

Discovering the hidden value of Golfzon

KB Asset Management Value Management Division

2018.02.22



- **KB Asset Management Value Management Division is a long-term friendly investor with a 24% stake, highly valuing Golfzon's market dominance, high ROE and excellent cash flow. We are deeply grateful for good performance despite the strong competition in screen golf industry and highly regulated environment.**
- **Golfzon has begun to pay a) brand royalty, b) management consulting fee, c) rent to the holding company after the split**
- **Compared with the brand loyalty rate of domestic holding companies announced by the Fair Trade Commission in January 2018, Golfzon Newdin is the highest at 3.3%, 4.4 times higher than the second largest Hankook Tire Worldwide and 11 times higher than the average of major conglomerates**
- **Since dividends are distributed to all shareholders, there is no conflict of interest with minority shareholders, unlike 'other expenses to related parties'. Since Golfzon has shown limited CAPEX after the split, dividends need to be expanded even in order to defend the decline in ROE**
- **We introduced the Stewardship code from December 2017 and asked the following questions to fulfill our faithfulness as trustee of our customer assets**

- 1. We would like to know the rationale and background of the brand royalty rate of 3.3%.**
- 2. According to KB Asset's simulation, Golfzon will have net cash of W163bn in FY20, even if the dividend payout ratio is raised to 50%. On the other hand, ROE will drop to 20% in FY20 from 32% of FY16. We would like to ask about new investment plans and shareholder policies to defend the decline in ROE**

CONTENTS

01. Golfzon's unique business model

02. Cash flow from Golfzon to holding company

03. Discovering the hidden value of Golfzon

04. KB Asset Management Value Management Division



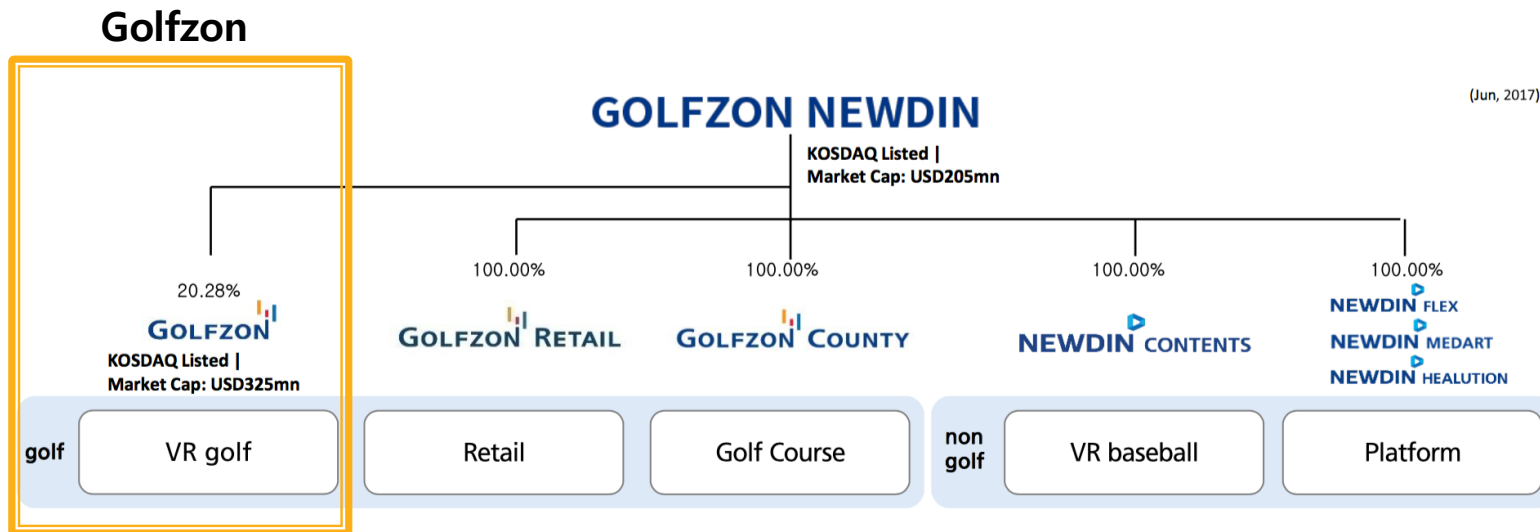
Golfzon settled its screen golf business model and became the No. 1 player in the domestic market. After the split, Golfzon has been more focused on screen golf business

➤ History

- 2000 Golfzon established
- 2002 Golfzon P launched
- 2008 Golfzon N launched
- 2011 Golfzon Real launched and retail biz initiated

- 2012 Golfzon Vision launched
- 2014 GDR launched
- 2015 Golfzon Vision plus launched and the company split
- 2017 Golfzon Two Vision launched and franchise biz initiated

➤ Golfzon took on the screen golf business, and holding company has been focused on new business investments.

