Samsung Electronics:

*The Unsung Hero of the Samsung Empire*

By: Michael Wood

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Past performance is no guarantee of future results and future returns are not guaranteed.
About me

• Economics and Finance undergrad
• CFA candidate
• Process-oriented
• Value investing philosophy

Some of my Influences

- *The Intelligent Investor* by Benjamin Graham
- *The Most Important Thing* by Howard Marks
- *The Little Book of Value Investing* by Christopher H. Browne
- *The Aggressive Conservative Investor* by Martin J. Whitman and Martin Shubik
- *Margin of Safety* by Seth A. Klarman
Evans Investment Counsel

- $1 million invested with us in 1993 would be worth $14.7 million June 30, 2014 (All Equity – Gross of Fees)
- We currently manage C$1 billion
- Long-only global value investing philosophy
- 1.5% mgmt. fee (regressive) – No performance fee
Proven Investment Process

- Cheap price
- Management: honest & skillful capital allocators
- Dominant and strengthening competitive advantage (low-cost & high-quality manufacturing)
- Globally recognized brand that is well taken care of (broad and strong associations)
- Excellent balance sheet protection
1. Samsung’s businesses are not well understood; too often mistaken as “just a smartphone company”
2. Samsung Semiconductor is worth the enterprise value itself (the market implicitly assumes IT & Mobile is less than zero)
3. Samsung irrationally trades at more than a 50% discount to peers and intrinsic value
4. Samsung is manufacturing 13 products with global #1 market share that have defensible market positions
5. Several catalysts are in motion to unlock the trapped value, including IPOing non-core businesses, succession plan, corporate restructuring and share buybacks ($60B net cash)
6. Management has an excellent track record of successfully creating shareholder value
Samsung Electronics Story

• Lowest-cost OEM
• World leader in R&D, marketing and design
• Brand more valuable than Pepsi, Nike and American Express

Under-owned by Investors...
• Not listed in New York
• Need to fill out paperwork with FSS (Korea)
<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Price</td>
<td>KRW 1,235,000 per sh</td>
</tr>
<tr>
<td>Shares</td>
<td>147.3 million</td>
</tr>
<tr>
<td>Fx rate</td>
<td>0.00098</td>
</tr>
<tr>
<td>Market Cap</td>
<td>$ US 178.2 Billion</td>
</tr>
<tr>
<td>Q1-2014 Net cash *</td>
<td>$ US 60.4 Billion</td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>$ US 117.8 Billion</td>
</tr>
<tr>
<td>Q2-2014 Book value</td>
<td>$ US 156 Billion</td>
</tr>
<tr>
<td>2014E Net Income</td>
<td>$ US 24 Billion</td>
</tr>
<tr>
<td>2014E Free-cash-flow</td>
<td>$ US 24 Billion</td>
</tr>
<tr>
<td>EV/FCF 2014</td>
<td>4.9x (20% FCF Yield)</td>
</tr>
</tbody>
</table>

* Includes equity investments
### Consensus Estimates - Reuters

<table>
<thead>
<tr>
<th></th>
<th>2013A</th>
<th>2014E</th>
<th>2015E</th>
<th>2016E</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EPS</strong></td>
<td>197,800</td>
<td>168,396</td>
<td>170,470</td>
<td>180,734</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash * ($USD mil)</strong></td>
<td>43,386</td>
<td>51,262</td>
<td>62,635</td>
<td>83,462</td>
<td></td>
</tr>
<tr>
<td><strong>growth</strong></td>
<td></td>
<td>18%</td>
<td>22%</td>
<td>33%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Book value per sh</strong></td>
<td>1,103,625</td>
<td>1,050,120</td>
<td>1,202,714</td>
<td>1,347,829</td>
<td></td>
</tr>
<tr>
<td><strong>growth</strong></td>
<td></td>
<td>-5%</td>
<td>15%</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Price / Earnings</strong></td>
<td>6.3</td>
<td>7.4</td>
<td>7.3</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td><strong>Price / Book</strong></td>
<td>1.1</td>
<td>1.2</td>
<td>1.0</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td><strong>EV * / Earnings</strong></td>
<td>4.7</td>
<td>5.2</td>
<td>4.7</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash / Market Cap</strong></td>
<td>24%</td>
<td>29%</td>
<td>35%</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>22.8%</td>
<td>16.8%</td>
<td>14.7%</td>
<td>13.8%</td>
<td></td>
</tr>
</tbody>
</table>

*Consensus net cash and enterprise value excludes equity investment Samsung Electronics holds in associated publically traded companies.*

- **Depressed multiples (implies structural declines)**
- **Growth in EPS for 2015 and beyond**
- **Major profitability declines already priced-in ROE**
Focusing on the Downside
Sentiment

- Short-term focused
- Momentum driven
- Missed earnings estimates
- Projecting negative growth into perpetuity
“There appears to be significant value opportunity in Samsung Electronics, with current multiples near trough-cycle P/B of 0.9x. However, we are Equal Weight owing to much lower growth expectations and stronger business-specific momentum elsewhere.” — Shawn Kim, Morgan Stanley

“While the potential benefits of group restructuring into a holding company are clear, we believe it is too early to discount such an outcome given that the timing of the event may be distant.” — Shawn Kim, Morgan Stanley

“Limited room for upside, but Memory to offset the shortfall to some extent.” — JJ Park, JPMorgan

“Samsung Electronics continues to hold a dominant position in its respective markets, but faces growth challenges due to a lack of killer products and high market expectations. However, we believe downside risk is limited because the valuation is attractive. We expect the share price to remain range-bound in the near term.” — JJ Park, JPMorgan
Of the 54 Analyst covering Samsung Electronics...

