

# We ask the future of Com2us

KB Asset Management Value Management Division

2018.01.24



## We ask the future of Com2us (summary)

- The KB Asset Management Value Management Division is a long-term friendly investor with a 20% stake in Com2us, highly valuing its outstanding cash generation, high ROE and sustainable profitability. Com2us has shown excellent performance despite the intense competition of the game industry, and we are deeply grateful for the first dividend payment last year.
- Despite steady earnings, however, Com2us is still undervalued in terms of historical valuation and peer valuation.
- Through overseas research, we confirmed that only game companies diversifying sales through M&A or carrying excellent shareholder policies have received reasonable valuations
- We, as the second largest shareholder of Com2us, have continuously requested a meeting with the CEO to constructively discuss the future of the company, but we have not concluded
- We have introduced the Stewardship code since December 2017, and we need to communicate about the future of Com2us in order to fulfill our faithfulness as trustee of customer assets

1. We would like to know what the company thinks about the decline in ROE
2. The W180bn rights issue for the purpose of M&A in August 2015 is still unused (net cash of 650 billion in the 3Q17), we need to update the M&A plan in the future
3. We would like to know the direction of shareholder policy
4. We request a meeting with your CEO

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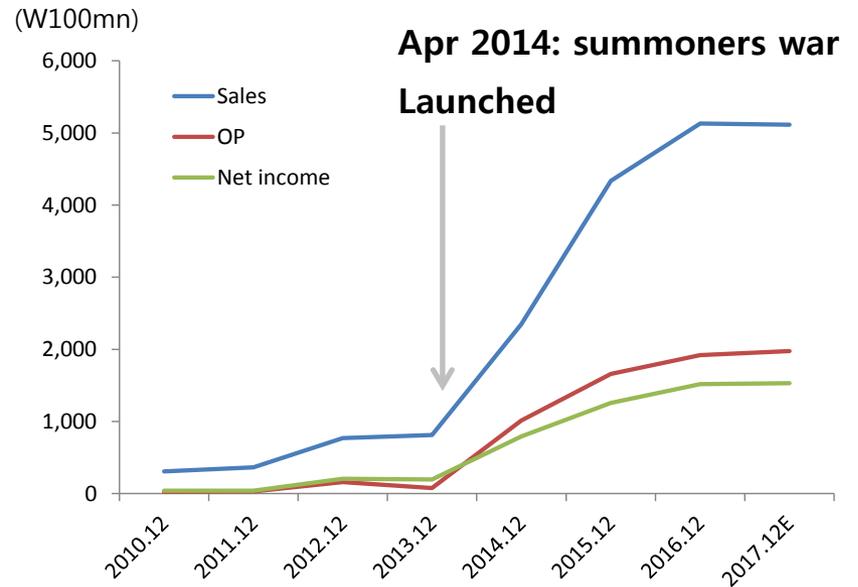


Com2us has grown with the expansion of the mobile game market, and has enjoyed rapid sales growth due to the popularity of Summoners War launched in 2014

## History

- 1998 Established Com2us
- 2007 first mobile game on KOSDAQ
- 2013 Acquired by Gameville
- 2014 Launched Summoners War
- 2014 Com2us - Gameville Game Service Platform Hive launched
- 2015 Downloads of Summoners War exceeded 50mn

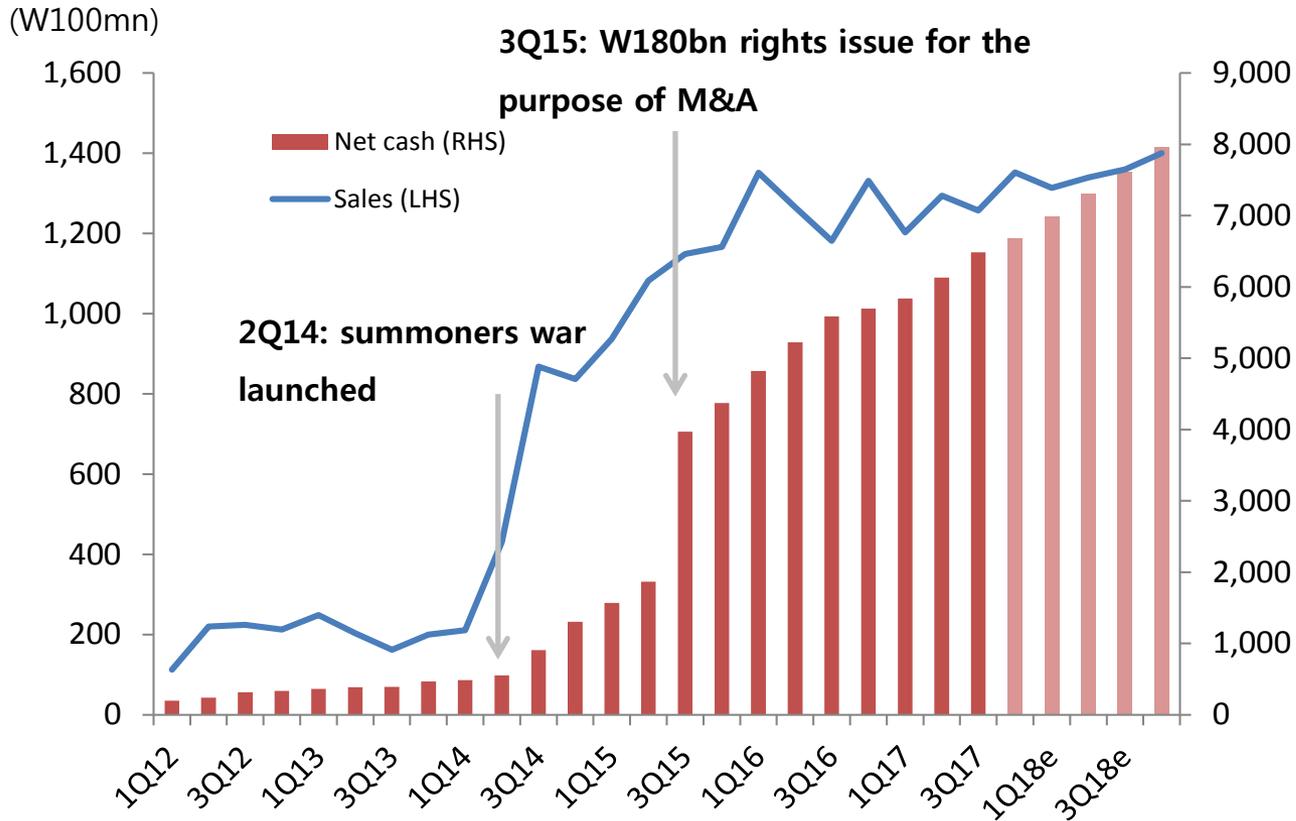
## Earnings improvement with success of Summoners War



