

## Seeing, Hearing, and Feeling the Cosmetics Industry (ODM)



- Cosmax (044820 KS)
- Korea Kolmar (024720 KS)

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**Table of Contents**

Page	Content
3	<b>SUMMARY: Obsession or affection? The compulsive cosmetics ODM</b>
4	<b>What is the growth engine of the cosmetic products ODM/OEM market?</b>
5	<b>Domestic] Cosmetics ODM/OEM market's growth engine (1) - Cosmeceuticals</b>
6	<b>Domestic] Cosmetics ODM/OEM market's growth engine (2) – Get it beauty effect</b>
8	<b>Foreign] Cosmetics ODM/OEM market's growth engine – China's low-mid price cosmetic products boom</b>
13	<b>Industry's most desired company - Cosmax</b>
14	<b>Company report 1: Cosmax (044820 KS) – Thriving from China's mid-low price cosmetic products boom</b>
33	<b>Company report 2: Korea Kolmar (024720 KS) – A steed with a strong foundation</b>

## SUMMARY: Obsession or affection? The compulsive cosmetics ODM

The 2012 cosmetic products industry's PER of 19.4x translates to a 98.5% premium to the market. The 2012E growth rate for the domestic cosmetic products market is 9%, and its future growth will be driven by growth in the low-mid price cosmetic products market, which is comprised of brand shops and ODM/OEM enterprises. Sales in brand shop enterprises are expected to grow 16% yoy in 2012, which is less than its past sales growth rates (in the 20% range), but higher than the domestic cosmetic products market's expected growth rate – meaning brand shops will outperform the cosmetic industry's growth. Furthermore, since most brand shop enterprises depend on ODM/OEM production, the cosmetics ODM/OEM market is expected to grow proportionally and directly with the brand shop market.

Domestic ODM/OEM market can achieve growth rates in the 10% range, but leading enterprises such as Korea Kolmar (024720 KS) and Cosmax (044820 KS) may achieve even more impressive growth because...

### 1. Benefit of low priced cosmetics products becoming gentrified

The cable broadcast program 'Get It Beauty' which compares low/high priced and foreign/domestic cosmetic products, is promoting and demonstrating the benefits of some low-mid priced cosmetic products

-Consumers have a bettered awareness and perception about low-mid price cosmetic products

Cosmetic products that have been directly developed by doctors have been released as low priced products

- Competition in the low-mid price cosmetic products market is becoming intensified

→ The gentrification of low-mid priced cosmetic products is causing low-mid priced cosmetics suppliers to become increasingly dependent on ODM enterprises that possess sophisticated product development capabilities, for production.

### 2. China is expected to see a boom in the low-mid price cosmetic products market

China's cosmetic products market is growing over twice as fast as the global cosmetic products market

- China's CAGR of 11.6% vs Global CAGR of 4.5%

As cosmetic product sales increase in cosmetics stores, large pharmacies, and internet channels, growth in the low-mid priced cosmetic products market becomes increasingly promising

In China, 2<sup>nd</sup> & 3<sup>rd</sup> tier cities have GDP growth rates that are 2-3 times higher than those of 1<sup>st</sup> tier cities

Vendors such as Sephora, SaSa, and Watsons are aggressively increasing presence in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities by opening more stores in those areas

→ Low-mid price Chinese brands prefer working with foreign ODM/OEM firms; firms such as Cosmax and Korea Kolmar that mainly serve Chinese clients will benefit

Both Korea Kolmar and Cosmax will receive benefits from the gentrification of low-mid priced cosmetic products in the domestic market, but we select Cosmax as the industry's most promising company because its growth momentum in China is more clearly visible. We appoint the target price of Cosmax as W39,000.

### Exhibit 1. Korea Kolmar Valuation

	Sales(Wbn)	% chg (yoy)	OP(Wbn)	OPM	NP(Wbn)	EPS(W)	EPS Grth(%)	PER(x)	EV/EBITDA(x)	ROE(%)	P/B
2011	324.5	19.8	21.2	6.5	20.3	703	60.6	15.0	11.0	15.4	2.2
2012E	396.5	22.2	27.8	7.0	23.3	807	14.8	13.1	8.6	15.3	1.9
2013F	449.0	13.2	35.3	7.9	30.2	1,045	29.5	10.1	6.9	16.9	1.6

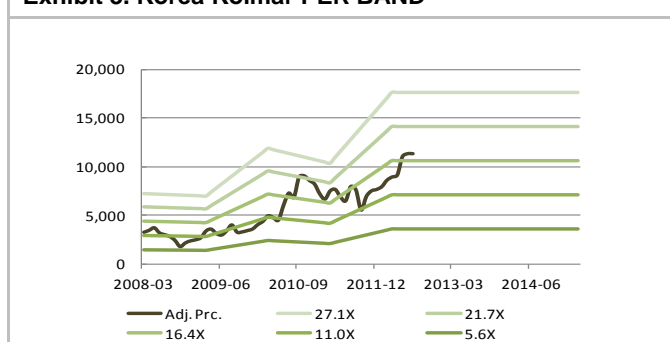
Source: Company data, Leading Research Center

### Exhibit 2. Cosmax Valuation

	Sales(Wbn)	% chg (yoy)	OP(Wbn)	OPM	NP(Wbn)	EPS(W)	EPS Grth(%)	PER(x)	EV/EBITDA(x)	ROE(%)	P/B
2011	244.0	26.8	16.9	6.9	11.5	844	29.3	36.0	19.9	20.9	6.8
2012E	306.4	25.6	23.5	7.7	16.6	1,220	44.5	24.9	14.5	23.4	5.1
2013F	381.9	24.7	29.4	7.7	20.9	1,536	25.9	19.8	11.4	23.2	4.2

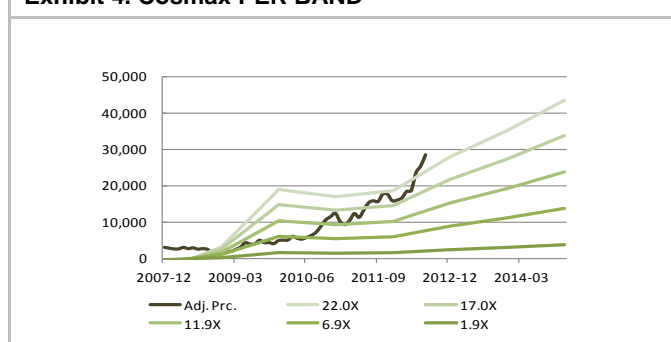
Source: Company data, Leading Research Center

### Exhibit 3. Korea Kolmar PER BAND



Source: Company data, Leading Research Center

### Exhibit 4. Cosmax PER BAND



Source: Company data, Leading Research Center

## I . What is the cosmetics ODM/OEM market's growth engine?

**Domestic: 1. Demand for cosmeceutical products will increase  
2. Get it beatify effect**

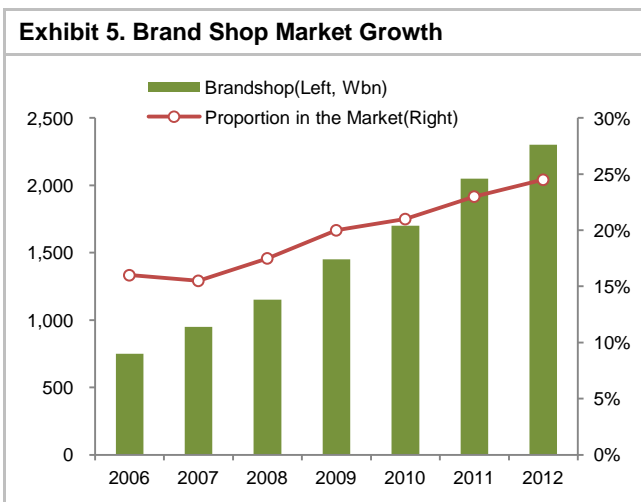
**Foreign: China's current fever for low-mid priced cosmetic products**

Brand shop enterprises, which are the main clients of cosmetic product ODM/OEM enterprises, are restructuring because competition has become intensified from the entry of so many other competitors in the cosmetic products market. In the current brand shop market, which is worth about W2trillion, the 7 leading firms in the industry collectively have a 60% market share, and this percentage is expected to gradually increase. This is because intensifying price competition and product quality competition is causing the brand shop market to become increasingly polarized.

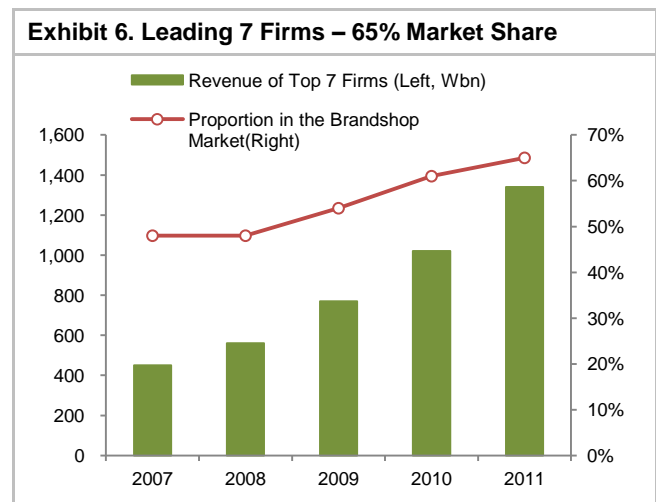
The brand shop market is expected to grow 16% in 2012 and become the cosmetic product industry's main growth engine in the future. In addition, ODM/OEM production firms are expected to grow in proportion with brand shop enterprises, because most brand shop enterprises depend on ODM/OEM production. ODM/OEM firms that have heavier weight in ODM than OEM are especially expected to achieve noteworthy growth and progress in the future.

