

# Palliser



## **Samsung C&T**

*Deep Value Opportunity with Clear Catalysts for Change*

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*Samsung C&T is an iconic company which is integral to the economy of South Korea. At the same time, its collection of high-quality assets has become grossly undervalued by the market due to sub-optimal capital allocation, historic corporate governance issues and a complex corporate structure.*

*We have proposed a set of near and longer-term measures intended to rebuild investor trust and reduce the \$25bn value gap between the company's market value and intrinsic value, equivalent to potential share price upside of up to ~170%. Importantly, these changes will also facilitate greater investment in key strategic industries to further grow Samsung's intrinsic value and help catalyse South Korea's next phase of development and prosperity.*

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# Executive Summary



# Samsung C&T Corp (028260 KS) – “SCT” – Deep Value Opportunity with Clear Catalysts For Change

<p>Mkt Cap<sup>(1)</sup>: US\$ 14.9bn NAV: US\$ 40.4bn</p>	<ul style="list-style-type: none"> <li>• Samsung C&amp;T (“SCT”) is the <b>effective holding company of the Samsung Group</b>, South Korea’s largest business group</li> </ul>
<p>63% Discount to NAV ~3/4 of NAV is Listed</p>	<ul style="list-style-type: none"> <li>• Opportunity to buy SCT at an extreme 63% discount to intrinsic value – <b>a US\$25bn valuation disparity</b> (the “SCT Value Gap”)</li> <li>• <b>77% of intrinsic value</b> comprises strategic <b>stakes held in liquid, listed securities</b> (market value net of tax)</li> <li>• Unlisted operating business of US\$30bn revenue and US\$1.4bn in EBIT completely ignored by the market</li> <li>• Factors driving the excessive discount are not permanent and highly resolvable</li> </ul>
<p>Catalysts – A Plan to:</p> <p>Unlock Value</p> <p>Catalyse Growth</p> <p>Win for All Stakeholders</p>	<ul style="list-style-type: none"> <li>• Palliser has proposed several near and longer-term value enhancement measures to management which will create a compelling equity story and attract shareholder interest by: <ul style="list-style-type: none"> <li>• Catalysing long-term growth in intrinsic value through a thoughtful and <b>enhanced capital allocation framework that directs capital to the best opportunities</b> available whilst delivering fair returns for shareholders;</li> <li>• <b>Improving governance and transparency to rebuild investor trust</b>, optimise decision-making and ensure SCT’s assets and investment plans are properly understood and valued by the market; and</li> <li>• Reducing structural inefficiencies through a <b>review of Samsung’s complex group structure</b></li> </ul> </li> <li>• The measures will drive positive change for all stakeholders (not just shareholders)</li> </ul>
<p>Korean Corporate Governance on an Improving Path</p>	<ul style="list-style-type: none"> <li>• Korean corporate governance is showing signs of change with greater transparency and investor focus</li> <li>• Growing acceptance of shareholder engagement with local investors leading the way</li> <li>• The government understands <b>the need to tackle the “Korea Discount”</b> and improve governance</li> <li>• Japan serves as a meaningful example of the positive impact of governance change and encouraging companies to improve capital efficiency and profitability</li> </ul>
<p>Palliser Capital</p>	<ul style="list-style-type: none"> <li>• <b>Palliser Capital, a significant shareholder in SCT with a 0.62% stake<sup>(2)</sup></b>, has engaged with the company on multiple occasions and developed a <b>deep conviction</b> in the investment opportunity at SCT</li> <li>• The investment team at Palliser has decades of investment experience in Korea and Asia. Our focus is on <b>long-term, collaborative engagement</b> as a means of achieving mutually beneficial change</li> </ul>

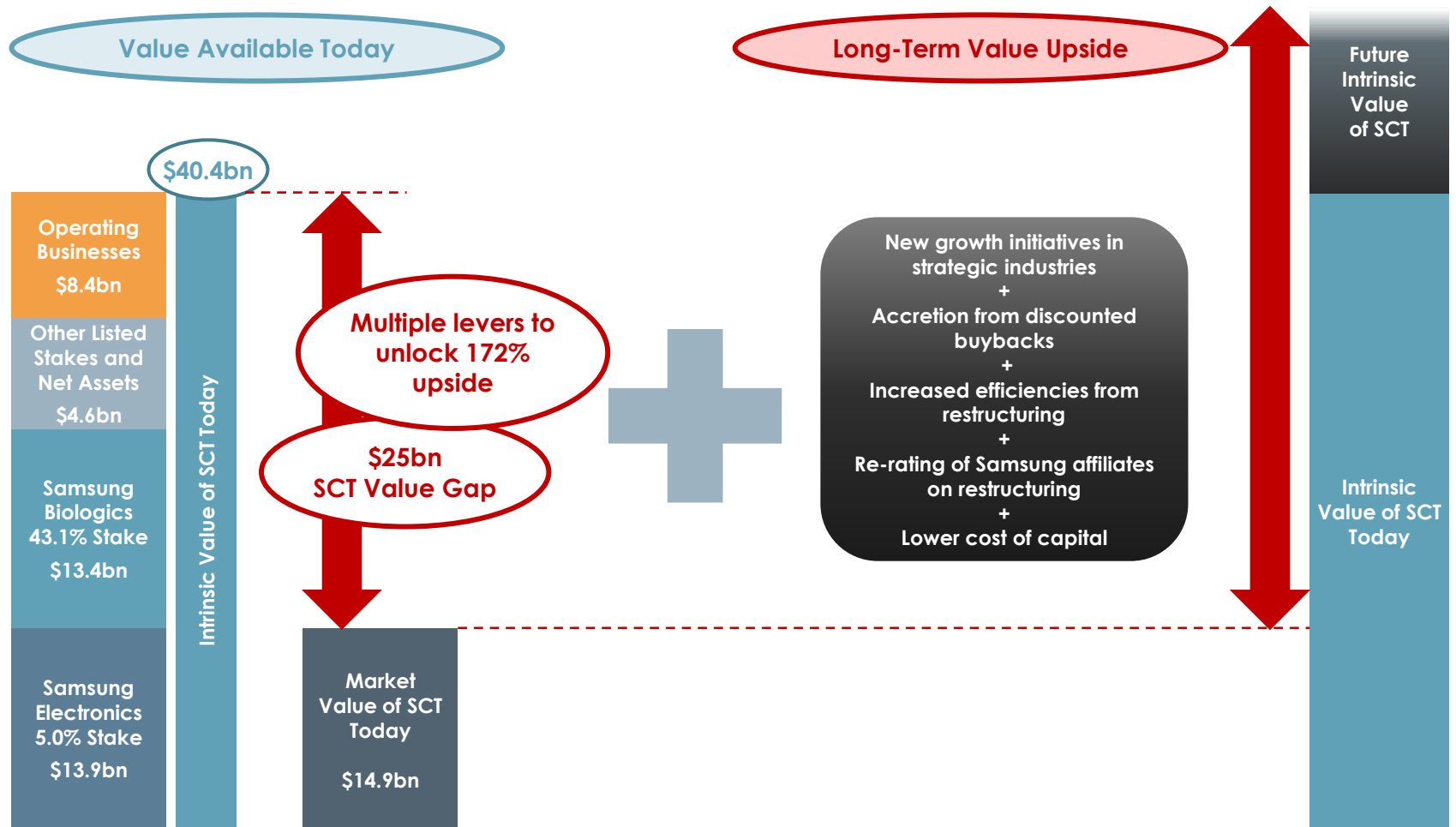
Source: Company, Bloomberg, Analyst research; Market data as of 1 Dec 2023

Notes: (1) Market capitalisation excluding treasury shares

(2) Based on ex treasury share count

# SCT – High Quality Assets at an Extreme Discount

SCT's 63% discount to NAV is extreme, but is highly resolvable with the potential to unlock up to \$25bn of latent value. Corporate restructuring and additional growth investments offer further value upside over the longer-term



Source: Company data, Palliser analysis, Market data as of 1 Dec 2023

Note: - Values of listed stakes are post expected capital gains tax

# Value Enhancement – Clear and Actionable Measures to Catalyse Growth & Remove the SCT Value Gap ...

## Key Causes of the SCT Value Gap



## Solutions – Value Enhancement Measures

### Optimise Capital Allocation Framework and Catalyse Growth

- 1**
- Allocate capital in a disciplined, return-oriented manner to the best available opportunities
  - Identify excess capital and reallocate per optimised framework
  - Link shareholder return to performance of core business as well as dividends from affiliates

### Comprehensive Governance & IR Improvements

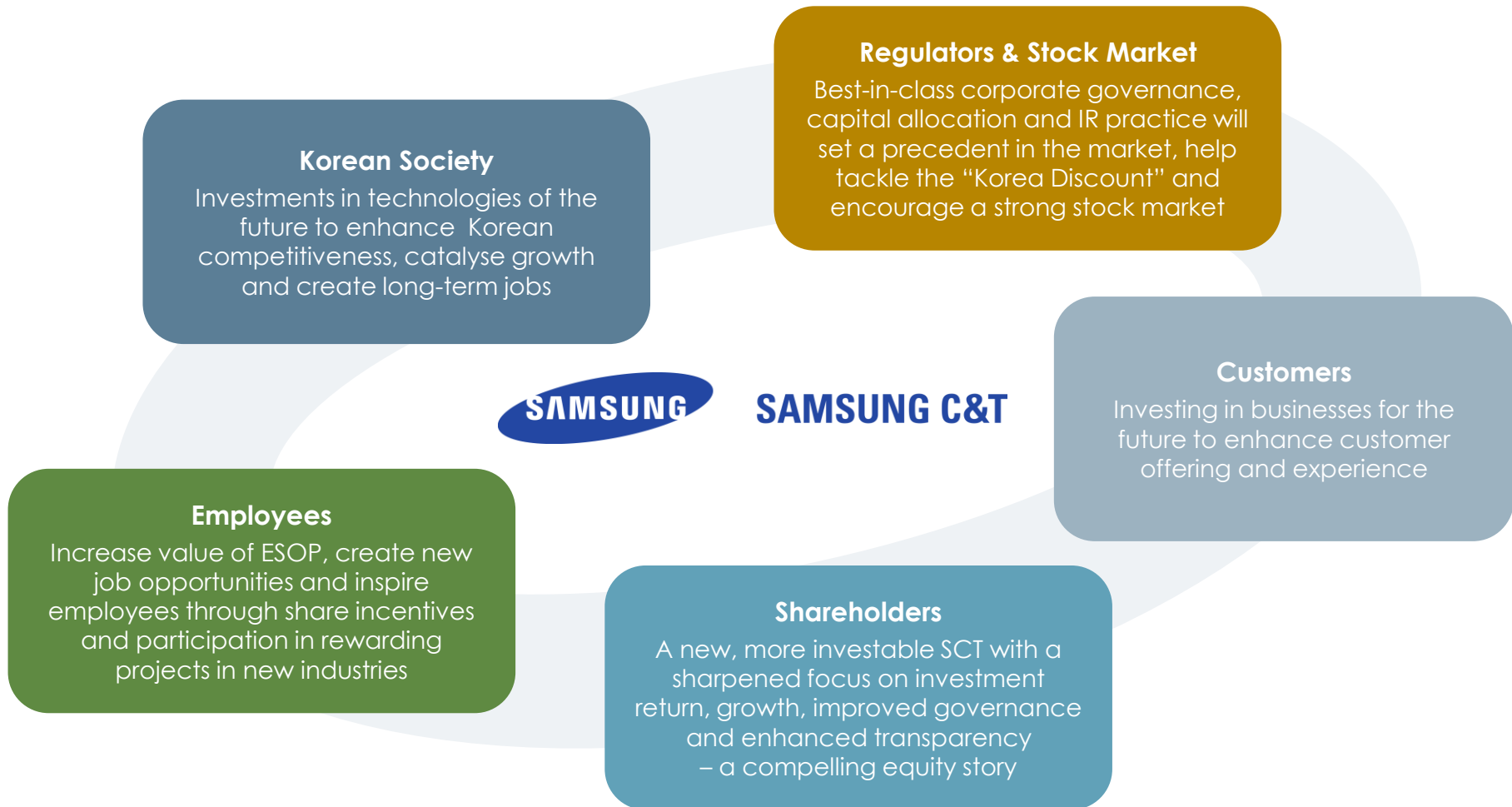
- 2**
- Rebuild investor trust through a near-term cancellation of KRW 2.8tr of treasury shares
  - Enhance leadership, board and compensation structure
  - Increase transparency with enhanced investor communications and disclosures

### Strategic Review of Samsung's Group Structure

- 3**
- Undertake a transparent review of transitioning to a holding company structure to reduce group-wide inefficiencies



The value enhancement measures will unlock significant benefits for all stakeholders through an improved SCT with a clear strategy and strong commitment to optimised capital allocation and sustainable future growth





**Samsung Group – A National Champion at  
a Critical Juncture in Its History**

# The Samsung Group Has Played a Key Role in South Korea's Development

The Samsung Group has played a critical role in supporting Korea's rapid modernisation into a major advanced economy by leading development across a vast swath of industries



- The contribution of the esteemed founding family of Samsung is rightly held in high regard, by Korea and the world



# Today, the Group Continues to be South Korea's Largest Conglomerate

Samsung's listed assets are worth c.\$500bn with most of the value in the technology & biotech sectors. That said, significant capital and effort remain invested in mature old economy businesses that are no longer a strong fit with Samsung's future vision or the development needs of modern Korea

**SAMSUNG**



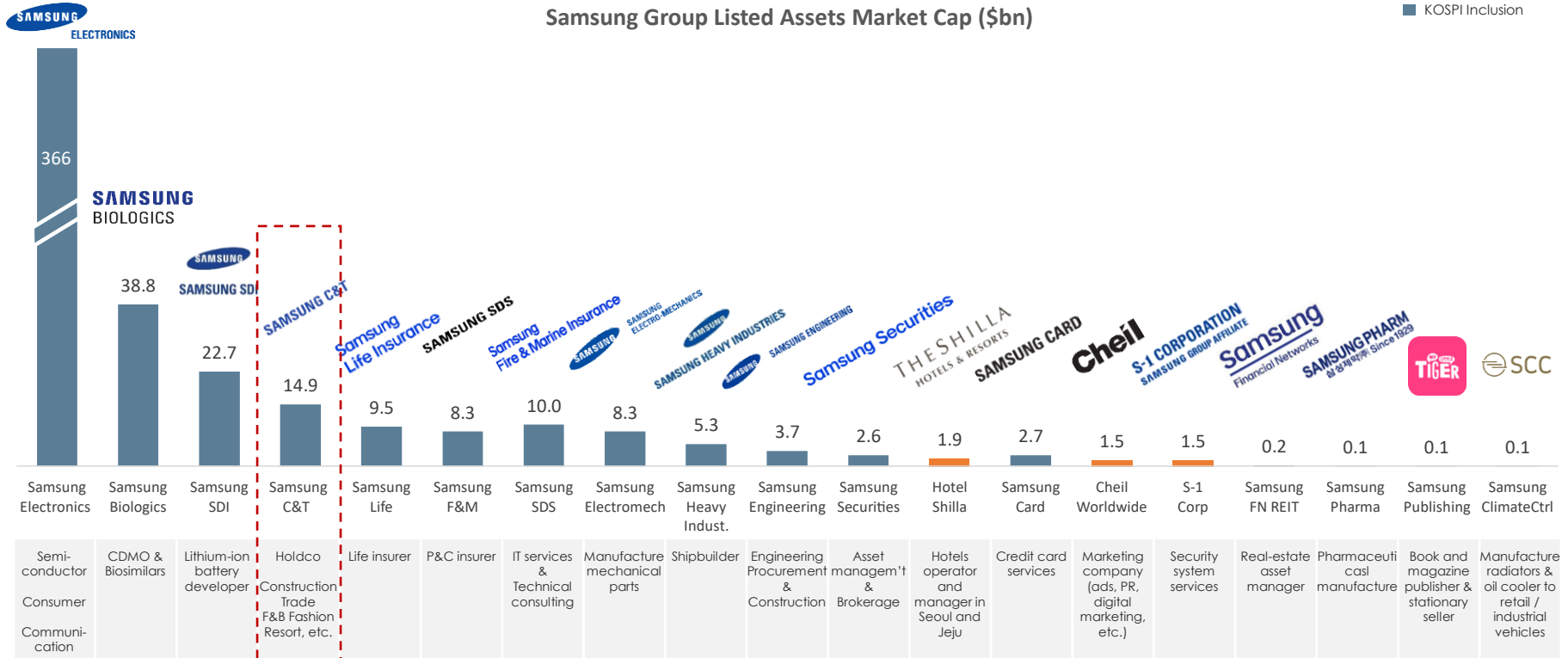
c.30%  
of KOSPI



c.20%  
of Korea GDP



400k+  
Employees  
Worldwide



Source: Company, Nikkei, The Korea Herald, The Korea Times; Market data as of 1 Dec 2023