\*Source: Com2us, Quantiwise

Summoners War has shown steady quarterly sales even after three years of release. It is believed that this has surpassed the lifecycle limit of existing mobile games through overseas market development and successful updates.

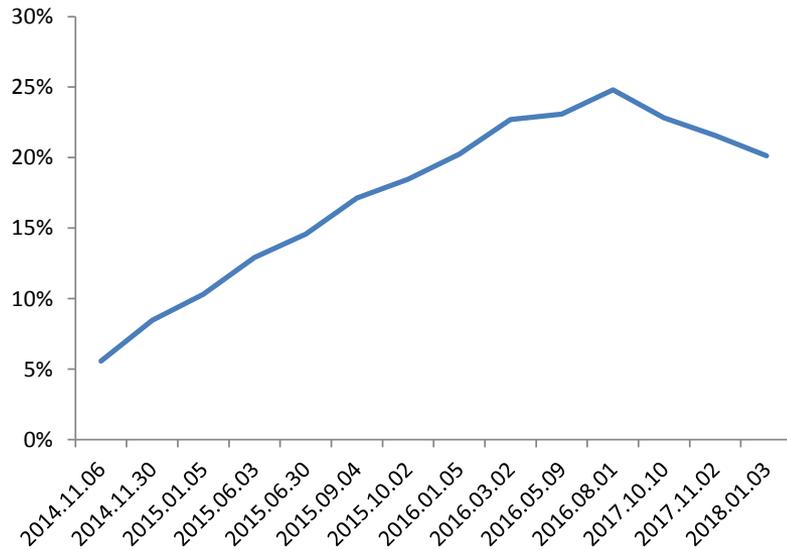
## Quarterly sales



\*Source: Quantiwise

Our management team is a long-term friendly investor who has maintained a high stake in the past two years by valuing Com2us' outstanding cash generation, high ROE and sustainable profitability

➤ **KB Asset's Com2us stake change**



➤ **2017 shareholders' meeting results**

FY17 regular shareholders' bill	KB Voting Rights Event Details
No. 1 bill: Approval of Financial Statement	Agree
No. 2 bill: Director election	No exercise
No. 3 bill: Director remuneration limit approval	Agree
No. 4 bill: Audit Remuneration Limit approval	Agree

➤ **2016 shareholders' meeting results**

FY16 regular shareholders' bill	KB Voting Rights Event Details
No. 1 bill: Approval of Financial Statement	Agree
No. 2 bill: Change of articles of association	Agree
No. 3 bill: Director election	No exercise
No. 4 bill: Audit election	Agree
No. 5 bill: Director remuneration limit approval	Agree
No. 6 bill: Audit Remuneration Limit approval	Agree