### Why are cosmetics products ODM/OEM firms with noteworthy development & production capabilities so successful?

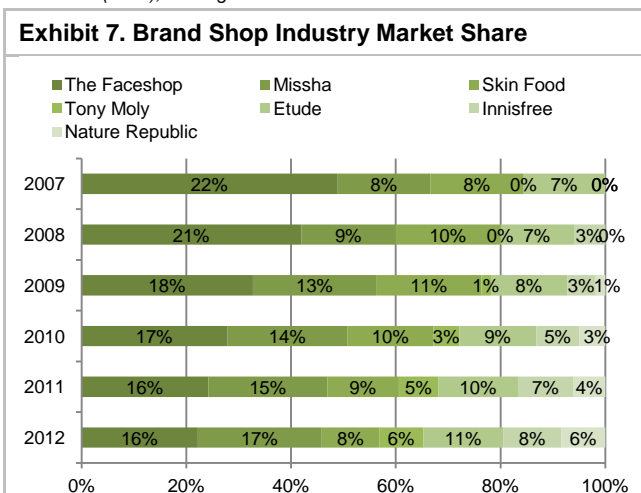
- 1) Increase in demand for cosmeceutical products: Increase in demand for cosmetic products that integrate pharmaceutical technology
- 2) Get It Beauty Effect : Customers can qualitatively compare products based on use



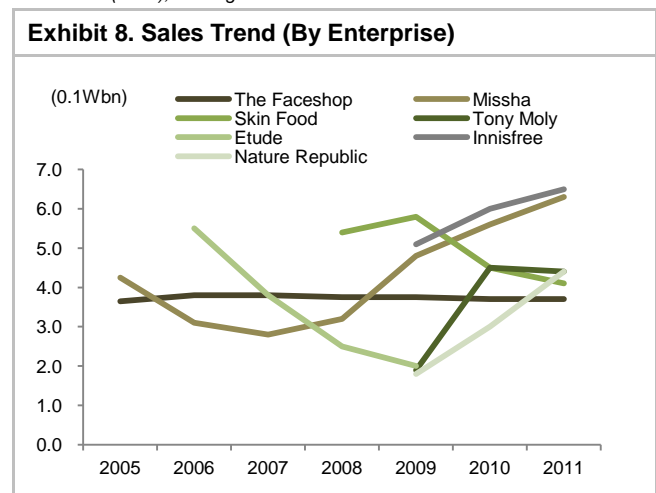
Source: (2011), Leading Research Center



Source: (2011), Leading Research Center



Source: (2011), Leading Research Center



Source: (2011), Leading Research Center

## Domestic] Cosmetics ODM/OEM market's growth engine (1)

### Increase in demand for cosmeceuticals (Cosmeceutical= Cosmetics + Pharmaceutical)

: What are cosmeceuticals? Cosmetic products that integrate pharmaceutical effects – promoted by society's well-being trend and aging population

The cosmeceutical market (annual growth rate of 10%) is growing over twice as fast as the cosmetic products industry (annual growth rate of 4%). According to Euromonitor, the US cosmeceuticals market – including the Anti-aging market - was worth about W16 trillion (\$16bn) in 2010, and is expected to grow 40% by 2014F. Therefore, the global leader of cosmetics products, L'Oreal, is aspiring to carry out extensive R&D and marketing efforts through its 4 cosmeceutical brands: Vichy, La Roche Posay, SkinCeuticals, and Inneov, to focus on developing cosmeceutical products that will lead the entire cosmetic products market's growth.

In the domestic market, since PB products are sold in drug stores such as CJ Olive Young, GS Watsons, and W-store, the distribution process is 1 step truncated. The Derma cosmetic product, which was developed directly by doctors in hospitals such as CNP and Beauty Forever Dermatology, is also receiving commercial success and sales is growing rapidly. As these kinds of products mostly rely on ODM/OEM production, increase in demand for cosmetic products will subsequently increase demand in other related areas – such as the ODM & OEM market.

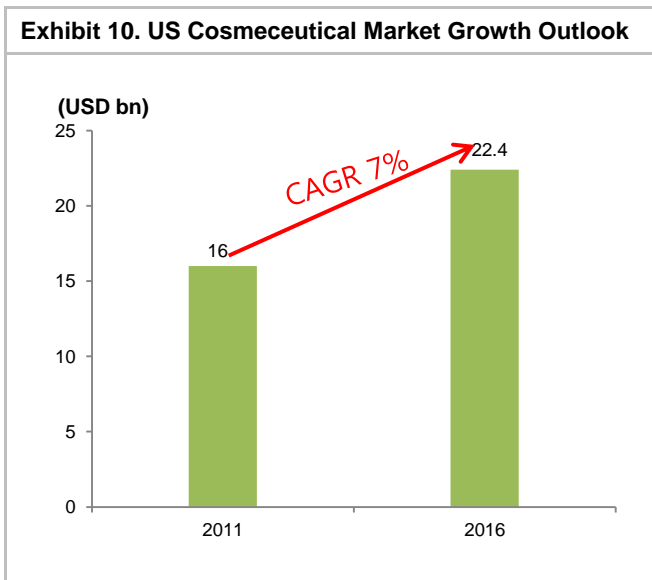
**Exhibit 9. Derma Product Produced by ODM**

**Dr. Jart+ Derma Cosmetics**

**CNP Cosmetics**

**LJM Cosmetics**

Source: Company data, Leading Research Center



Source: Euromonitor, Leading Research Center  
US Cosmeceutical +Anti-aging Product

## Domestic] Cosmetics ODM/OEM market's growth engine (2)

### Get it beauty effect: Increasing demand for substitutes of high-priced products

:'Get It Beauty' is? A cable program broadcast through OnStyle (fashion/beauty TV channel) that teaches viewers how to use and analyze cosmetic products

Get It Beauty, a TV program that analyzes everything about cosmetic products from price, quality, to brands, (targeted for 20-30 year old consumers) has achieved viewer ratings in the 0.7%~1% range. Get it Beauty's viewer rating is impressive when considering the limited age group it targets (dramas that aim for all age groups record viewer ratings in the 5% range). Part of the reason this program is so popular is because it carries out 'blind tests' which hides the name of the cosmetic products' brands, and compares products purely based on quality. As low-mid priced products outperformed high priced products in the 'blind tests' and recorded 1<sup>st</sup> overall many times, this program demonstrated to viewers that the price of the product does not solely determine the quality of the product. As such, this program increased the awareness of cosmetics consumers, and therefore we expect demand for low-mid priced products to increase from the bettered awareness of consumers.

As cosmetic products that appear on Get it Beauty have been proved to receive popularity, cosmetics makers have been focusing on PPL advertising on the program. PPL advertisement on Get it Beauty costs W16mn~W76mn per episode, which is 2-3 times higher than the typical price per episode for PPL in a 24-episode drama (about W20mn). As such, Get it Beauty has been acknowledged for its noteworthy marketing power by many cosmetic products firms.

#### Exhibit 11. Get It Beauty – Changed Public's Attitude Towards Low-Mid Price Cosmetic Products



Source: OnStyle, Leading Research Center

66% of the 35 cosmetic products that ranked 1<sup>st</sup> overall in past Get it Beauty blind tests were low-mid priced brand products. In addition, 25% of these products were manufactured by Korea Kolmar and Cosmax, two domestic cosmetic products manufacturers that currently oligopolize the Korean ODM market.

As such, although the current ratio of high-priced products to low-priced products is about 7:3 in the cosmetics products market, this ratio is expected to change as demand for high-priced products shifts towards demand for low-priced products, effectively increasing the market share of low-priced products in the cosmetics market and market size of the low-priced products market.

In addition, as consumers are becoming increasingly selective about the products they purchase, low-mid priced cosmetic product brands will be forced to not only participate in price competition, but also focus on increasing the quality of their products. This will naturally lead to increased reliance of low-mid priced brands on ODM enterprises that possess advanced development and production capabilities, for production and development.