89% of analysts have a buy recommendation

7.5% of analysts have neutral rating

3.5% of analysts have a sell recommendation

**Average price target:** KRW 1,626,536 (30% upside)

(Source: Bloomberg)
1. Success of Samsung Electronics hinges on the success of the Galaxy S franchise (Mobile is most of op. profit)
2. There is no growth left in the smartphone industry (the market is fully saturated)
3. Xiaomi/Lenovo will drive Samsung’s mobile operating margins to 0%
4. Samsung is a copy-cat and is only successful because they infringe on others’ patents
5. Samsung Electronics is not shareholder friendly and will never return capital to shareholders

This presentation seeks to rectify the myths that cloud the investor’s mind on Samsung Electronics
Contrarian view
Samsung has a diverse product offering that can withstand the failure of any single product. Even if iPhone wipes out Galaxy S, Apple will still need to buy Samsung’s DRAM and NAND memory chips (in larger quantities).
Myth 2 Debunked: Smartphone growth not fully saturated

- IDC predicts $7.1 trillion revenue opportunity by 2020
- 20.4% revenue growth CAGR over 7 years
- 17.5% unit growth CAGR over 7 years
Ericsson Doesn’t Think Market is Saturated

Myth 2 Debunked: Smartphone growth **not** fully saturated

- 16.5% mobile subscription CAGR over 5 years
### Market Assumes <$0 Value for IT & Mobile

**Myth 3 Debunked: Chinese competitors? What if we value IT & Mobile at $0...**

<table>
<thead>
<tr>
<th>Item</th>
<th>Value in US$ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net Cash* valued at par</td>
<td>$60</td>
</tr>
<tr>
<td>2. Samsung Semiconductor is worth</td>
<td>$130</td>
</tr>
<tr>
<td>3. Samsung Display is worth</td>
<td>$30</td>
</tr>
<tr>
<td>4. Samsung Consumer Electronics is worth</td>
<td>$14</td>
</tr>
<tr>
<td>5. Samsung IT &amp; Mobile is worth</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Equity Value</strong></td>
<td><strong>$234B</strong></td>
</tr>
<tr>
<td><strong>Upside to current price:</strong></td>
<td><strong>31%</strong></td>
</tr>
</tbody>
</table>

The worst case is more than priced into the stock. Samsung provides a margin of safety for the prudent investor even in a (highly unlikely) worst case scenario.

*Includes equity investments*
Myth 4 Debunked: Samsung Electronics is not a copy-cat

- In 2013, Samsung Electronics registered 4,676 patents at the U.S. Patent and Trademark Office
- Since their venture into the cell phones business in 1992, Samsung has amassed a mobile patent portfolio that consists of 16,000 patents
- Samsung amassed nearly 50,000 patents since 1989 (2nd to IBM)
- *Boston Consulting Group ranked Samsung Electronics 2nd in its survey of the most innovative companies in 2013!*

### Number of Patents Obtained by Samsung Electronics in the United States

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Patents (ranking)</td>
<td>1,641 (fifth)</td>
<td>2,665 (second)</td>
<td>2,752 (second)</td>
<td>3,515 (second)</td>
<td>3,592 (second)</td>
<td>4,518 (second)</td>
<td>4,868 (second)</td>
<td>5,081 (second)</td>
<td>4,676 (second)</td>
</tr>
</tbody>
</table>
Lee Kun Hee began succession planning for Jay Lee.

Preserving capital became the priority in 2008 as the Lee family planned for succession.

Lee Kun Hee suffers severe stroke.

Myth 5 Debunked: Proof that Samsung has returned 50% earnings to shareholders.

Source: Company filings, Bernstein estimates and analysis.
Focusing on the Upside
Cheap Price: Samsung SOTP Value

1. Net Cash* valued at par  $US 60.4 Billion
2. Samsung Semiconductor is worth  $US 130.0 Billion
3. Samsung Display is worth  $US 33.0 Billion
4. Samsung Home Appliance is worth  $ US 13.6 Billion
5. Samsung IT & Mobile is worth  $ US 206 Billion

Total Equity Value  $ US 443B

Upside to current price:  149%
1. Net Cash Calculation $60.4B

- Cash and Cash Equivalents: $17.0 billion
- ST Financial Instruments: $38.6 billion
- ST Available-for-sale FA: $1.9 billion
- LT Available-for-sale FA: $7.3 billion
- Investment in Associates: $6.1 billion
- ST Borrowings: -$6.8 billion
- Debentures: -$1.2 billion
- LT Borrowings: -$2.5 billion

Net Cash (including equity inv.) $US 60.4 billion

As of Q1 2014
### 1. a. LT Assets Available for Sale

**(In millions of US Dollar)**

<table>
<thead>
<tr>
<th></th>
<th>Mar-14</th>
<th>Dec-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities - Listed</td>
<td>$3,680</td>
<td>$3,959</td>
</tr>
<tr>
<td>Equity securities - Non-Listed</td>
<td>3,088</td>
<td>704</td>
</tr>
<tr>
<td>Debt Securities</td>
<td>558</td>
<td>951</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$7,326</td>
<td>$5,615</td>
</tr>
</tbody>
</table>

