management







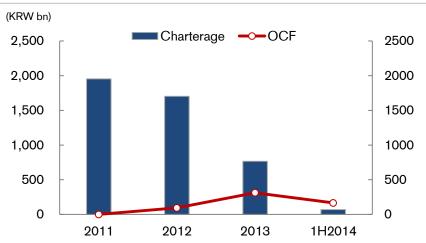
- Pan Ocean is currently disposing its assets to improve its debt ratio and the rate of costs of sales and as a result there is a decrease in Invested Capital. Also, it is conducting debt equity swap, reduction of capital, retirement of stock and the extinction of the preemptive right according to the revitalization plan which has led to the decrease in equity
- Decrease of FY12 Net Income is due to the impairment and loss on disposition of vessels and foreign currency transaction loss because of the strengthening of the Korean Won to ₩1,063/\$1 (-8.2% YoY)
- Decrease of FY13 Net Income is due to recognition of 1.5 trillion of provisions for litigations and consistent disposal of tangible assets

5.2 Coverage Analysis

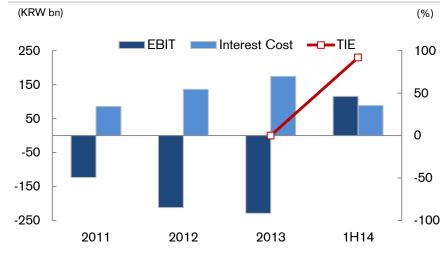


Pan Ocean is luckily facing alleviation of financial burden

Charterage Operating Cash Flow Coverage

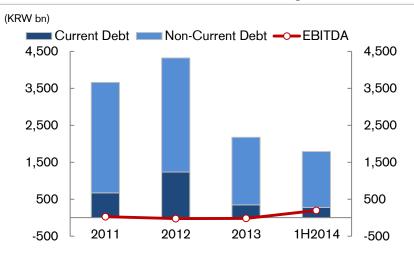


Times Interest Earned



Source: DART, SG Fenero Research

Total Debt EBITDA Coverage

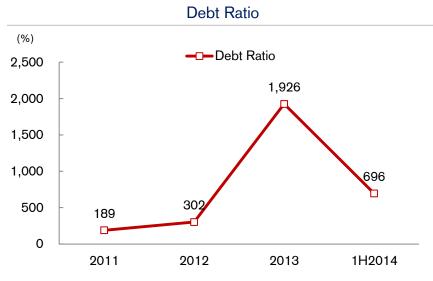


- Charterage has decreased because of the use of self-owned vessels and the extinction of charter party
- One of the reasons that STX Pan Ocean went into legal management is because of the payment for long-term ship chartering contract
- The current trend of the charterage is declining due to the us of self-owned vessels and the cancellation of the long-term ship chartering contract
- Charterage is not included in the borrowing amount because it is not borrowed through finance corporations increasing the financial burden with interest
- Earning more operating cash flow than charterage, increasing portion of EBITDA regarding debt and the recovery of EBIT exhibits the starting point of the financial burden alleviation

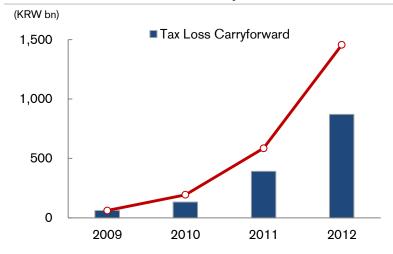
5.3 Financial Flexibility & Tax Effect

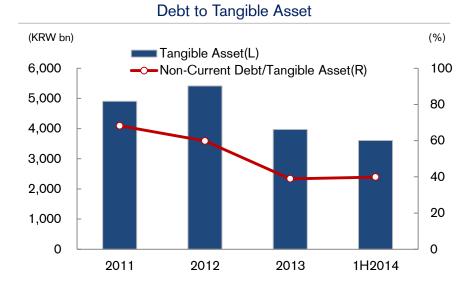


Pan Ocean has sound financial structure with tax savings thanks to legal management



