



**LB**Investment

## Recent Development and Trends: **Korean and Chinese VC&PE Market**

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## KOREAN MAJOR LP – Vol.15: DONGBU LIFE



- Dongbu Life Insurance Co, Ltd. (Korean: 동부생명) is a South Korean insurance company, headquartered in Seoul, Korea, established in 1989. Specialized in whole life insurance and non cash-value life insurance products, Dongbu Life's profit-driven management has earned it the reputation as the country's most stable life insurance company. Company received the highest rating for the 5 consecutive years straight from the FSS.
  - In 1995 Dongbu Life entered into a new JV partnership with France's AXA group. In 2001 Dongbu Life acquired France's AXA Group's previously relinquished equity interest
  - The life insurance group division of Dongbu Group (Korean: 동부그룹) controls a large portion of the South Korean calling card market life insurance companies. Established in 1969, Dongbu Group is a large South Korean *chaebol*, producing steel, chemical, shipping, insurance and financial products.
  - Dongbu's financial network includes: Dongbu Insurance, Dongbu Capital, Dongbu Securities, Dongbu Mutual Savings Bank and Dongbu Investment Trust Management.
- In FYE 2011, Dongbu Life's assets increased 13% to KTW 6trn and made KRW 340bn in net income, making the most profitable year and the 13<sup>th</sup> consecutive profitable year since foundation. Company's Return-On-Asset and Return-On-Equity also stood at 0.61 and 8.83, accordingly.

### MAJOR SHAREHOLDERS

Name	Number of Shares	Percentage (%)
Dongbu Insurance	14,496,900	49.99
Dongbu Securities	5,750,042	19.83
Dongbu CNI	1,888,412	6.51
Dongbu Steel	3,371,000	11.62
Dongbu Capital	1,446,588	4.99
Jun-gi Kim(private)	2,047,058	7.06
Total	29,000,000	100.00

### FINANCIAL POSITION

#### Consolidated Statements of Financial Position

(Unit: KRW in 100 million)

Category	FY2011	FY2010
Total Assets	59,737	52,667
Total Liabilities	55,239	49,269
Total Shareholders' Equity	4,498	3,398
Total Liabilities & Shareholders' Equity	59,737	52,667

#### Consolidated Statements of Comprehensive Income

Category	FY2011	FY2010
Operating Income	17,468	18,015
Operating Expenses & Claims	17,001	17,702
Net Operating Income	467	313
Non-Operating Income	38	52
Non-Operating Expenses	58	76
Net Income before Income Tax	446	290
Income Tax Expenses	136	66
Net Income for the period	310	224
Other Comprehensive Income for the Period	859	-22
Total Comprehensive Income for the Period	1,169	202

- Dongbu Life's total fund investment stood at KRW 480bn in FYE 2011. While the company does not disclose details of its private equity investment, a lot of insurance companies in Korea are looking to increase allocation to private equity business for higher returns.

- LBI's relationship with Dongbu Life has been limited to sharing mutual interest and participation in the domestic private equity industry. LBI continues to communicate closely about potential commitment in the future.



# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO & DEAL ALERT

IPO Company Name	Date	Company Business
Fortis	1/29	Satellite/cable settop box manufacturer
I-Sense	1/30	Blood glucose monitoring device
Wooree E&L	2/5	LED Packaging
I-Wins	2/7	Semiconductor equipment
GD	2/13	LCD display manufacturer
Zero-to-Seven	2/19	Baby products and clothing
Colentech	3/5	Medical equipment manufacturer