\*Source: Quantiwise, Dart

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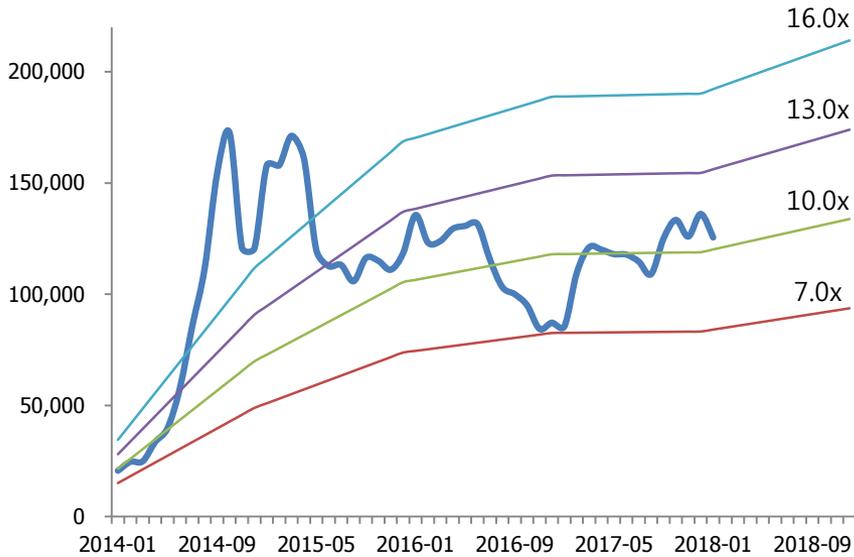
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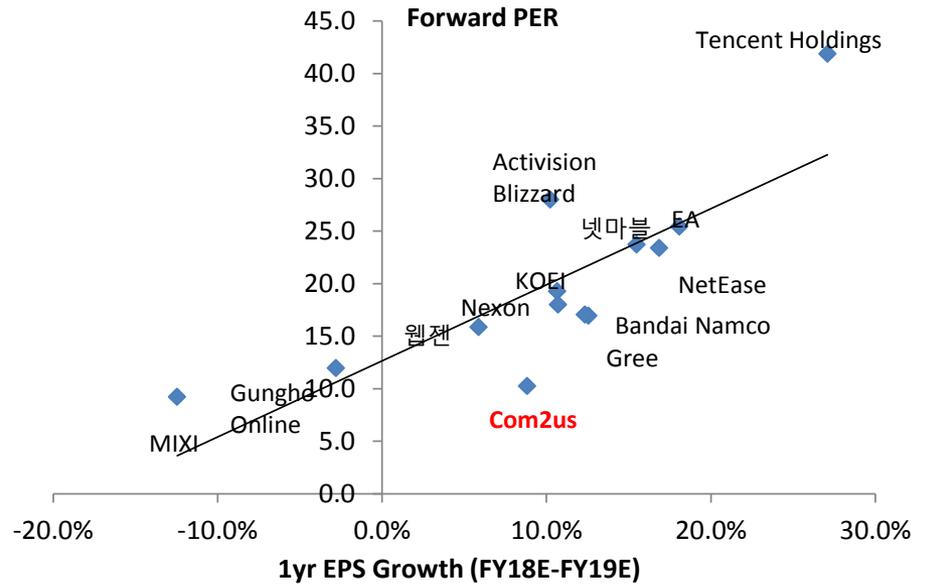


# Despite steady earnings since 2015, Com2uS is undervalued in terms of historical valuation and peer valuation

## PER band



## Peer valuation (EPS growth vs PER)



\*출처: Quantwise, S&P Capital IQ

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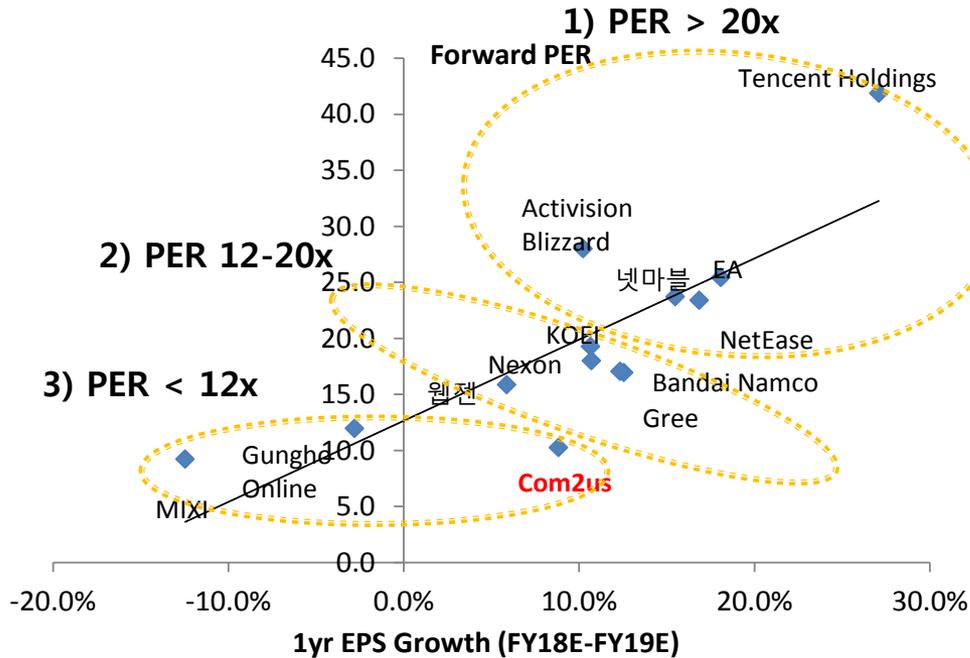
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We divided global game companies into three groups based on valuation, and analyzed the difference.