Tax Loss Carry Forward





- Taking advantage of the legal management, Pan Ocean is currently swapping 67% of it's debt to equity enhancing the financial structure. It's targeting to decrease its debt ratio to 300%
- Shipping industry have high debt dependency compared to common manufacturing businesses because of industry features.
- Thorough analysis on interest bearing debt in case of recession is required because of the high dependency of the economy
- According to the analysis on financial flexibility of shipping industry(using debt/tangible asset) the non-current debt can be liquidated by the tangible assets
- Pan Ocean have 1,456 billion won loss carry forwards from 2009
- Loss carry forwards can be deducted with future net income and is expected to bring a tax advantage from its acquisition



6. Corporate Overview on Harim Group

- 6.1 Governance Structure of Harim Group
- 6.2 Business Overview of Harim Group
- 6.3 Industry Overview
- 6.4 Harim Group and Grain Industry

Financial status of Pan Ocean

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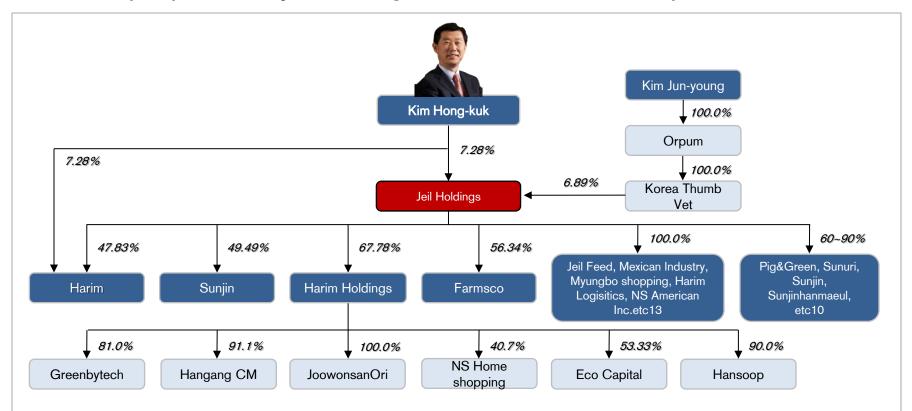
Pan Ocean's financial performance history can be divided into three parts: 1. profitability analysis, 2. coverage analysis, 3. financial flexibility and tax effect.



6.1 Governance Structure of Harim Group



Harim Group, represented by Jeil Holdings has 69 subsidiaries which operate nine businesses



- In the past, Harim group used to have four holding companies due to impractical M&A expansions
- Now, Harim group has two holding companies (Jeil Holdings and Harim Holdings) which do not operates business itself and have 78 subsidiaries in total. Jeil Holdings has 63 subsidiaries operating in nine different industries.
- The core part of Harim corporate governance is CEO Kim Hong-kuk. He has influenced a variety of businesses through Jeil Holdings. Kim Hong-kuk's son Kim Jun-young is regarded as future substantive Harim group leader. He occupied business control with 'Orpum→Korea Thumb Vet→Jeil Holdings' structure

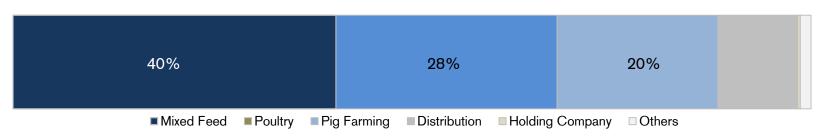
6.2 Business Overview of Harim Group



Two main business sectors of Harim Group are Feed business and Meat business

Breakdown of Harim Group's Business

Sales per business sectors (2013)



Feed Production Business [40%]



- Feed production business, which produce compound feeds for specific livestock, consists of 40% of Harim Group's total sales
- By conducting the feed business, Harim Group have expanded vertically

Meat Business [48%]