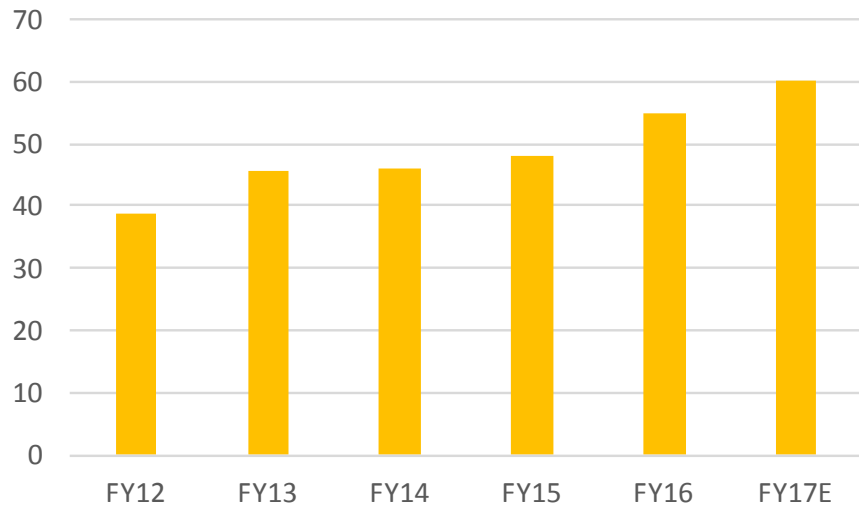


*Source: Golfzon webpage

In spite of intensifying competition and various regulations, software sales has been growing on the back of steadily increasing number of rounds. Due to the nature of the platform business, the software business can generate steady profits without additional investment

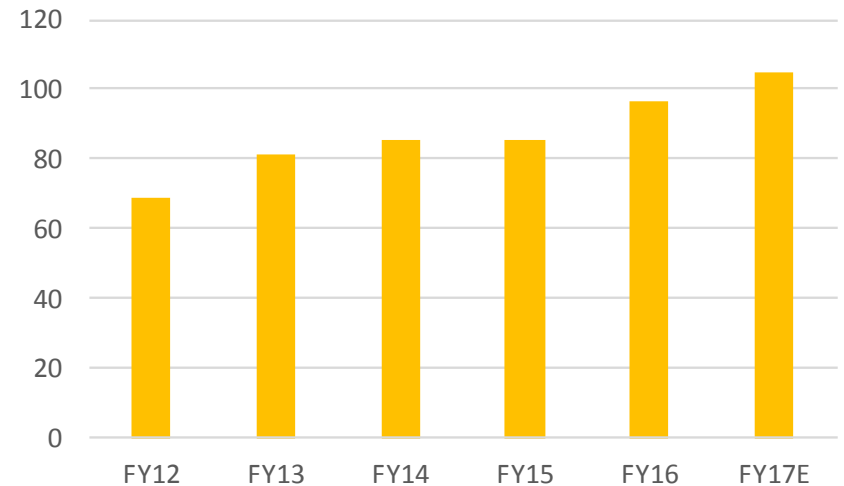
➤ Number of rounds

(mn rounds)



➤ Software sales trend

(Wbn)

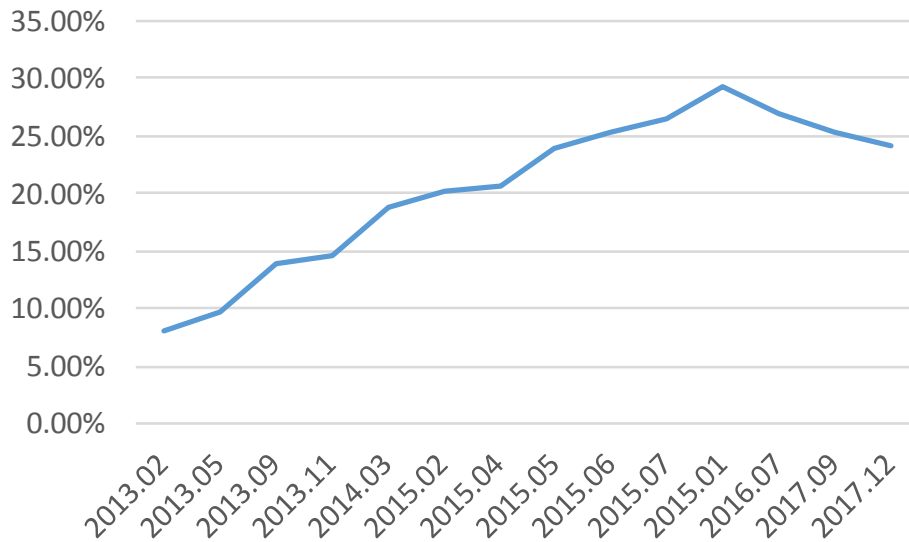


*Software sales: Costs paid to Golfzon by franchisee per round in screen golf

*Source: company IR book

Our management team is a long-term friendly investor who has maintained a high stake in Golfzon over the past four years by highly valuing Golfzon's market dominance, high ROE and sustainable profitability.