# Group's Recent History Includes Challenges ... But Samsung Will Play an Important Role in South Korea's Further Development and Growth

The period since SCT's 2015 merger with Cheil has been challenging for the Samsung Group, but there is now a renewed focus on revitalisation and driving Korean global competitiveness



2015  
1<sup>st</sup> stage of  
group re-  
organisation



2017  
Halt on further  
reorganisation



2020  
Lee Kun-hee  
passes away



2022+  
Lee Jae-yong  
announces  
new vision to  
help economy



- **Major re-organisation plan started in 2015** with the merger between Cheil Industries and SCT
- Aimed to **reduce group complexity** and structural improvement
- Expectation that SCT would undertake additional restructuring steps to **eventually become a holding company** with a flat ownership structure and efficient capital allocation

- **Re-organisation came to a halt** after merger of Cheil Industries & SCT falls under scrutiny
- Lee Jae-yong temporarily stepped down from hands-on day-to-day management
- Future Strategy Office, the control tower of the Samsung Group, was disbanded

- **Lee Kun-hee**, who transformed the group into a global giant, passed away with his stakes transferred to immediate family
- Inheritance tax dues force family to sell some shares

- Samsung Group's growth and profitability slowed in recent years with the market questioning where the next phase of growth will come from
- **Lee Jae-yong returns to leadership** of the Samsung group and commits to **invest in technology of the future, innovation and creativity**



*I will work harder to fulfil my duties and responsibilities as a businessman. I will do all that I can to help the national economy through investments and job creation.*

*Lee Jae-yong, August 2022*

*Source: The Korea Economic Daily, 12 Aug 2022*

*Now is the time to be daring and defiant. [...] Futuristic technology will determine our fate. We need to invest in technologies that are not of today.*

*Lee Jae-yong, October 2022*

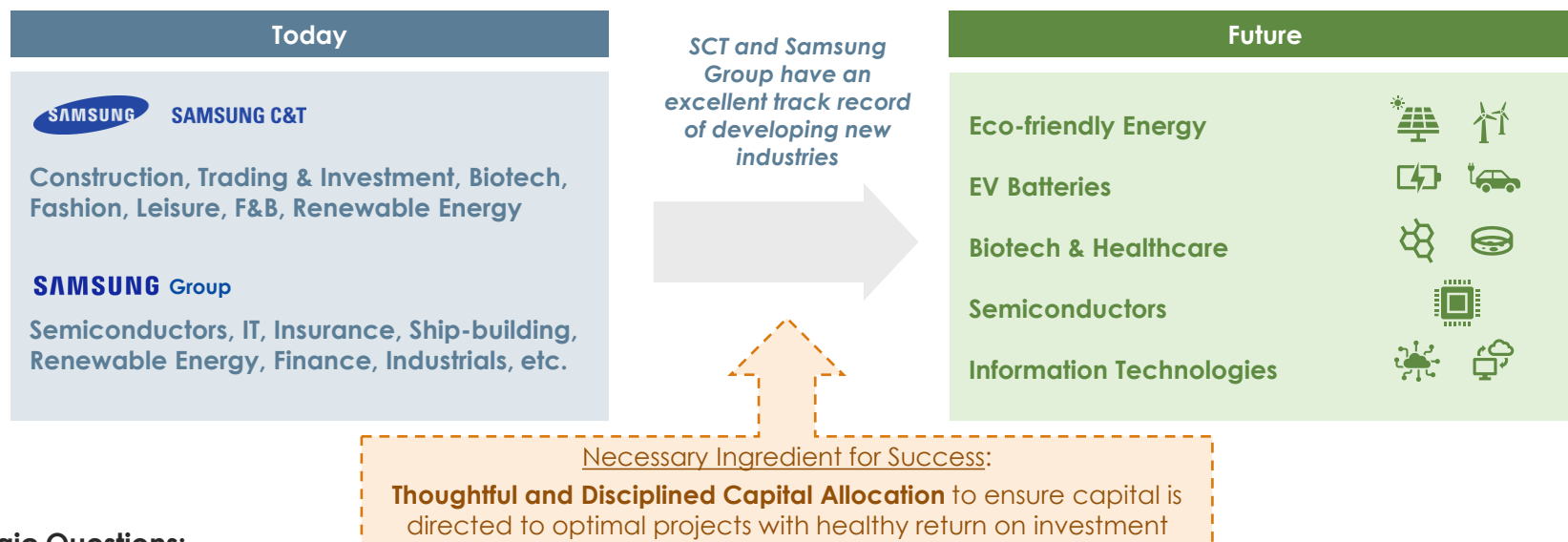
*Source: The Korea Herald, 27 Oct 2022*

# Samsung Group's Strategic Direction – Invest in the Future

Through investments in new business initiatives, SCT is contributing to the Group's bold roadmap for future growth in the technology and bio/healthcare sectors

*Samsung's future for dynamic innovation growth: ... Samsung Electronics and related companies will invest KRW 450 trillion (c.\$355bn) over the course of the next five years in semiconductors, bio-technology and IT*

— Samsung Electronics, May 2022

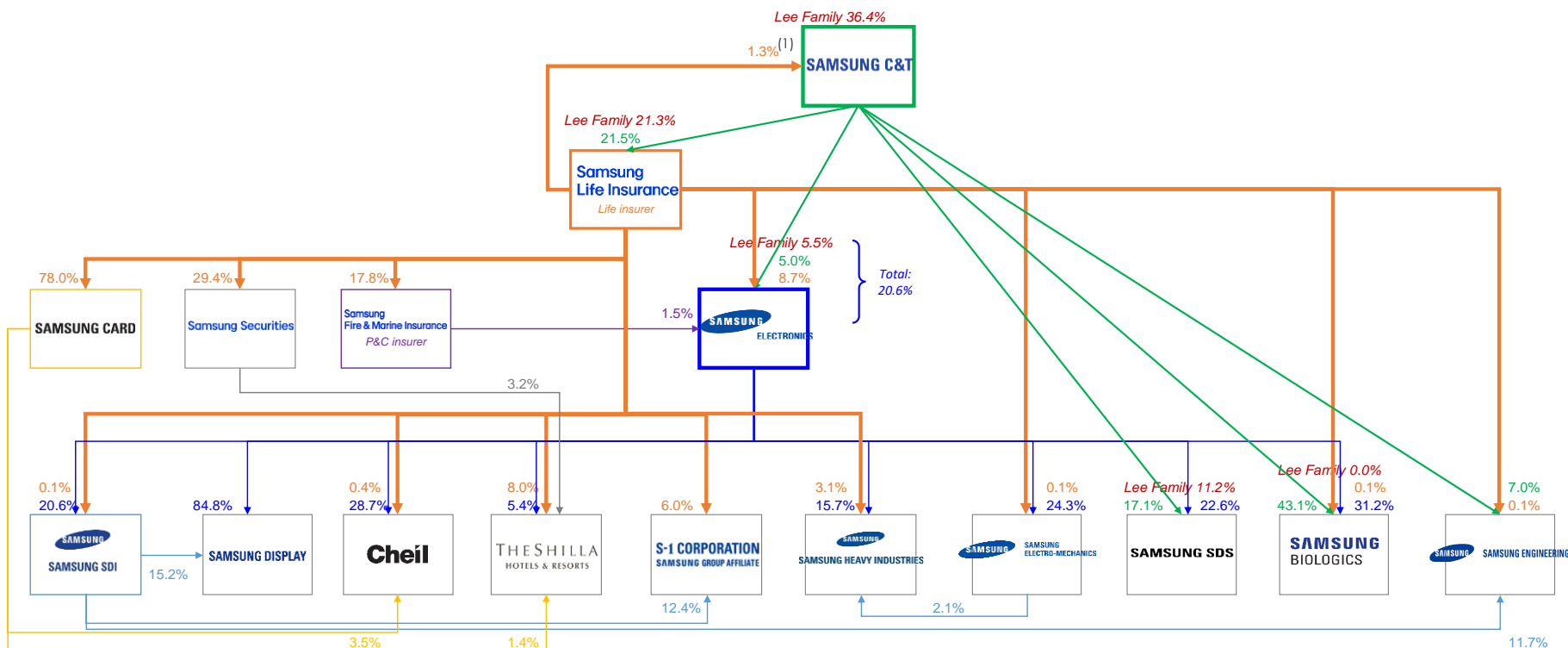


## Strategic Questions:

- What role will mature businesses in non-technology/bio sectors have in SCT and Samsung Group's new journey? (important job-providers vs. limited growth potential, limited synergies, capital and management resource expender)
- Does maintaining the current corporate structure and portfolio reduce Samsung's competitive advantages and flexibility, therefore potentially handicapping the Group's ability to seize opportunities in important new growth areas?

# Samsung's Corporate Structure is Unnecessarily Complex and Inefficient – a Holistic Restructuring Will Better Facilitate Investment in the Future

SCT plays a key role as the effective holding company of the Samsung Group. The complex group structure causes inefficiencies, which reduces agility, slows decision making and leads to undervaluation of Group companies



Source: Company, Press, Analyst research

Notes: - Figures in percentages are estimated share of voting rights (treasury shares excluded)

(1) Including stake held in Samsung Life Public Welfare Foundation

- Lee Family = Hong Ra-Hee / Lee Jae-Yong / Lee Bu-Jin / Lee Seo-Hyun

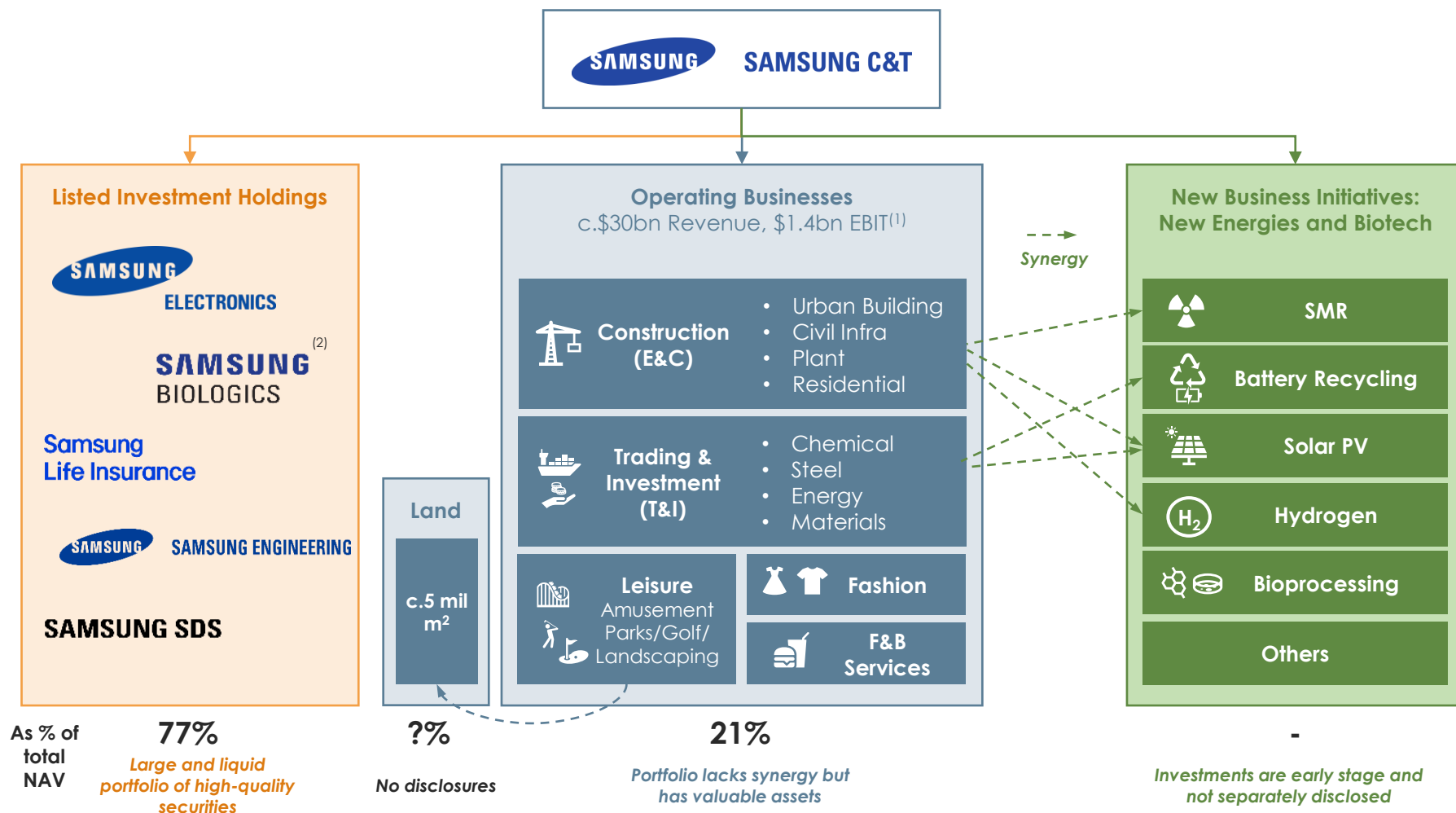




# **Samsung C&T – Examining Intrinsic Value**

# SCT Overview – A Broad Collection of Valuable Assets

The product of a series of M&A transactions, SCT has limited synergies between its various attractive businesses. Management recently announced a refreshed strategic focus centred on investing in new energy and biotech



Source: Company, Analyst research, Palliser analysis

Notes: (1) FY23E (2) Samsung Biologics is consolidated by SCT but management is separate

# SCT's Intrinsic Value is ~3x Current Market Capitalisation and 77% of That Value Comes from Liquid, Listed Securities

SCT's share price reflects a substantial discount being applied to its listed holdings and zero value being ascribed to its standalone core businesses

	Ownership %	Post-tax Stake Value \$bn	Post-tax Stake Value KRWTr	As % of Intrinsic Value %	As % of Market Cap %
<b>Listed Assets</b>					
Samsung Biologics	43.1%	13.4	17.5	33%	90%
Samsung Electronics	5.0%	13.9	18.2	35%	94%
Samsung Life	19.3%	1.6	2.1	4%	11%
Samsung SDS	17.1%	1.7	2.2	4%	11%
Samsung Engineering	7.0%	0.3	0.3	1%	2%
<b>Total Listed Assets</b>		<b>30.9</b>	<b>40.4</b>	<b>77%</b>	<b>208%</b>