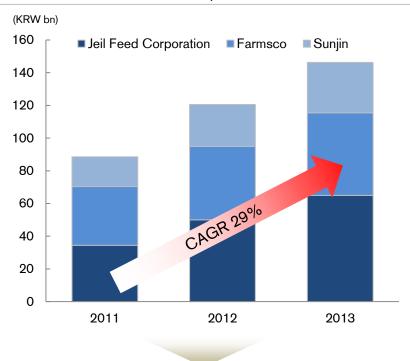
- Meat business, which refers to incubation and breeding of livestock, and meat processing for consumption, takes 48% of total sales of Harim Group
- Poultry business occupies 28% and pig farming occupies 20%

6.2 Business Overview of Harim Group (Cont'd)



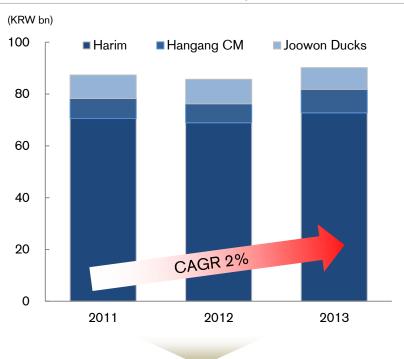
Harim's feed business is beating the market while the growth of poultry business is limited

Sales volume of feed production business



- Perforamnce of feed business is dramatically increasing.
- Jeil Feed Corporation, Farmsco, and Sunjin which are key firms that make up most of the feed production business of Harim Group, are showing increasing trend in sales.

Sales volume of poultry business



- Performance of poultry business is slowly increasing.
- Harim, Orpum, Hangang CM, and Joowon Ducks make up the most of the poultry business of Harim group and the sales trend of this sector is in a stabilized state.

6.3 Industry Overview



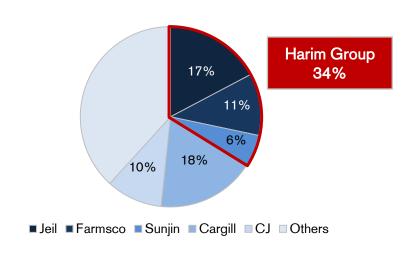
While feed industry is growing humbly, Harim has a dominant market share

Production volume of feed per usage

(Mn ton) 20 ■ Cow ■ Pig ■ Chicken ■ Others 18 16 14 12 10 8 CAGR 4% 6 4 2 0 2009 2010 2011 2012 2013

- The total size of feed market continues to grow. This trend is expected to continue thanks to increasing meat consumption per capita
- Temporary fall of feed production in 2011 occurred due to outbreak of animal disease such as FMD among pigs

Harim's M/S in the compound feed market



- Among total production of Korean feed producers, Harim Group takes up to 34% of market share
- Jeil Feed Corporation produces 17% of chicken feed alone, and Farmsco and Sunjin produce pig feed
- Other players including Cargill, the world grain giant, hold relatively low portion of total market share

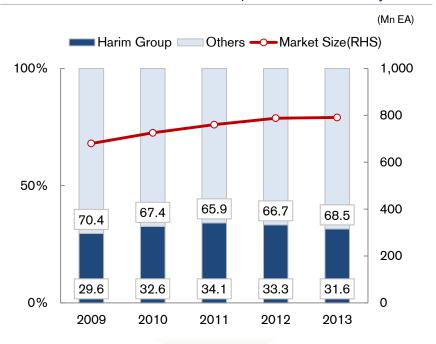
Source: Korea Feed Association, World Bank, MARFA

6.3 Industry Overview (Cont'd)



In poultry industry, chicken market is slowly growing but duck market is growing significantly

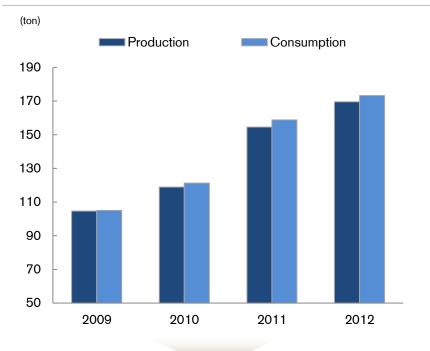
Market Share of Harim Group in Chicken Industry