➤ KB Asset Management's Ownership Change in Golfzon



➤ Voting results at regular shareholders' meeting

Regular shareholders' bill in FY14	KB Vote
Approval of Financial Statement	Agree
Change of articles of association	Agree
Director election	Not exercise
Audit election	Agree
Director remuneration limit approval	Agree
Audit remuneration limit approval	Agree
Regular shareholders' bill in FY15	KB Vote
Approval of Financial Statement	Agree
Change of articles of association	Agree
Director remuneration limit approval	Agree
Audit remuneration limit approval	Agree
Regular shareholders' bill in FY16	KB Vote
Approval of Financial Statement	Agree
Change of articles of association	Agree
Outside director election	Not exercise
Election of Audit Committee member	Not exercise
Director remuneration limit approval	Agree
Regular shareholders' bill in FY17	KB Vote
Approval of Financial Statement	Not exercise
Change of articles of association	Agree
Director election	Agree
Election of Audit Committee member	Agree
Director remuneration limit approval	Agree
Change in the provision for severance pay for executives	Against

*Source: Quantiwise, DART

CONTENTS

01. Golfzon's unique business model

02. Cash flow from Golfzon to holding company

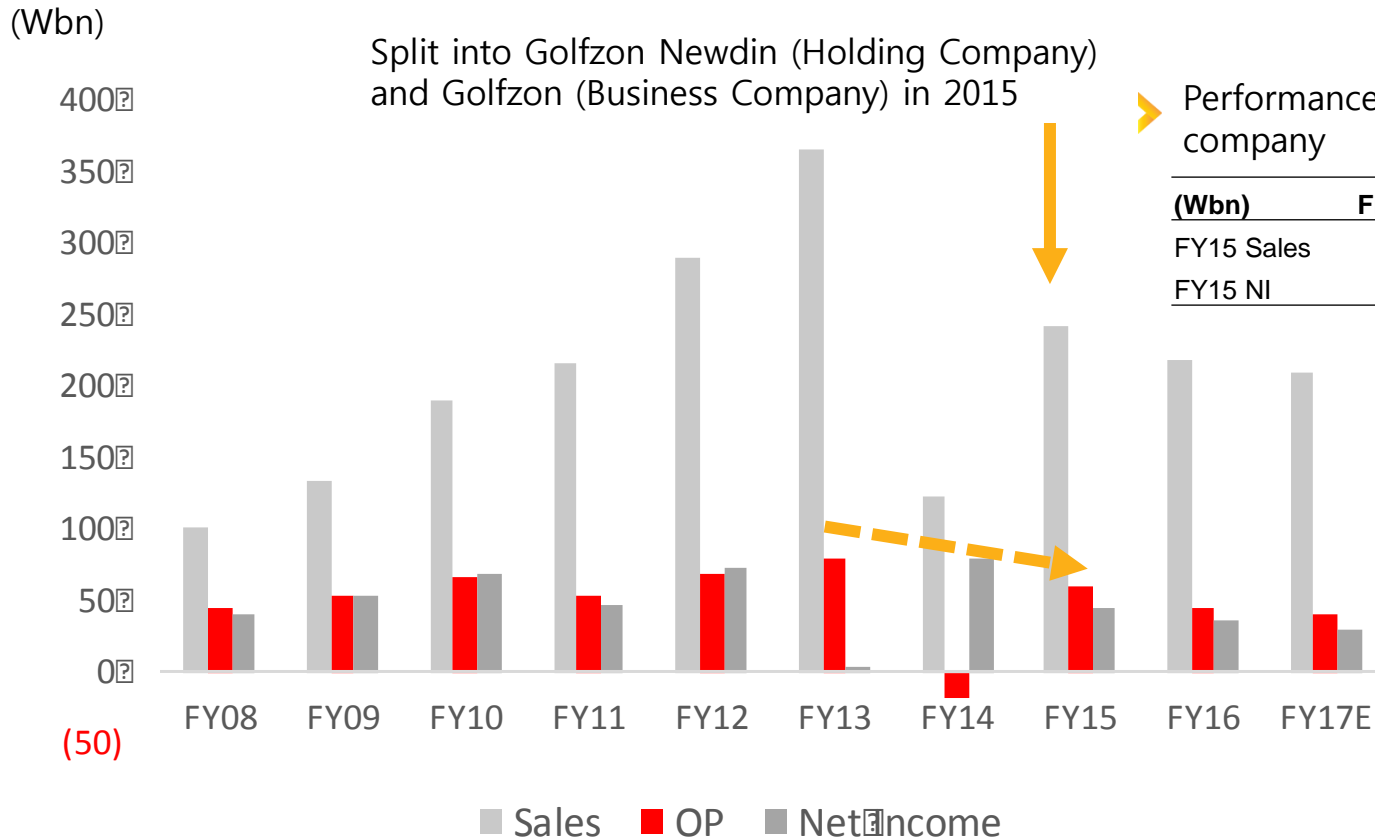
03. Discovering the hidden value of Golfzon