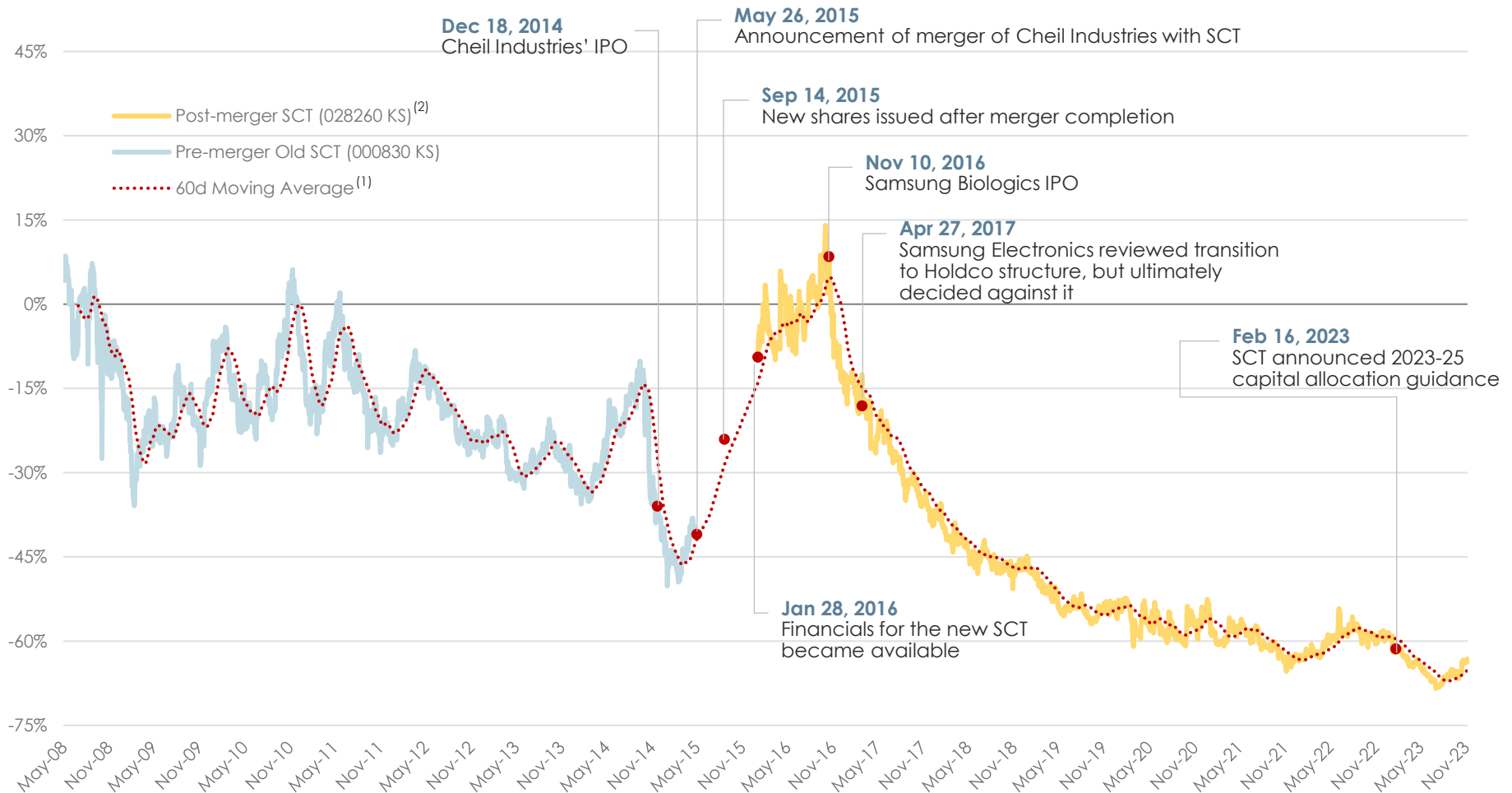
	Consensus EBITDA 24E \$bn	Implied EV/EBITDA Multiple x	Equity Value \$bn	Equity Value KRWTr	As % of Intrinsic Value %	As % of Market Cap %
<b>Operating Business</b>						
Construction	0.90	4.8x	4.3	5.6	11%	29%
Trading	0.27	5.5x	1.5	2.0	4%	10%
Fashion	0.18	5.4x	1.0	1.3	2%	7%
Leisure	0.08	4.1x	0.3	0.4	1%	2%
F&B	0.11	11.7x	1.3	1.7	3%	9%
<b>Operating Business ex-Biologics</b>	<b>1.55</b>	<b>5.5x</b>	<b>8.4</b>	<b>11.0</b>	<b>21%</b>	<b>57%</b>
Cash and Cash Equivalent			2.2	2.8	5%	15%
Financial Instruments & Assets			1.3	1.7	3%	9%
Debt			(2.4)	(3.2)	(6%)	(16%)
Excess Land			?	?		
<b>Intrinsic Value (NAV)</b>			<b>40.4</b>	<b>52.7</b>	<b>100%</b>	<b>272%</b>
Samsung C&T Market Cap (ex-Treasury)			14.9	19.4		
			\$	KRW		
Number of Shares Outstanding (m)			164 <sup>(4)</sup>	164		
Intrinsic Value Per Share			246.7	322,118		
Share Price			90.8	118,600		
<b>Discount to Intrinsic Value (NAV)</b>			<b>(63%)</b>	<b>(63%)</b>		

Trading comps EV/EBITDA 24E<sup>(1)</sup>  
 Trading comps EV/EBITDA 24E<sup>(2)</sup>  
 Trading comps EV/EBITDA 24E<sup>(3)</sup>  
 DCF @ 9.4% WACC & 2.0% Perpetual Growth Rate  
 DCF @ 8.3% WACC & 2.0% Perpetual Growth Rate  
 Assets @ FVTPL & FVTOCI, Associates/JV, Fin Instruments, etc.  
 No value attributed due to limited disclosure, but landbank around Everland estimated to be worth up to \$1.3bn

**\$25bn Value  
Unlocking  
Opportunity**

# Share Price Discount to Intrinsic Value is at Historically Wide Levels

The discount has been widening for many years. Initiatives taken by SCT, including the recent capital allocation policy update, have been insufficient to catalyse any reduction in the SCT Value Gap

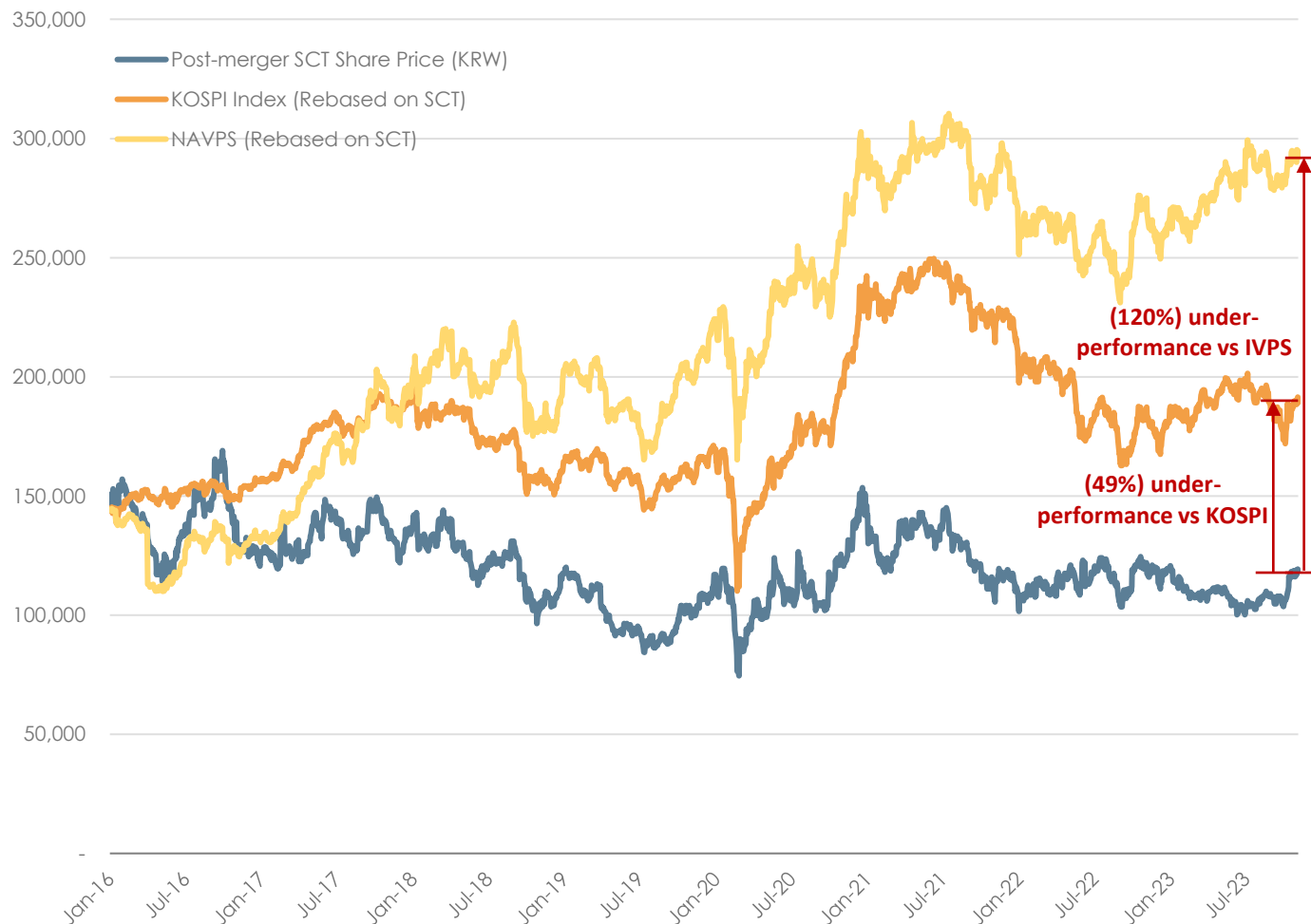


Source: Company, Bloomberg, Press, Analyst research; Palliser Analysis, Market data as of 1 Dec 2023

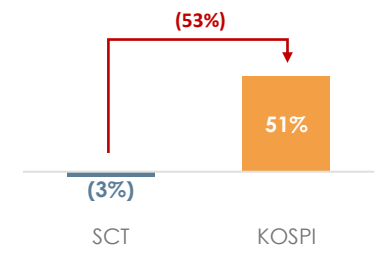
Notes: (1) Linear Interpolation of moving average from announcement of merger of Cheil Industries with SCT to date when financials for new SCT became available  
 (2) Post-merger historical NAV is calculated by i) using post-tax market value of listed assets; ii) applying listed comparable comps forward EV/EBITDA multiple to Construction, Trading, Fashion and F&B businesses  
 iii) applying KOSPI EV/EBITDA multiple to Leisure business at a discount; Post merger new SCT's discount to NAV calculation started from the date of the first available financials disclosure for the combined entity

# SCT's Shares Have Underperformed KOSPI Since the Cheil Merger Despite Underlying Businesses Strongly Outperforming

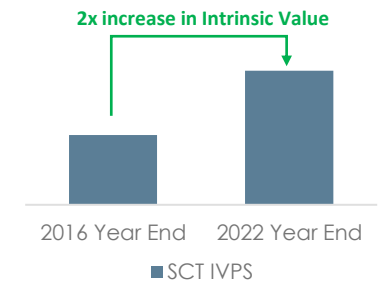
SCT's share price performance does not reflect core business growth. Intrinsic value has doubled but the share price is down 18% since the merger with Cheil



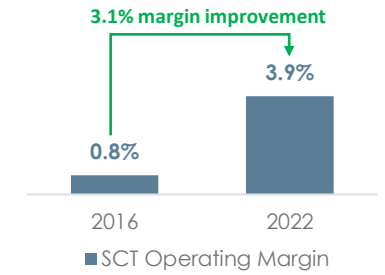
### Total Return Since Cheil Merger



### Intrinsic Value Per Share (IVPS)



### Operating Margin (ex Bio)<sup>(1)</sup>



Source: Company, Bloomberg, Analyst research; Market data as of 1 Dec 2023

Notes: - Charts starting date as of when the first financials disclosure for the combined entity was made available post merger completion (28 Jan 2016)

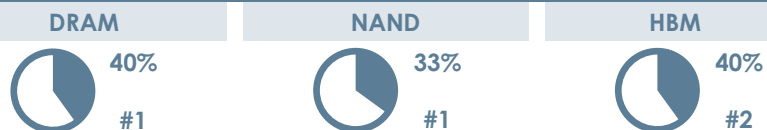
(1) Excluding Samsung Biologics

# SCT's Shares Offer an Opportunity to Indirectly Invest In Two World-Leading Companies at Levels not Seen for Years – (1) Samsung Electronics

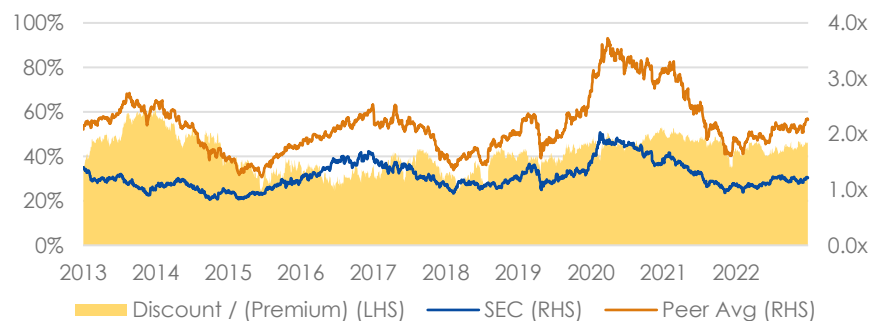
In addition to the cheap entry point via SCT shares, Samsung Electronics has significant re-rating potential through earnings growth and a reduction in discount to peers following a group restructuring

- World-leading global semiconductor (memory, S.LSI, foundry), communication and consumer electronic devices company – Korea's flagship company
- Market cap KRW477tn (\$366bn) with KRW83tn (\$61bn) net cash
- #1 global market share in smartphone shipments, dominant player in the premium segment along with Apple
- As memory chip cycle bottoms out, it is well positioned for DRAM and NAND upcycle as capex cut was more moderate
- Good potential for earnings growth from cycle recovery, upcoming growth initiatives leveraging its large cash reserve, and the potential upside in HBM AI memory chip market

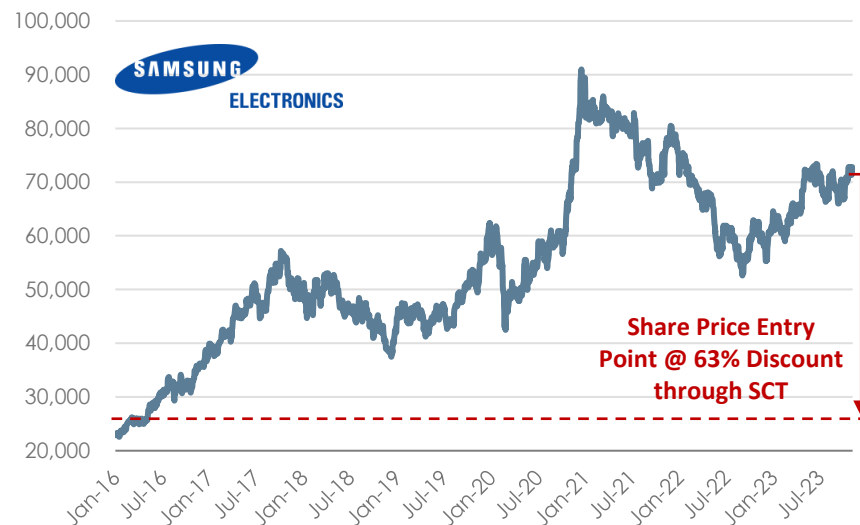
## Dominant Market Shares in Memory Chips



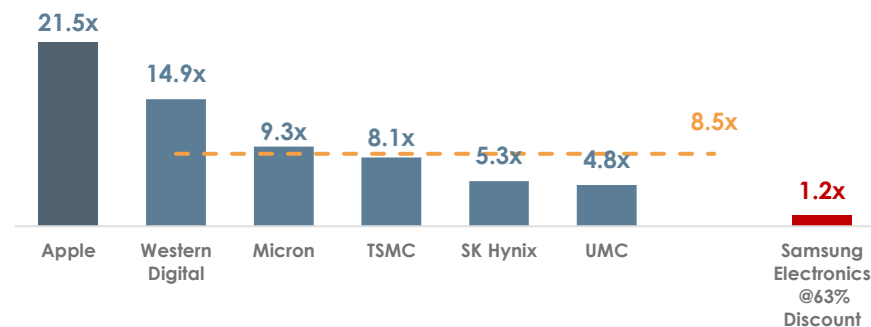
## P / B (Trailing)<sup>(1)</sup>



## Share Price Performance Since Cheil Merger (KRW)



## Trading Peers EV / EBITDA 24E




Source: Company, Bloomberg, Analyst research, Counterpoint; Market data as of 1 Dec 2023

Note: (1) Peers include SK Hynix (000660 KS), Micron (MU US), Western Digital (WDC US), TSMC (2330 TT), UMC (2303 TT)

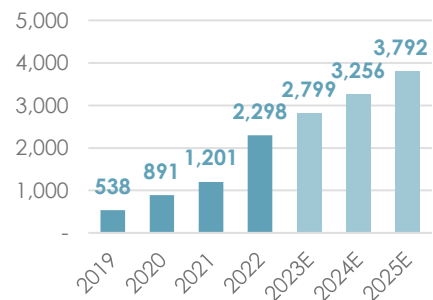
# SCT's Shares Offer an Opportunity to Indirectly Invest In Two World-Leading Companies at Levels not Seen for Years – (2) Samsung Biologics