Chicken market size is increasing at the rate of 3.6%

 Harim Group including Harim, HangangCM, and Orpum takes 30%, largest among major poultry firms Yet, M/S is not increasing as fast as the market is growing, stuck around where it has been so far

Dramatic Growth of Duck Market



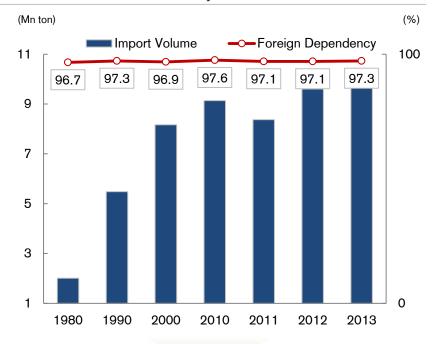
- Duck meat demand increases and supply also follows the trend, eventually enlarging the entire market size
- Of all the ducks slaughtered and supplied, Juwonsan of Harim Group ranks number two with the market share of significant 11%

6.4 Harim Group and Grain Industry



Korea imports 17 million tons of grain a year, and Harim group imports 17% of total

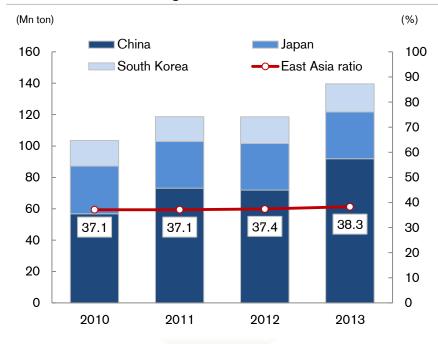




Korea has imported almost 100% of grains since 1980s and foreign dependency remains severe.

- Among total volume of imported grain, Harim Group's import volume alone consists 17%.
- Grains for animal feed is mostly imported from Brazil and America, where Korean firms have little supply base.

Increasing Grain Demand in Asia



- Absolute volume of grain demand is sharply increasing from 2010, led by China.
- With on average of 38% of consumed grains are imported, East Asia needs a professional grain distributer who can take charge all the import volume of the three main countries.

Source: Ministry of Agriculture, Food and Rural Affairs, DART



7. Synergy Overview

- 7.1 Prerequisite to Become a Global Grain Distributor
- 7.2 Case Analysis: Zen-noh Corporation

Synergy between Pan Ocean and Harim Group

Regarding this deal, market has shown concerns on the synergy effect of Pan Ocean and Harim Group's business, due to the lack of similarity. However, little did they know Harim Group aspires to become a global grain distributor, which needs seaborne trade business to operate successfully. Several preceding firms have discontinued its grain distribution business, since they could not handle seaborne transportation cost and lacked operational efficiency. Threrefore, what Harim needs on the way towards its dream is Pan Ocean, a world-renowned bulk seaborne trader.

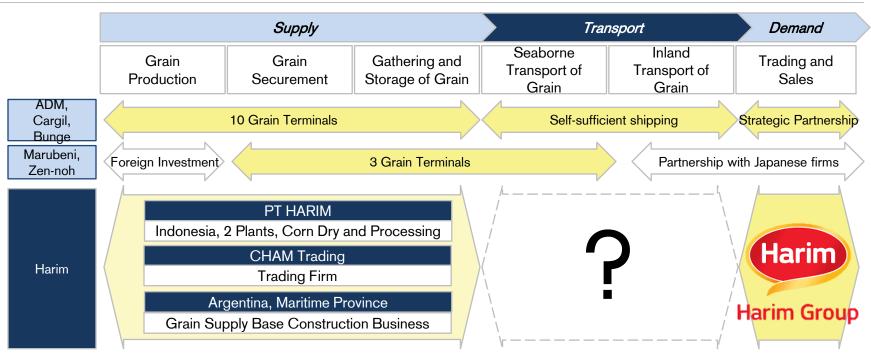


7.1 Prerequisite to Become a Global Grain Distributor



Harim Group must acquire transport capability to become a global grain distributor

Value Chain of Grain Industry



- It is longed mission for grain industry companies to complete their grain distribution chain in high entry-barrier market, which caused by major firms' oligopoly.
- Major firms dominating the market are not making profit by the price of grain itself, rather creating additional values in various front back grain-related businesses and integrated value chain operation. That is, the company should not just focus on one part of supply chain and should access with enterprise-level prospective.
- Continental Grain and Andre, which once belonged top 5 grain companies, failed to adjust spontaneously to increased marine transportation capacity, expansion of grain processing in supply and demand places and strategic partnership with newly created demanders, therefore eventually merged into other companies.