- South Korean pharma to pursue M&A in 2013 as government pushes for global expansion.** South Korean pharmaceutical companies, with the support of the Korean government, are expected to actively embark on domestic and overseas M&A. The Ministry of Health and Welfare has established a public fund to allocate KRW 100bn (\$100mm) annually for global pharmaceutical M&A deals by Korean firms, while KoFC (Korea Finance Corporation), one of the two biggest Korean LPs, will make separate allocations for local GPs to set up pharma-focused PE funds.
- National Pension Service's investment return hits 7% in 2012 with asset of KRW 391.96trn (\$390bn),** improving from 2.31% in 2011. The return on domestic alternative investment was 4.64%, while the corresponding figure for overseas alternative investment was 5.24%.
- KB Financial Group to form S. Korean version of "Yozma" worth KRW 30bn.** Kookmin Bank will form the KB fund for venture companies modeled after 'Yozma' to support start-ups in which it will participate as an LP. The new fund aims at fostering venture start-ups, which struggle to raise seed capital and is expected to boost job creation. Yozma fund is a leading Israeli public-private VC fund set up by the government in 1993 to foster venture companies.
- South Korean corporate restructuring to buoy 2013 M&A as political uncertainty recedes.** Large corporate de-leveraging, a strategic focus on core businesses and moves that may improve corporate governance are expected to create M&A opportunities in 2013. Korean M&A volume in 2012 dropped 34% to \$26.45bn with 226 deals compared with \$40.12bn with 276 deals in 2011.
- New VC fund commitment will be KRW 1.4trn in 2013,** which is double the level in 2012. New VC investments will be around KRW 1trn, encouraged by the new government that strongly campaigned for growth of SME companies.
- Samsung launches \$1.1bn plan in Silicon Valley.** Samsung launched a \$100mm "Samsung Catalyst Fund" to invest in early-stage startups and various innovative projects, and a \$1bn "Samsung Ventures America Fund" to fuel global innovation through M&As of global companies and investments in those companies.
- TheFaceShop Korea acquires TFS Singapore Private for SGD 19.5mm.** The cosmetic selling chain of listed LG Household & Health Care acquired 100% of TFS Singapore Private for SGD 19.5mm (\$16mm). TFS is a privately held company operating about 20 shops in Singapore selling TheFaceShop products. TheFaceShop Korea is looking to expand overseas business via the acquisition
- STX Pan Ocean stake sale.** STX Group is selling a 34.95% of its direct and deemed owned shares, as well as their management rights, of the listed Korean bulk shipping company, STX Pan Ocean with a market cap of KRW 1trn. The decision to sell the stake was reportedly made for structure reform and financial improvement.
- POSCO and China Steel Corporation led consortium buys stake in ArcelorMittal Mines Canada.** ArcelorMittal sold a 15% interest in its subsidiary AMMC for KRW 1.2trn, with POSCO investing KRW 287bn and China Steel investing KRW 574bn, with the remainder being raised by institutional investors in Korea. They will jointly own ArcelorMittal's Labrador iron ore mining and infrastructure assets.