▶ Peer valuation



▶ 1) PER > 20x

NAME	FY19E EPS Growth	Forward P/E
Tencent Holdings Limited	27.1%	43.4
Activision Blizzard, Inc.	10.2%	27.8
Electronic Arts Inc.	18.1%	25.4
Netmarble Games Corporation	15.5%	24.1
NetEase, Inc.	16.9%	23.7

▶ 2) PER 12-20x

NAME	FY19E EPS Growth	Forward P/E
Koei Tecmo Holdings Co., Ltd.	10.6%	19.0
NEXON Co., Ltd.	10.7%	18.3
BANDAI NAMCO Holdings Inc.	12.5%	17.0
Gree, Inc.	12.3%	16.8
Webzen Inc.	5.9%	15.8

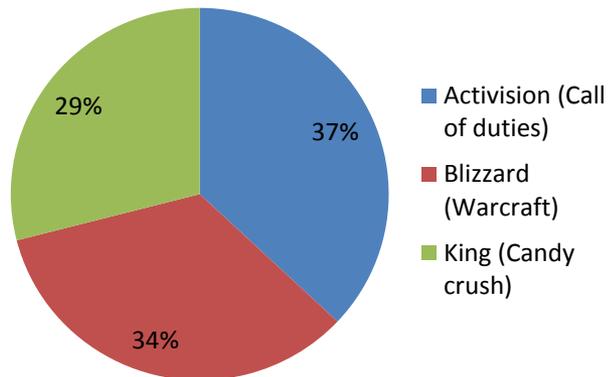
▶ 3) PER < 12x

NAME	FY19E EPS Growth	Forward P/E
GungHo Online Entertainment, Inc.	-2.8%	11.9
Com2uS Corporation	8.8%	10.1
mixi, Inc.	-12.5%	8.1

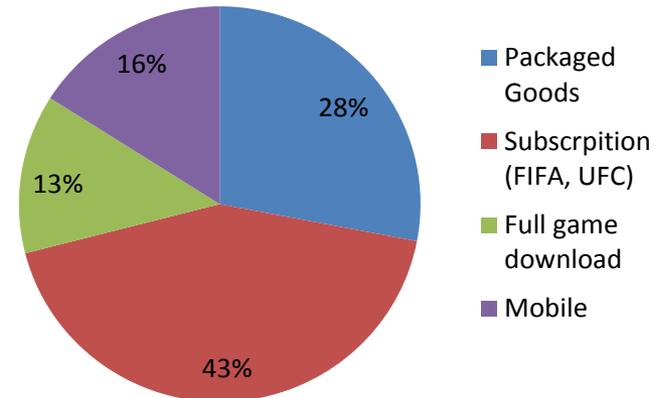
\*source: Quantiwise, S&P Capital IQ

1) Game companies that are valued at more than 20x the PER are experiencing growth of more than 15% through M&A and new releases, and sales composition is diversified

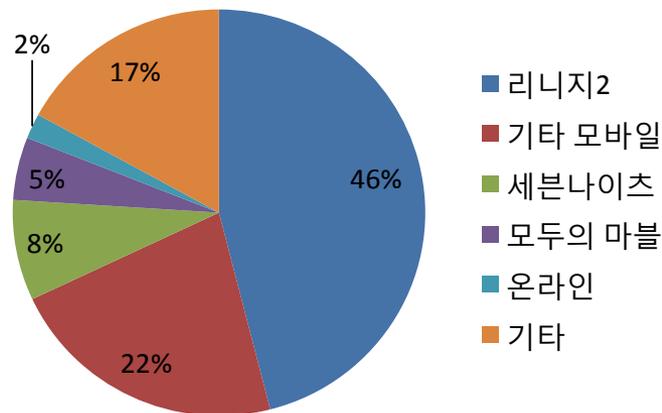
➤ Activision Blizzard



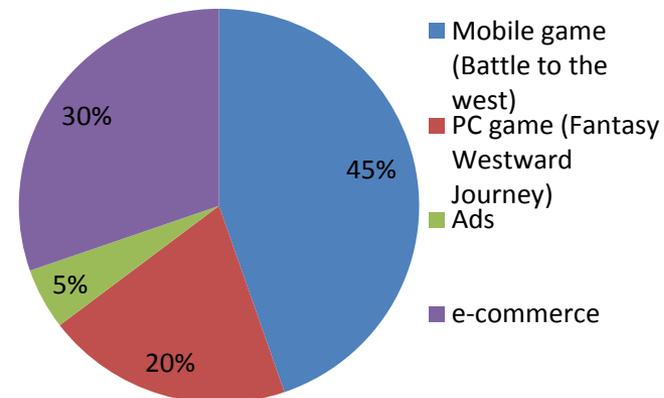
➤ Electric Arts



➤ Netmarble games



➤ NetEase



\*source: webpage of each company, S&P Capital IQ

In particular, the case of Activision Blizzard, which led to a significant increase in corporate value through successful M & A, is noticeable