**Exhibit 12. Of the 35 Products that ranked no. 1 in past Get It Beauty blind tests...**

Low-Mid Priced Products	66%
Domestic Products	63%
Cosmax & Korea Kolmar Products	25%

Source: OnStyle, Leading Research Center

**Cosmax, a firm acknowledged by multinational firms for its advanced product development capabilities**

20% of Cosmax's employees are researchers focusing on developing new products. In September 2011, Cosmax received an official appraisal when the brand manager of the world's No.1 cosmetics brand (which is French) as well as 30 other renowned brand managers visited the firm's Hwa-sung factory and evaluated 128 Cosmax products. 34 of Cosmax's products received the 'grade 3' status, which is the best rating, and the firm was also acknowledged for its prowess in product development. Currently, 12% of Cosmax's sales are from exporting to foreign markets, and the firm's clients are leading global firms such as L'Oreal. In the future, Cosmax plans to increase sales domestically and in China to achieve 15% growth by 2014F.

**Korea Kolmar, achieved No.1 domestic MS through R&D power**

Korea Kolmar is the first ever domestic cosmetic products ODM firm, and the owner, who initially worked for a large pharmaceuticals company, strongly advocates and focuses on R&D investments. Considering both the cosmetics sector and pharmaceuticals sector of the company, 36% of employees are researchers. Since its founding, the company entered the cosmeceuticals market (which combines aspects of pharmaceuticals and cosmetics) and has been maintaining No.1 status in the domestic ODM market. As such, Korea Kolmar is globally recognized for its R&D prowess, and supplies products to firms such as Johnson & Johnson, New Skin, Amway, and etc. In addition, taking into account additional firms that Korea Kolmar may soon supply to (firms that are currently in the contract drafting process with Korea Kolmar), sales from exports, which currently only accounts for 8% of overall sales) is expected to increase to 12.5% in 2014F.

## Foreign] Cosmetics ODM/OEM market's growth engine

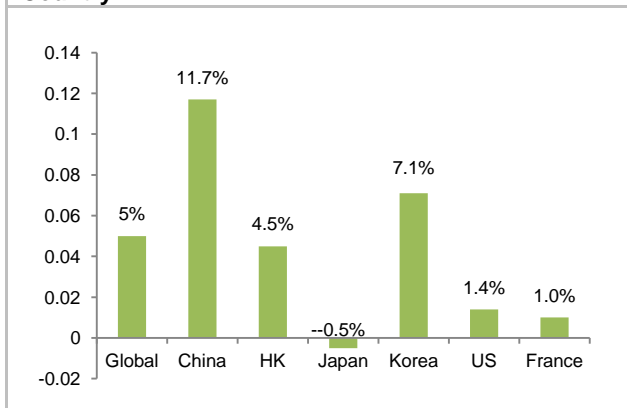
### China's fever for low-mid price cosmetic products

#### China is the world's 3rd largest cosmetics market - behind the US and Japan

China's cosmetics market (Cosmetics & Toiletries) is worth about W30 trillion, and has a global market share of 6.5%. It is the 3<sup>rd</sup> largest cosmetics market in the world – US is the largest (with a global market share of 14.8%) and Japan is the second largest (with a global market share of 11.1%). Currently, China's cosmetics market is dominated by high-priced products, and global brands such as L'Oreal, Olay, Maybelline are the main players. Low-mid priced cosmetic products are mainly produced by local firms. If we categorize high-priced cosmetic products as those sold in department stores, hypermarket channels, and through door to door call sales, the ratio of high-priced to mid-low priced products is about 7:3.

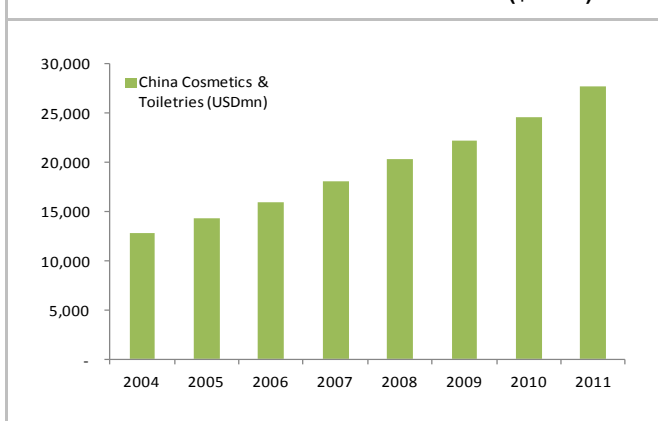
In the past, commercial selling of cosmetic products was focused mainly on 1<sup>st</sup> tier cities, but as China's standard of living increased, the purchasing power of consumers in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities increased. We can see that sales of low-priced cosmetic products through brand shops, drug stores, and internet channels has been increasing in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities. The rapid growth of the low-mid priced cosmetic products market is leading the growth of the entire cosmetics market.

**Exhibit 13. Cosmetics Market CAGR (2006~2011) by Country**



Source: Euromonitor 2011, Leading Research Center

**Exhibit 14. China's Cosmetics Market Size (\$30bn)**

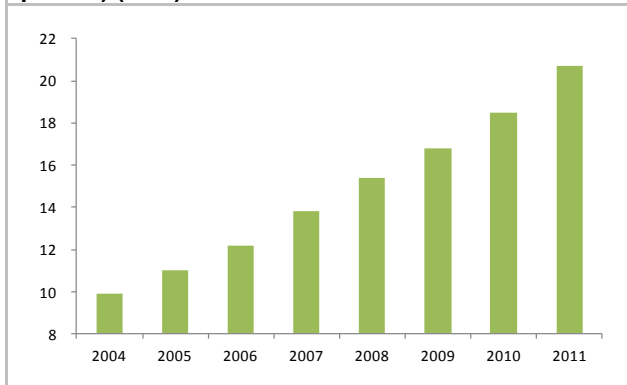


Source: Euromonitor 2011, Leading Research Center

#### China's cosmetic products market is growing rapidly

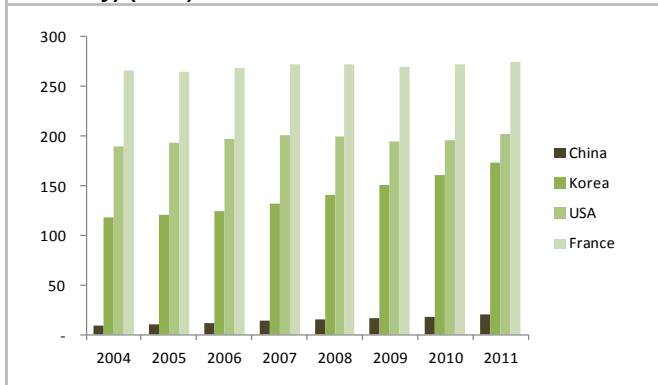
The global cosmetics market has been growing about 4.5% annually – China's cosmetics market has been showing 11.6% annual growth since 2006. This is because China's GDP has been growing 20% annually, and average cosmetics consumption per person has been increasing 10% annually. The per person consumption of cosmetics in China was USD 21 in 2011, which is quite low compared to that of Korea and France (France USD 274, Korea USD 173). In addition, China's number of cosmetic products used per person – excluding Shanghai – is 2 (including soap), while Korea's number of cosmetic products used per person is 6. In leading countries, the number of cosmetic products owned per person is about 8. As such, China's cosmetics market has a large potential for growth, and the current outlook is promising.

**Exhibit 15. Cosmetics Consumption in China (per person) (USD)**



Source: Euromonitor, Leading Research Center (2011)  
\*Cosmetics & Toiletries

**Exhibit 16. Cosmetics Consumption per Person (By Country) (USD)**



Source: Euromonitor, Leading Research Center  
\*Cosmetics & Toiletries

### High-priced cosmetic products occupy 70% of China's cosmetics market

High-priced cosmetic products occupy 70% of China's cosmetic products market, and the key players in the field are global cosmetics brands such as L'Oreal, Lancome, Estee Lauder, etc. As local Chinese firms fall behind global competitors in terms of production and technological capabilities, they tend to try to obtain competitive edges in order to participate in sales competition, through merging with foreign funded enterprises.

#### Exhibit 17. Chinese Local Firms and Foreign Funded Enterprise Mergers

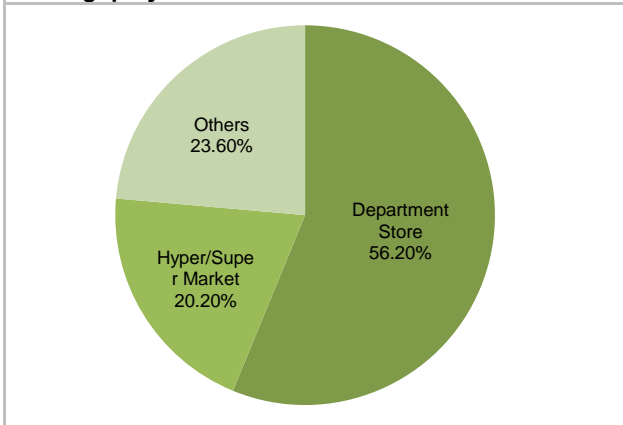
- \*2010 Globally renowned leading cosmetics firm Coty Inc buys stake in Chinese skincare firm Tjoy Holding LTD for \$4,000,000
- \*2008 Johnson & Johnson acquires DABAO
- \*200 Beiersdorf acquires C-Bons
- \*2004 Yue-sai and Mininurse both acquired

Source: Leading Research Center

### Top 10 Enterprises Obtained Most of the Market's Market Share

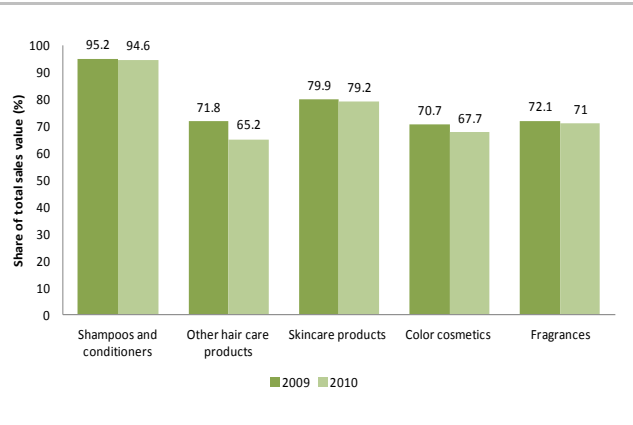
It is difficult for local Chinese firms that possess lower levels of cosmetic production technology to independently compete with other global competitors, so the world's top 10 cosmetic products firms currently occupy a 70% market share in China's cosmetics market.