Source: SG Fenero Research

7.2 Case Analysis: Zen-noh Corporation



Zen-noh, feed manufacturing firm became a global grain distributor after acquiring shipping firm

Key Facts and Success Factor of Zen-noh Grain Corporation



- Established in May 1972
- Headquarters: Tokyo, Japan
- Number of Employees: 8,221
- Capitalization:115.2759 billion yen (as of August 1, 2014)
- Transportation, processing and storage or sale of agricultural and livestock products

Business Overview

Zen-noh Group is responsible for the marketing and supply business of the JA Group, supplying food products, daily necessities, processed and raw agricultural products to Japanese consumers.

Zen-noh's Success Factors

- Zen-noh has integrated grain procurement system. It originally used to have demand base only, later on acquiring supply and transportation base as well.
- Stable demand: Zen-noh is feed manufacturing corporation which means Zen-noh is actual demander.
- Systematization profit: After taking over CGB, dealing within subsidiaries increases synergy.
- Securing enough supply of goods: Zen-noh was already trading with American National Agricultural Cooperative Federation.
- Zen-noh only uses 500 mn tons for its own and the rest is sold to other companies and countries.

Zen-noh's Integrated Grain Procurement System



- Zen-noh entered grain distribution business in American Gulf region since 1960s. In 1979, it established ZGC(Zen-noh Grain Corporation), grain exporting company and built grain elevators.
- Feeling the need of seaborne transportatoin, ZGC acquired CGB(Consolidated Grain & Barge), a firm that operates grain elevator in producing area and barge, and secured collecting and transport function.
- Zen-noh is now a multinational grain distributor with total sales of JPY 6,436,417 million, transporting 40% of grain inbound to Japan.

Source: Company IR, SG Fenero Research



8. Valuation Considerations

- 8.1 Valuation Summary
- 8.2 DCF Valuation
- 8.3 Trading Comps Valuation
- 8.4 Transaction Comps Valuation

Enterprise value of Pan Ocean

To calculate the EV of Pan Ocean, three valuation techniques are used: DCF, Trading Comps – PBR, and Transaction Comps.

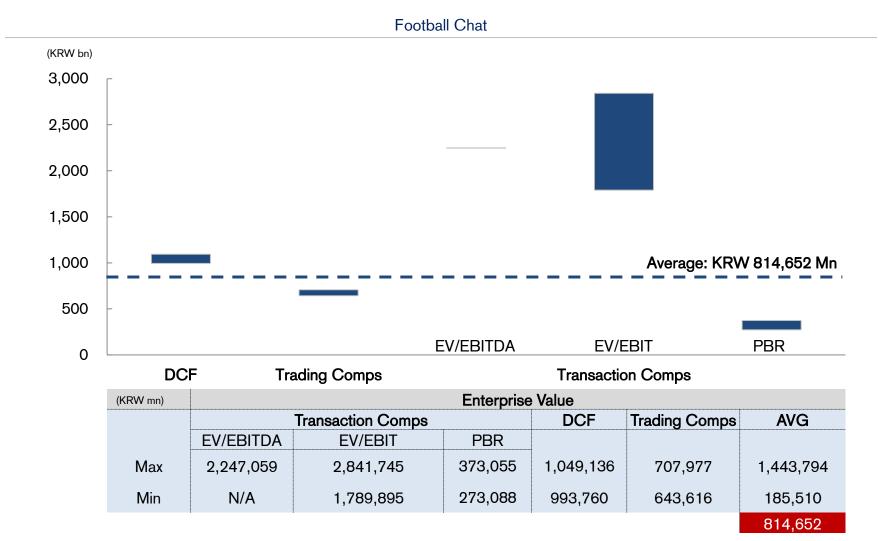
It was impossible to adopt PER due to negative net income of Pan Ocean. Instead, Transaction Comps valuation was used to compare this deal with previous similar deals, especially deals between shipping company and non-shipping company. Management Rights Premium of 10% was added to EV calculated by DCF and PBR.