## ➤ Activision Blizzard's share price



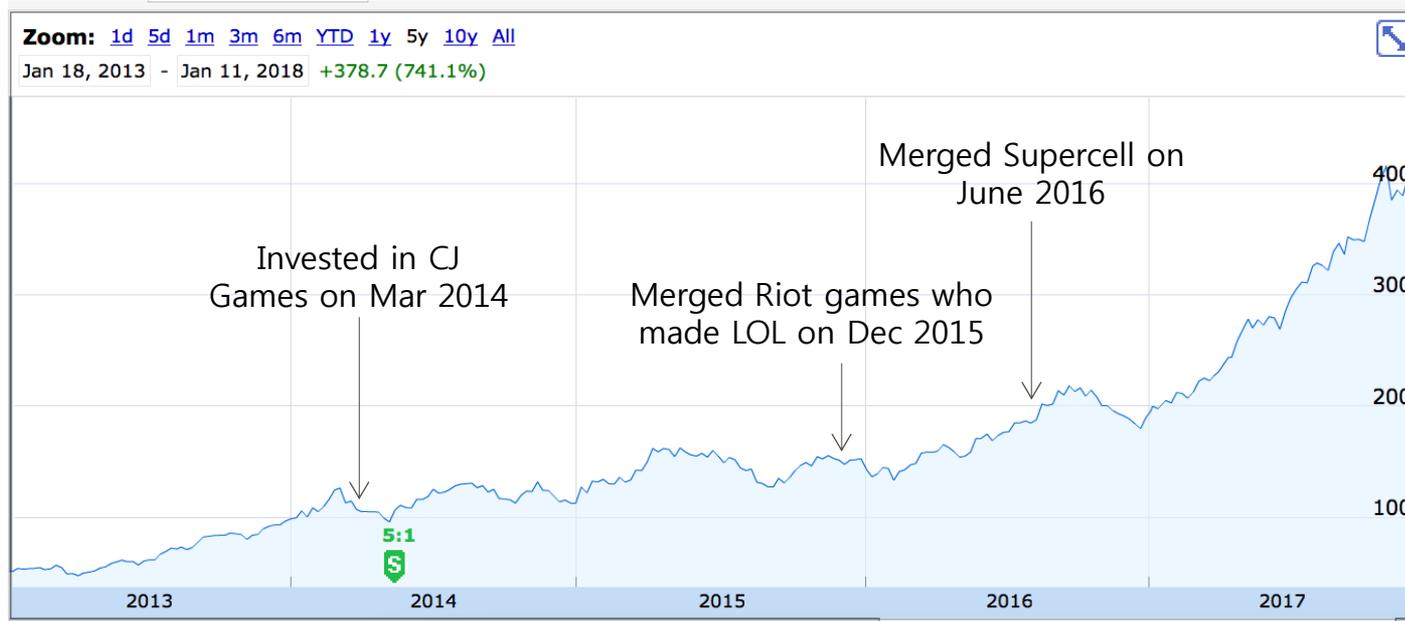
## ➤ Activision Blizzard earnings summary

(USD mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Revenue	4,621	6,599	6,997	7,383	8,082
OP	1,466	2,334	2,383	2,713	3,124
NI	989	1,670	1,717	1,975	2,300

\*source: webpage of each company, S&P Capital IQ

Although Tencent Holdings is a composite company which is difficult to compare with, but we can confirm that synergy of game division is maximized through timely M & A.