Samsung Biologics is a top tier global CDMO company, and SCT's deep trading discount provides an attractive entry valuation to own this premium stock

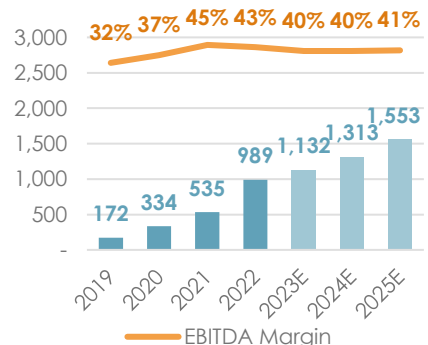
- World-leading CDMO service provider and biosimilars developer partnering with global biopharma companies
- Market cap KRW51tn (\$39bn)
- Four plants with 604KL total capacity for CDMO + a 5<sup>th</sup> by 2025
- Contracts of long duration with 14 big pharma clients
- Samsung Biologics was founded in 2011 and spun-out of SCT in 2016

CMO Portfolio		CDO Offering	Biosimilar Partners
Antibody	mRNA	Mass cultivation of cell lines needed for the production of antibody therapies	
	Cell & Gene Therapy		
	ADCs <sup>(1)</sup>		

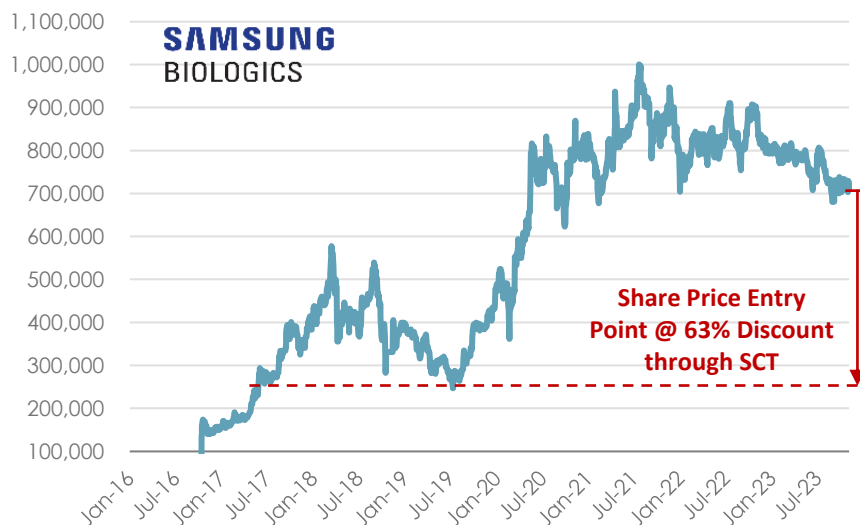
Revenue (\$m)



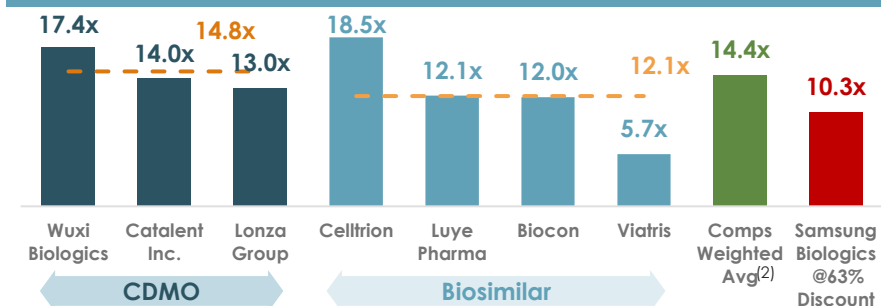
EBITDA (\$m)



Share Price Performance Since IPO (post-Cheil Merger) (KRW)



Trading Peers EV / EBITDA 24E



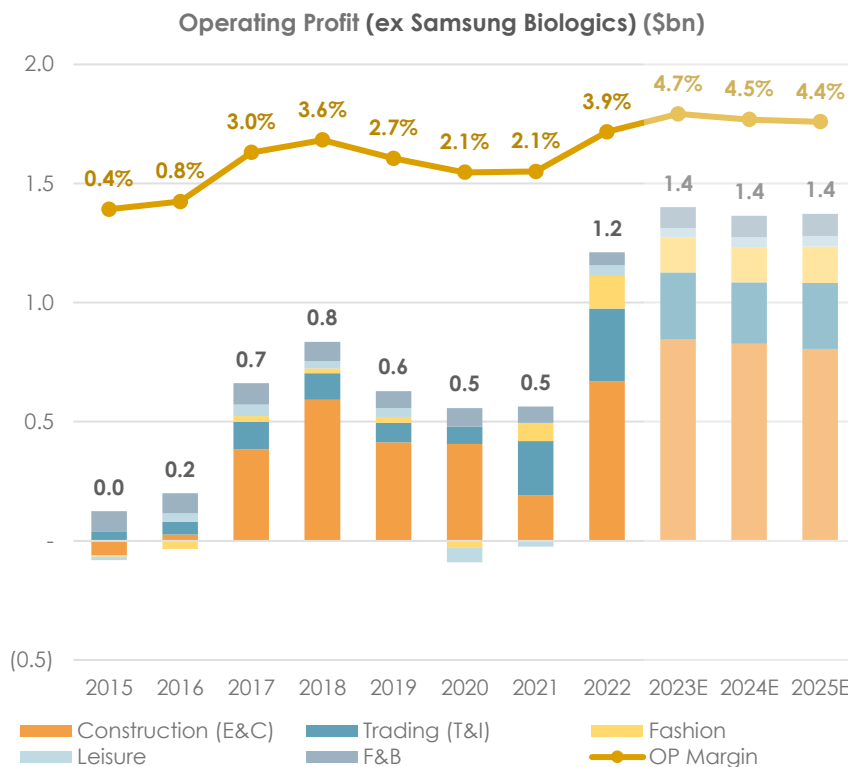
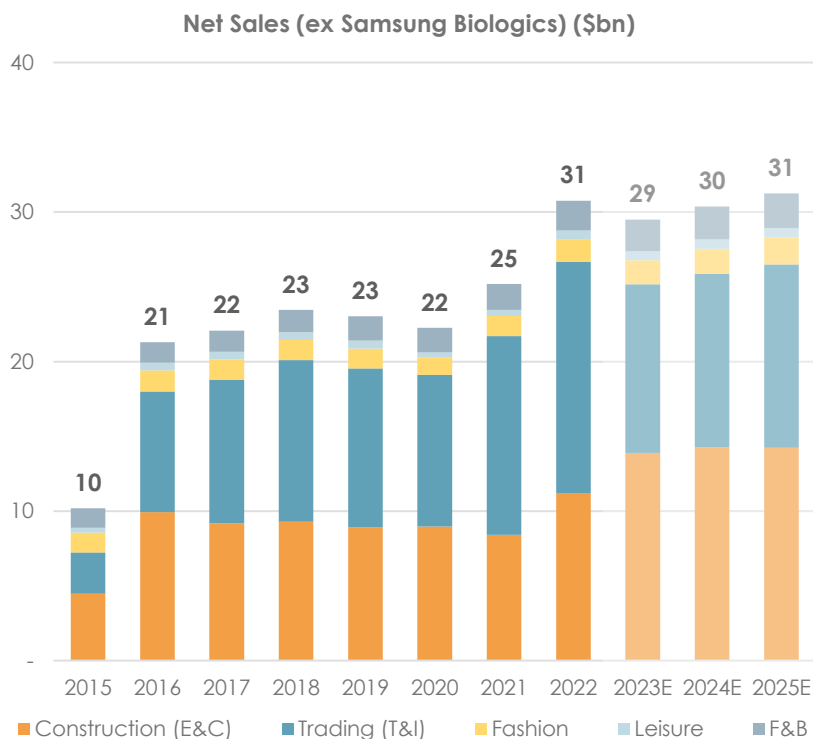
Source: Company, Bloomberg, Analyst research; Market data as of 1 Dec 2023

Note: (1) ADC: Antibody Drug Conjugates

(2) Average of CDMO peers average and Biosimilar peers average weighted with Samsung Biologics' CDMO / Biosimilar Operating Income split

# SCT's Operating Businesses – A Significant Source of Value That Has Been Entirely Overlooked But is Worth ~60% of SCT's Market Capitalisation

Zero value is currently attributed to SCT's well-managed operating businesses. Although some of the divisions have matured towards GDP-level growth, they have strong market share and produce consistent cash flow



- We value SCT's operating businesses at over **\$8bn**. Unfortunately, the market pays little attention to these assets as relevant disclosures are unhelpfully high-level and associated free cash flows are not returned to shareholders
- E&C and T&I are international businesses that offer growth potential through synergy with the new business initiatives and wider Group, while other businesses are domestically focused with lower growth potential (see Appendix B for further details)
- The operating businesses are well managed. In recent years, profits have improved substantially and reached normalised levels

Source: Company, Analyst research

Note: Samsung Biologics is consolidated by SCT but is excluded from analysis as it is a separately listed company and therefore, we do not classify it as an operating business of SCT

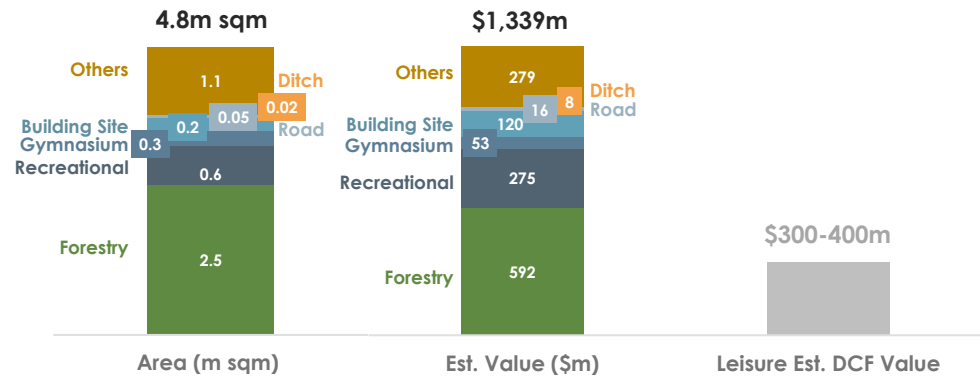


# SCT's Leisure Business Is Sitting on Unrecognised but Valuable Land Assets

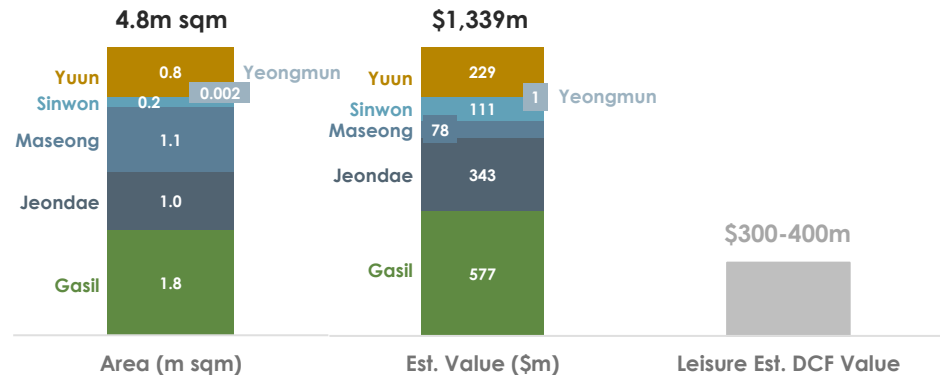
SCT Leisure owns c.\$1.3bn worth land in the region surrounding Everland (in-use + undeveloped), c. 4x the Leisure business's estimated intrinsic value (not currently included in our intrinsic value calculation)



## By Category



## By District

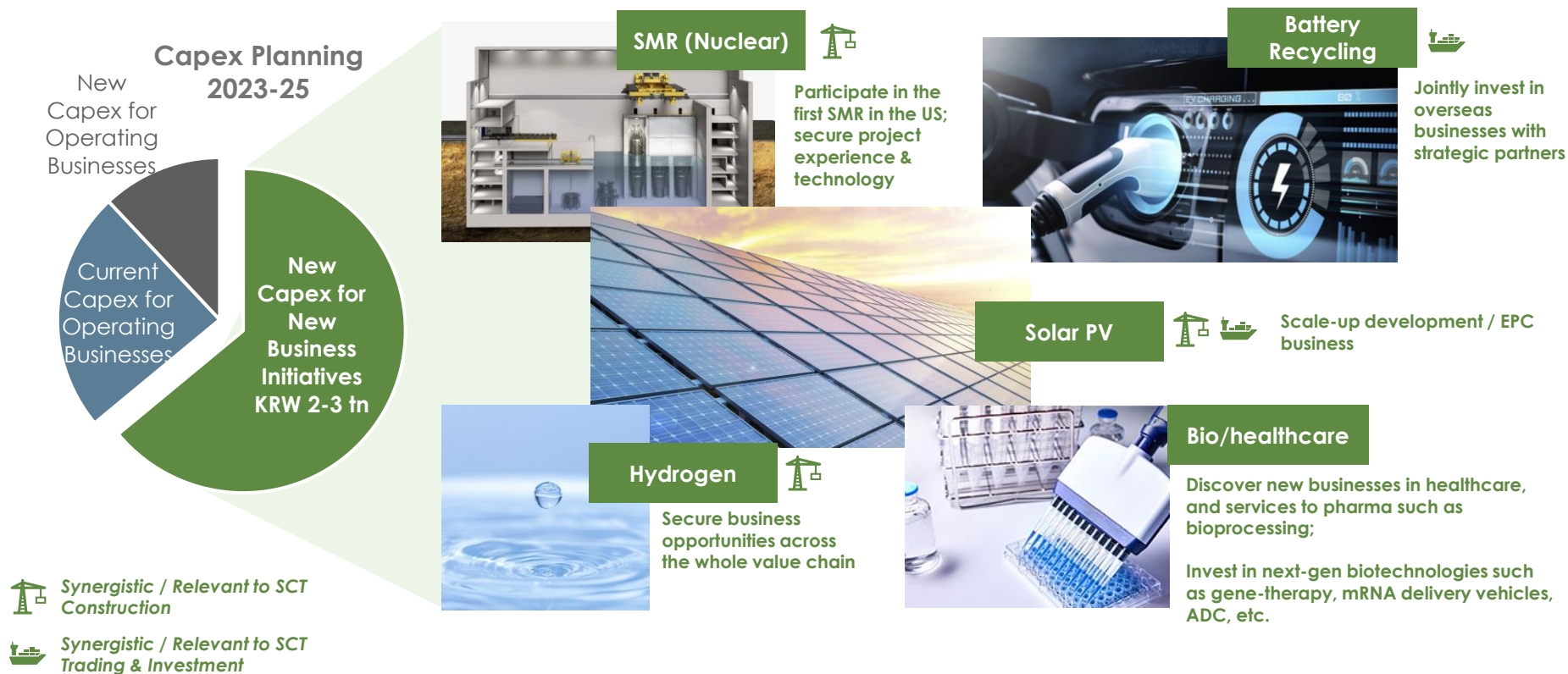


Source: Company, Leading International Real Estate Consulting Firm  
 Note: - Land assessment based on due diligence with a Leading International Real Estate Firm

# SCT's New Business Initiatives – Investment in Promising Sectors is Substantial But Poorly Understood

Free cash flow is being reinvested in eco-friendly energy and bio/healthcare projects. While Samsung has a strong record of developing new businesses, limited disclosures are preventing the market from attributing proper value to these important projects

- **Main focus:** future growth industries for Korea that have some synergy with SCT construction and trading
- Limited information on applicable investment framework and opportunities likely leads to **market cautiousness when valuing the New Business Initiatives**