04. KB Asset Management Value Management Division



Golfzon's profit margins has deteriorated since the split. Given that the holding company took all of the deficit division at the time of the split, it does not make much sense.

➤ Golfzon's sales, OP, and net income trends



*FY17 net profit is estimated excluding one-offs (corporate tax refunds of W35.5bn and other non-operating gains of W14.6bn)

*Source: Quantiwise, Company data

So we looked into the cash flow from the Golfzon to the holding company, which consisted of 1) Other expenses to related parties and 2) Dividend

➤ Cash flow analysis between Golfzon and holding company

(Wbn)	Golfzon	Holding company
Main biz	Screen golf	Retail biz, Filed golf, VR baseball game, Platform biz
Role in group	Cashcow	New investment
CAPEX (3years average)	4.8	21.6
EBITDA (3years average)	50.8	28.7



1) Other expenses to related parties of W14.0bn

: Possible conflict of interest with minority shareholders

2) Dividend of W3.0bn

: No conflict of interest with minority shareholders

*The figure for 2017E in 3years average was estimated by KB Asset.

*Other expenses to related parties : Uncategorized payments from a business company to a holding company

*Source: Company data, Quantiwise

1) 'Other expenses to related parties' were W140-145bn a year, consisting of A) brand royalty, B) management consulting fee, and C) rent.

Transactions between related parties

1) Notes to Consolidated Financial Statements in Golfzon' annual report in 2016

(2) 당기 및 전기 중 특수관계자 거래 내역은 다음과 같습니다.

① 당기

구분	특수관계자명	매출	기타수익	자산의처분	매입	기타비용	자산의매입
유의적인 영향력을 행사하는 기업	(주)골프존유원홀딩스	969,480	233,517	798,263	-	14,518,262	5,832
기타	(주)골프존유통	1,545,522	13,164	-	175,427	157,617	134,051
	(주)골프존카운티	873,644	21,173	-	-	483,403	-
	(주)골프존카운티 선운	4,294	-	-	-	12,000	-
	태양시티건설(주)	10,000	-	-	-	18,742	-
	(주)뉴던콘텐츠	2,862,686	64,171	69,268	20,688	60,000	100,000
	사내근로복지기금	-	-	-	-	2,194,310	-
	골프존문화재단	250	33,352	-	-	902,269	-
	재단법인 유원골프재단	-	-	-	-	300,000	-
합 계		6,265,876	365,377	867,531	196,115	18,646,603	239,883

Classification of 'other expenses to related parties'

Items	Amount (Wbn)	Details
Brand Royalty	7.2	FY16 Revenue of W217.0bn * 3.3%
Consulting fee	4.8	KB estimates on the back of IR communication
Rents	2.5	
Total	14.5	

2) Notes to Consolidated Financial Statements in Golfzon' annual report in 2015

(2) 당기 중 특수관계자 거래 내역은 다음과 같습니다.

구분	특수관계자명	매출	기타수익	매입	기타비용
유의적인 영향력을 행사하는 기업	(주)골프존유원홀딩스	293,105	216,368	48,876	14,021,804
기타	(주)골프존유통	533,487	198,781	511,654	282,796
	(주)골프존리테일	1,839	-	-	-
	(주)골프존카운티	905,901	-	-	369,470
	(주)골프존카운티선운	832	-	-	12,638
	(주)골프존카운티영천	3,427	-	-	-
	(주)골프존카운티디엔엠	3,622	-	-	-
	(주)골프존엔터테인먼트	117,742	67,740	-	82,619
	사내근로복지기금	-	-	-	1,619,275
골프존문화재단	-	723	-	916,900	
합 계		1,859,955	483,612	560,530	17,305,502

Items	Amount (Wbn)	Details
Brand Royalty	6.7	FY15 Revenue W201.6bn * 3.3%
Consulting fee	0.5	KB estimates on the back of IR communication
Rents	2.5	
Total	14.0	

*Management consulting fees and rents are estimated on the back of IR meetings, *Source: DART