## ▶ Tencent Holdings' share price



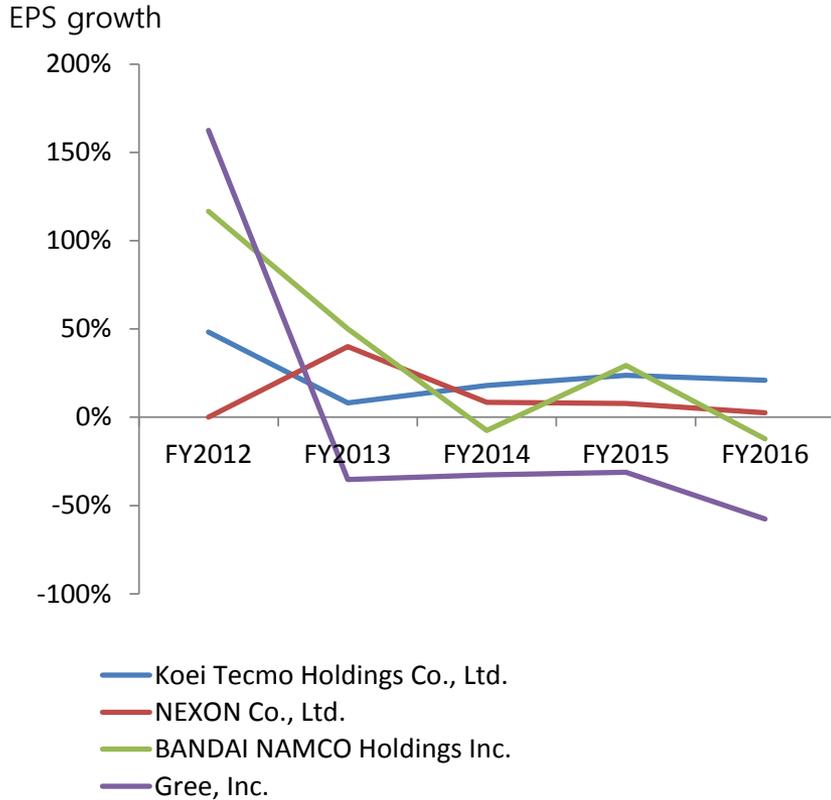
## ▶ Tencent Holdings earnings summary

(CNY mn)	FY2015	FY2016	FY2017E	FY2018E	FY2019E
Revenue	102,863	151,938	239,917	331,269	429,359
OP	40,627	56,117	81,568	102,695	132,309
NI	32,410	45,420	65,744	87,450	111,444

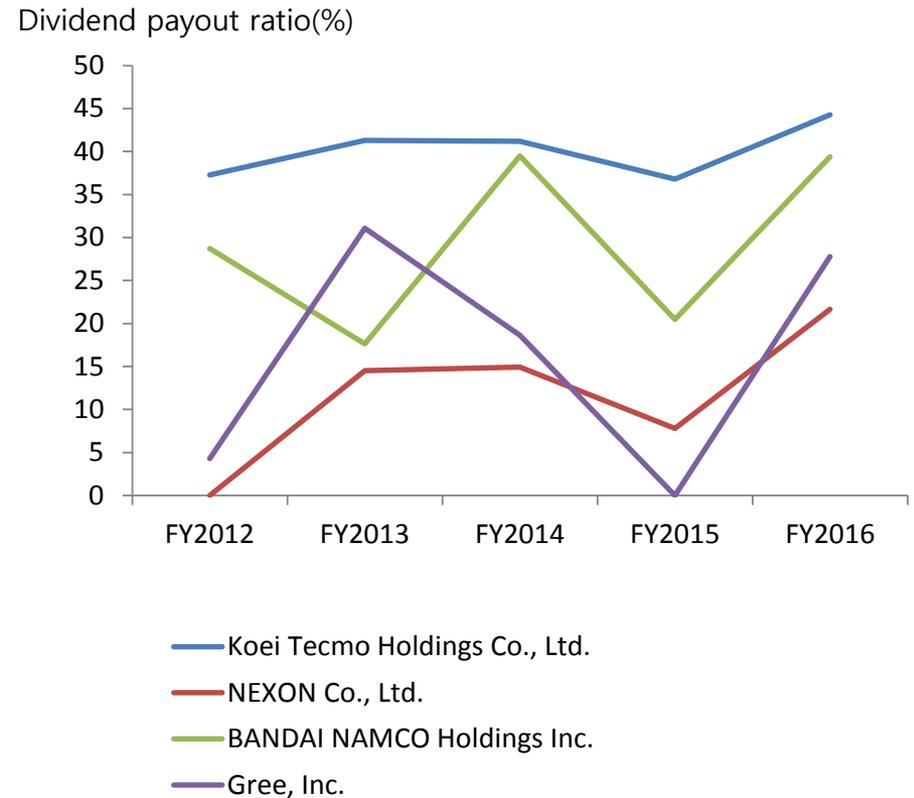
\*source: webpage of each company, S&P Capital IQ

2) Game companies with PER 12-20x valuation have slowed to growth rate of 6-12% due to aging of core game, but maintain their valuation with excellent shareholder policy.

➤ EPS growth rate slowing down...



➤ ...Maintaining valuation by strengthening dividend payout ratio



\*Source: Webpage of each company, S&P Capital IQ

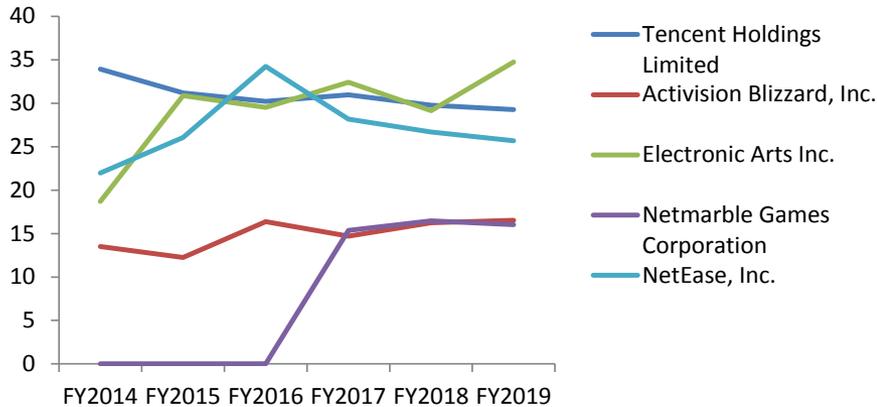
3) Game companies with a PER of less than 12x suffer from single game risks, EPS reduction, low shareholder return policy, lack of M&A, and low hit ratio.