Source: Company, Analyst research

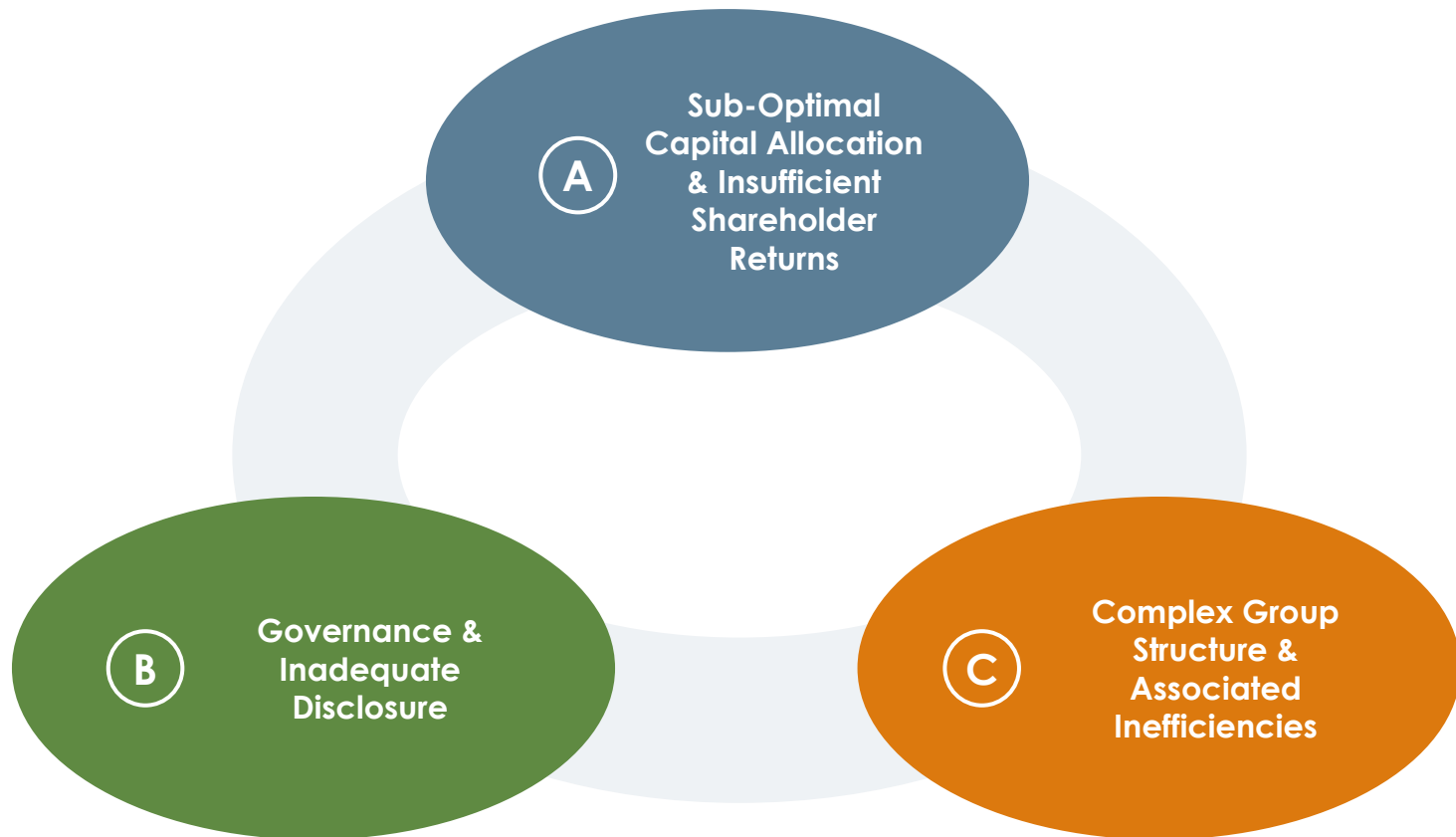
Note: Capex breakdown from the announced KRW 3-4Tr as per Palliser's estimates based on communication with the Company



## **Samsung C&T – Causes of the SCT Value Gap**

# Key Issues Underpinning the SCT Value Gap

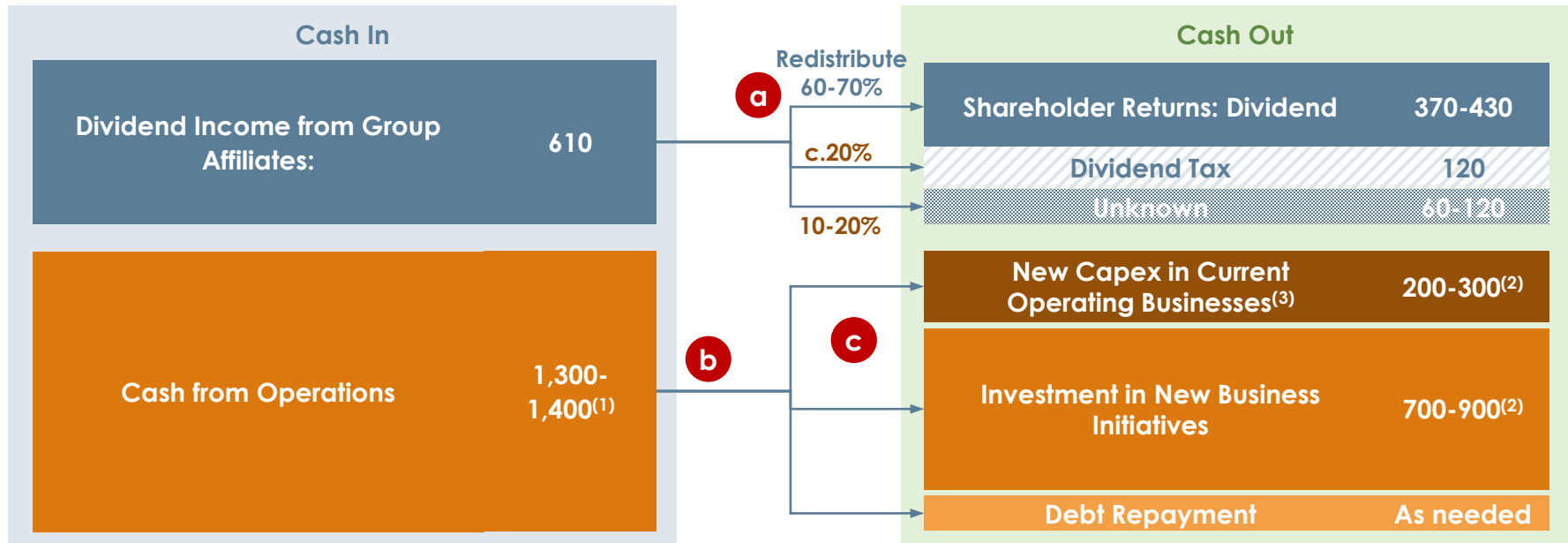
A combination of factors are driving the excessive valuation discount, but they can be readily addressed



# A Capital Allocation: Current Framework is Neither Robust nor Effective

SCT's capital allocation framework and the strategic rationale behind it are vague and confusing. None of the free cash flow generated by the operating businesses is returned to shareholders causing many to ignore the value of those businesses

Illustration of Current Capital Allocation for 2024-25 (in KRW bn)



- a** • **Shareholder Returns Policy:** Solely passes through 60-70% of dividends received from affiliates as SCT dividend
- b** • **No buy-back, dividends only:** Policy ignores highly accretive opportunity to buy back stock at 63% discount to NAV. Dividends are also tax inefficient for many shareholders compared to buybacks
- c** • **Free cash flow from operations not made available for shareholder returns:** Results in **low overall payout ratio (c.25% of cash flow available returned to shareholders)**
- c** • **No clarity on investment framework, hurdle rate or expected returns:** Market therefore attributes little value to capital retained for potentially valuable investments

Source: Company, Analyst research, Palliser analysis

Note: (1) FCF from operating businesses of KRW 1,300-1,400bn after c.KRW300 bn of current on-going capex

(2) Capex breakdown as per Palliser's estimates based on communication with the Company

(3) New Capex in Current Operating Businesses are capex in addition to the c.KRW300 bn of current on-going capex dedicated to further enhance operating business' of competitiveness

# A Capital Allocation: Unresolved Investor Questions

The types of questions routinely raised by investors signal the areas to be clarified and addressed as part of an optimisation of SCT's capital allocation framework to maximise long-term value for stakeholders



# B Governance: Board and Leadership Structure in Need of Further Improvement

Recent steps to enhance governance are welcome, and while the Board includes respected members, SCT needs to go further by: i) optimising the Board to improve diversity in gender, industry and c-suite experience; and ii) providing clarity on management leadership

Independent Directors



**Byung Suk Chung**  
Chairman, Independent Director

Academic, Government  
\* (Career Background)



**Philippe Cochet**  
Independent Director

Power Industry



**Janice Lee**  
Independent Director

Finance, Accounting & HR



**Sang Seung Yi**  
Independent Director

Academic



**Joong Kyung Choi**  
Independent Director

Government

- Insufficient relevant industry or senior management (CEO-level) experience
- Limited proven portfolio management and capital allocation expertise
- Lack of gender diversity
- Staggered Board
- Requires diverse skills and experience to challenge, advise and support management

Executive Directors



**Jung Suk Koh**  
President & CEO (T&I)<sup>(1)</sup>



**Sechul Oh**  
President & CEO (E&C)



**Hailin Jeong**  
President & CEO (Resort)



**Joonseo Lee**  
Executive VP (Fashion)

- Four Co-CEOs/leaders – one for each business segment, but **no clear CEO for the whole company**
- Without one overall CEO, hard but necessary decisions on capital allocation, including portfolio optimisation, are too easily avoided/delayed

Source: Company data

Note: (1) On 30 Nov 2023, Lee Jae-eon was announced to be the succeeding President & CEO of SCT Trading & Investment Division replacing Koh Jung-suk whose term ends in March 2024



# B Governance: 13% of Shares Outstanding Are Treasury Shares – A Costly Overhang Weighing on the Share Price

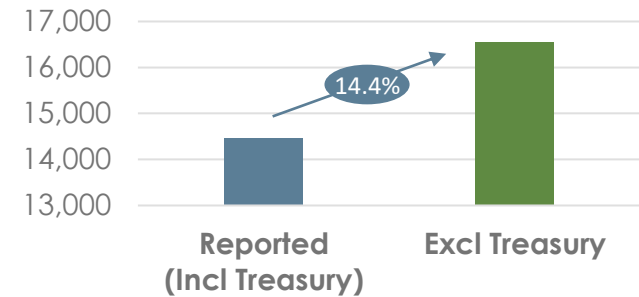
Treasury shares create share count discrepancies and pose a dilution threat. The current plan to cancel these shares over 5 years is far too long and has been mischaracterised as a capital return

## Treasury But Not Really Treasury

- Korean local investors typically count treasury shares in the total number of shares when calculating per share value or earnings
- Owing to looser regulation of treasury shares compared to other jurisdictions which allow them to be re-issued on uneconomic terms and dilute minority shareholders
- Consequently, the significant number of uncanceled SCT treasury shares (13% of shares outstanding) represents a major overhang

## Impact of Cancellation of SCT Treasury Shares

LTM EPS (as of Q2 23)



## New Ordinary Share Issue vs Treasury Share Disposal

	New Share Issuance	Treasury Share Disposal
Nature	Company issues new shares in return for consideration from share subscribers	Company transfers treasury shares in return for payment from buyers
Dilution Risk	<u>Equal opportunity</u> in principle to all shareholders should be provided on pro rata basis as per Commercial Law	<u>No regulation on equal treatment</u> of shareholders
	Specific 3rd party allocation permitted under SCT Articles of Incorporation to the extent not exceeding 30% of the total issued and outstanding shares	Allocation to specific 3 <sup>rd</sup> party <u>at company's discretion</u>
Oversight	Purpose and scope of disposal limited under the Commercial Law and SCT Articles of Incorporation	Disposal to specific 3 <sup>rd</sup> party can be authorised by <u>Board decision only</u>



## Disclosures

**Insufficient disclosure makes it difficult for investors to develop a good understanding of the company, particularly the operating businesses, resulting in investors overlooking the value of these businesses**

- ✘ Senior leadership not very visible to investors – e.g. no quarterly investor calls with company leadership
- ✘ Lack of clarity on company mission and capital allocation framework
- ✘ Limited division-level information – e.g. further information such as key KPIs, ROIC, working capital etc
- ✘ Lack of information on new business opportunities such as: return hurdle/expectations, investment horizon, market size data, expected margins etc.
- ✘ English disclosure standard not equal to Korean disclosures

## Management Compensation / Incentives

**Lack of action to address the SCT Value Gap indicative of insufficient alignment of management and shareholder interests**

- ✘ Disclosure on the current management compensation structure is insufficient to assess suitability
- ✘ Management KPIs, compensation targets/ thresholds and weightings are not disclosed
- ✘ Unclear how much incentive relates to performance of operating businesses as compares to the listed affiliates

### Illustration of Current Management Compensation Structure



## Samsung Group's complex group structure causes inefficiencies which hold Samsung back and results in key Group companies being significantly undervalued



### Inefficient Capital Allocation

- Limits on flexibility to (re)allocate capital to opportunities with the best risk-adjusted returns
- Shareholder returns are insufficient, and it is unclear if they are optimised for the individual companies and their shareholders



### Governance / (mis)alignment

- Potential conflicts of interest
- Lack of clarity on management incentives at each entity and alignment with shareholders



### Investor Uncertainty

- Lack of clarity on future restructuring path and how minority shareholders will be treated is an overhang on SCT stock



### Tax Inefficiency

- SCT incurs significant tax (c.20%) on dividend income from listed affiliates, primarily from Samsung Electronics
- SCT would enjoy an 80% dividend tax exclusion rate (instead of 30%) if SCT were to own >20% stakes in the subs (possible upon a group restructuring)



### Question-marks on Control of Samsung Electronics

- The Monopoly Regulation and Fair Trade Act limits voting rights held by financial companies to 15%. Therefore, control over Samsung Electronics by Samsung Life and its affiliates (i.e. other Samsung Group companies and the Lee family) is limited to 15%
- Proposed changes to Insurance Business Act could require Samsung Life to substantially sell down its Samsung Electronics stake to meet requirements limiting insurance company exposure to affiliates

*The excessive discount to intrinsic value – a value gap of \$25bn – is the market expressing certain concerns over capital investment and value creation. This need not be the case. There is an opportunity to increase investor confidence in SCT's equity story through a series of near- and longer-term measures which will unlock value for all shareholders while driving long-term growth.*

*As Korea's preeminent business group, it is time for Samsung to lead the way on governance and capital allocation, and to help eliminate the "Korea Discount" to benefit Korean markets and society as a whole. Palliser is ready to support SCT in taking proactive decisions to drive positive change.*

# Value Enhancement Measures



# Value Enhancement – Clear and Actionable Measures to Catalyse Growth & Remove the SCT Value Gap ...

## Key Causes of the SCT Value Gap



## Solutions – Value Enhancement Measures

### Optimise Capital Allocation Framework and Catalyse Growth

- 1**
- Allocate capital in a disciplined, return-oriented manner to the best available opportunities
  - Identify excess capital and reallocate per optimised framework
  - Link shareholder return to performance of core business as well as dividends from affiliates