**Listed Equity Securities:**

All values in millions of US Dollars

<table>
<thead>
<tr>
<th></th>
<th>Number of Shares Owned</th>
<th>Percentage of Ownership</th>
<th>Acquisition Cost</th>
<th>Book Value March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung Heavy Industries</td>
<td>40,675,641</td>
<td>17.6%</td>
<td>$195</td>
<td>$1,166</td>
</tr>
<tr>
<td>Samsung Fine Chemicals</td>
<td>2,164,970</td>
<td>8.4%</td>
<td>41</td>
<td>87</td>
</tr>
<tr>
<td>Hotel Shilla</td>
<td>2,004,717</td>
<td>5.1%</td>
<td>13</td>
<td>120</td>
</tr>
<tr>
<td>Cheil Worldwide</td>
<td>2,998,725</td>
<td>2.6%</td>
<td>2.6</td>
<td>74</td>
</tr>
<tr>
<td>iMarket Korea</td>
<td>647,320</td>
<td>1.8%</td>
<td>0.3</td>
<td>15</td>
</tr>
<tr>
<td>SFA</td>
<td>1,822,000</td>
<td>10.2%</td>
<td>34</td>
<td>67</td>
</tr>
<tr>
<td>Wonik IPS</td>
<td>7,220,216</td>
<td>9.0%</td>
<td>57</td>
<td>56</td>
</tr>
<tr>
<td><strong>ASML</strong></td>
<td>12,595,575</td>
<td>2.8%</td>
<td>653</td>
<td>1,123</td>
</tr>
<tr>
<td>CSR</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
<td>99</td>
</tr>
<tr>
<td>Rambus</td>
<td>4,788,125</td>
<td>4.3%</td>
<td>83</td>
<td>43</td>
</tr>
<tr>
<td><strong>Seagate Technology</strong></td>
<td>12,539,490</td>
<td>3.8%</td>
<td>197</td>
<td>669</td>
</tr>
<tr>
<td>Wacom</td>
<td>8,398,400</td>
<td>5.0%</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Sharp</td>
<td>35,804,000</td>
<td>3.0%</td>
<td>110</td>
<td>108</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>-</td>
<td>3.0%</td>
<td>42</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,484</td>
<td>$3,680</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. b. Investment in Associates

- **Samsung SDS to IPO in Q4-2014**

<table>
<thead>
<tr>
<th>Investee</th>
<th>Acquisition Cost</th>
<th>Book Value March 2014</th>
<th>Net Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung Card</td>
<td>$1,384.69</td>
<td>$2,092</td>
<td>$2,077</td>
</tr>
<tr>
<td>Samsung Electro-Mechanics</td>
<td>323.82</td>
<td>841</td>
<td>840</td>
</tr>
<tr>
<td>Samsung SDI</td>
<td>309.02</td>
<td>1,067</td>
<td>1,316</td>
</tr>
<tr>
<td>Samsung SDS</td>
<td>136.54</td>
<td>803</td>
<td>783</td>
</tr>
<tr>
<td>Samsung Techwin</td>
<td>144.26</td>
<td>363</td>
<td>395</td>
</tr>
<tr>
<td>Samsung Corning Advanced Glass</td>
<td>193.41</td>
<td>186</td>
<td>186</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>766</td>
<td>766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,117</strong></td>
<td><strong>$6,362</strong></td>
<td></td>
</tr>
</tbody>
</table>

*All values in millions of US Dollars*
2. Samsung Semiconductor

- On pace to earn $11.4 billion operating profit in 2014
- Samsung Semiconductor is valued @ 10x 2015 op profit
- This equates to a value of $US 130 Billion
- Micron trades @9x 2015 OP and SanDisk @ 10x 2015 OP
- Samsung Semiconductor is worth a premium given that it has held the #1 spot in the memory industry for the past 21 years

- **Samsung Semiconductor is worth the enterprise value by itself!**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>21.4</td>
<td>32.0</td>
<td>33.3</td>
<td>30.7</td>
<td>33.5</td>
<td>41.6</td>
<td>44.9</td>
</tr>
<tr>
<td><strong>DRAM</strong></td>
<td>7.5</td>
<td>14.8</td>
<td>12.1</td>
<td>10.6</td>
<td>12.3</td>
<td>16.3</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>NAND</strong></td>
<td>5.2</td>
<td>6.7</td>
<td>8.1</td>
<td>7.4</td>
<td>9.1</td>
<td>11.1</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>System LSI</strong></td>
<td>3.5</td>
<td>5.9</td>
<td>9.9</td>
<td>11.7</td>
<td>11.4</td>
<td>13.5</td>
<td>14.2</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>1.7</td>
<td>8.6</td>
<td>5.8</td>
<td>3.7</td>
<td>6.4</td>
<td>11.4</td>
<td>13.0</td>
</tr>
<tr>
<td><strong>Operating Margin</strong></td>
<td>8%</td>
<td>27%</td>
<td>17%</td>
<td>12%</td>
<td>19%</td>
<td>27%</td>
<td>29%</td>
</tr>
</tbody>
</table>

All values are in $US Billion

Source: Bloomberg, Company filings, AllianceBernstein
2. a. Samsung Memory

- #1 global market share in overall memory
- #1 global market share in Mobile DRAM (49%)
- #1 global market share in PC DRAM (33%)
- #1 global market share in NAND (32%)

Memory Market Share - 2013 rev

Source: DRAMeXchange
Consolidation in the DRAM space to 3 competitors has caused DRAM prices to soar and margins to expand.

Since 2013, Micron is up 450%, SK Hynix +90% and Samsung -1%.
2. Samsung Semiconductor – Peers

- Samsung trades at less than half the valuation of the sector
- Samsung Semiconductor will earn $11.4 billion operating profit in 2014, on par with Intel and Qualcomm
- Samsung Semiconductor by itself deserves $130 billion valuation, on par with Intel and Qualcomm’s enterprise values

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Market Cap $ USD Mil</th>
<th>Enterprise Value</th>
<th>P/E ex. net cash 2014</th>
<th>P/B Q2 2014</th>
<th>5-Year ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Semiconductor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intel</td>
<td>35.15</td>
<td>$180,073</td>
<td>$169,912</td>
<td>15.9</td>
<td>3.0</td>
<td>20.7%</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>76.77</td>
<td>$131,584</td>
<td>$98,868</td>
<td>14.0</td>
<td>3.4</td>
<td>16.4%</td>
</tr>
<tr>
<td>Micron Tech.</td>
<td>33.19</td>
<td>$39,496</td>
<td>$40,332</td>
<td>10.3</td>
<td>4.0</td>
<td>12.7%</td>
</tr>
<tr>
<td>SK Hynix</td>
<td>44.93</td>
<td>$31,911</td>
<td>$32,982</td>
<td>8.8</td>
<td>2.8</td>
<td>10.8%</td>
</tr>
<tr>
<td>SanDisk</td>
<td>98.17</td>
<td>$23,073</td>
<td>$18,852</td>
<td>13.9</td>
<td>3.5</td>
<td>13.4%</td>
</tr>
<tr>
<td>Marvell Technology</td>
<td>13.64</td>
<td>$7,103</td>
<td>$4,944</td>
<td>7.9</td>
<td>1.5</td>
<td>10.3%</td>
</tr>
<tr>
<td><strong>Sector Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>11.8</strong></td>
<td><strong>3.0</strong></td>
<td><strong>14%</strong></td>
</tr>
<tr>
<td><strong>Samsung Electronics</strong></td>
<td>1,235,000</td>
<td>$178,277</td>
<td>$117,856</td>
<td><strong>4.8</strong></td>
<td><strong>1.1</strong></td>
<td><strong>20.1%</strong></td>
</tr>
</tbody>
</table>