In regard with A) Brand Royalty, there are domestic holding company figures released by the Fair Trade Commission in January 2018. Golfzon is the highest at 3.3%, 4 times higher than Hankook Tire and 11 times higher than the average

➤ Brand royalty rate of the domestic holding companies

Conglomerate	Holding Co.	Rate of brand royalties (%)	Remarks
SeAH	SeAH Holdings	0.06	SeAH Holdings and SeAH Steel co-branded
HHIC	HHIC Holdings	0.06	
Lotte	Lotte	0.15	Began receiving after conversion to holding company in October 2017
LG	LG	0.20	The first holding company establishing the concept of brand royalty fee
GS	GS	0.20	
LS	LS	0.20	In addition to brand royalty, a separate service fee charged
SK	SK	0.20	SK Inno and SKT are paying together for the operating expenses of SUPEX Council
Dongwon	Dongwon Enterprise	0.20	In addition to brand royalty, a separate service fee charged
AmorePacific	AmoreG	0.20	In addition to brand royalty, a separate administrative fee charged
Hanjin	Hanjinkal	0.20	Hanjin Kal holds all brands including Korean Air
HiteJinro	HiteJinro Holdings	0.30	Product brands are owned by subsidiary Hite Jinro
Hansol	Hansol Holdings	0.30	In addition to brand royalty, a separate administrative fee charged
Kolon	Kolon	0.35	Most of the import fee items consist of brand royalty fee
Harim	Jeil Holdings	0.40	
CJ	CJ	0.40	
Halla	Halla Holdings	0.70	
Hankook tire	Hankook tire worldwied	0.75	Second highest rate among 21 companies. In addition to brand royalty, a separate service fee charged
Golfzon	Golfzon Newdin	3.30	The highest rate among 21 companies. In addition to brand royalty, a consulting fee charged
HHI	Hyundai Robotics	없음	
Korea Investment	Korea Holdings	없음	Shared by affiliates
Celltrion	Celltrion Holdings	없음	Celltrion owns the brand

*Source: Free trade commission, Company data

The FY16 operating profit increased by 19.8% after adjusting the brand royalty rate to major conglomerates average of 0.28% and the consulting fee to 50% of the previous level, respectively.

➤ **New assumptions about brand royalty and management consulting fee**

Assumptions 1) The brand value of Golfzon is the average level of domestic major conglomerates

Assumption 2) Golfzon has moved away from the complicated business structure through the split, not investing in any new business over the past three years. The management consulting fees can be reduced by 50%

➤ **Other expenses re-calculated under the new assumptions**

Items	Amount (Wbn)	Details
Brand Royalty	7.2	FY16 Revenue of W217.0bn * 3.3%
Consulting fee	4.8	KB estimates on the back of IR communication
Rents	2.5	
Total	14.5	



Items	Amount (Wbn)	Details
Brand Royalty	0.6	FY16 Revenue of W217.0bn * 0.28%
Consulting fee	2.4	50% discount
Rents	2.5	
Total	5.5	

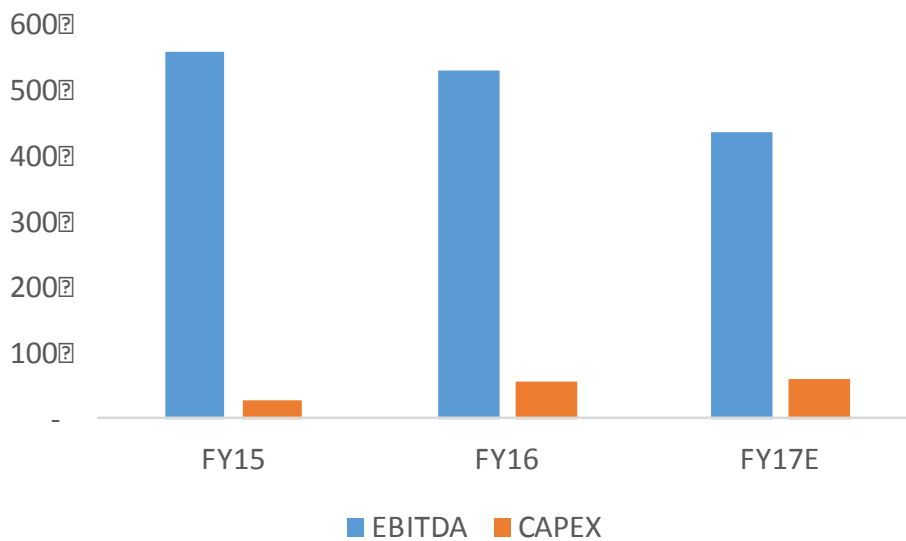
➤ **The FY16 operating profit increased by 19.8%, from W45.4bn (OPM 21%) to W54.5bn (OPM 25%).**