### Comprehensive Governance & IR Improvements

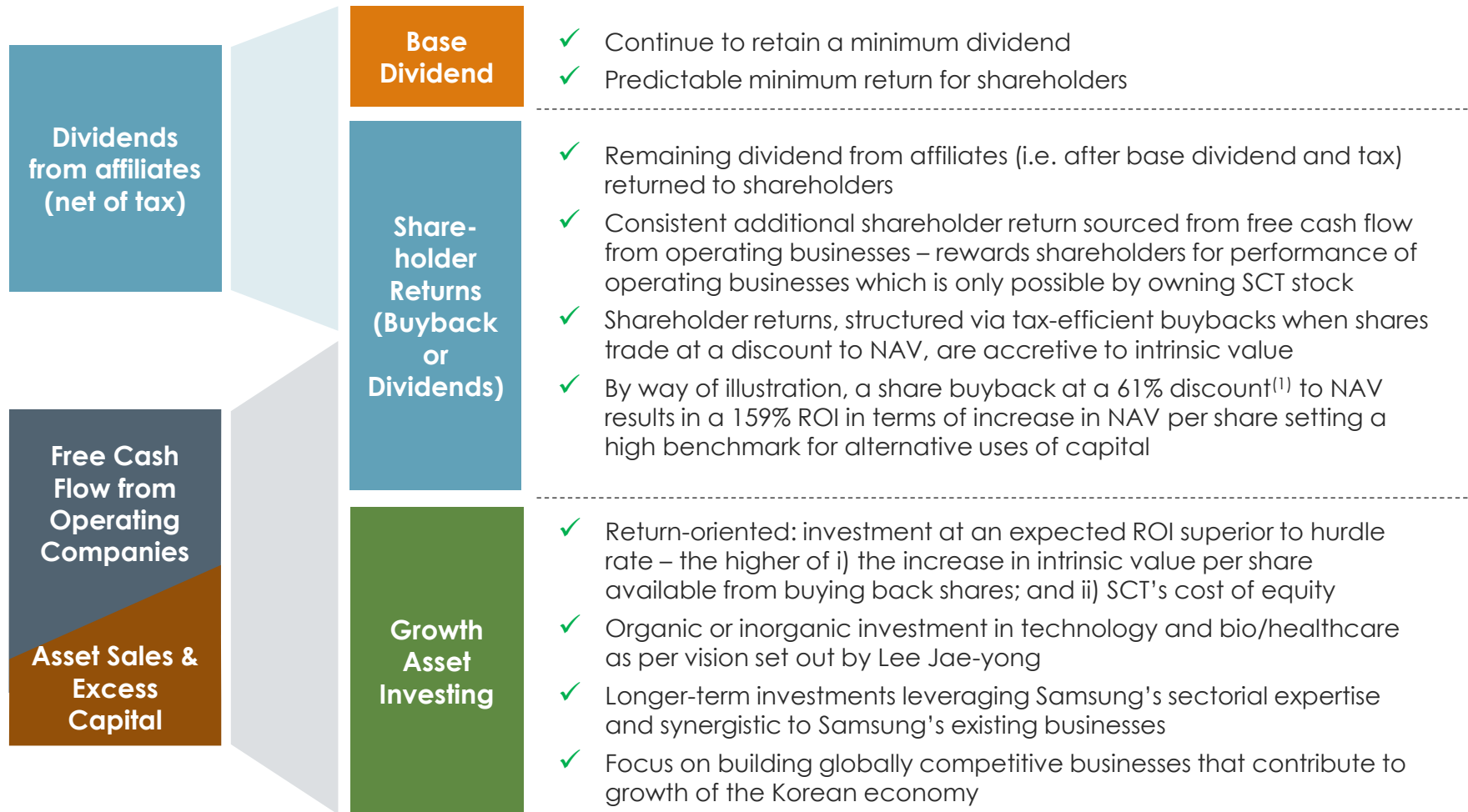
- 2**
- Rebuild investor trust through a near-term cancelation of KRW 2.8tr of treasury shares
  - Enhance leadership, board and compensation structure
  - Increase transparency with enhanced investor communications and disclosures

### Strategic Review of Samsung's Group Structure

- 3**
- Undertake a transparent review of transitioning to a holding company structure to reduce group-wide inefficiencies

# 1 Adopt a Robust and Flexible Capital Allocation Framework

A transparent and well-communicated capital allocation process that ensures the highest-returning utilisation of capital combined with a fair shareholder returns policy will help create a compelling equity story



Source: Company, Bloomberg, Analyst research; Market data as of 1 Dec 2023  
 Note: (1) Based on a buyback at a 5% premium to share price on 1 December 2023

# 1 Identify Excess Capital and Reallocate in Accordance with a New Capital Allocation Framework

SCT should conduct a detailed analysis of its capital structure and asset portfolio to identify excess capital that could be better utilised to generate more attractive returns and improve long-term growth and RoE

Review	Capital Structure	Asset Portfolio
Identify Excess Capital	<p>Optimise capital structure (debt and equity) to minimise cost of capital while maintaining adequate liquidity for core operations</p>	<p>Identify assets which lack synergistic or strategic value and do not generate an adequate rate of return on invested capital</p>
	<p><b>Analysis to be performed:</b></p> <ul style="list-style-type: none"> <li>• What is the weighted average cost of capital?</li> <li>• What are the liquidity requirements of operating businesses?</li> <li>• What debt level can the company sustain?</li> </ul>	<p><b>Analysis to be performed:</b></p> <ul style="list-style-type: none"> <li>• Does the asset align with SCT and Samsung Group's strategic focus? Are there synergies?</li> <li>• Does it (or will it on a risk adjusted basis) produce an adequate return above hurdle rate/cost of capital?</li> <li>• What is the capital that can be unlocked through a sale or spin-off?</li> </ul>
Palliser's Observations	<p>SCT is in a <b>strong capital position</b> with ample liquidity: i) Net cash<sup>(1)</sup>; ii) Investment grade credit rating (A-/A2); iii) Available credit lines; iv) Portfolio of highly liquid assets</p> <p>SCT has <b>sufficient capacity to raise low-cost debt of KRW 2-3tr to redeploy</b> for growth asset investing and/or shareholder returns while <b>lowering WACC and improving RoE</b></p>	<p><b>Leisure, Fashion and F&amp;B (Welstory) businesses appear non-core and could raise KRW 3-4tr</b>, if sold, or spun-off and listed, to <b>redeploy</b> for growth asset investing and/or shareholder returns whilst <b>improving long term RoE</b></p>

Source: Company, Bloomberg, Analyst research

Note: (1) Estimated for Samsung C&T ex Samsung Biologics as of 2023 year-end

# 1 Allocate Capital With Reference to Investment Hurdle Rate

In addition to strategic considerations, growth asset investments should be benchmarked against the higher of: alternative uses of capital, including the return available from share buybacks, or the cost of capital

## Buyback Return Illustration

- Buying back SCT shares at a 5% premium to current levels (i.e. a 61% discount to NAV) is equivalent to acquiring assets worth KRW 100 at KRW 39
- At current discount levels, the hurdle rate for growth investments is very high
- The return from buybacks can be annualised over a suitable period to compare with a growth investment opportunity that will provide returns over a longer time frame

### For Each KRW 500bn Spent on Buyback<sup>(1)</sup>

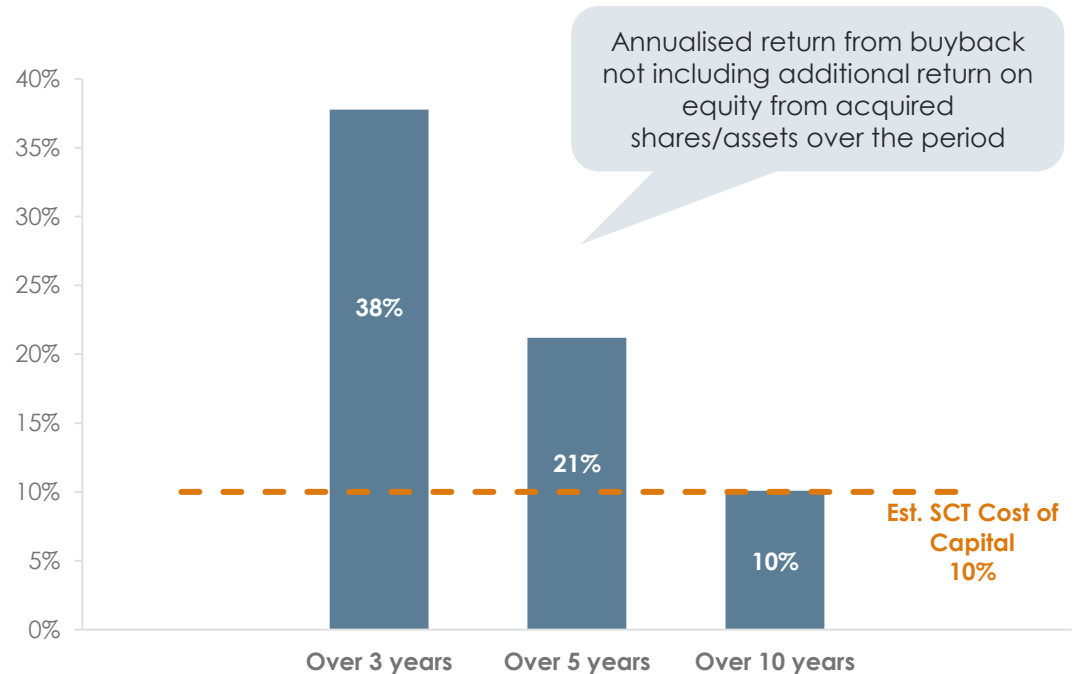
@ an Average Buyback Discount of (61%)

Cash per Share Spent on Buyback (KRW) (A) 3,132

NAV per Share Accretion (KRW) (B) 4,970

**Return = (B) / (A) 159%**

## Illustrative Hurdle Rate Based on Buyback ROI and Cost of Capital



High ROI on buyback implies that there ought to be space in capital allocation for buybacks given the high return, and ultimately that is just acquiring great assets like SEC and Samsung Biologics for shareholders at a big discount

Source: Company, Bloomberg; Market data as of 1 Dec 2023

Note: (1) Assuming buy back at 5% premium to current SCT spot share price; Buyback Cash per Share Spent on Buyback = KRW 500bn divided by post buyback number of shares; NAV per Share Accretion is driven by the reduction of number of shares offset by decrease of KRW 500bn asset value



## 2 Comprehensive Governance & IR Improvements

**Market skepticism focused on corporate governance has been a significant overhang on the company's stock. SCT should execute key governance changes to foster a culture of best-in-class capital allocation and growth**

<p><b>Immediately Rebuild Investor Trust by Cancelling Treasury Shares Worth KRW 2.8tn</b></p>	<ul style="list-style-type: none"> <li>• The 13% of treasury shares outstanding raises uncertainty around future dilution risk</li> <li>• The current plan to cancel these treasury shares falls woefully short and is incorrectly characterised by SCT as a shareholder return. The plan is also inconsistent with the approach adopted at Samsung Electronics in 2017</li> <li>• All treasury shares should be cancelled as soon as possible and SCT should confirm that future treasury shares from share buybacks will also be cancelled immediately</li> <li>• SCT can always issue new stock as required for appropriate business purposes</li> </ul>
<p><b>Appoint a Clear CEO</b></p>	<ul style="list-style-type: none"> <li>• Appoint one clear CEO to lead the whole company with direct responsibility for the entire SCT portfolio and capital allocation</li> </ul>
<p><b>Align Executives with Shareholders Through Compensation Structure</b></p>	<ul style="list-style-type: none"> <li>• Adopt an improved equity compensation and incentive scheme based on clear and transparent KPIs that align senior management with the broader interests of SCT shareholders and stakeholders, including suitable incentives aligned to a reduction in the SCT Value Gap</li> </ul>
<p><b>Board Enhancements</b></p>	<ul style="list-style-type: none"> <li>• Enhance board composition by appointing independent directors with proven capital allocation and industry expertise whilst enhancing diversity</li> <li>• Amend Articles of Incorporation to require Board to act in the interest of all shareholders as well as the company – this is in-line with proposed plans to partially amend the KCC<sup>(1)</sup></li> </ul>
<p><b>Improve Investor Communication &amp; Disclosures</b></p>	<ul style="list-style-type: none"> <li>• Foster better investor understanding of both SCT's intrinsic value and growth opportunities</li> <li>• Increase disclosure of KPIs and ROIC for each business unit</li> <li>• Quarterly English IR calls and IR materials that accurately mirror Korean disclosures</li> </ul>

Note: (1) Korean Commercial Code

### 3 Undertake a Strategic Review of Samsung Group's Corporate Structure

Samsung could reap significant benefits by transitioning to a recognised holding company structure. SCT should therefore collaborate with affiliates to undertake a comprehensive and transparent strategic review of the current corporate structure and options for the future in the interests of all Samsung Group stakeholders

#### Benefits of Transitioning to a Holding Company Structure

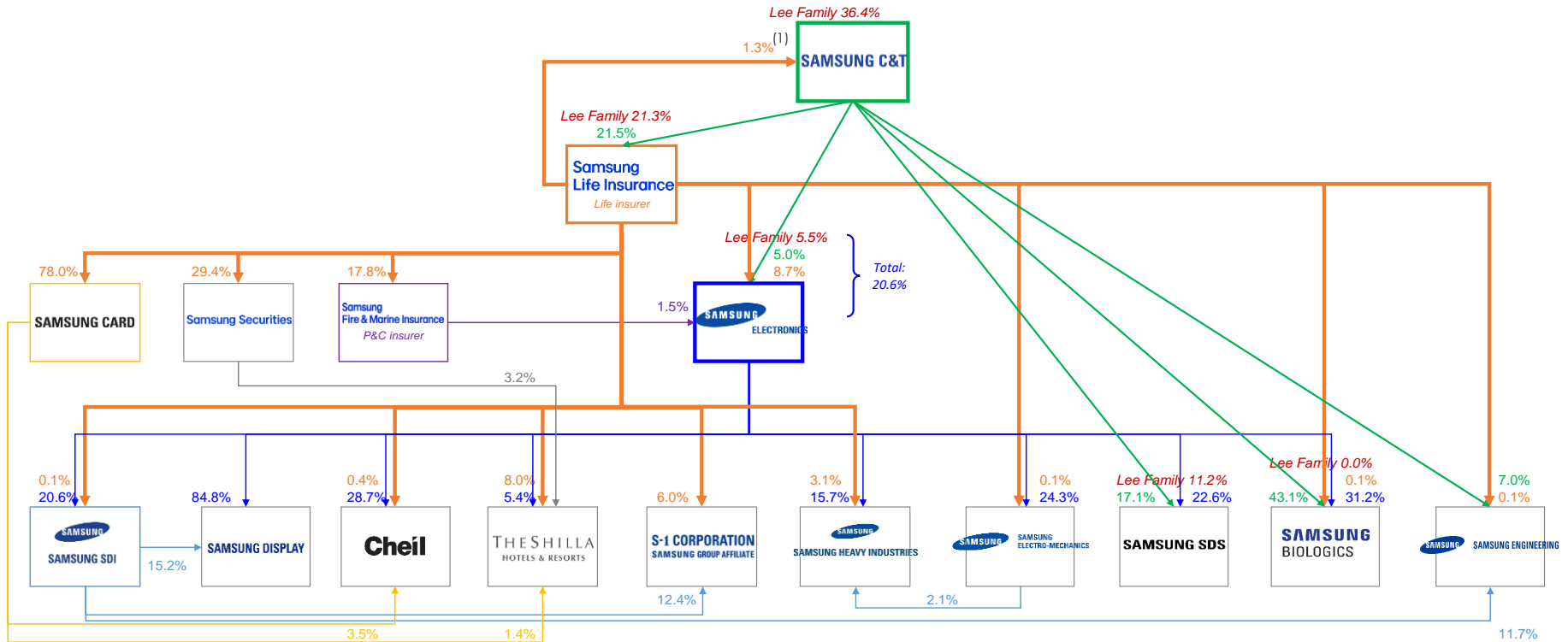
- ✓ **Reduced complexity and increased transparency**
- ✓ A holding company in a flat organisation structure can serve as a **control tower** of information and expertise across the group to increase competitive advantages
- ✓ **More efficient capital allocation** across the group **and increased flexibility** for managing the portfolio of the group and on shareholder returns, including share buybacks
- ✓ Substantially **lower tax on dividends** paid from subsidiaries
- ✓ **Remove valuation overhangs** on key Group companies as they become more investable through **enhanced corporate governance and reduced inefficiencies**
- ✓ **De-risk the Samsung Group** from potential revisions to the **Insurance Business Act**
- ✓ **South Korean economy benefits** from Samsung being better placed to invest in scalable, high growth / high return opportunities

#### Key Requirements for a Successful Restructuring

- **Satisfy holding company rules – e.g. 30% ownership in subsidiaries and separation of financial subsidiaries from general holding company**
- **Affordable – optimisation of any reorganisation-related costs and cost of acquisition of SEC shares**
- **Final structure should be significantly less complex and reduce tax leakage**
- **Fair terms for all shareholders and a win-win for all stakeholders**

### 3 Current Corporate Structure – Complex and Inefficient

SCT sits at the top of the current group structure, but it is not a formal holding company under Korean law



• Palliser has worked extensively with legal, tax and financial advisors on possible approaches to an affordable reorganisation of SCT into a formal holding company