#### Exhibit 18. High priced cosmetic products market is an oligopoly in China's cosmetics market



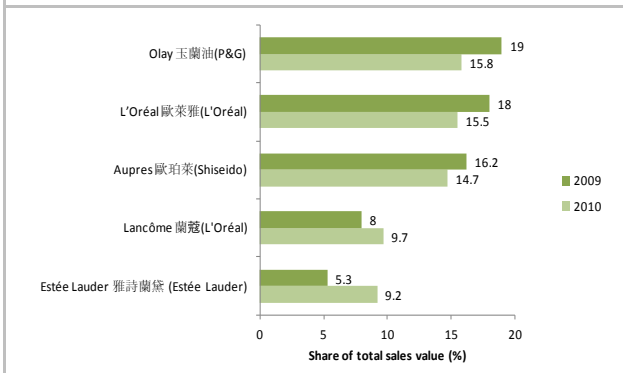
Source: Euromonitor, Leading Research Center  
\*Cosmetics & Toiletries

#### Exhibit 19. Market share of leading 10 cosmetics firms in China



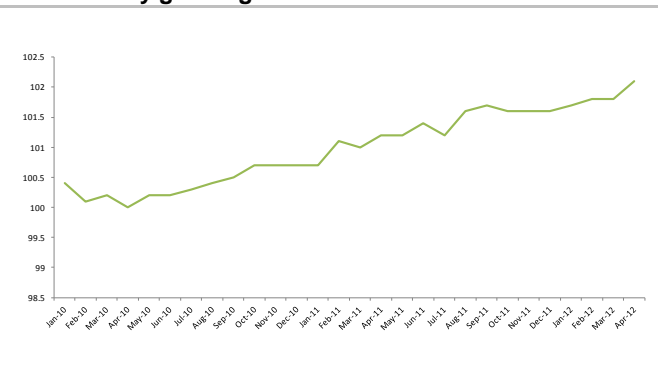
Source: Li&Fung Research Center (2011), Leading Research Center

#### Exhibit 20. Foreign funded enterprises own 65% of Skincare



Source: Li&Fung Research Center (2011), Leading Research Center  
\* Skin care products: share of total sales value, 2009-2010

#### Exhibit 21. Cosmetic product prices in China are consistently growing



Source: Li&Fung Research Center (2011), Leading Research Center  
\* Retail source index of cosmetics in China, January 2010-April 2012 (same month of preceding year =100)

### Low-mid priced products serve as China's cosmetic market's growth engine

According to Euromonitor, sales of high-priced cosmetic products from channels such as department stores, hypermarket, and door-to-door sales is decreasing. (Sales rate of these channels decreased from 72.7% to 69.1%). On the other hand, sales from low-mid priced products supplied through channels such as pharmacies, cosmetics shops, and online are increasing, indicating a shifting trend in demand from high priced cosmetic products to low-mid priced ones.

**Exhibit 22. Changes in commercial selling ratio (by Channel)**

Ratio (%)		2007	2011
High Price	Department Store	33.2	28.7
	Hypermarkets	26.5	26.5
	Direct Sales/ Door to Door Sales	13.0	13.9
Low-Mid Price	Super Market	9.1	7.5
	Cosmetics Stores	4.8	6.4
	Large Pharmacies/Drugstores	5.5	5.9
	Internet Channels	0.8	5.0
	Small Grocery Store	2.8	1.9
	Convenient Store	1.7	1.7
	Pharmacy	1.4	1.5
	Home-Shopping	0.9	0.8
	Beauty & Health Shops	0.2	0.2
Etcetera	0.1	0.2	
<b>Total</b>		<b>100.0</b>	<b>100.0</b>
<b>China Cosmetics &amp; Toiletries Market (USD mn)</b>		<b>18,117.3</b>	<b>27,704.3</b>

Source: Euromonitor(2011), Leading Research Center

### Low-mid priced cosmetic products market will grow as cosmetic shops enter 2<sup>nd</sup> and 3<sup>rd</sup> tier cities

The number of cosmetic stores is increasing rapidly not only in 1<sup>st</sup> tier cities, but also in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities. Global cosmetics firm Sephora, large-scale pharmacy Watsons, and Hong-Kong based cosmetics firm Sasa are aggressively increasing their presences in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities, and increasing sales through selling low-mid priced cosmetic products. This scene is similar to the 2008, 2009 Korean cosmetic industry scene, when domestic firms such as Amore Pacific's Aritaum and LG Health & Beauty's Beautiplex rapidly increased the number of operating stores.

**Exhibit 23. Cosmetic Brands' Plans to Increase Stores**

Company	Entry Plan
<b>Sephora</b>	Currently has stores in 20 cities (Shanghai, Beijing, Tiannjin, etc.) and as of 2010 had 100 operating shops. In 2011, began initiative to officially open more stores in 2 <sup>nd</sup> and 3 <sup>rd</sup> tier cities (Wuxi, Wenzhou, Changsha and Changshu)
<b>Watsons</b>	As Asia's Beauty and Health Retail Store, has over 1,000 operating stores in over 150 cities across China. Plans to have opened 3000 stores in 300 cities by 2016
<b>Sasa</b>	Announced plans to open an additional 100 stores within 2.5 years. Sasa opened its first large scale shop in October, 2011, in Hong Kong

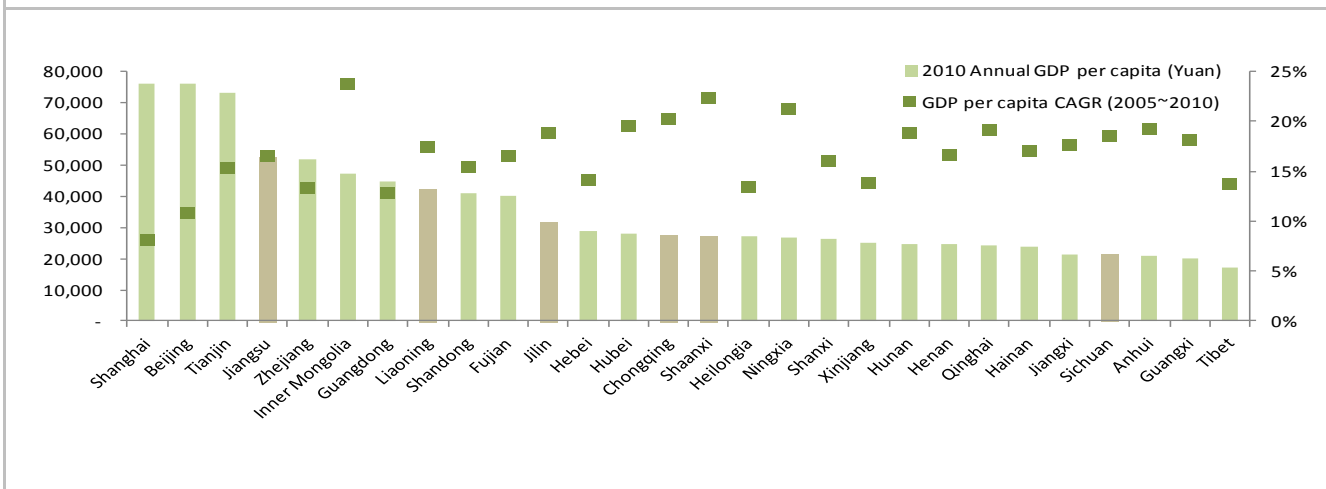
Source:., Leading Research Center

**Increasing purchasing power of consumers in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities**

According to IBV's findings (IBV is IBM's Company Valuation Research Center) 43% of China's population resides in 2<sup>nd</sup>~6<sup>th</sup> tier cities, and these cities account for 78% of the national GDP. In China, areas where the GDP per Capita is \$3,000 are categorized as poor, and areas where GDP per Capita is around \$5,000~\$6,000 are considered middle class areas. Currently, cities with GDP per capita of over \$8,000 are categorized as 1<sup>st</sup> tier, and cities where GDP per capita is around \$5,000~\$6,000 are categorized as 2<sup>nd</sup>~3<sup>rd</sup> tier cities.