Prices are as of 08/21/2014 and all values are in millions of US Dollars

Source: Bloomberg, Company filings
• The market doesn’t recognize Samsung Electronics’ chip making business

• Does a company that is consistently taking share in the semiconductor industry deserve a 50%+ discount to its peers?

Source: Gartner
3. Samsung Display

- On pace to earn $3.3 billion operating profit
- Samsung Display is valued at 10x 2014 op. profit
- LG Display trades at 12x 2014 operating profit
- Samsung Display is worth $29.7 billion (>15% discount to LG’s valuation)
- Could this sector be the next HDD or DRAM market?

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>20.7</td>
<td>25.4</td>
<td>26.3</td>
<td>29.0</td>
<td>27.8</td>
<td>29.5</td>
<td>31.1</td>
</tr>
<tr>
<td>Large Panel</td>
<td>9.8</td>
<td>21.6</td>
<td>20.4</td>
<td>19.5</td>
<td>14.7</td>
<td>13.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Small &amp; Medium Panel</td>
<td>-</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>AMOLED (aka OLED)</td>
<td>-</td>
<td>1.5</td>
<td>3.4</td>
<td>7.2</td>
<td>12.6</td>
<td>15.3</td>
<td>16.3</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1.4</td>
<td>1.7</td>
<td>(0.3)</td>
<td>2.8</td>
<td>2.9</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>7%</td>
<td>7%</td>
<td>-1%</td>
<td>10%</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

All values are in $US Billion

Source: Bloomberg, Company filings, AllianceBernstein
3. Samsung Display

- Samsung Electronics is the market leader in a fragmented market
- In similar situations (HDD and DRAM) Samsung has dropped prices and forced smaller competitors to consolidate
- Samsung is the leader in mobile display (AMOLED) and TV display (LCD and Flat Panels).

Source: DisplaySearch
3. Samsung Display

- Samsung Display trades at a 50% discount to its inferior South Korean competitor LG Display

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Market Cap $ USD Mil</th>
<th>Enterprise Value $ USD Mil</th>
<th>P/E ex. net cash 2014</th>
<th>P/B Q2 2014</th>
<th>5-Year ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Display</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LG Display</td>
<td>34950</td>
<td>$12,256</td>
<td>$15,377</td>
<td>20.6</td>
<td>11.7</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Samsung Electronics</strong></td>
<td>1,235,000</td>
<td>$178,277</td>
<td>$117,856</td>
<td>4.8</td>
<td>4.5</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Prices are as of 08/21/2014 and all values are in millions of US Dollars.

Source: Bloomberg, Company filings
4. Samsung Consumer Electronics

- On pace to generate $1.6 billion in operating profit
- Consumer Electronics includes: TVs, monitors, audio equipment, laundry and dish washers, stoves, vacuums, A/C units, refrigerators, microwaves, multi-function printers, wireless X-Ray machines etc.
- Consumer Electronics is valued at 8.5x 2014 op profit
- Whirlpool trades at 8.5x 2014 operating profit

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<thead>
<tr>
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<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>41.0</td>
<td>48.7</td>
<td>42.3</td>
<td>45.0</td>
<td>45.0</td>
<td>52.7</td>
<td>53.4</td>
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<tr>
<td>Visual Display (TV, Monitors)</td>
<td>26.3</td>
<td>28.9</td>
<td>31.3</td>
<td>30.8</td>
<td>29.0</td>
<td>34.0</td>
<td>33.9</td>
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<tr>
<td>Appliance</td>
<td>7.7</td>
<td>10.0</td>
<td>11.0</td>
<td>11.8</td>
<td>13.7</td>
<td>16.1</td>
<td>17.0</td>
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<tr>
<td>Other</td>
<td>7.0</td>
<td>9.8</td>
<td>-</td>
<td>2.3</td>
<td>2.3</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>2.5</td>
<td>0.4</td>
<td>1.1</td>
<td>2.1</td>
<td>1.3</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>6%</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

All values are in $US Billion

Source: Bloomberg, Company filings, AllianceBernstein
4. Samsung Consumer Electronics

• Samsung has been the fastest growing company in the Home Appliance space in recent years
• Samsung is strategically well positioned to take advantage of the smart-home revolution
• Google spent $2 billion on Nest for 1 product category in the smart-home
4. Samsung Consumer Electronics

- Best selling TV for the last 8 years
- #1 in global brand awareness for TVs – according to GMO
4. Samsung Consumer Electronics

- Samsung has been making refrigerators since the 1960’s
- Consistently ranked the highest performance product by Consumer Reports
- Innovating in the space with carbonated water option
4. Samsung Consumer Electronics

Samsung Healthcare Solution

• Bundling wireless X-ray machines with tablets, multi-function printers and scanners
4. Samsung Consumer Electronics

- Home appliance market is expected to grow at 5.1% CAGR
- Samsung Electronics should grow faster than the market if they continue to take share