8.1 Valuation Summary



Target acquisition cost of Pan Ocean is KRW 814,652 million with premium considered



Source: SG Fenero Research

8.2 DCF Valuation



Target acquisition cost by DCF valuation is KRW 993,760 million

Financial Estimates of Pan Ocean

(KRW mn)	2013	2014F	2015F	2016F	2017F	2018F
Sales	2682115.74	1,282,884	1,332,164	1,453,705	1,587,561	1,734,993
CoGS	2798525	1,112,621	1,146,557	1,231,621	1,318,483	1,419,471
Gross Margin	-116409.26	170,263	185,607	222,084	269,077	315,522
SG&A	121,471	33,886	35,188	38,398	41,934	45,828
EBIT	-237,880	136,376	150,419	183,686	227,144	269,694
Operating TAX	-47576.052	27275.27273	30083.85236	36737.20547	45428.70411	53938.81344
Adjusted EBIT	-190,304	109,101	120,335	146,949	181,715	215,755
Depreciation	206,928	214,915	214,798	215,309	209,729	207,818
Amortization	1,706	1,630	1,271	986	0	0
CAPEX	602,663	82,028	85,179	92,950	101,509	110,936
△NWC	-112578	-110739.0817	74629.39999	-21634.88378	6298.798575	50899.97663
Free Cash Flow to Firm	(471,755.21)	354,356.89	176,595.87	291,928.51	283,636.21	261,737.55

Target Price Estimation

Target Price			4,632
(KRW mn)	(A) Total Value		1,191,563
	F	CFF(5) PV	1,077,501
	Т	erminal Value	114,061
	(B) 이자발생부채		197,803
	(A-B) Market Equity		993,760
Shares Outstanding			214,538,500
Current Price			2,900
Upside Potential			59.73%

WACC Calculation

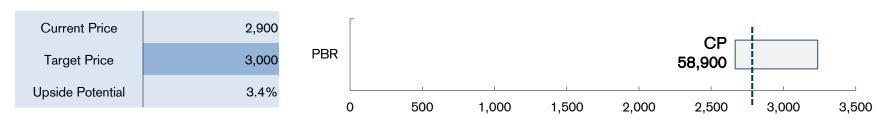
WACC	8.73%
Target D/E Ratio	300.00%
Cost of Equity	10.80%
Risk Free Rate	4.27%
Country Risk Premium	1.46%
Adj. Risk Free Rate	5.73%
Market Return	7.34%
Beta	3.14
Cost of Debt	8.04%
Tax Rate	20.00%

8.3 Trading Comps Valuation



Target acquisition cost by PBR valuation is KRW 643,616~707,977 million

Trading Comps: PBR Valuation



	Pan Ocean(KRW)	NYK(YEN)	Pacific Basin(USD)	MOL(YEN)	KLC(KRW)
Stock Price (*Close)	762	347	0	378	27,100
Shares Outstanding	120,887,541	1,700,550,000	1,935,299,000	1,206,286,000	24,416,108
Equity Market Value	92,116,306,242	590,090,850,000	841,855,065	455,976,108,000	661,676,526,800
Equity Book Value	232,697	650,490,000,000	1,304,294,000	783,549,000,000	404,028,982,041
Sales	2,691,198	1,897,101,000,000	1,708,792,000	1,729,452,000,000	535,466,464,665
EBIT	-228,798	17,434,000,000	55,097,000	41,092,000,000	101,389,488,105
Depreciation&Amortization	208,634,000,000	97,522,000,000	82,793,000	83,984,000,000	92,625,087
EBITDA	208,633,771,202	114,956,000,000	-1,909,683	125,076,000,000	101,482,113,192
NI	-1,909,683	18,896,000,000	9,858,000	57,394,000,000	383,868,218,595
EPS	-0.02	11.11	0.01	47.58	15,721.92
Net Debt		1,292,191,000,000	551,200,000	1,581,146,000,000	752,292,975,396
EV	184,123	1,882,281,850,000	1,393,055,065	2,037,122,108,000	1,413,969,502,196
BV	232,697	1,942,681,000,000	1,855,494,000	2,364,695,000,000	1,156,321,957,437
PBR		0.91	0.65	0.58	1.64
BPS		382.52	0.67	649.55	16,547.64