	Sales breakdown	EPS growth (forecast)	Dividend payout (%)
<p>➤ GungHo Online</p>	<p>5%</p> <p>95%</p> <p>■ Puzzle &amp; dragon ■ etc</p>	<p>5.0% 0.0% -5.0% -10.0% -15.0% -20.0% -25.0% -30.0%</p> <p>FY16 FY17E FY18E FY19E</p>	<p>20 15 10 5 0</p> <p>FY2013 FY2014 FY2015 FY2016</p>
<p>➤ Mixi</p>	<p>8%</p> <p>92%</p> <p>■ Monster Strike ■ Mediaplatform</p>	<p>80.0% 60.0% 40.0% 20.0% 0.0% -20.0% -40.0%</p> <p>FY16 FY17E FY18E FY19E</p>	<p>20 15 10 5 0</p> <p>FY2013 FY2014 FY2015 FY2016</p>
<p>➤ Com2uS</p>	<p>8%</p> <p>92%</p> <p>■ Summoners War ■ 기타</p>	<p>25.0% 20.0% 15.0% 10.0% 5.0% 0.0%</p> <p>FY16 FY17E FY18E FY19E</p>	<p>15 10 5 0</p> <p>FY2013 FY2014 FY2015 FY2016</p>

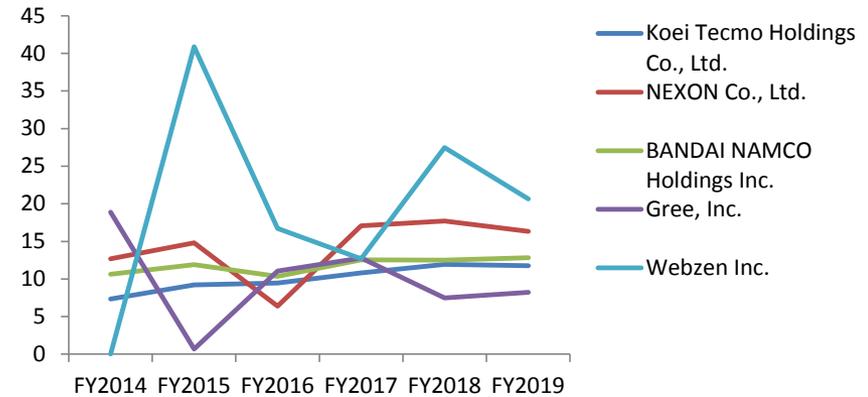
\*Source: Webpage of each company, S&P Capital IQ

These companies are classified by ROE. In the end, game companies that do not actively promote M&A or shareholder return can not avoid falling ROE.

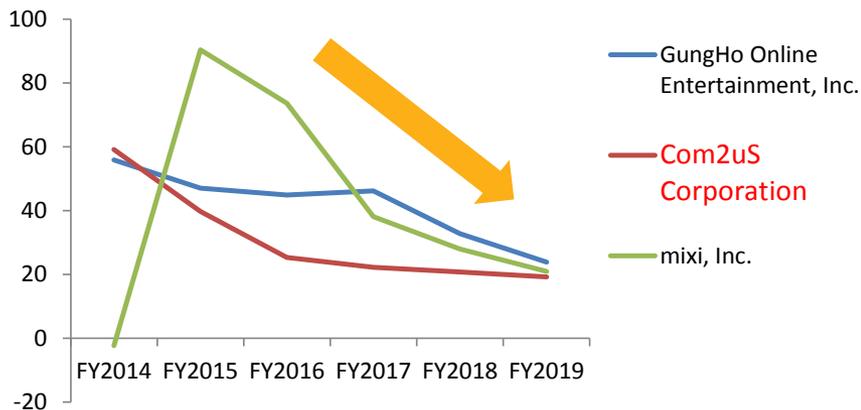
▶ PER > 20x : High ROE maintained/improved