According to China's 2010 national demographic data, the cities that were labeled 1<sup>st</sup> tier for the past 5 years: Shanghai, Beijing, and Gwangzhou, reported annual GDP per capita growth rates of 8.1%, 10.8%, 12.9%, respectively. On the other hand, 2<sup>nd</sup> tier cities such as Jiangsu, Liaoning, Shandong, Shanxi, Sichuan, and inner Mongolia recorded annual GDP per capita growth rates in the 13.3%~23.7% range, which is 2~3 times faster than those of 1<sup>st</sup> tier cities. As such, we expect the 2<sup>nd</sup> and 3<sup>rd</sup> tier cities' growth rate of GDP per capita to heavily influence China's GDP growth.

**Exhibit 24. China's Yearly GDP per capita (by City)**

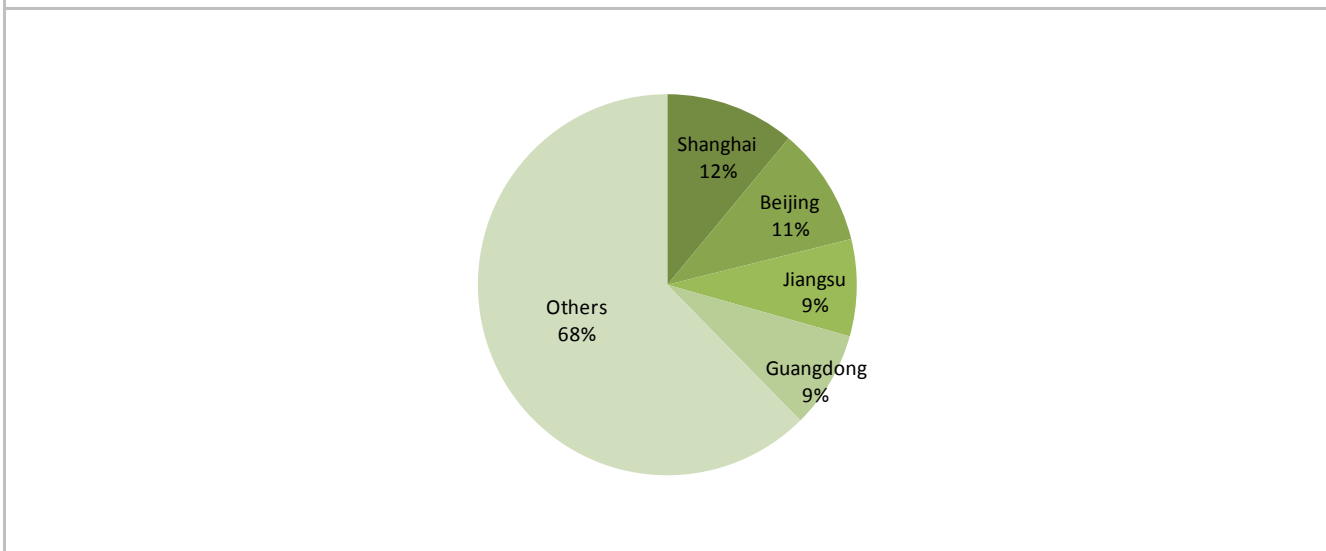


Source: Bloomberg, Leading Research Center

**Consumers have disposable money and access to stores... an environment where purchasing is better**

As consumers in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities are gaining more purchasing power, and more and more cosmetics shops enter 2<sup>nd</sup> and 3<sup>rd</sup> tier cities, access to cosmetic products is becoming more convenient, and the cosmetics purchasing environment is changing in these areas. These changes have allowed the cosmetic market to grow rapidly in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities. According to the China National Commercial Information Centre (CNCIC), annual growth in cosmetics consumption in 3<sup>rd</sup> tier cities was 28.2% in 2010. In 2010, the annual growth rate for cosmetics consumption was 15.8% in 1<sup>st</sup> tier cities, and 17% in 2<sup>nd</sup> tier cities – hence, 3<sup>rd</sup> tier cities had the largest growth in 2010.

**Exhibit 25. Cosmetic Product Market Share by districts (based on consumption)**



Source: Cosmetic market in China ,HKTDC 2011, Leading Research Center

### China's low-mid price cosmetic products also rely on ODM/OEM production... which means?

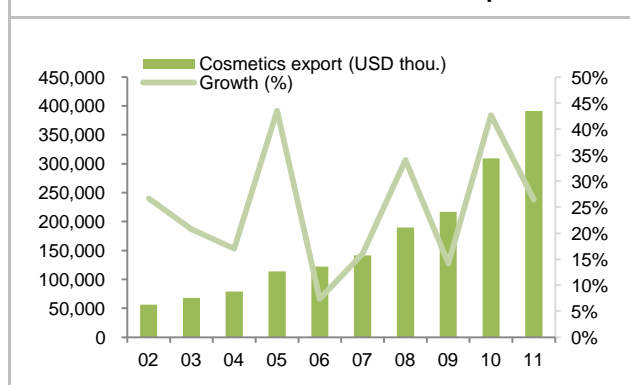
China's low-mid price cosmetic product makers are increasingly depending on ODM/OEM production. In the past Chinese and Korean cosmetics firms used to single-handedly undertake manufacturing, distribution, and selling. But now, more and more firms are outsourcing the manufacturing phase through employing ODM/OEM firms, and only managing distribution and commercial selling in order to increase operating efficiency. Because Chinese firms lack the development and production capabilities of leading global competitors, they prefer using firms of leading countries such as Japan, and Korea that possess advanced development capabilities for ODM and OEM. Therefore, the ODM/OEM market has a high entry barrier.

As such, ODM/OEM firms that enter the Chinese market will receive benefits from the boom of Chinese ODM players in the low-mid priced cosmetic products market. Korean firms such as Cosmax (which entered China in 2004) and Korea Kolmar (which entered China in 2009) are expected to see benefits from the low-mid priced cosmetic products market's projected growth.

### China likes MADE IN KOREA

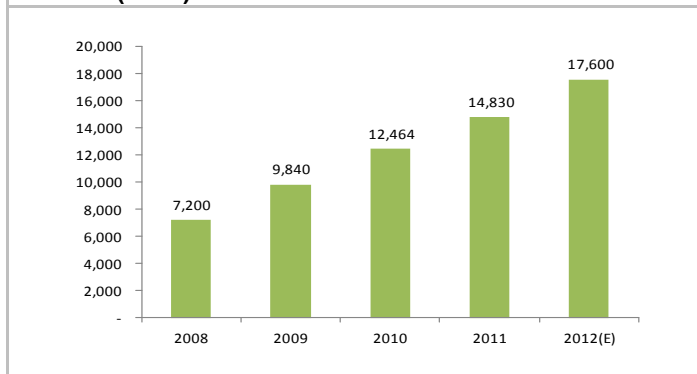
Recently, thanks to East Asia's fever for Korean movie and drama stars, demand for Korean cosmetic products has been increasing rapidly. Despite the global recession in 2010, annual sales from Korean cosmetics product increased +42.7% yoy, and in 2011, increased 26.4% yoy. Furthermore, the leading domestic cosmetic product manufacturer, Amore Pacific, reported consistent CAGR of 27.4% in duty free shops since 2008, and expects a 20% sales growth rate in 2012. We estimate that around 50% of duty free sales are from Chinese customers and 20~30% of duty free sales are from Japanese customers – as such, Chinese customers' preference for MADE IN KOREA products is increasing rapidly and also extremely evident.

**Exhibit 26. Korea's Cosmetic Product Export Scale**



Source: KITA, Leading Research Center  
\* Makeup products + Base products

**Exhibit 27. Amore Pacific's Increase in Duty Free Store Sales (Wmn)**



Source: Amorepacific, Leading Research Center

### Sales from China has the highest level of contribution for Cosmax

In order to take advantage of the fever for Korean movie/drama stars in China, Korean cosmetic products firms are commercially selling products in China through their China entities. Amore Pacific entered China's cosmetic products market in 2000, and LG Health & Care entered the China cosmetic products market in 2006 through its brand The Face Shop. As for OEM/ODM firms, Cosmax entered China's market in 2004, and Korea Kolmar entered in 2007. Taking the 2012F sales as the basis, sales from China has the highest level of contribution for Cosmax (sales from China is expected to be about 17.5% of overall sales). As for other firms, sales from China accounts for less than 3% of overall sales.

