

Sung Nam
January 24, 2013

SN Capital: Korea, Secondary Buyouts

We will initiate coverage of the Asian/Korean mergers, acquisition space in 2013. We have been unfortunate in finding a 1) reliable, 2) routinely updated and relevant, 3) free source of M&A news, but have come across 2-3 promising sites. The Korean PE and hedge fund space is growing at a rapid clip and drawing a lot of talent from the pool of Korean Americans, who are repatriating back to the mother land to help startup the alternative investment industry, all within the past 5 years. The new Korea Markets Consolidation Act seeks to deregulate the domestic capital market, to allow more risky alternative investment vehicles such as hedge funds and PEs to operate alongside the more traditional mutual funds, which are firmly in place, and quite young itself.

Per Soberlook, PE firms are acquiring more privately held co. than the outright purchase of publicly traded companies. The advantage is one which allows transaction prices to be independent of market sentiment, although they will use comp multiples as a source of value metric. PE firms have the upper hand as they can source potential deals from both the publicly traded and private space. Private, family owned co's could be a great universe to find high cash flow generating businesses, which have not been abused by hired managers, who make unreasonable business decisions to prop top-line, bottom-line figures. In fact, many may trade from PE to PE firm, where they are reaping high cash flow yields, while retail investors are stuck with high multiple companies, on the brink of insolvency.

MBK Partners is a leading Korean PE firm. They are stacked with top of the class individuals in HK, Shanghai, Tokyo and HQ in Seoul. The Seoul team members are all from Seoul National University, Ivy League and have experience at McKinsey, Bain or bulge bracket IBs. They manage \$3.5BB and named after Michael Byungju Kim, Harvard MBA, Fulbright Scholar, and former MD of Carlyle Group Asia. He was notable in his own right, but he is also the son-in-law of Posco Chairman, Tae-joon Park. The firm recently purchased a 53% stake of the outdoor co., NEPA, for 550B KRW, which values the co. at roughly 7.5x EBITDA. EBITDA would be around 138B KRW. According to a leading sell-side IB in Asia, the average EV/EBITDA multiple in Q4 2012 was 8.7x for the fashion and accessories space. The firm may opt to acquire 30% in additional shares.