	MEAN	MEDIAN	Forecast	TP(MEAN)	TP(MEDIAN)
Industry Average PBR	0.94	0.78	3,433	3,238	2,665

Source: Company IR, SG Fenero Research

8.4 Transaction Comps Valuation



Target acquisition cost by Transaction Comps valuation is about KRW 1,504,968 million

Transaction Comps

Date			% of Shares			LTM M	ultiples	
Announced	Target Name	Acquiror Name	Acq.	Deal Price (\$mil)	EV/EBITDA	EV/EBIT	PER	PBR
08-04-11	Nezavisimaya Tra nsportnaya Kom	UCL Rail BV	100.00	561.00	5.37x	6.12x	9.23x	.95x
12-02-11	Jaya Holdings Lt	Cathay Asset Ma nagement Co Lt d	54.70	157.977	5.23x	6.83x	5.02x	.72x
02-06-10	Eng Kong Holdin gs Ltd	NEK Container Group Pte Ltd	94.23	53.373	4.53x	6.32x	9.07x	1.14x
01-06-07	Alpha Airports G roup PLC	Autogrill SpA	9.10	35.061	7.36x	12.68x	-639.11x	4.74x
17-04-06	IMTT	Macquarie Infras tructure Co	50.00	250.00	7.5x	13.57x	24.27x	1.13x
20-11-97	CNN TML	Ambev	100.00	137.217	7.65x	70.8x	-124.74x	1.38x
11-04-97	East Asiatic Co(Hong Kong)	A/S Det Ostasiati ske Kompagni	25.00	16.77	-143.4x	-20.72x	-19.17x	2.43x
15-04-97		Groupe des Soci etes de Bourbon	7.70	6.683	4.76x	18.87x	39.49x	1.42x
03-05-93	Seabase Internat ional Holdings	COFCO Corp	55.00	49.556	11.59x	13.8x	9.9x	1.08x
17-09-13	Korea Line Corp	Investor Group	52.33	152.467	11.97x	80.1x	.67x	.51x
				Max	11.97x	90 1v	20.40v	4.74x
				Mean	-7.74x	80.1x 20.84x	39.49x -68.54x	4.74x 1.55x
				Median	6.37x	13.12x	7.05x	1.13x
				Min	-143.4x	-20.72x	-639.11x	.51x

Source: Company IR, SG Fenero Research



9. Transaction Considerations

- 9.1 Side-by-side Analysis
- 9.2 Potential Transaction Structure
- 9.3 General Transaction Considerations

Points to be considered regarding the deal

This section briefly summarizes the key facts of bidder and target companies, and then recommends potential transaction structure of this deal.

Harim Group is recommended to acquire 51% of Pan Ocean, financing by debt and IPO of NS Home Shopping.

Also, there are general points of consideration regarding this deal, such as sales process and risk factors.