Global Market Size

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2017</th>
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<tbody>
<tr>
<td>Vacuum Cleaners</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>17</td>
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<tr>
<td>Cooking</td>
<td>71</td>
<td>75</td>
<td>78</td>
<td>83</td>
<td>92</td>
</tr>
<tr>
<td>A/C</td>
<td>47</td>
<td>48</td>
<td>50</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Washer</td>
<td>50</td>
<td>52</td>
<td>55</td>
<td>58</td>
<td>64</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>78</td>
<td>82</td>
<td>86</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Euromonitor, GfK, BSR/A, Internal Analysis

*2014 FPTV: 99.4 / 2014 Mobile: 346.3 (Smart phone 325.6)
$13.6 Billion valuation for Samsung Home Appliance on par with Whirlpool’s valuation

An industry multiple is fair given the consistent share gains and innovative products

### Consumer Electronics – Peers

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Market Cap $ USD Mll</th>
<th>Enterprise Value</th>
<th>P/E ex. net cash</th>
<th>P/B Q2 2014</th>
<th>5-Year ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Electronics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whirlpool</td>
<td>151.88</td>
<td>$12,090</td>
<td>$13,606</td>
<td>12.9</td>
<td>10.2</td>
<td>2.3</td>
</tr>
<tr>
<td>General Electric</td>
<td>26.43</td>
<td>$267,472</td>
<td>$431,873</td>
<td>15.9</td>
<td>14.7</td>
<td>2.0</td>
</tr>
<tr>
<td>LG Electronics</td>
<td>76600</td>
<td>$12,229</td>
<td>$17,638</td>
<td>12.4</td>
<td>10.9</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Sector Average</strong></td>
<td></td>
<td></td>
<td></td>
<td>13.8</td>
<td>12.0</td>
<td>1.8</td>
</tr>
<tr>
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<td>4.8</td>
<td>4.5</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Prices are as of 08/21/2014 and all values are in millions of US Dollars

Source: Bloomberg, Company filings
<table>
<thead>
<tr>
<th>Section</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>1. Net Cash</td>
<td>$ US 60 Billion</td>
</tr>
<tr>
<td>2. Semiconductor</td>
<td>$ US 130 Billion</td>
</tr>
<tr>
<td>3. Display</td>
<td>$ US 30 Billion</td>
</tr>
<tr>
<td>4. Consumer Electronics</td>
<td>$ US 14 Billion</td>
</tr>
<tr>
<td>5. IT &amp; Mobile</td>
<td>????????????????</td>
</tr>
<tr>
<td>Total Equity Value</td>
<td>$ US 234B</td>
</tr>
<tr>
<td>Upside to current price:</td>
<td>31%</td>
</tr>
</tbody>
</table>
• Are the risks so high that a business generating $25 Billion operating profit is worth less than nothing!?

• **Contrarian View:** The fear of a mobile implosion has created a wide margin of safety for the contrarian investor, not to mention a potentially lucrative investment opportunity!
5. Samsung IT & Mobile

- On pace to generate $25 billion in operating profit
- IT & Mobile includes: premium smartphones, low-end smartphones, tablets, PCs, laptops and networking equipment
- IT & Mobile is valued at 8x 2014 op profit (Apple trades at 9.1x 2014 operating profit)
- IT & Mobile is worth $206 Billion

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>30.1</td>
<td>35.0</td>
<td>60.7</td>
<td>93.1</td>
<td>125.2</td>
<td>143.2</td>
<td>149.7</td>
</tr>
<tr>
<td>Mobile/Tablet</td>
<td>27.8</td>
<td>32.4</td>
<td>48.1</td>
<td>81.8</td>
<td>112.7</td>
<td>127.5</td>
<td>132.3</td>
</tr>
<tr>
<td>PC/Laptop</td>
<td>-</td>
<td>-</td>
<td>10.7</td>
<td>7.7</td>
<td>8.1</td>
<td>10.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Networking Equipment</td>
<td>2.3</td>
<td>2.6</td>
<td>1.9</td>
<td>3.7</td>
<td>4.3</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>3.3</td>
<td>3.7</td>
<td>7.3</td>
<td>17.1</td>
<td>22.5</td>
<td>25.8</td>
<td>26.0</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>11%</td>
<td>10%</td>
<td>12%</td>
<td>18%</td>
<td>18%</td>
<td>18%</td>
<td>17%</td>
</tr>
</tbody>
</table>

All values are in $US Billion

Source: Bloomberg, Company filings, AllianceBernstein
Bifurcated Smartphone Strategy

- (1) high-end smartphones
- (2) low-end smartphones
- Success in the low-end will be predicated on driving manufacturing costs lower and bargaining power with suppliers higher
- Success in the high end will be predicated on high quality products (performance and design) and a strong brand image
(1) **Performance: Samsung Galaxy S5**

- Launched in Q2-2014
- Sold 10 million units 10% faster than Samsung Galaxy S4
- Water and dust resistant
Premium Smartphone Lineup

(2) Phablet: Samsung Galaxy Note 4
- Larger screen
- Includes S-Pen

(3) Design: Samsung Alpha
- Metal frame
Samsung offers a broad array of low-end phones that each focus on one different main performance feature.

- First phone released with Tizen OS – Samsung Z

Samsung Z

Samsung Galaxy Ace 3

Samsung Galaxy Star

Samsung Galaxy Young

Samsung Galaxy Active

Samsung Galaxy Grand
Global Smartphone Market Share

- Samsung is the dominant supplier of smartphones, with 25.2% market share as of Q2-2014