*This page presents simulation results based on two subjective assumptions by KBAM

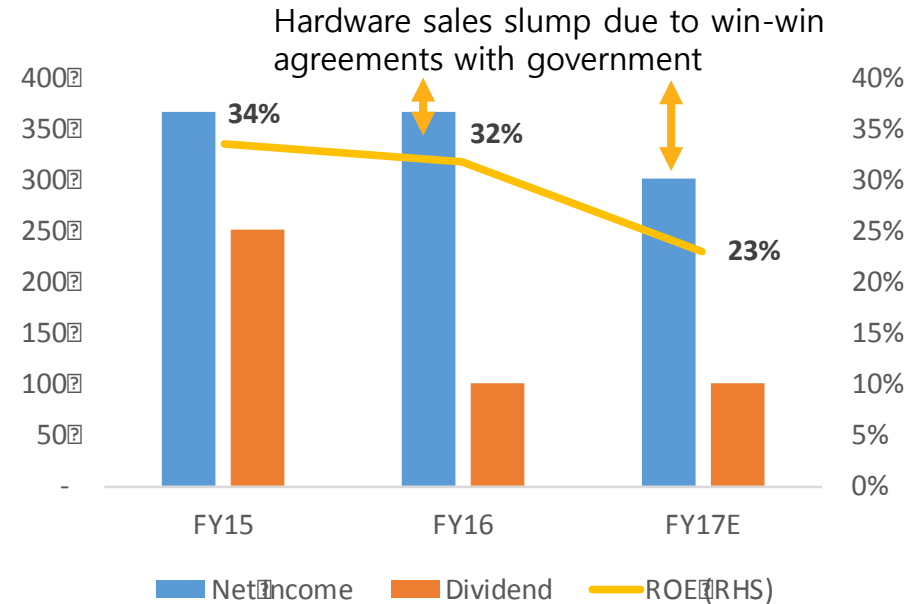
*Source: DART

2) The dividends were W3bn in average. Since Golfzon has shown limited CAPEX after the split, dividends need to be expanded even in order to defend the decline in ROE.

➤ New investment has been limited...



➤ ...ROE has declined after the split



*FY17 net profit, EBITDA, and ROE are estimated excluding one-offs (corporate tax refunds of W35.5bn and other non-operating gains of W14.6bn)

*FY17 dividend is estimated by KBAM

*Source: Quantiwise

CONTENTS

01. Golfzon's unique business model

02. Cash flow from Golfzon to holding company

03. Discovering the hidden value of Golfzon

04. KB Asset Management Value Management Division

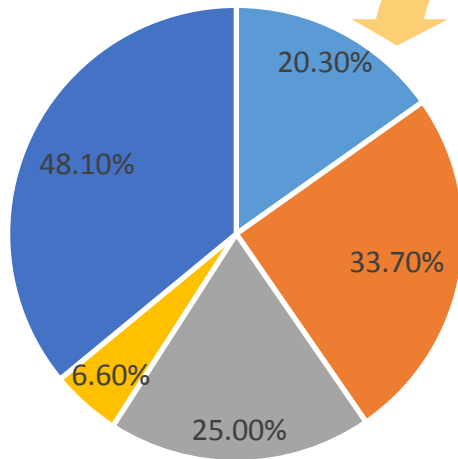


Unlike 'other expenses to related parties', dividend is evenly distributed to all shareholders. Dividend is the most legitimate way to secure investment resources for the holding company and defend the decline in ROE

➤ Golfzon shareholders (2017.12.05)

Other expenses to related parties

: Concentrating benefits to specific shareholders and carrying conflicts of interest with minority shareholders



: Even distribution to all shareholders



- Golfzon Newdin
- Kim, Wonil and related parties
- KB Asset
- NPS
- Etc

*Source: DART

If Golfzon reduce 'other expenses to related parties', according to the scenario of KB Asset, it will have net cash of W163bn in three years, even if the dividend payout ratio is raised to 50%

Scenario analysis reflecting assumptions of KB Asset Management

Assumptions 1) The brand value of Golfzon is the average level of domestic major conglomerates

Assumption 2) Golfzon has moved away from the complicated business structure through the split and has not invested in any new business over the past three years. The management consulting fees can be reduced by 50%