**Exhibit 28. Levels of Contribution that China Entities have on Korean Cosmetic Firms' overall sales**

Wbn, %		2011				2012			
		Amore Pacific	LG H&B	Cosmax	Korea Kolmar	Amore Pacific	LG H&B	Cosmax	Korea Kolmar
Sales	Total	2,554.7	3,452.4	244.0	324.5	2,829.4	4,002.2	306.4	396.5
	China	29.7	53.5	40.9	5.2	39.3	70.4	53.2	11.5
	China/Total	1.2%	1.5%	16.8%	1.6%	1.4%	1.8%	17.5%	2.9%
Net Profit	Total	327.3	271.5	11.5	20.3	323.3	33.5	17.3	23.3
	China	3.3	3.0	3.5	(0.9)	4.7	3.5	3.3	0.7
	China/Total	1.0%	1.1%	30.1%	N/A	1.5%	10.5%	19.0%	3.0%
Growth Rate	Total					10.8%	15.9%	24.5%	22.2%
	China					32.4%	31.6%	30.1%	123.2%

Source: Inguide, Leading Research Center

### Cosmax: Industry's Preferred Stock

### **Domestic gentrification of low-mid priced cosmetic products is beneficial to Cosmax and Korea Kolmar**

Demand for low-mid priced cosmetic products will increase if firms can create cosmetic products that are price competitive and of noteworthy quality. In 2012, sales from low-mid priced cosmetic products are expected to increase 16% (per annum), and demand for low-mid priced products will increase as popularity shifts from high priced products to low-mid priced products. As most low-mid priced cosmetic products rely on ODM/OEM production, increase in demand for low-mid priced cosmetics forecasts proportional growth in the ODM/OEM market. Low-mid priced cosmetics makers must create quality products as competition is intensifying, so it will be especially important for firms to employ reliable ODM firms with advanced production and development capabilities in order to participate in competition. As such, ODM firms with sophisticated technology and skills will be most sought after by cosmetics suppliers for production. Therefore, firms such as Korea Kolmar and Cosmax - that currently share the ODM/OEM market and have impressive production and development capabilities – will directly see benefits from the gentrification of low-mid priced cosmetics products.

### **Cosmax China is expanding production rapidly**

Upon penetrating the Chinese market, Cosmax entered Shanghai first, despite the city's high priced land value and expensive human labor costs, because the area is a major consumer city and products manufactured in Shanghai are generally regarded highly. In order to create products accustomed to the needs of Shanghai's consumers, Cosmax China also built a R&D center on site and pursued localization efforts – as a result, Cosmax China has consistently achieved CGAR 118% range during 2008~ 2011 and reported sales of W40.9bn with an OPM of 8.5% in 2011.

Government policies and regulations tend to pose large risks and pressures to businesses operating in China, but Cosmax China faces relatively less constraint from these issues than its competitors. When Cosmax first entered Shanghai, the China entity assumed the name 'Cosmax Shanghai'. After collecting ¥50mn as initial capital, within 3 years, Cosmax China was acknowledged as a legitimate Chinese corporate body, and passed evaluations regarding growth potential and business authenticity to obtain the right to add 'China' to the entity's title. As such, Cosmax Shanghai switched its name to Cosmax China after receiving approval to do so, and Cosmax is the only Korean cosmetics firm to obtain the right to use the 'China' label in its China entity's name - this demonstrates the firm's reliable relationship with the Chinese government. Therefore, despite the Chinese government's uptight regulations and strict policies, Cosmax expects expansion in China to be relatively unhindered, especially because the market has a high entry barrier, and the firm is relatively immune to regulatory risks.

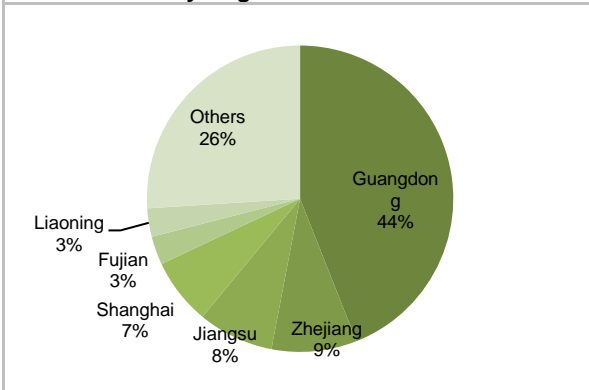
In China, regions (provinces & cities) are located far apart, so businesses must select strategic locations where they can gain convenient access to raw materials and also be close to customers. As such, the cost of manufacturing depends on how far away customers are, and how easy it is to obtain raw materials. Therefore, cosmetic product manufacturers tend to build facilities separately in areas where obtaining raw materials is easy, and also in areas where access to customers is convenient – as such, expansion campaigns are carried out in this way. However, Cosmax has an advantage compared to other competitors because of its relationship with the Chinese government – it may have more freedom when deciding where it can build facilities, which could provide the firm with a competitive edge.

### **Cosmax goes to Gwang Zhou to catch two rabbits...**

Cosmax China has earned credibility and gained a reputation as a reliable firm with high quality products from local Chinese cosmetics suppliers. The firm plans to enter Gwang Zhou, an area where Chinese cosmetic products suppliers are densely concentrated, in order to further establish its name value and gain more popularity. Construction of its new Gwang Zhou factory, which will have a CAPA of 40 mn units, is expected to be completed by the end of 3Q12. 44% of China's cosmetics suppliers are located in Gwang Zhou, and this area has a customer density that is 6 times that of Shanghai.

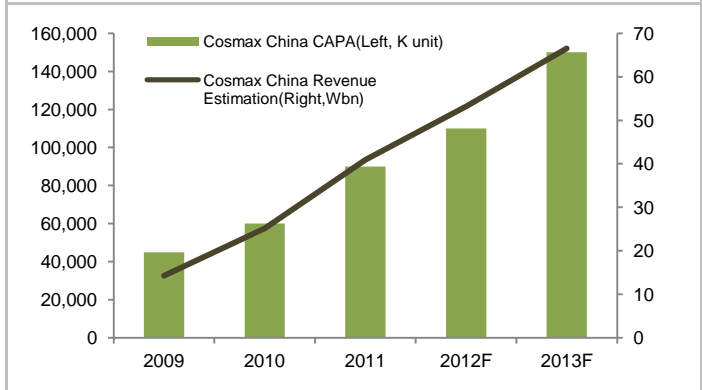
Cosmax China has previously been supplying 30% of its produced goods to Gwang Zhou. This quantity accounts for 30% of the CAPA of the upcoming Gwang Zhou factory. The Gwang Zhou area also has high customer density and even convenient accessibility to Hong Kong. Moreover, most of Cosmax China's clients (cosmetic product suppliers) aspire to supply goods to 2<sup>nd</sup> and 3<sup>rd</sup> tier cities as part of their strategies, so expansion to Gwang Zhou is an extremely promising prospect.

**Exhibit 29. Chinese Cosmetic Product Supplier Distribution by Region**



Source: Market data 2011, Leading Research Center

**Exhibit 30. Cosmax Production and Revenue Projections**



Source: Company, Leading Research Center

Thriving from China's low-mid price cosmetic product market boom

Analyst: Tess Lee  
[hylee1@leading.co.kr](mailto:hylee1@leading.co.kr)  
82-2-2009-7191Leading Traffic Light: **Green**

## Cosmax is...

- ✓ The leading firm in the cosmetic products ODM/OEM market
- ✓ Supplying ODM/EOM to Iljin Pharmaceutical; health food



## Green light because:

- ✓ Beneficiary of restructuring of domestic low-mid price cosmetic products market
- ✓ Beneficiary of China's low-mid price cosmetic products market boom

## Growth Potential:

- Cosmax China's main customers are local Chinese cosmetics suppliers—firm will benefit from China's low-mid price cosmetics market boom
- In 2012, secured new factory in Gwang Zhou effectively placing: China CAPA > Domestic CAPA



## Management &amp; Shareholder Value:

- CEO leads the firm with competitive edge from impressive R&D skills learned from experience working in pharmaceutical company
- Entered China's ODM/OEM market through keen market acumen and vision



## Outstanding Value Creation:

- Expects to maintain ~20% ROE in 2012F~2014F
- Increased sales to high margin health-food manufacturer Iljin Pharmaceuticals will boost Cosmax's OPM: 2011 6.9% → 2013F 7.7%



## Valuation:

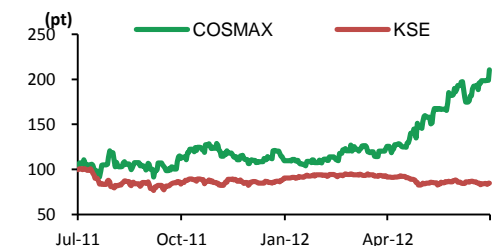
- At 0.66 PERG, the company looks undervalued and does not properly reflect its growth potential
- Applied 30% premium to cosmetics industry's 2013F PER of 19.7x for valuation
- Target Price: W39,000 (Upside Potential = 28.2%)

**BUY**

Target Price (KRW)	W39,000
Current Price (KRW)	W30,400
Upside Potential (%)	28.2%

Key Data	July 20, 2012
Sector	Household Items
KOSDAQ	1822.93
Market Cap. (Wbn)	413.2
Shares Outstanding (m)	13.6
Foreign Ownership (%)	13.2
52 Week High (KRW)	30,400
Low (KRW)	13,250
60-d avg. turnover (Wbn)	8.0
Major Shareholders (%)	
Kyung Soo Lee	23.5
National Pension Service	9.5
Performance (%)	1M 6M 12M
Absolute	13.0 88.8 109.7
Relative	17.3 95.3 124.7