# KOREAN ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO & DEAL ALERT (cont'd)

- **Codes Combine CEO to sell his stake in the company.** After various reports of the CEO and largest shareholder of the listed Korean apparel company, he would in fact go through with the sale of his 33.22% stake (including warrants). Codes Combine has been run by husband and wife, and the couple had lawsuit over management right of the company.
- **MBK Partners to acquire majority stake in NEPA.** The South Korean private equity fund acquired a 53% stake in NEPA Company Ltd, a Korean outdoor clothing company, for approximately KRW 550bn (\$550mm). The stake was acquired for a 7.5x EBITDA. In addition, MBK Partners reportedly plans to purchase an additional 30% stake in NEPA in the future which would bring the value of the deal to around KRW 900bn (\$852mm).
- **K-Swiss to be acquired by ELand.** K-Swiss, the Californian sneaker maker, was acquired by ELand World, the Korean conglomerate, in a deal where ELand purchased all outstanding common stock in K-Swiss for KRW 179.9bn (\$180mm). This amounts to around \$4.75 per share and a 49% premium over the closing price. ELand did not need additional external financing to fund the acquisition.
- **60% stake in Kraze International for sale.** The private Korean hamburger franchiser with 100 shops recently placed its 60% stake up for sale. The estimated sale price is around KRW 10bn (1\$10mm). The target company had faced liquidity problems due to excessive expansion.
- **PDA unit of Woongjin Holdings for sale.** Woongjin Holdings, a listed South Korean company under court receivership since last October, put its PDA making unit up for sale. Recorded sales of KRW 14.8bn (\$14.8mm) for the business unit and an operating loss of KRW 0.5bn in 2010.
- **Hana Financial to make KEB a fully owned unit.** South Korea's third-largest financial services group acquired the remaining 40% in Korea Exchange Bank (KEB) through share swapping. This move comes after the KRW 4.4trn (\$4bn) acquisition of a 51% stake in KEB from Lone Star Funds last February in a play to help Hana Financial compete with larger rivals during an economic slowdown.
- **Samsung Life in talks to acquire stake in DLF-Pramerica.** Samsung Life Insurance was recently in talks with an Indian JV, DLF-Pramerica, about acquiring their 26% stake in the venture. The Indian JV insurance company, DLF-Pramerica, is 74:26 owned by DLF and Prudential International Insurance Holdings, respectively.
- **Monalisa stake for sale.** The largest shareholder and his family plan to sell their combined 66% stake in Monsalisa, the Korean listed bathroom tissue maker, to Morgan Stanley PE for KRW 91.4bn (\$90mm). The sale involves 24,130,000 shares and Morgan Stanley PE's special purpose company, MSPE Tissue Holdings AB, will acquire the stake.
- **CLSA Japan sells 100% stake in Everlife to LG Household and Health Care.** The Japanese direct marketing company, Everlife, was sold in its entirety by CLSA Japan to the listed Korean subsidiary of LG Group, LG Household and Health Care for \$285mm. Everlife, Japan's third largest direct marketing company in the health care section was founded in Fukuoka in 1990.
- **Dong-A Pharmaceutical to acquire MI Tech.** Dong-A Pharmaceutical was selected as the preferred bidder in the sale of MI Tech, a private Korean medical equipment maker under court receivership, for about KRW 12bn.
- **Korea Cable TV Chung-Buk System to sell stake in World Event Network TV.** The listed Korean regional cable TV operator is selling their 74% stake in World Event Network TV for KRW 4bn (\$4mm). While at the due diligence stage, the buyer was not announced.



# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## ECONOMY & MARKET UPDATE

### TREND OF CONSUMER PRICE INDEX

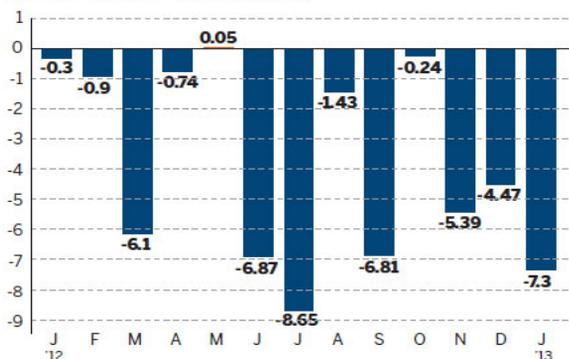
Jan 2012 - Jan 2013

Y-O-Y growth (%)



- **China's January inflation slows to 2%.** The month-on-month growth rate marked an 11-month high, as a cold winter and holiday demand have significantly pushed up vegetable and meat prices. China is experiencing an unusually cold winter. Persistent icy weather in south China and lingering smog in north China have disrupted traffic and affected agricultural production.

### FDI GROWTH (%)

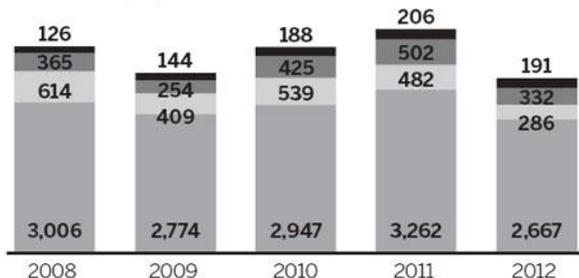


- **China's January PPI falls 1.6%.** PPI measures inflation at the wholesale level. The drop marked the 11th straight month of declines after the PPI dropped in March 2012 for the first time since December 2009, indicating that the economy's growth is stabilizing.