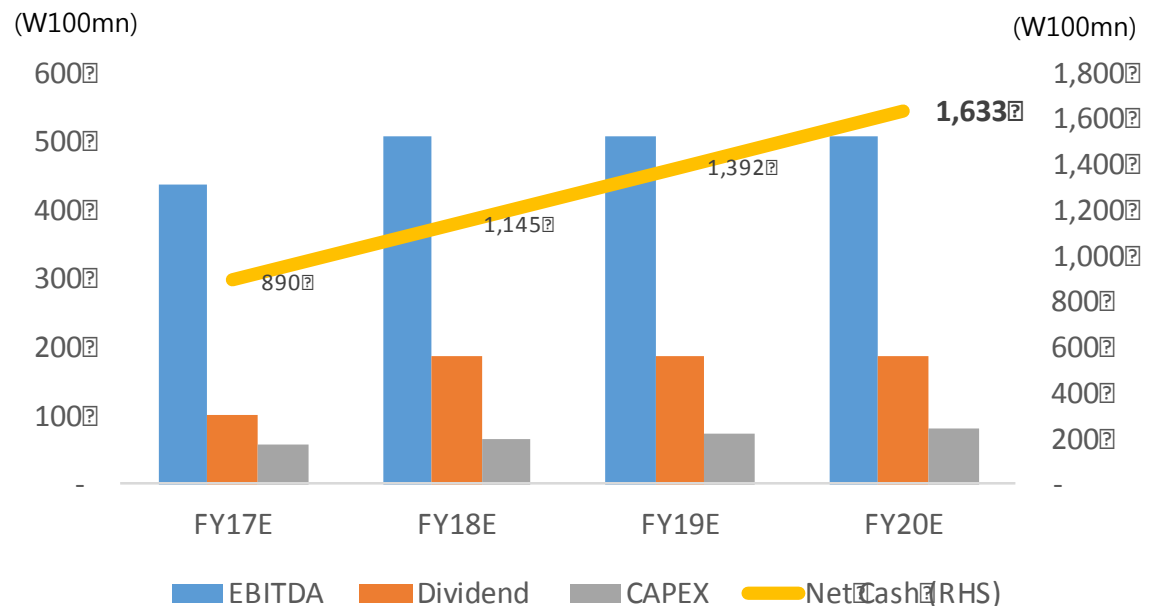
Assumption 3) FY18 EBITDA increased by 16% reflecting the assumptions above. Capex grows 10% each year and dividend payout ratio remains at 50%

Simulation results

Results 1) The net cash of Golfzon will reach W163bn in FY20

Results 2) The dividend yield based on current share price (W47,450) is 6.2%.

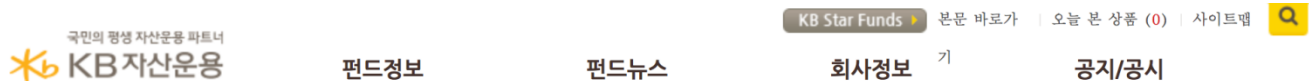
Result 3) ROE of Golfzon will drop to 20% in FY20



*Source: Quantiwise, KB Asset estimates

Since December 2017, KB Asset Management has introduced the Stewardship code to fulfill our faithfulness obligations.

▶ KB Asset Management introduced the Stewardship code (<http://www.kbam.co.kr>)



스튜어드십코드

Home > 스튜어드십코드 수탁자 책임 정책

스튜어드십코드 수탁자 책임 정책

의결권 행사 세부지침

의결권 행사 내역 보고

수탁자 책임 이행 활동 보고

스튜어드십코드 수탁자 책임 정책

1. 기관투자자는 고객, 수익자 등 타인 자산을 관리/운영하는 수탁자로서 책임을 충실히 이행하기 위한 명확한 정책을 마련해 공개해야 한다.

KB자산운용주식회사(이하 '당사')는 1988년 4월 28일 설립되어 유가증권투자에 관한 자문과 정보제공 등의 투자자문업을 영위하여 왔으며, 1997년 7월 증권투자신탁업법 제9조의 규정에 의한 투자신탁운용 허가에 따라 상호를 주은투자자문주식회사에서 주은투자신탁운용주식회사로 변경하고 증권투자신탁업법에 의한 증권투자신탁업무를 개시하였습니다. 2002년 6월 상호를 국민투자신탁운용주식회사로, 2004년 4월에는 현재의 회사명인 KB자산운용주식회사로 변경하였습니다.

당사는 2009년 2월 자본시장과 금융투자업에 관한 법률(이하 '자본시장법') 제15조의 규정에 의해 투자매매(집합투자증권), 투자중개업(집합투자증권), 집합투자업(모든 종류의 집합투자기구)에 대한 제인가를 받았고, 동 일자로 동 법률 제20조의 규정에 의해 투자자문업과 투자일임업을 등록하였고, 2015년 10월 전문사모집합투자업을 등록하여 금융투자업을 영위하고 있습니다.

당사는 자본시장과 투자대상회사에 대한 깊은 분석 및 이해에 기반한 투자를 지향함에 있어 기관투자자의 수탁자 책임에 관한 원칙(이하 '스튜어드십 코드')을 제정하고 준수하여 수탁자 책임을 이행합니다. 당사의 수탁자 책임은 충실의무와 선관주의의무에 국한하지 않으며 집합투자기구 유형별, 자산군별, 투자 기간 등에 무관하게 일괄적용합니다(단, 인덱스펀드, 상장지수펀드 등의 패시브 펀드의 경우 주주관여활동을 제외합니다).