Source: Company, Press, Analyst research

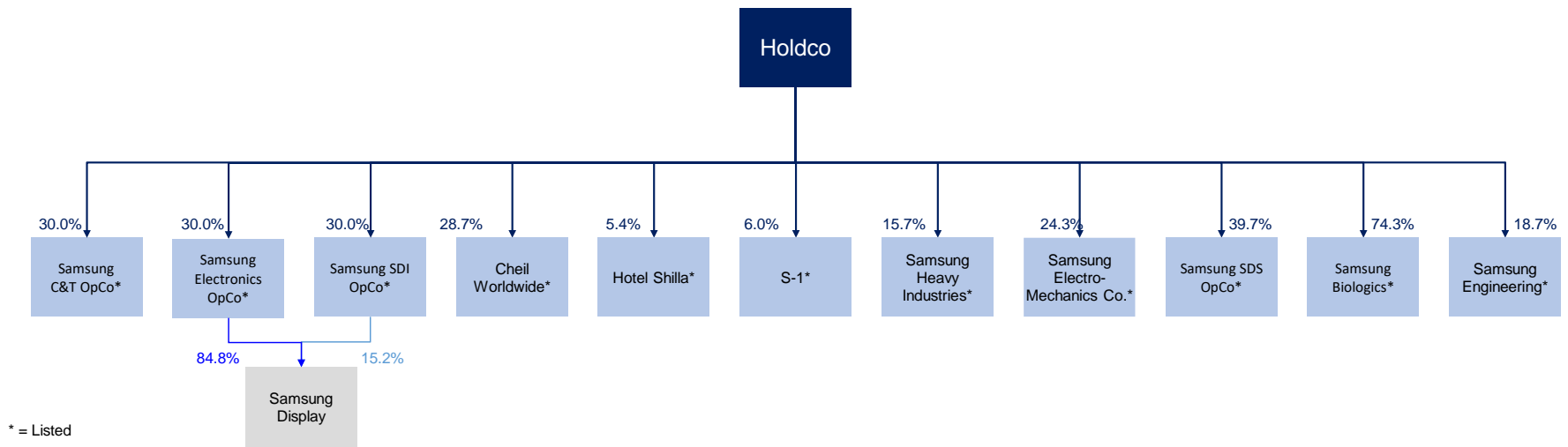
Notes: - Figures in percentages are estimated share of voting rights (treasury shares excluded)

(1) Including stake held in Samsung Life Public Welfare Foundation

- Lee Family = Hong Ra-Hee / Lee Jae-Yong / Lee Bu-Jin / Lee Seo-Hyun

### 3 Illustrative Resulting Corporate Structure – Simple, Transparent and Efficient

One approach to restructuring is a horizontal spin-off merger which would result in a flat and simple corporate structure. Further details on slides 56-59 in Appendix C



- Through a process of deconsolidation, merger, and stakes adjustment, a streamlined structure can be achieved while fulfilling all Korean holding company rules
- The chart above does not show Samsung Life (or its stakes) as it would not be under the new HoldCo

# Conclusion



- Samsung C&T has a collection of **high-quality assets** – both the core operating businesses and its listed stakes – which are **grossly undervalued** by the market
- Palliser has proposed a set of **clear and actionable value enhancement measures** to management that would **benefit all stakeholders**
- Removing the SCT Value Gap offers **share price upside of up to ~170%**
- There is additional **potential to significantly increase intrinsic value by catalysing profitable longer-term growth** in future-focused industries
- Management and the Board need to **take more proactive steps** to address the **\$25bn SCT Value Gap and its underlying causes**
- It is time for Samsung to lead the way on governance and capital allocation, and help eliminate the “Korea Discount” to **benefit Korean markets and society as a whole**
- Palliser looks forward to **building upon its existing dialogue with SCT management and other key stakeholders** to support the company achieve on-going positive change, long-term sustainable growth and value maximisation



## **Appendix A – The Value Gap in Context**

# The Value Gap in Context – for Each of SCT’s Top 10 Shareholders

Significant value potential is embedded in the SCT shares held directly or indirectly by strategic shareholders, Korean pensioners, Korean and global asset managers and SCT employees

	# of Shares	% Stake <sup>(1)</sup> ex Treasury	Market Value	Intrinsic Value	Value Gap	Value Gap
	<i>m</i>	%	<i>KRWbn</i>	<i>KRWbn</i>	<i>KRWbn</i>	<i>\$m</i>
Founding Family	59.0	36.4%	6,999	19,020	12,022	9,207
KCC	17.0	10.5%	2,017	5,482	3,465	2,654
National Pension Service	13.5	8.3%	1,596	4,337	2,741	2,100
Vanguard	2.8	1.7%	335	910	575	441
BlackRock	2.7	1.7%	324	880	556	426
Samsung Life Insurance	2.1	1.3%	255	693	438	335
Fidelity	2.0	1.2%	240	652	412	316
Norges Bank	1.6	1.0%	188	512	323	248
Yacktman Asset Management	1.2	0.8%	148	402	254	194
Mirae Asset Global Investment	0.9	0.6%	111	301	190	146
Samsung C&T Corp ESOP	0.9	0.5%	102	276	174	134





## **Appendix B – Refreshing on SCT’s Forgotten Operating Businesses**

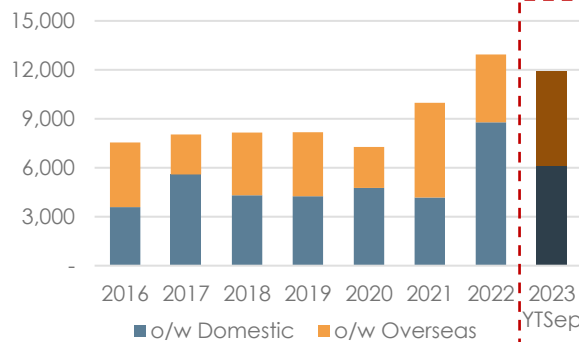
# Refreshing on SCT's Forgotten Operating Businesses – Construction

Top player in multiple construction sub-sectors, both domestically and internationally, benefitting from multi-year order backlog and best-in-class history of executing complex, global projects on budget and on time

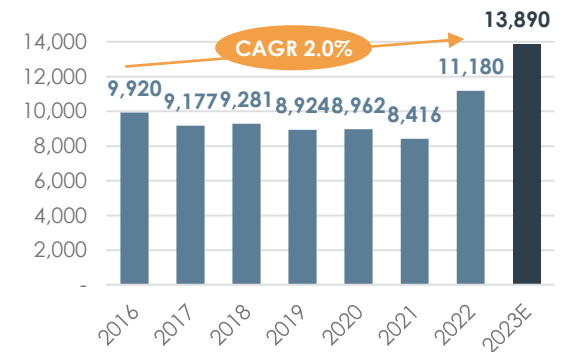
## Business Overview

- c.\$25bn backlog (2.5 years)
- #1 Constructor in Korea by capacity
- Top15 in Deloitte's 2023 top 100 global construction company list
- Experienced tech facility builder – significant synergies with Samsung Electronics & other group companies
- A business with low risk taken on, low working capital requirement, costs generally passed through, and well-established reputation in various specialised sub-sectors

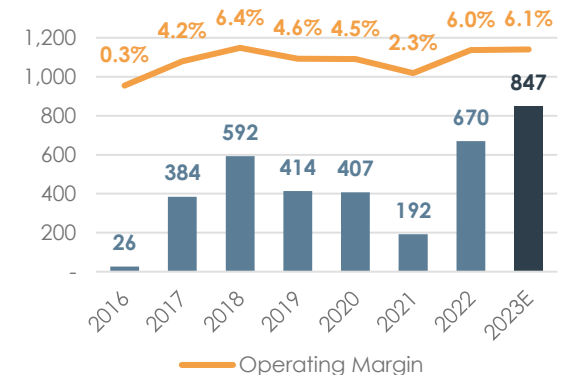
## New Orders (\$m)



## Revenue (\$m)



## Operating Profit (\$m)



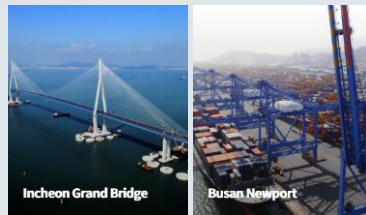
### Building

- High-rise & Airport
- High-tech (Semicon Fab)
- Residential



### Civil

- Road, Bridge & Tunnel
- Railway & Metro
- Marine & Water Infra



### Plant

- Power Generation (CCPP)
- Gas Plant (LNG/LPG)
- Renewable (Wind/Solar)



# Refreshing on SCT's Forgotten Operating Businesses – Trading & Investment

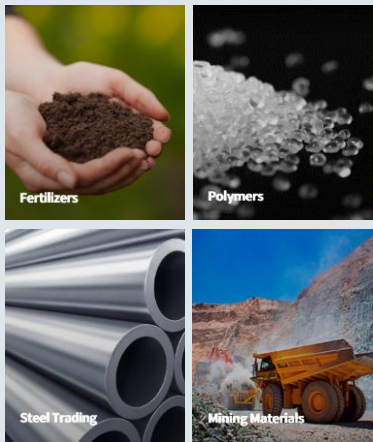
Consistent, cash-generating trading business combined with higher growth project development business. Both require low working capital while having significant synergies with other SCT segments and Samsung Group

## Business Overview

- Low risk Trading business – matching supply and demand only whilst taking a spread
- Operating business – revamp facilities and boost productivity in preparation for demand increase
- Project Development – new energy projects, typically higher margin/IRR, higher growth business leading to growth in profitability of the division
- Significant synergies with SCT Construction as well as with companies within Samsung Group

### Trading

- Global sourcing / sales of commodities
- Steel, fertilizer, industrial materials



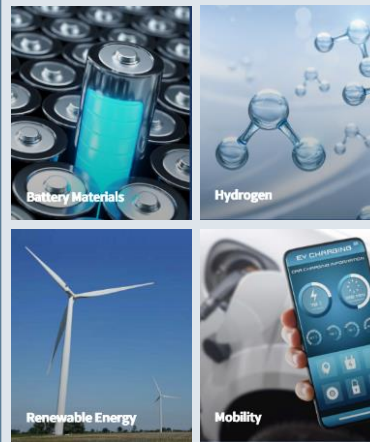
### Operating Business

- Processing, energy production
- Stainless steel mills, palm plantations, Ontario energy-cluster (solar + wind)

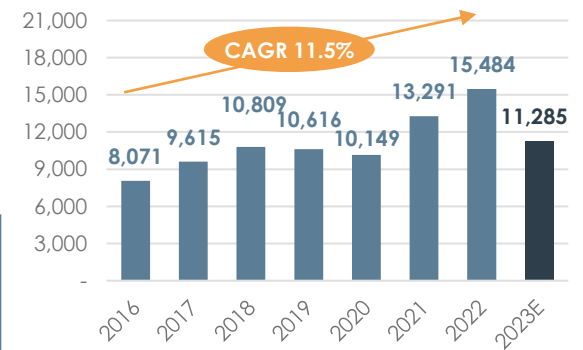


### Project Development

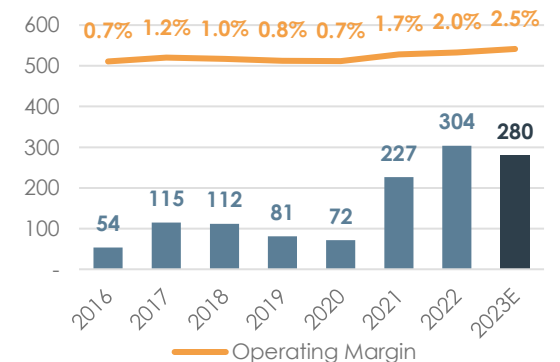
- Project organising, financing
- US/Australia Solar PV, hydrogen, battery recycling, EV charger



## Revenue (\$m)



## Operating Profit (\$m)



# Refreshing on SCT's Forgotten Operating Businesses – Fashion

SCT's fashion business is the largest in Korea and has undergone a strong turnaround in profitability in recent years. Revenue growth has been muted as it is mostly a domestic business albeit with strong market share

## Business Overview

- Operator of 32 brands (o/w 19 private brands & 13 imported brands)
- #1 in Korea by sales with a well-diversified portfolio
- Profitability recovered from 2016-2020 struggle
- While mid-to-long-term growth prospect is low, SCT has reached relatively high margin level supported by continuous digitalisation and organic profitability improvement via product launching

### Menswear & Womenswear

- c.23% sales
- Aim at increasing young customer band via higher online sales penetration

**GALAXY**  
**ROGATIS**  
**KUHO**  
**LEBEIGE**

### Imported Brands

- c.36% sales
- Focus on building sustainable growth via sub-brands incubation

**Theory**  
**ISSEY MIYAKE**  
**MAISON KITSUNÉ**  
 PARIS  
**ami**  
*alexandre mattiussi*

### Casual Wear

- c.17% sales
- Beanpole (Men, Ladies, Kids, Golf, etc.)

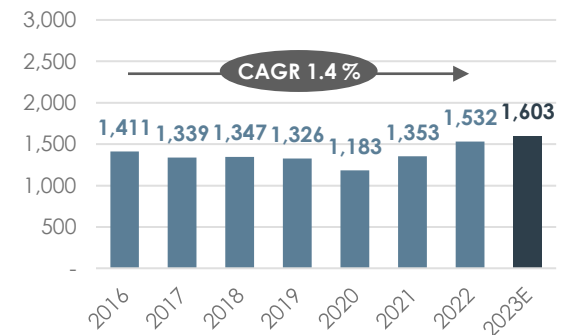
**BEANPOLE**  
**BEANPOLE GOLF**

### Fast Fashion – 8seconds

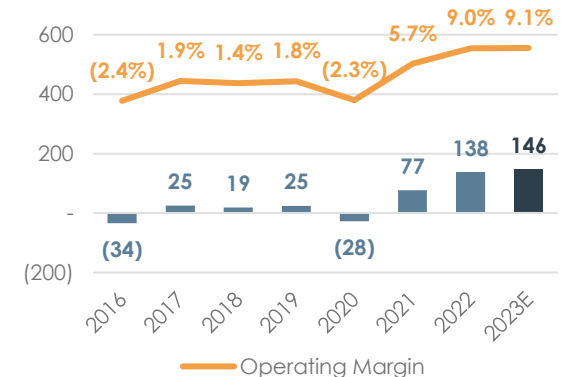
- c.14% sales
- Focus on improving quality, online sale growth
- Aim at expanding domestic distribution and seeking opportunities to go global

**8 seconds**  
**8 세컨즈**  
**8 秒**

## Revenue (\$m)



## Operating Profit (\$m)



# Refreshing on SCT's Forgotten Operating Businesses – Leisure

Popular amusement parks and golf clubs are steady businesses, but they require maintenance capex and capital for new attractions to sustain revenue

## Business Overview

- The Korean largest amusement park and water park owner & operator
- Golf course operator, Landscaping company
- Large landowner
- Steady business with maintenance capex requirement
- c.5 million sqm of land owned, significant portion currently unused

### Amusement Park – Everland

- Country's largest amusement park



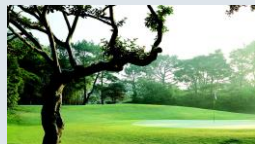
### Water Park – Caribbean Bay

- World's largest water Park



### Golf Clubs

- 6 golf clubs with 162 holes

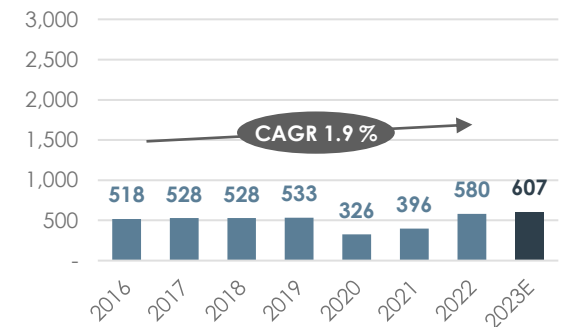


### Landscaping

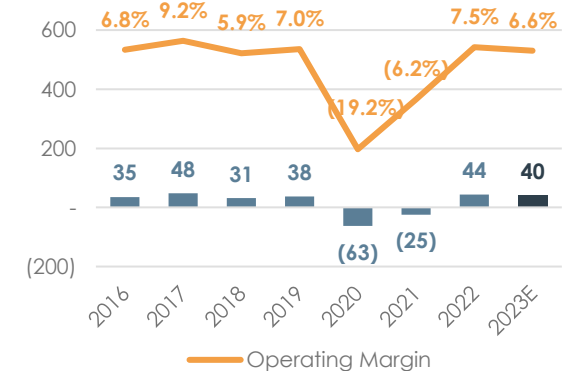
- #1 landscaping company in Korea



## Revenue (\$m)



## Operating Profit (\$m)



# Refreshing on SCT's Forgotten Operating Businesses – F&B

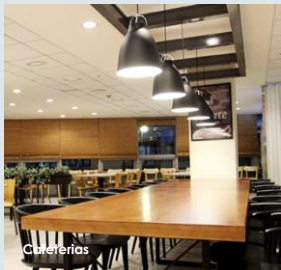
Recurring, cash-flow generating catering services now opened up for market competition, while SCT is expanding on Food Distribution which require capital for investment in logistics

## Business Overview

- Food Catering & Food Distribution service provider (Welstory)
- Catering business being mostly captive, industry has now opened up for general 3rd party bidding
- Food Catering business is a typical business service provider with steady margin, high revenue visibility, and low capital intensity
- Food Distribution business has lower (and more volatile) margin while requiring capital for investment in logistics

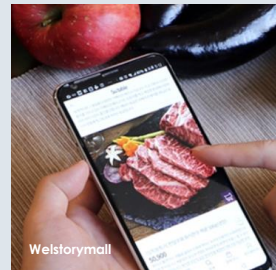
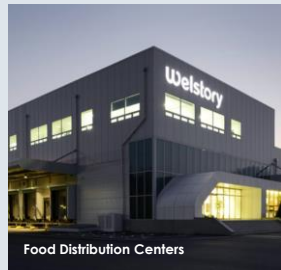
### Food Catering

- 650 business sites domestic and abroad
- Serving around 1 million meals a day
- Aim at improving sites efficiency and sales expansion to non-captive clients
- Diversifying into office cafeterias, dining at golf courses, etc.

