

Money Today [has reported](#) that private equity fund Kohlberg Kravis and Roberts (KKR) has started the process of selling its stake in Oriental Brewery (OB) and is approaching potential buyers. KKR originally acquired its stake in OB in May of 2009.

The article cites anonymous industry sources who say that KKR approached Lotte Group in January to feel them out about purchasing the stake however, the plan fell through, and KKR have begun contacting other potential buyers. It appears that Lotte Group is planning on entering the beer market on its own by building its own factory. KKR has also apparently approached Korean confectioner Orion to discuss purchasing the stake. In its talks with Orion, KKR suggested a valuation of roughly 10 times EBITA. Last year, OB's EBITA was 330 billion won, making the valuation 3.3 trillion won. However, because it wants to focus on its main confections business, Orion did not consider purchasing the stake.

In 2009 KKR paid 2.3 trillion won for the stake, so if it sells at the 3.3 trillion won valuation, KKR stands to grab profits of more than 1 trillion won. However, the article quotes M&A industry sources saying that since the domestic alcoholic beverage industry is in a slump, it will likely prove difficult to sell for that price. The article goes on to explain that there are few domestic companies who have the resources to purchase OB. If Lotte Group doesn't purchase the stake, KKR may have some difficulty in finding a buyer.

<http://www.privateequitykorea.com/ma-news/kkr-searching-for-oriental-brewery-buyer/>

Date of Purchase	2009-05-01	
Sale Date	2012-05-01	
Years Held	3.044	
	Equity	Debt
Paid Price at Zero	2,300	
Sale Price at Year 3	3,300	
Principal Recoupment	2,300	
Principal Gain	1,000	53.48%
EBITDA	870	46.52%
Reinvestment Gain	-	0.00%
<b>Exit Total Cash Flow</b>	<b>4,170</b>	<b>100.00%</b>
<b>Principal Gain</b>	<b>11.54%</b>	
<b>EBITDA</b>	<b>10.04%</b>	
<b>Reinvestment</b>	<b>0.00%</b>	
<b>IRR</b>	<b>21.58%</b>	
	<b>Cash Flow</b>	<b>IRR</b>
Year 0	2,300	-
Year 1	2,796	21.58%
Year 2	3,400	21.58%
Year 3	4,134	21.58%

#### **SN Capital Commentary**

After owning Oriental Brewery for a three year period, KKR could sell the company for \$3.3 BB (1000 won USD/KRW), or 10 times EBITA, or a 21.58% annual, compounded return.

The company value appreciation is estimated near \$1 BB, which will contribute 11.54% of the 21.58% IRR, or roughly half of the return. Possible reasons for the value appreciation is 1) multiple expansion, currently at 10x EBITA, 2) increased EBITA and cash flow.

Distributable FCF is not stated in the article. We are overstating cash contributions from operations, but to get a general idea for the return, we will assume EBITA is a good measure for FCF. 10.04% of the 21.58% IRR return is from operating annual cashflow, which builds the cash balance.

Like a bond, we must analyze the gain considering the 1) principal appreciation, 2) cashflow yield. We believe bonds and equity are essentially the same cashflow structure, except the Terminal value calculation.