- **FDI drops again amid slowdown,** as a result of the global slowdown as well as lingering concerns over China's economic recovery. The country registered \$9.27bn in FDI in January, a drop of 7.3% y-o-y. Global cross-border FDI dropped 18% y-o-y in 2012 while in Asia it declined 9.5%. The decline in China on the global scale was 3.7%, indicating China still remains an attractive FDI destination.

### DEAL VOLUME BY MAIN CATEGORY

Domestic strategic buyers Foreign strategic buyers  
Private equity deals China mainland outbound



- **China's M&A deals tipped to rebound in 2013.** Domestic and foreign-inbound M&A deals by strategic investors fell to a five-year low last year, but activity is expected to rebound in 2013. Last year, 2,953 M&A deals were made by domestic and foreign strategic buyers in China and their value totaled \$97.1bn, down 28% y-o-y. Overall, there were 4,115 M&A deals related to the Chinese market totaling \$199.5bn, down 9% y-o-y. New deals and exit activity will accelerate strongly from 2Q'13 as pricing expectations adjust, 2012 results become available, IPO markets reopen and China's leadership transition takes effect.

## IPO & DEAL ALERT

- **Anheuser-Busch InBev to buy Jiangxi beer maker.** AB InBev acquired Chinese Nanchang Asia Brewery Co Ltd, a leading brewery in Jiangxi province in order to penetrate into the Chinese middle and low-end beer markets.
- **J&J acquires local rival, Shanghai Elsker for Mother & Baby Co.** Johnson & Johnson (China) Investment Co Ltd, the Chinese arm of the giant US consumer goods manufacturer, whose baby care products claim half of the Chinese market, acquired a local rival to consolidate its dominance in China. The acquisition would enable Johnson & Johnson to fend off potential competition that is eating into its market share. Elsker reached RMB 500mm in revenue last year and has penetrated distribution channels from international and local supermarket chains



# CHINESE ECONOMY & PRIVATE EQUITY INDUSTRY

## IPO & DEAL ALERT (cont'd)

- **Sinochem to buy into US oil-gas field.** Pioneer Natural Resources Co, an American oil and gas company, sold a 40% stake in the Wolfcamp oil-gas field, which is worth \$1.7 billion, was sold to Sinochem Group, one of China's four State oil companies. Texas-based Pioneer will retain a 60% stake, as well as operating rights for the field. Sinochem will pay \$500mm in cash for the stake, with \$1.2bn to be paid in the form of drilling equipment.
- **Aussie Alumina secures CITIC's investment of \$468mm.** Australia's Alumina Limited received a strategic investment of A\$452mm (\$468mm) from China's state-owned investment firm CITIC.
- **CNOOC, Nexen deal wins US approval.** US regulators have approved the \$15.1bn takeover of Canadian oil and gas company Nexen Inc by China's State-owned CNOOC Ltd, removing the final obstacle to the country's largest foreign takeover. The deal to buy Calgary, Alberta-based Nexen had already passed regulatory muster in Canada and Europe. But approval from the Committee on Foreign Investment in the United States was also needed because Nexen has US interests.
- **Vanke makes first venture into US market.** China Vanke Co Ltd, China's largest real estate developer by market value, has teamed up with US real estate firm Tishman Speyer Properties to jointly develop a plot of land in San Francisco, making the company's first venture into the US market. The company is aiming to strengthen its globalization strategy.
- **CIC invests in Moscow Exchange.** The country's sovereign wealth fund has invested in the pre-IPO of the Moscow Exchange. The Moscow Exchange floated shares valued at \$500mm on Feb 15.
- **Jingdong Mall raises \$700mm.** Chinese online retailer Jingdong Mall said its cash reserve topped RMB 15bn (\$2.4bn) after the Beijing-based company raised around \$700mm from Kingdom Holding Co, Canada's Ontario Teachers Pension Plan and some other existing shareholders. Jingdong is the nation's second-largest business-to-customer platform after Tmall, owned by Alibaba Group Holdings.
- **360buy sells \$400mm stake to Saudi company.** In a bid to fuel the company's growth, Chinese e-commerce giant 360buy sold a \$400mm stake to a Saudi Arabian company. Kingdom Holding Company (KHC), which is owned by billionaire Al-Waleed bin Talal, a member of the Saudi royal family, led the stake acquisition. The acquisition was part of 360buy's fourth round of financing, which has raised a total of \$700mm. The other three rounds occurred in 2007, 2008 and 2011.
- **Geely completes black cab takeover.** China's privately owned automaker Zhejiang Geely Holding Group finalized the acquisition for £ 11.04mm (\$17.46mm) of Manganese Bronze Holdings, the maker of the iconic London black cabs. Geely, which attracted worldwide attention after its acquisition of Swedish car brand Volvo in 2010, was already a shareholder in Manganese Bronze after buying a 19.97% stake in separate deals in 2006 and 2010.
- **US approves Wanxiang's \$257mm purchase.** A US government panel has approved the purchase by China's biggest auto parts maker, Wanxiang Group, of nearly all the assets of A123 Systems Inc, a Massachusetts-based maker of electric-car batteries that declared bankruptcy last year.
- **China's solar giant Hanergy purchases MiaSole.** China's largest privately owned clean power generator by output, Hanergy Holding Group Ltd, bought MiaSole, a California producer of thin-film solar panels, marking the second overseas acquisition by the company. The deal is said to be about a tenth of the initial \$1.2bn asking price.