## Relative Performance

**CAVEAT EMPTOR!!! – Watch out for...**

- Net debt to equity ratio is in the 80% range
  - ✓ EBITDA is growing rapidly, but increase in demand for products will require CAPEX
  - ✓ Thus, interest expense burden could continue

## Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	PER (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	154.2	34.6	9.0	5.8	8.7	704	2,595.2	43.2	27.0	29.5	9.1
2010	192.5	24.8	11.7	6.1	8.9	653	(7.2)	46.6	26.4	20.2	8.1
2011	244.0	26.8	16.9	6.9	11.5	844	29.3	36.0	19.9	20.9	6.8
2012E	306.4	25.6	23.5	7.7	16.6	1,220	44.5	24.9	14.5	23.4	5.1
2013F	381.9	24.7	29.4	7.7	20.9	1,536	25.9	19.8	11.4	23.2	4.2
2014F	463.6	21.4	35.3	7.6	25.2	1,855	20.8	16.4	9.5	22.9	3.4

## Table of contents

- 3 Section 1: Valuation – Target price
- 4 Section 2: What is the CEO's management philosophy?
- 5 Section 3: Company Snapshot
- 7 Section 4: Operations & Earnings forecast
- 8 Section 5: Facts & Figures

## Section 1: Valuation - Target price W39,000

When valuing firms like Cosmax that have promising future outlooks, using a PER based on current or near future results does not accurately reflect expected long term future growth. So in order to take into account expected future growth, high PER valuations are usually applied. However, using a high PER valuation causes a rift in accurate valuation because the firm's profit generating abilities become undervalued. Therefore, when valuing firms that have promising future outlooks like Cosmax, the PERG (which compares EPS growth rate and the PER) valuation is more appropriate.

### 1. Cosmax has promising future outlooks

- Average annual 2012E~2014F EPS growth is 30%
- For the past 5 years, Cosmax sales grew 35.5% annually, and is expected to grow 23.8% annually for the next 3 years
- Sales growth margin has decreased, but EPS is growing much faster than sales

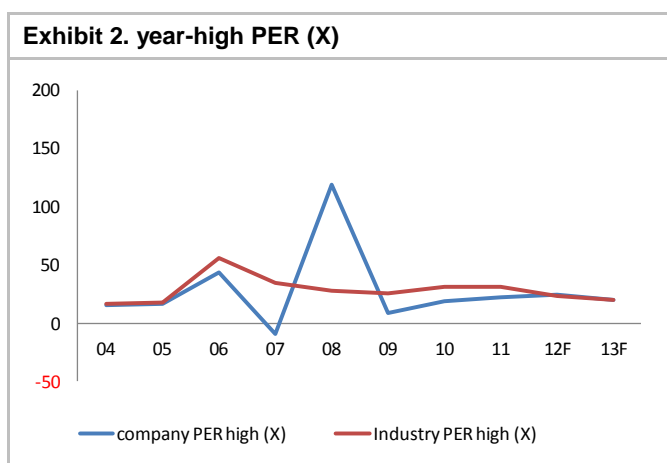
### 2. Qualitative results demonstrating steady improvements

- In 2012E-2014F, cash & equivalent assets are expected to exceed net profit
- ROIC exceeds WACC and will generate 2012E-2014F EVA in the 5.1%~7.4% range and ROE will be maintained in 20% range
- As such, not only is Cosmax's net profit increasing, but the firm is also achieving steady improvements in qualitative results

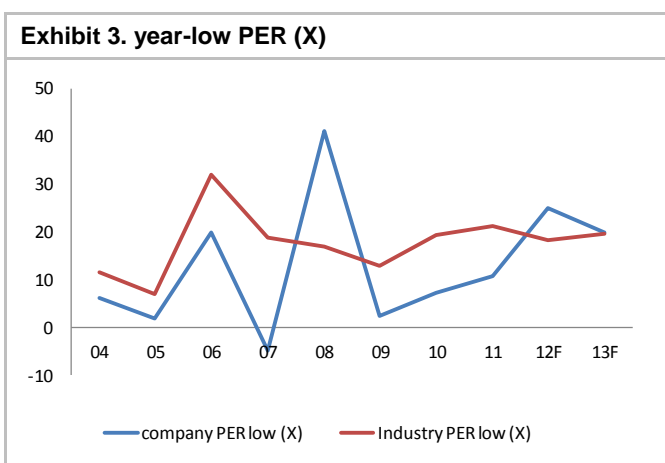
### 3. 2013F PERG= 0.66 - undervalued when considering future outlook

- The current PERG of 0.66 assumes EPS growth rate to be 30% and 2013F PER to be 19.8x. This is an undervaluation because Cosmax's appropriate PER should be (~30x) because of its promising future outlook
- Domestic cosmetics industry's 2013E PER is 19.7x
- Cosmax will receive the most benefit from the gentrification of low-mid price cosmetic products in the domestic market. Sales from China accounts for 17% of overall sales (Cosmax is the domestic firm with highest dependence on China for sales), so Cosmax will also benefit greatly from China's fast growing cosmetics industry, which justifies giving the firm a PER that is high compared to the industry PER
- Although the appropriate PER that should be used to calculate PERG is 30x, we take a conservative approach to give Cosmax a 30% premium during valuation and appoint the appropriate PER value as 25.6x

- **Cosmax 2013F EPS of W1,536 \* PER of 25.6 = Target Price of W39,000**



Source: Fnguide, Leading Research Center



Source: Fnguide, Leading Research Center

## Section 2: What is the CEO's management philosophy?

### Igniting growth engine through keen market acumen

Entered China's market after successfully establishing presence in domestic market  
 - 1<sup>st</sup> China factory began operating in Shanghai in 2008  
 - 2<sup>nd</sup> China factory to be completed in Gwang Zhou by 3Q13

President Kyung Soo Lee led Cosmax to enter China's cosmetics market earlier than other firms, and created Cosmax's China entity – Cosmax China – in Shanghai in 2004. In 2008, Cosmax's first China factory began operating in Shanghai, and this allowed the firm to achieve annual sales growth of 55%.

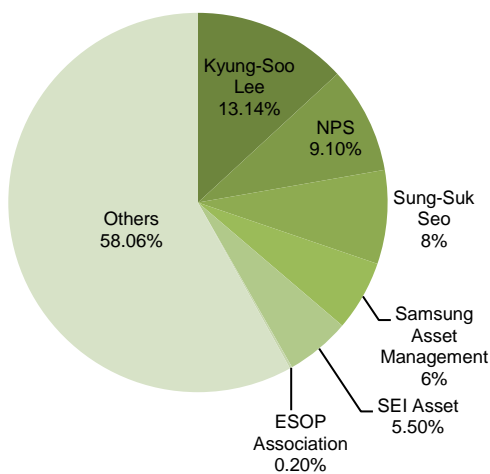
In China's cosmetics market, Cosmax has a comparative edge (even against Italian ODM firm, Intercourse, which is considered the No.1 ODM firm globally for its high quality products and delivery) because Cosmax is preferred by local Chinese firms. 80% of Cosmax China's sales come from supplying products to local Chinese firms. In order to increase approachability to more clients (excluding ones in Shanghai – 1<sup>st</sup> tier city), Cosmax is also building a factory in Gwang Zhou, where 40% of China's cosmetics firms exist.

#### Another opportunity: Indonesia

Another example of Cosmax's keen market acumen and strive to achieve growth can be seen from the firm's decision to enter the Indonesian cosmetics market. Although detailed results regarding business in Indonesia have not yet been released, Cosmax has plans to penetrate Asia/Pacific areas such as India/Indonesia. Indonesia's cosmetics industry is worth about W660bn, and has been demonstrating annual growth of 16%. Firms such as Laneige, Jutanhak, The Face Shop, Missha, and etc. have already entered the Indonesian market, so a positive reputation for Korean cosmetic products firms has already been established among Indonesian consumers. Entering the Indonesian cosmetics market provides another opportunity for Cosmax to achieve sales growth.

From entering new markets early after quickly perceiving its conditions, Cosmax is expected to achieve annual sales growth of over 20% and annual EPS growth in the 30% range, for the next 3 years.