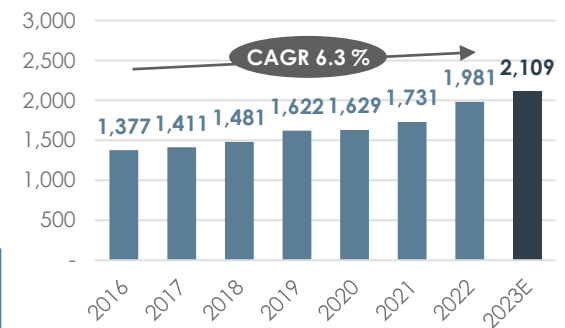


### Food Distribution

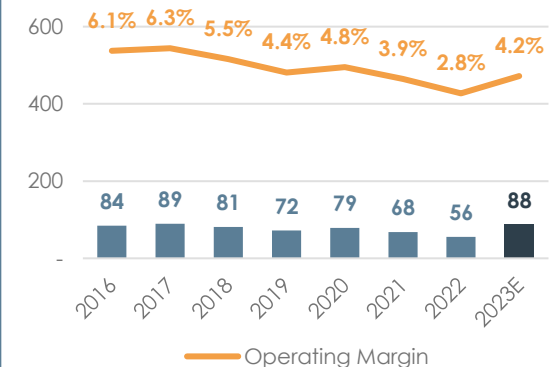
- Fresh food and grocery distribution to c.8,500 business sites nationwide
- 6 logistic centers in Korea
- Focus on service expansion as well as optimised logistic efficiency



## Revenue (\$m)



## Operating Profit (\$m)





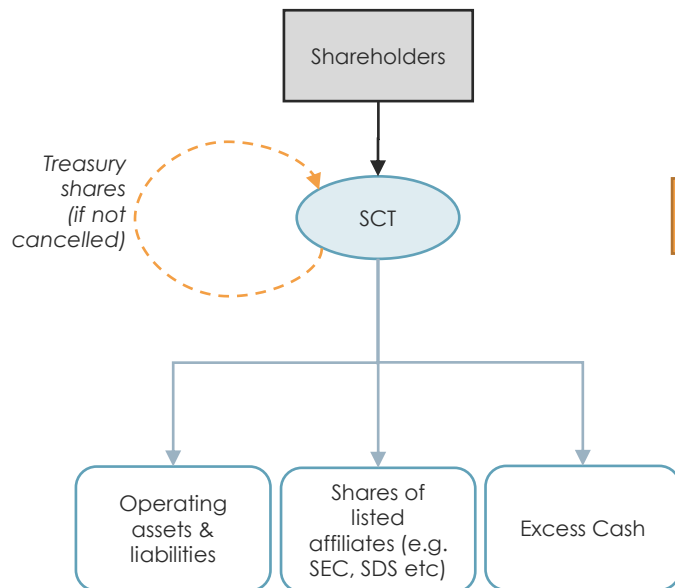


## **Appendix C – Horizontal Spin-Off Merger as an Illustrative Example of a Holding Company Restructuring**

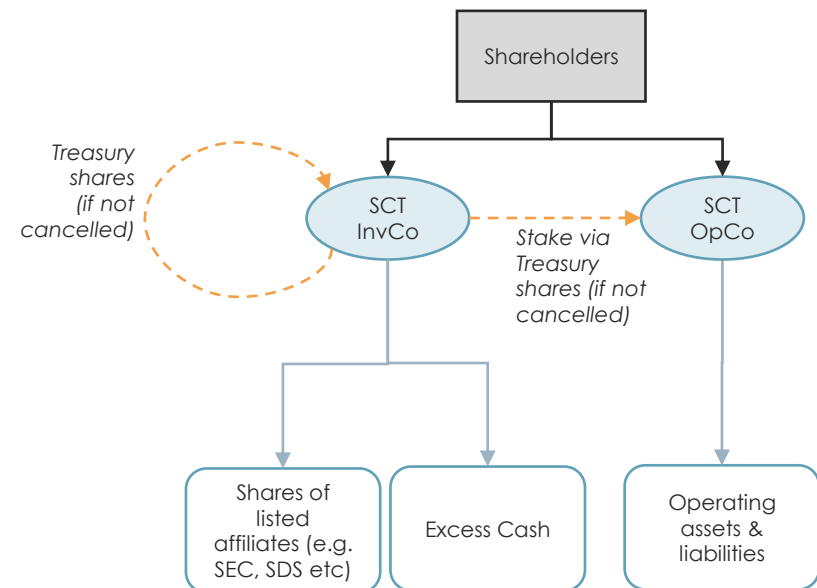
# Key Steps in Potential Restructuring – Step 1A: Spin-offs

Deconsolidate SCT into an investment company (SCT InvCo) and operating company (SCT OpCo) via a horizontal spin-off merger

## Current SCT



## Resulting SCT Structure (post horizontal spin-off)



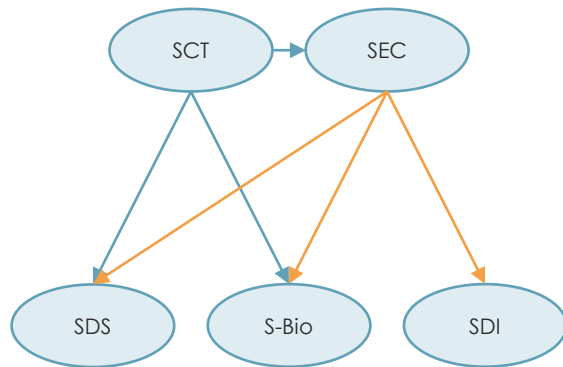
- Deconsolidation / horizontal spin-off of SCT into an investment company ("InvCo") and an operating company ("OpCo")
- SCT's stakes in listed Samsung affiliates, treasury shares and any excess cash moves to SCT InvCo, while all operating assets and liabilities are retained in SCT OpCo – to be structured as a tax qualified transaction
- SCT shareholders end up holding an equivalent number of shares in SCT OpCo and SCT InvCo (as an entitlement, before SCT InvCo merges with the other newly created InvCos as part of the next integrated stage of the process) in line with their pre-spin-off shareholdings in SCT



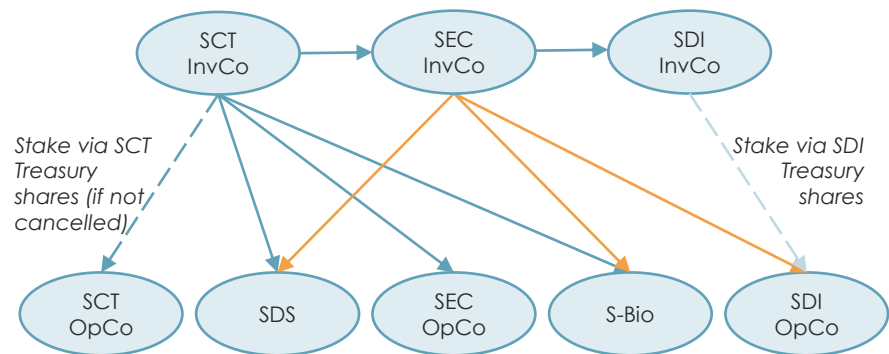
# Key Steps in Potential Restructuring – Step 1A: Spin-offs (...cont'd)

Simultaneous deconsolidation (split) of SEC and SDI on the same basis, each into their respective OpCo and InvCo

Current Group Structure (simplified - key entities only)



Resulting Group Structure (post horizontal spin-off – step 1A)



- The horizontal spin-off shown on the previous page for SCT is repeated on the same basis for SEC and SDI
- SEC and SDI assumed to have meaningful excess cash that can move to their respective InvCos and later help fund transactions in step 2 to meet the requirement for Holdco to own minimum 30% stakes in subsidiaries

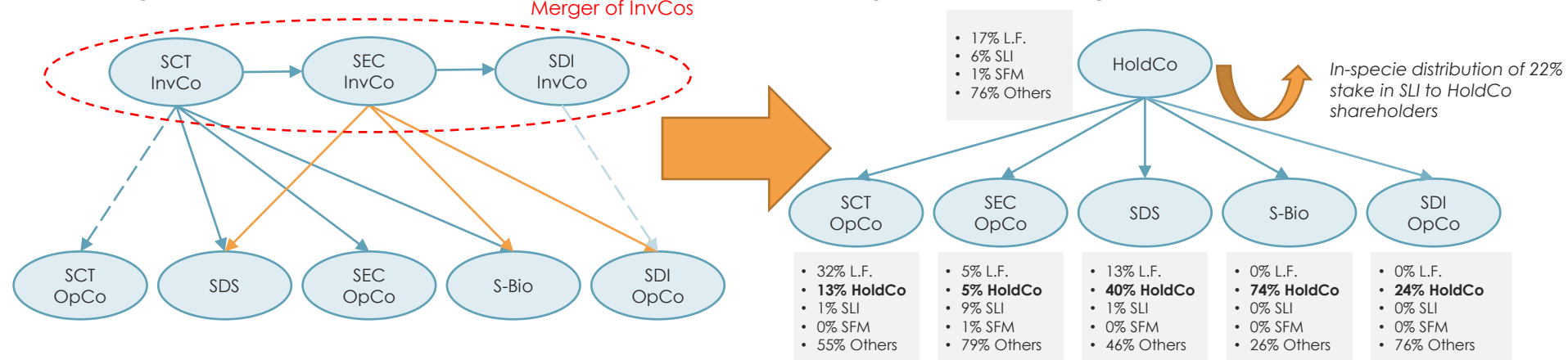
# Key Steps in Potential Restructuring – Step 1B: Merger

## Step 1B: Merge SCT Invco, SEC Invco and SDI Invco into one Holdco

### Starting Structure (after step 1A)

Merger of InvCos

### Resulting Structure (after merger of InvCo's – step 1B)



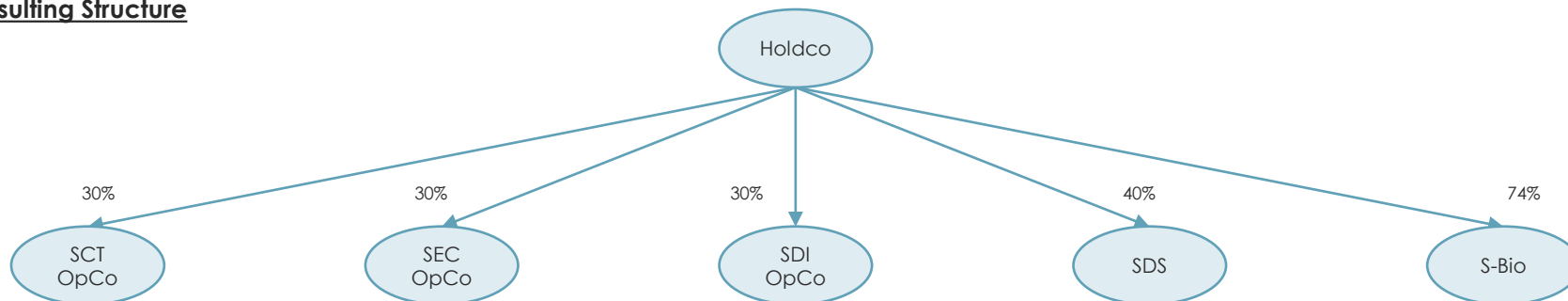
- Merge all the InvCos that have been created through the deconsolidation (SCT InvCo, SEC InvCo and SDI InvCo) on fair terms for all shareholders and stakeholders to form a single new Samsung Group Holding Company ("**Holdco**")
- Immediately follows Step 1A (the spin-offs) as part of a legally integrated process, meaning the individual InvCos never actually exist as newly formed independent legal entities
- SCT, SEC and SDI shareholders retain direct shareholdings in the respective OpCos and also receive new HoldCo shares based on the merger ratio for the merger of SCT InvCo, SEC InvCo and SDI InvCo
- Earnings value of InvCos is relevant to calculation of the merger ratio – subject to specialist accounting input, earnings value for listed stakes is typically based on market price, which means the merger ratio should be straightforward to calculate on a fair basis
- Since the newly formed Holdco (as a recognized holding company subject to applicable regulations) cannot own shares in a financial institution, it will distribute its 22% stake in SLI in-specie to Holdco shareholders

Notes: - SCT = Samsung C&T, SEC = Samsung Electronics, SDS = Samsung SDS, SDI = Samsung SDI, S-Bio = Samsung Biologics, Eng = Samsung Engineering, SLI = Samsung Life Insurance, SFM = Samsung Fire & Marine  
 - L.F. = Founding Lee family (Hong, Ra-Hee / Lee, Jae-Yong / Lee, Bu-Jin / Lee, Seo-Hyun)  
 - HoldCo shareholding: Founding Lee Family's stakes value as of sum of stakes value in InvCos; Treasury stake value based on sum of value of cross-shareholding and treasury stakes of InvCos; SLI stake value based on sum of SLI's shareholdings value in the affiliates; Total market cap without treasury based on sum of without-treasury market caps less the cross-holding stakes value and treasury stakes value  
 - Restructuring illustration assumes treasury shares of SCT are not cancelled prior to the restructuring

# Key Steps in Potential Restructuring – Step 2: Holdco Increases Opco Stakes

Holdco, within 2 years of being established, increases stakes in all OpCos to at least 30%

## Resulting Structure



- As a holding company subject to applicable regulations, Holdco is required to own at least 30% of its direct, listed subsidiaries. Holdco will therefore need to increase its ownership in the OpCos (and other listed subsidiaries) to at least this level within two years (the grace period under applicable regulations). This could be achieved in different ways, such as:
  - **(1) Public tender offer** - purchase OpCo stakes using “in-kind” consideration of newly issued Holdco shares and/or Holdco’s existing treasury shares (if not cancelled prior to restructuring)
    - Will likely require Lee Family to tender their OpCo stakes in return for Holdco shares
  - **(2) Direct purchases from Samsung Life Insurance (“SLI”) and Samsung Fire & Marine (“SFI”) of OpCo shares held by those entities**
    - Beneficial for SLI and SFM given their need to abide by potentially reformed Insurance Business Act rules (i.e. asset contribution from any one investment must be <3% of the insurer’s total assets, based on market value)
    - To be conducted using cash from Holdco’s existing cash balance (sourced from excess cash spun out from SEC, SDI and SCT)
  - **(3) Purchase additional OpCo shares from the public** – i.e. if Holdco has an OpCo stake that remains under 30% through (i) on-market cash purchases; and/or (ii) a public tender offer for OpCo shares at a larger premium (than a prior offer) using newly issued Holdco shares or Holdco’s existing treasury shares as consideration
  - We expect the Lee family to primarily be a shareholder in the Holdco at the end of the process which would simplify ownership and governance



**Palliser Capital**