<table>
<thead>
<tr>
<th>Vendor</th>
<th>2Q14 Shipment Volume</th>
<th>2Q14 Market Share</th>
<th>2Q13 Shipment Volume</th>
<th>2Q13 Market Share</th>
<th>2Q14/2Q13 Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Samsung</td>
<td>74.3</td>
<td>25.2%</td>
<td>77.3</td>
<td>32.3%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>2. Apple</td>
<td>35.1</td>
<td>11.9%</td>
<td>31.2</td>
<td>13.0%</td>
<td>12.4%</td>
</tr>
<tr>
<td>3. Huawei</td>
<td>20.3</td>
<td>6.9%</td>
<td>10.4</td>
<td>4.3%</td>
<td>95.1%</td>
</tr>
<tr>
<td>4. Lenovo</td>
<td>15.8</td>
<td>5.4%</td>
<td>11.4</td>
<td>4.7%</td>
<td>38.7%</td>
</tr>
<tr>
<td>5. LG</td>
<td>14.5</td>
<td>4.9%</td>
<td>12.1</td>
<td>5.0%</td>
<td>19.8%</td>
</tr>
<tr>
<td>Others</td>
<td>135.3</td>
<td>45.8%</td>
<td>97.5</td>
<td>40.6%</td>
<td>38.7%</td>
</tr>
<tr>
<td>Total</td>
<td>295.3</td>
<td>100%</td>
<td>240.0</td>
<td>100%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

Source: IDC
Global Smartphone Market Share

Top 5 WW Smartphone Vendors, 2014Q2
Unit Shipments (Millions)

Source: IDC
Samsung Tablets

- Samsung has a solid line up of premium tablets
- Samsung recently announced the launch of new tablets with 2K resolution

Samsung Galaxy Note® Pro 12.2, Black (AT&T)
SM-P907AZKAATT

- Office apps, collaboration tools, and wireless printing capability
- Crystal clear HD display for movies, games, and more
- Powerful processor and multi-tasking
- Secure for enterprise with Samsung's Knox solution

Samsung Galaxy Tab® 4 10.1, Black (AT&T)
SM-T537AYKAATT

- Beautiful 1280 x 800 Display
- Multi User Mode
- Use Two Apps at Once
- Expand Memory up to 64GB with microSD™ Card

Samsung Galaxy Note™ 10.1 2014 Edition (T-Mobile)
SM-P607TZKETMB

- Brilliant Display
- Intuitive S Pen™
- Do More with Multi Window™
- Amp Up Your Downtime
According to IDC Samsung took 5% market share directly from Apple in 2013.

Samsung now has 22.3% market share in tablets.

Samsung is the only tablet to gain any real traction against Apple.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>1Q14 Unit Shipments</th>
<th>1Q14 Market Share</th>
<th>1Q13 Unit Shipments</th>
<th>1Q13 Market Share</th>
<th>Year-over-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>16.4</td>
<td>32.5%</td>
<td>19.5</td>
<td>40.2%</td>
<td>-16.1%</td>
</tr>
<tr>
<td>Samsung</td>
<td>11.2</td>
<td>22.3%</td>
<td>8.5</td>
<td>17.5%</td>
<td>32.0%</td>
</tr>
<tr>
<td>ASUS</td>
<td>2.5</td>
<td>5.0%</td>
<td>2.6</td>
<td>5.4%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Lenovo</td>
<td>2.1</td>
<td>4.1%</td>
<td>0.6</td>
<td>1.3%</td>
<td>224.3%</td>
</tr>
<tr>
<td>Amazon.com Inc.</td>
<td>1.0</td>
<td>1.9%</td>
<td>1.8</td>
<td>3.7%</td>
<td>-47.1%</td>
</tr>
<tr>
<td>Others</td>
<td>17.2</td>
<td>34.2%</td>
<td>15.5</td>
<td>31.8%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>50.4</td>
<td>100.0%</td>
<td>48.6</td>
<td>100.0%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>
Laptops – Chromebooks

• Chromebooks will reach 5.2 million units in 2014
• Samsung dominates the product category, accounting for nearly 65% of units sold
• According to Gartner, Chromebooks are set to triple sales to 14.2 million units by 2017 (40% CAGR)

Chromebook Unit Sales 2013

Source: Gartner July 2014
Wearables – Watch

- Samsung is leading the industry with 34% market share (widely expected to be #2 to Apple’s iWatch in 2015)
- NextMarket Insights expects 58% CAGR unit growth

Source: NextMarket Insights
Networking Equipment

- Networking equipment will likely generate ~ $6 billion by 2015
- 18% revenue CAGR over the next 2 years
Apple’s enterprise value trades at 9.1x 2014 operating profit

Samsung’s IT & Mobile business is worth at least 8x 2014 (12% discount to Apple)

Samsung IT & Mobile is worth $206B

<table>
<thead>
<tr>
<th></th>
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</thead>
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<tr>
<td>Apple</td>
<td>100.58</td>
<td>$608,681</td>
<td>$473,221</td>
<td>12.0</td>
<td>11.4</td>
<td>10.8</td>
<td>5.0</td>
<td>27.6%</td>
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<td>Google</td>
<td>583.37</td>
<td>$400,404</td>
<td>$344,956</td>
<td>19.0</td>
<td>15.8</td>
<td>13.2</td>
<td>4.6</td>
<td>18.5%</td>
</tr>
<tr>
<td>Lenovo</td>
<td>1.54</td>
<td>$16,077</td>
<td>$17,577</td>
<td>19.5</td>
<td>17.1</td>
<td>11.3</td>
<td>5.7</td>
<td>20.3%</td>
</tr>
<tr>
<td>Microsoft</td>
<td>45.22</td>
<td>$379,803</td>
<td>$302,142</td>
<td>14.2</td>
<td>12.1</td>
<td>10.8</td>
<td>4.2</td>
<td>36.3%</td>
</tr>
<tr>
<td><strong>Sector Average</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>38.1</strong></td>
<td><strong>14.1</strong></td>
<td><strong>11.5</strong></td>
<td><strong>4.7</strong></td>
<td><strong>21%</strong></td>
</tr>
<tr>
<td><strong>Samsung Electronics</strong></td>
<td><strong>1,235,000</strong></td>
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<td><strong>$117,856</strong></td>
<td><strong>4.8</strong></td>
<td><strong>4.8</strong></td>
<td><strong>4.5</strong></td>
<td><strong>1.1</strong></td>
<td><strong>20.1%</strong></td>
</tr>
</tbody>
</table>

Prices are as of 08/21/2014 and all values are in millions of US Dollars.