▶ PER 12-20x : ROE maintained/improved



▶ PER < 12x : ROE sharply declined



\*ROE FY14-16 Actual, FY17-19 Consensus

\*Source: Webpage of each company, S&P Capital IQ

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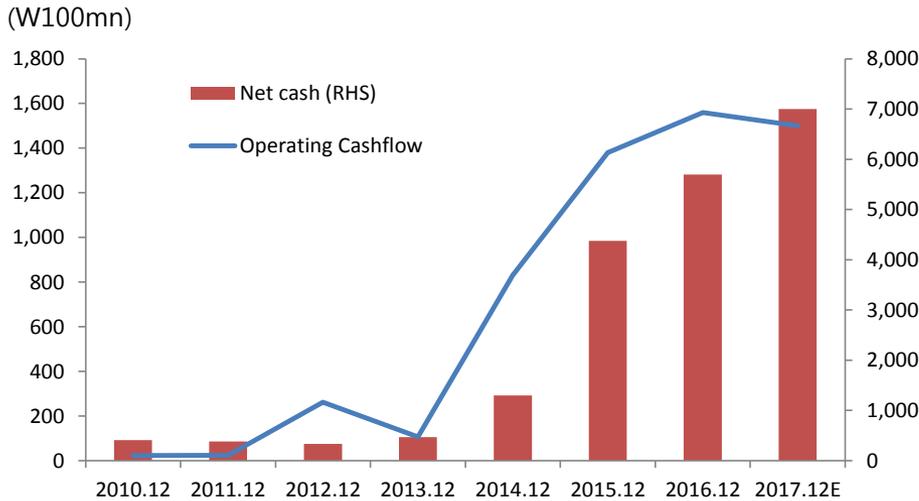
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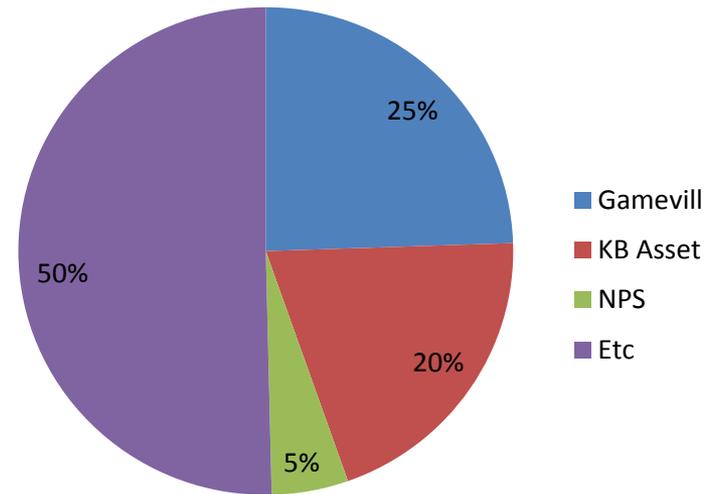


We are long-term friendly investor who have increased our stake since November 2014 by valuing Com2us' outstanding cash generation, high ROE and sustained profitability.

➤ Net cash of W700bn accumulated by strong cash flow



➤ Shareholder composition (2018.01.05)



\*Source: Quantiwise, Dart

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 수탁자 책임 정책	의결권 행사 세부지침	의결권 행사 내역 보고	수탁자 책임 이행 활동 보고
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### 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 투자신탁운용업 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, 성장지수펀드 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 about the future of the company through the official route.

- 1) We would like to know what the company thinks about the decline in ROE
  
- 2) The W180bn rights issue for the purpose of M&A in August 2015 is still unused (net cash of 650 billion in the 3Q17), we need to update the M&A plan in the future
  
- 3) We would like to know the direction of shareholder policy
  
- 4) We request a meeting with your CEO
  - In the conference call of the third quarter of 2017, you mentioned that you will listen to the advice regarding shareholders' policies in various ways. We ask you as a major shareholder.

*\* 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 February 7, 2018. Thank you. ([junbeom.park@kbam.co.kr](mailto:junbeom.park@kbam.co.kr))*

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➤ Investment philosophy

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



**“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.

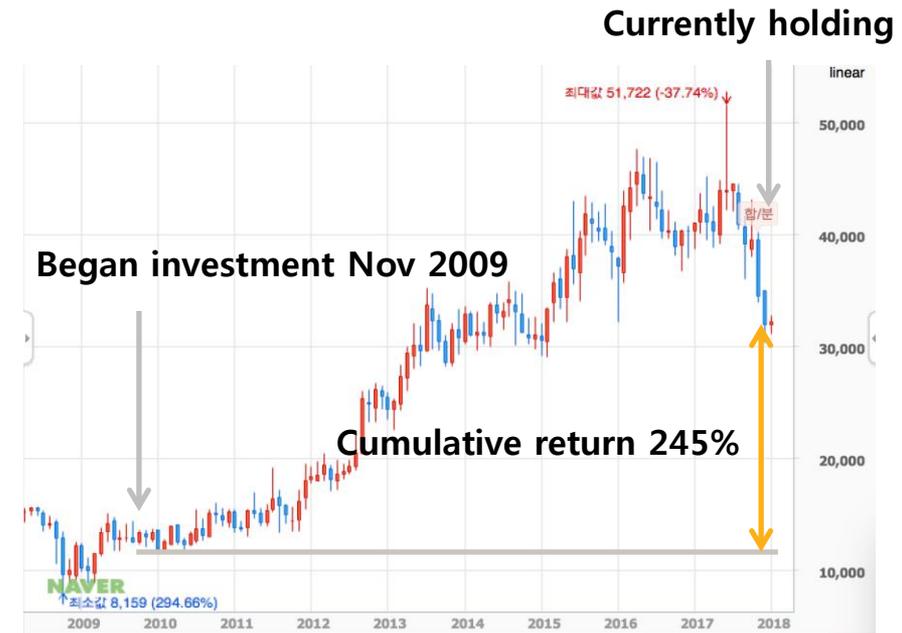
➤ Investment case (1)

: Semiconductor material manufacturer A



➤ Investment case (2)

: Auto parts supplier B



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# THANK YOU



 KB 자산운용

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

[www.kbam.co.kr](http://www.kbam.co.kr)

대표전화: 2167-8200