## LB NEWS UPDATE

### LB NEW PORTFOLIO COMPANIES

LB made new investments in the following portfolio companies in the past two months:

#### 1) Bio Protech

- **Founded In:** May 2005
- **Investment Stage/Type:** Series-C/Mid-Stage
- **Industry:** Medical equipment
- Produces medical supplies/healthcare parts that are being used for various body sensor tests, such as electrocardiogram sensor and transcutaneous electrical nerve stimulation. Current major clients include global medical clients like GE Healthcare and Medline, as well as big distributor and GPOs (Group Purchasing Organization), and company is heavily relied on exporting, with 97% of the revenue coming from overseas.



#### 2) Kleannara

- **Founded In:** March 1966 as Daehan Pulp, subsequently acquired by Heesung Electronics in April 2009
- **Investment Stage/Type:** PIPE(KOSPI-listed)
- **Industry:** Paper & hygiene product
- Produces paperboard and paper cup liners (B2B, 53% of total revenue) and hygiene products like toilet paper, tissue, baby diaper and sanitary napkin (B2C, 47% of total revenue). While the paperboard division continues to produce stable revenue based on diversified long-lasting customer base, the hygiene business is expected to gain bigger market share and generate higher profits based on aggressive marketing and product renewal efforts.



# LB NEWS UPDATE

## LB RECENT INVESTMENT DEVELOPMENTS

LB expects to successfully exit 6 portfolio companies through IPOs in KOSDAQ, TSEC and NASDAQ during 2013.

### 1) Maxrotec

- Manufacturer of wireless gantry robot system and cylinder block of car engine
- Later stage investment
- Time of investment : May 2011
- Expected IPO in KOSDAQ: 2012 4Q (Exit in 2013 1H)

### 2) Youjia Mica

- Raw materials (synthetic mica powder and synthetic coiled mica)
- Pre-IPO investment
- Time of investment: June 2012
- Expected IPO in TSEC (Taiwan Stock Exchange): 2013 1H (Exit in 2013 2H)

### 3) TESNA

- Semiconductor test house
- Mid stage investment
- Time of investment : July 2008
- Expected IPO in KOSDAQ: 2013 1H

### 4) GCT

- LTE & WiMax chip set solutions for 3-4G mobile handset
- Early stage VC investment
- Time of investment: September 2011
- Expected IPO in NASDAQ: 2013 2H

### 5) Erae CS

- Manufacturer of essential parts of industrial tools, automotive, shipbuilding and plant items
- Later stage investment
- Time of investment : October 2010
- Expected IPO in KOSDAQ: 2013 2H

### 6) TOPAZ

- LED TV & flat LED lighting manufacturer using laser and LGP (Light Guide Plate)
- Mid stage investment
- Time of investment : May 2011
- Expected IPO in KOSDAQ: 2013 2H