We do not intend to participate in management of the company. However, in order to fulfill our role as trustee, we would like to ask some questions through the official route.

- 1) We would like to know the rationale and background of the brand royalty rate of 3.3%.

- 2) As a result of KB Asset's simulation, Golfzon will have net cash of W163bn three years later, even if the dividend payout ratio is raised to 50%. On the other hand, ROE will drop to 20% in FY20 from 32% in FY16. We would like to ask about new investment plans and shareholder policies to defend the decline in ROE.

** This letter is a formal fiduciary responsibility implementation activity to comply with the stewardship code of KB Asset Management. It reports 'Fiduciary Responsibility Activities' of 'Stewardship Code' on the lower left of our website (<http://www.kbam.co.kr>). Please reply to the email address on the right side until March 2, 2018. Thank you.
(junbeom.park@kbam.co.kr)*

CONTENTS

01. Golfzon's unique business model

02. Cash flow from Golfzon to holding company

03. Discovering the hidden value of Golfzon

04. **KB Asset Management Value Management Division**



➤ Investment philosophy

Investing in undervalued companies	<ul style="list-style-type: none">• Investing in undervalued stocks compared to intrinsic values such as asset value or profit value• Investing in stocks that are expected to have stable earnings growth while being less affected by external changes such as economic fluctuations.
Bottom-up approach	<ul style="list-style-type: none">• Selecting stocks based on fundamentals excluding market forecast and economic outlook• Investments focused on stocks with strong intrinsic value, actively investing in the event of a sharp decline due to factors other than fundamentals.
Risk management	<ul style="list-style-type: none">• High ethical awareness and integrity-based investment through strict adherence to compliance



“Investment in value stock based on fundamentals”
“Maximize long-term compounded income”

We have also been able to maximize compound returns through long-term investments.

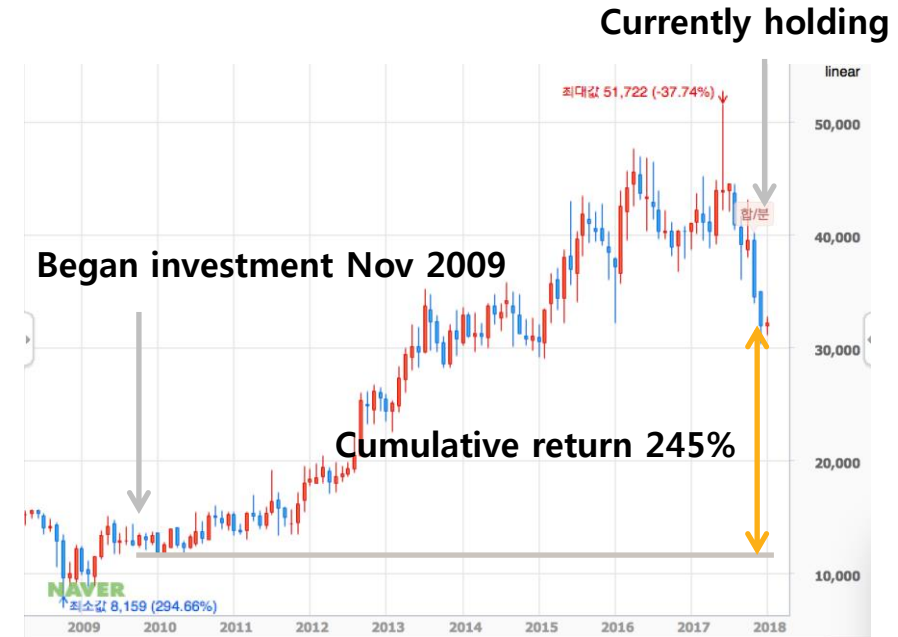
➤ Investment case (1)

: Semiconductor material manufacturer A



➤ Investment case (2)

: Auto parts supplier B



* This letter is a formal fiduciary responsibility implementation activity to comply with the stewardship code of KB Asset Management. It reports 'Fiduciary Responsibility Activities' of 'Stewardship Code' on the lower left of our website (<http://www.kbam.co.kr>). Please reply to the email address on the right side until March 2, 2018. Thank you.
(junbeom.park@kbam.co.kr)

THANK YOU

국민의 평생 자산운용 파트너
*b KB 자산운용

국민의 평생
금융파트너

KB금융그룹

*b KB 자산운용

서울특별시 영등포구 여의대로 70 신한금융타워 25층(150-712)

www.kbam.co.kr

대표전화: 2167-8200