9.1 Side-by-side Analysis



Key Facts of Target and Bidder Companies

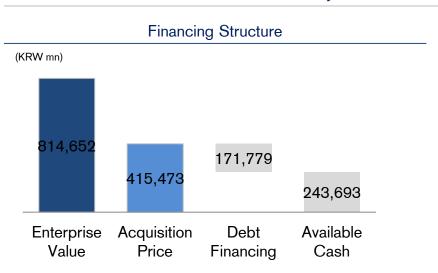
	PAN OCEAN	Harim
Key Shareholders		■ Kim Hong Kuk (7.28%) ■ Korea Thumb Vet (6.89%)
Business Overview	sportation services.	
2013 Sales (bn)	₩2,691	₩3,685
2013 EBIT (bn)	-₩1,790	₩190
2013 Net Income (bn)	-₩1,909	₩1,345
2013 Cash and Cash Equivalents (bn)	₩ 223	₩2,289
Current Market Cap./Listing	KRW 5,749bn/KSE	Not Listed

Source: DART, One Source

9.2 Potential Transaction Structure



Summary of Recommended Transaction Structure



- Harim Group acquires Pan Ocean priced at KRW 814,652 million added 10% premium, at an acquisition rate of 51%.
- To cover the acquisition price of KRW 415,473 million, Harim Group covers 58% of the price with Jeil Holding's available cash and covers the rest of 42% by debt financing.
- Jeil Holdings has KRW 383 bn cash and cash equivalents, yet has 142 bn received as security.
- To lower target percentage of debt, Jeil Holdings is highly recommended to execute extra financing after an IPO of NS Home Shopping (Owned 47% by Harim Group)

Structure of Debt Finar	ncing
(KRW mn)	
Enterprise Value (10% Premium Added)	814,652.00
Acquisition Rate	51%
Acquisition Price	415,472.52
Percentage of Debt Financing	41%
Value of Debt Financing	171,778.80
Interest Rate	3.51%
Cost of Debt	13,811.02

- While average deal premium of related industries such as ship building and transportation is higher than 10%, it is adjusted considering shipping industry's extended downturn and Pan Ocean's financial conundrum. The premium is also lowered due to several foreign shipping M&A deal references, selling target companies at minus premium.
- 51% is an optimal acquisition rate for Harim Group to have management rights as well as to not overspend.
- Interest rate of 3.51% is the weighted average interest rate of Jeil Holdings' short-term and long-term bond interest rates

9.3 General Transaction Considerations



1

Sale Process

It is highly likely the public auction will be a ferocious competition between "consortiums," since no sole company with actual capabilities has shown enough willingness and aggressiveness on the deal.

■ There has been a rumor that KKR consortium will make an extremely competitive bid without actual intentions to acquire Pan Ocean. Also, market is all-eyes on the deal, possibly skyrocketing the acquisition price way beyond Harim Group's limits.

■ Therefore, to not stir the market, Harim Group shall be wary of public disclosure on its intentions on the deal or prices in mind.

2

Acquisition Premium

•Current acquisition premium set at 10% is a conservative ratio, considering Pan Ocean's current financial conundrum. Yet, comparing with previous public auctioned transactions which were similar in size, the acquisition premium may be substantial.

3

IPO of NS Home Shop ping

■ The IPO of NS Home Shopping, owned 47% by Harim Group may be a helpful capital re source to this deal. While Harim Group has filed an preliminary examination request for its IPO, market sentiment shows worries due to a rumor of its illegal cashback transaction wi th credit cards. Also, the IPO may not yield as much capital due to the downturn of home shopping industry.

Source: SG Fenero Research

9.3 General Transaction Considerations (Cont'd)



4

Limited Comparable Transactions

■ The Transaction Comps valuation result shows extremely positive valuation on Pan Ocean. This is because the number and scope of comparable previous deals were limited, since there has not been a mega deal like this in shipping industry recently. However, the valuation included sale of Korea Line Corp to Hahn & Company in 2013, maximizing the similarity between comparisons and this deal.

5

Potential Synergies

• Given that Harim Group and Pan Ocean originally operate in two significantly different ind ustries, it is hard to expect any synergy effect in the short-term. However, considering Hari m Group's ambition to becoming a global grain distributor, the importance of a shipping b usiness within the firm is repeatedly highlighted. Although the positive synergy may reveal after a good period of time, this is a worthwhile and timely deal.

Source: SG Fenero Research

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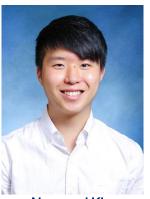


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