Source: Bloomberg, Company filings
5. IT & Mobile – Conclusion

• More than just smartphones

• Should **not** be valued less than zero

• Pockets of growth outside of smartphones
Management
“Three Stars” of Samsung

- Founded and controlled by Lee Family
- Lee Byung-Chul (top) Founder
- Lee Kun Hee (left) Chairman
- Lee Jae-Yong (right) Successor
- Samsung is a family owned business with the current chairman controlling 49.7% of voting
- Each generation has left their unique mark on the company
The Toyota Way + The GE Way

Japanese Management Style
- Vertically integrated
- Horizontally integrated
- Emphasis on manufacturing competitiveness
- Open-recruitment for entry level positions
- Employee training and standardized workforce
- Strict organizational discipline
- Emphasis on Loyalty

American Management Style
- Frequent restructuring
- Emphasis on technology
- Emphasis on brand
- Emphasis on design and aesthetics
- Talent recruitment
- Performance based compensation
- Risk taking CEO
Proven Track Record

Samsung Proven Record: 20.8% Sales CAGR 1989-2013

Source: Bloomberg, Company Filings
Excellent Capital Allocation – Return on Capx

Key source of sustainable growth & competitive edge

<table>
<thead>
<tr>
<th>Year</th>
<th>Capex (Billion USD)</th>
<th>EBITDA</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013(E)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19</td>
<td>24</td>
<td>20</td>
<td>25</td>
<td>41</td>
<td>50**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Investor Presentation 2013
While most struggled in 2009, Samsung set the goal to reach $400 billion sales by 2020.
Founder: Lee Byung-Chul

- Born: 1910
- Died: 1987 (at age 77)
- Founded Samsung in 1969
- Began as a distributor of vegetables, rice and dried seafood (Cheil Industries)
- Transitioned into manufacturing TV sets, electric fans and refrigerators
- Extended the business in the 1950s to include banking, insurance, real estate and tungsten exporting
- Invested in microprocessor manufacturing in 1974 by purchasing Korean Semiconductor Company out of bankruptcy

Lee Byung-Chul’s philosophy for establishing new businesses:

“Pounce on them when the market is at rock bottom.”
1. Contribution to the nation through businesses
2. People first
3. Pursuit of Rationality

“A company is its people, I spent 80 percent of my life looking for and training talent. Respecting people, creating an environment where each individual can exhibit their ability to the fullest, and making the individual a driving force for social development.” - Lee Byung-Chull, Founder
Current Chairman: Lee Kun-Hee

- Age: 72
- Chairman since: 1987
- Son of Lee Byung-Chul
- Most notable accomplishment is the 64MB DRAM memory chip, transforming the formerly bankrupt company into the worldwide memory leader
- Chairman Lee wanted to build a brand, not just a product
- Today, Samsung has 13 products with #1 global market share all under the Samsung brand
- Suffered a severe stroke in 2014
- Majority of his wealth in Samsung Electronics stock (~$9 billion)
Vice Chairman Jay Y Lee (Heir)

- Age: 42
- Son of Lee Kun-Hee
- Graduated from Seoul National University, Keio University (Japan)
- PhD from Harvard University
- Fluent in Korean, Japanese and English
- Brokered the licensing deal with Android
- Worked out a settlement with Apple (lawsuits outside of USA)
- Main point of contact for key suppliers and partners (Google, Apple, Sony, HP)
Sustainability
Commitment to Human Capital

- Samsung Electronics has 326,000 employees around the world
- 60% Overseas, 40% domestic

Source: Bloomberg, Company filings
Source: Investor Presentation 2013
Incentivized Workforce

- Samsung is well known for being the highest-paying Korean firm in its respective industries.

- Samsung is often the first choice of fresh university graduates.

- Performance based compensation: productivity incentives (PI) and profit-sharing (PS) bonuses.

**Productivity Incentive:** The maximum amount an employee may receive annually under PI is 300 percent of his or her monthly base pay. Evaluation criteria for an affiliate include economic value added (EVA) to the company, the affiliate’s stock price to earnings ratio, and success in recruiting and retaining core talent. For a division, financial evaluations, including EVA and asset turnover, account for 60 to 70 percent of the score, with the remainder being based on the success of the division’s core strategies.

**Profit Sharing:** Samsung’s profit-sharing system, which provides incentives amounting to up to 50 percent of their annual salaries, as well as smaller productivity incentives.
Commitment to R&D

- World leader in R&D spend
- R&D engineer workforce grew from 6,000 to 80,000 from 1987 to 2013.
- In 2010 Samsung Group committed to spend about 23 trillion won (about US $21 billion) in these five areas: (1) light-emitting diodes (LEDs), (2) rechargeable batteries for automobiles, (3) solar cells, (4) medical equipment, and (5) biosimilars.

“In the twenty-first century, gaps in productivity will narrow. Competitiveness will be determined by soft capabilities or intangible assets like R&D and design.”

- Chairman Lee Kun-Hee
Vertically Integrated: Lowest-cost OEM

- In 2013, 63% of the components and materials for the Galaxy S4 were purchased internally
- Apple charges on average 16% more for their smartphones than Samsung
- Samsung’s margins on premium phones are higher than Apple by 1%
- Samsung has a 15% manufacturing cost advantage
Commitment to Advertising

- Samsung advertises more than Coca-Cola
- Samsung advertises 4 times more than Apple
- Strengthening brand value
- Brand value worth $39.6 billion (Interbrand)

Source: Investor Presentation 2013

Source: Bloomberg, Company filings
### Interband’s Global Brand Ranking 2013

<table>
<thead>
<tr>
<th>2013 Rank</th>
<th>2012 Rank</th>
<th>Brand</th>
<th>Brand Name</th>
<th>Region/Country</th>
<th>Sector</th>
<th>Brand Value ($m)</th>
<th>Change in Brand Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Apple</td>
<td>Apple</td>
<td>United States</td>
<td>Technology</td>
<td>98,316</td>
<td>98%</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>Google</td>
<td>Google</td>
<td>United States</td>
<td>Technology</td>
<td>93,291</td>
<td>24%</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>Coca-Cola</td>
<td>Coca-Cola</td>
<td>United States</td>
<td>Beverages</td>
<td>79,213</td>
<td>2%</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>IBM</td>
<td>IBM</td>
<td>United States</td>
<td>Business Services</td>
<td>78,808</td>
<td>4%</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>Microsoft</td>
<td>Microsoft</td>
<td>United States</td>
<td>Technology</td>
<td>59,546</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>GE</td>
<td>GE</td>
<td>United States</td>
<td>Diversified</td>
<td>46,847</td>
<td>7%</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>McDonald’s</td>
<td>McDonald’s</td>
<td>United States</td>
<td>Restaurants</td>
<td>41,992</td>
<td>5%</td>
</tr>
<tr>
<td>8</td>
<td>9</td>
<td>Samsung</td>
<td>Samsung</td>
<td>South Korea</td>
<td>Technology</td>
<td>39,619</td>
<td>20%</td>
</tr>
<tr>
<td>9</td>
<td>8</td>
<td>Intel</td>
<td>Intel</td>
<td>United States</td>
<td>Technology</td>
<td>37,257</td>
<td>-5%</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>Toyota</td>
<td>Toyota</td>
<td>Japan</td>
<td>Automotive</td>
<td>35,346</td>
<td>17%</td>
</tr>
</tbody>
</table>
Scale Advantage

- Nearly 600 facilities in 63 countries
- Announced $1 billion factory in Indonesia for mobile phones
- Announced $1 billion factory in Vietnam for display used in smartphones and tablets

Source: Bloomberg, Company filings
Fast, Flexible and Focused on Quality

• “Lego-style” production – referring to the modular disassembly and reassembly of production lines

• Six Sigma quality control process – to achieve defect rates of less than 3 to 4 per 100,000 products or services.

• On average Samsung has launched new chips 1 to 1.5 times faster than competitors

• World leader in smartphones 4 years after Apple invented the category

• Controlling shareholder allows for quick decisions

• Quick and large scale investment decisions are necessary for success in the semiconductor and display businesses

“Samsung’s ability to produce displays, memory, processors, and other high-tech parts gives it a flexibility competitors can’t touch. That flexibility enables it to produce much more diverse product line-ups than competitors can.”

- Bloomberg Businessweek March 2013
Catalyst
Simplified Organizational Structure

- 8 circularities exist in the ownership structure
  
i.e. Electronics → Card → Everland → Life → Electronics
Government Urges Change

• President Park Geun Hye’s government introduced in 2013 legislation banning family-run chaebol businesses from creating new cross shareholdings.

• The government is also offering tax breaks to encourage the chaebol to unwind existing structures to form more transparent holding companies.

Jay Lee could use this tax break as an opportunity to transfer his father’s assets in exchange for converting Samsung Electronics into a holding company...
Samsung SDS IPO

• Announced May 8, 2014
• Expected to IPO in Q4 2014
• Established in 1985 as a data system and technology consulting company
• Provides IT and Networking consulting, customized application integration, IT infrastructure outsourcing
Samsung Everland IPO

• Announced on May 15, 2014
• Expected to happen Q1-2015
• Amusement park and fashion business
• Proceeds are expected to cover estate taxes for Jay Lee and family
Late Innings of Corporate Restructuring

• There has been heavy consolidation of the subsidiaries in Samsung Group’s ownership structure in the past 4 years
• Samsung announced IPO of Samsung SDS, Samsung Everland in 2014
• Depending on the float used for IPO of SDS and Everland **up to 7 circularities could be eliminated**
Share Buyback on the horizon?

- To break the final circularity, Samsung Electronics will need to repurchase 4.1% of its outstanding shares from Samsung C&T (which Electronics could easily do).
- Chairman Lee Kun-Hee currently has 49.7% voting control of Samsung Electronics.
- Presumed tax bill is $US 6 billion.
- IPO of SDS and Everland are expected to yield $3 billion for the family.
- Jay Lee will need to repurchase up to $US 20 billion worth of shares within Samsung Electronics to retain his father’s current voting control (if there is no tax break).
Management recognizes valuation disparity

PBR & PER declined despite increased ROE and profits

Source: Investor Presentation 2013
Conclusion

• Samsung Semiconductor is worth enterprise value
• Market is ascribing no value to IT & Mobile, Display and Consumer Electronics
• #8 Global Brand Value in the world
• #1 Brand awareness in Smartphones and TVs
• 13 Products with #1 market share
• Improving corporate governance
• Realigned interests with Lee family
• Massive share buybacks over the long-term
• Limited downside given $60.4 billion net cash (including equity investments)
How to buy Samsung Electronics

1. Samsung Electronics (005930 KS Equity)
   Price: KRW 1,235,000  
   Shares: 147,300,000  
   FX rate: 0.00098 USD/KRW  
   Market Cap: USD $178 Billion

2. Samsung Electronics GDR (SMSN LI Equity)
   Price: $ USD 603.50  
   Equiv. GDRs: 295,000,000  
   Market Cap: USD $178 Billion
3. Samsung Electronics Preferred (005935 KS Equity)
Price: KRW 979,000
Market cap: USD $22 Billion

Characteristics:
• Same economic interest as common stock
• No voting rights

If you assume lack of voting warrants a 10% discount...

By purchasing preferred shares you are buying economic interest in Samsung Electronics at a discount of 12% to the common
Samsung Electronic’s enterprise value is more than $40 billion cheaper than Facebook yet 8x more profitable!!!
What’s in your portfolio?
Further Reading...

**THE SAMSUNG WAY**

Jaeyong Song and Kyungmook Lee

Transformational Management Strategies from the World Leader in Innovation and Design

—Jeff Immelt, Chairman and CEO of GE

**SAMSUNG ELECTRONICS**

And the Struggle for Leadership of the Electronics Industry

By: Michael Wood

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