Exhibit 4. Shareholder Breakdown



Source: Company data, Leading Research Center

Exhibit 5. CEO Profile

Duration	Achievement
1970.02	Graduated from Seoul National University department of pharmaceutical studies
1973.09~1976.04	Donga Pharmaceuticals Sales Representative
1976.05~1981.09	Oricom AE representative
1981.10~1992.07	Daewoong Pharmaceuticals marketing executive director

Source: Company data, Leading Research Center

### Section 3: Company Snapshot

#### Cosmax is?

An ODM/OEM firm that does not possess its own brand

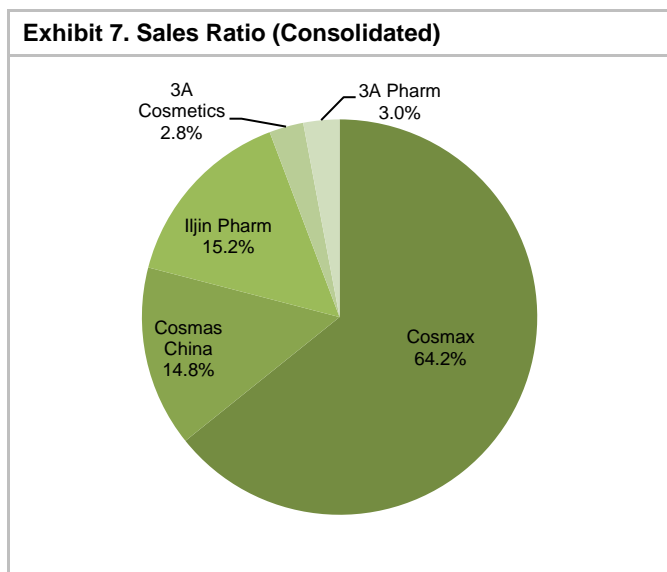
Cosmax is an ODM/OEM firm that participates in research, development, and production of cosmetic products without possessing its own brand. Cosmax is currently supplying products to 125 domestic firms (such as Amore Pacific, LG Health & beauty, Able-C&C, Han Skin, etc.) and 125 foreign firms (such as L'Oreal, Shuemura, etc.) Cosmax's top 5 client firms account for 50% of its sales, and have been achieving high annual sales growth of 35.6% for the past 5 years.

**Exhibit 6. Cosmax Consolidated Sales Contributions of Affiliated Companies**

Consolidated	Sales Ratio	Sector	Clients
Cosmax	64.2%	Cosmetics OEM	Amore Pacific, LG Health & Beauty & 150 others
Cosmax China	14.8%	Cosmetics OEM	80% of 80 clients are local Chinese firms
Iljin Pharmaceuticals	15.2%	Health-foods OEM	Amore Pacific, Herbal Life, Yakult, etc.
Three Apples Cosmetics	2.8%	Cosmetics Containers	All firms in the cosmetics industry
Three A Pharm	2.9%	Household Items	B Pharmaceuticals

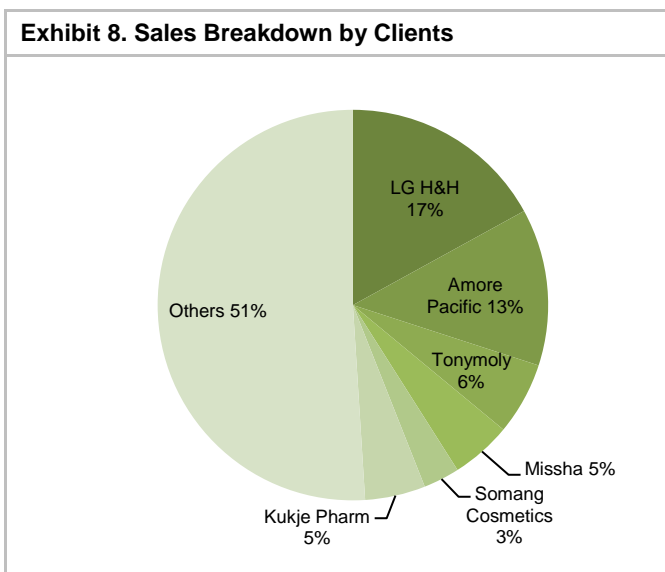
Source: Company data, Leading Research Center, 2011

**Exhibit 7. Sales Ratio (Consolidated)**



Source: Company data, Leading Research Center

**Exhibit 8. Sales Breakdown by Clients**



Source: Company data, Leading Research Center

**Exhibit 9. Manufacturing ability and rate of operation**

CAPA (in thousands)	2008	2009	2010	2011	2012F	2013F	2014F
Cosmetics CAPA	135,100	165,000	180,000	230,000	250,000	290,000	320,000
Cosmax	95,100	120,000	120,000	140,000	140,000	140,000	140,000
Cosmax China (including Gwang Zhou)	40,000	45,000	60,000	90,000	110,000	150,000	180,000

Source: Company data, Leading Research Center

## Low profitability but achieving high growth through increasing Q

Low profitability, but largest growth potential

Cosmetic products value chain's profitability is as follows

*Raw materials creation* > *B2C cosmetics production* > *B2B Manufacturer (ODM/OEM)*

By nature, cosmetics ODM/OEM firms have the least profitability in the cosmetics industry. Since ODM/OEM firms produce products requested by customers and produce small quantities of many different kinds of products, it is difficult for firms to manage the purchasing of raw materials and manufacturing of actual products in a way that generates a large profit margin.

High growth brought from aggressively pursuing large CAPA

Cosmetics OEM/ODM firms are structured in a way that prevents high margin profitability, so Cosmax is focusing on increasing Q(Quantity) by aggressively increasing CAPA to match increase in demand for Cosmax manufactured products..

**Exhibit 10. Comparison of OPM & ROE in Cosmetics Industry**

		2011 OPM (%)	2011 ROE (%)
B2C Cosmetics Brand	Amore Pacific	14.59	16.43
	LG Health & Beauty	10.44	29.65
	Able CNC	10.17	28.08
	Genic	12.94	34.66
B2B Cosmetics ODM	Cosmax	6.91	20.92
	Korea Kolmar	6.54	14.98
B2B Cosmetics Raw Materials	Bio-Land	23.32	15.58

Source: Company data, Leading Research Center

China CAPA > Domestic CAPA

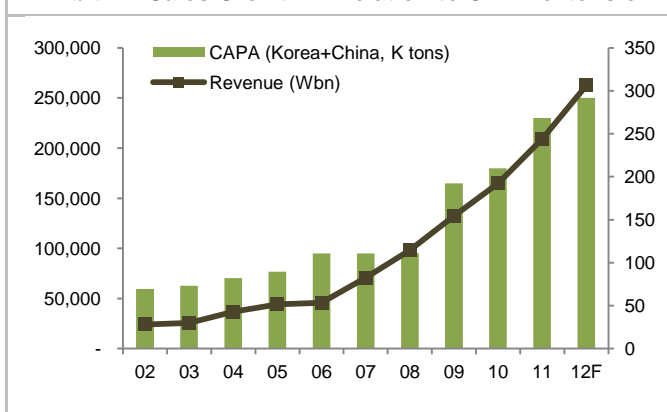
In 2011 Cosmax upgraded its domestic facilities by adding 20 million units to increase domestic CAPA to 140 million units. In 2012, Cosmax China (in Shanghai) extended its CAPA by 20 million units and Cosmax Ltd. (in Gwang Zhou) extended its CAPA by 40 million units. Facility extensions in Cosmax's China entity allowed Cosmax China to surpass the Cosmax's Korea entity in production capacity.

**Exhibit 11. Cosmax Facility Extension Schedule**

Time Table	Factory where extension will take place	Quantity of Extension	Total CAPA after extension
2011	Cosmax (Domestic)	20mn units	140mn
2012 1 <sup>st</sup> Half	Cosmax China (Shanghai)	20mn units	110mn
2012 2 <sup>nd</sup> Half	Cosmax Ltd. (Gwang Zhou)	40mn units	40mn

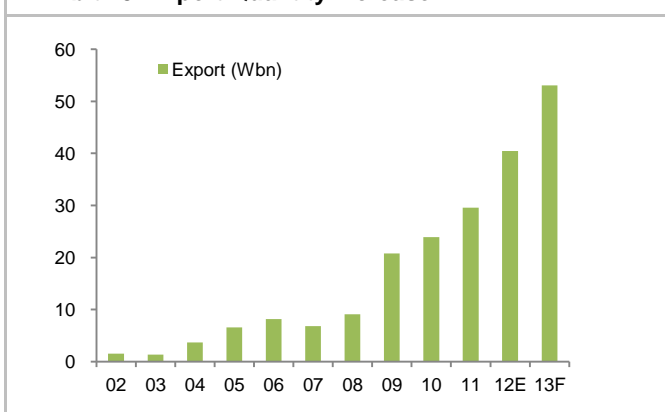
Source: Company data, Leading Research Center

**Exhibit 12. Sales Growth in Relation to CAPA extension**



Source: Company data, Leading Research Center

**Exhibit 13. Export Quantity Increase**



Source: Company data, Leading Research Center

## Section 4: Operations & Earnings forecast

### Profits Estimation – Basic Assumptions

#### Basic assumptions for earnings forecast

-Domestic revenue growth: 20%

-China revenue growth: 25%

We assumed Cosmax's annual sales growth to be 20% in the domestic market. For the past 5 years, Cosmax Korea achieved annual sales growth of 24.2%, which is much higher than the domestic cosmetics market's annual growth of 10%. Given that the brand shop market demonstrated 16% annual growth in 2012, and that ODM/OEM firms will benefit greatly from the gentrification of low-mid price cosmetic products as more and more cosmetics suppliers use OEM/ODM firms for production, we appoint 20% as the appropriate sales growth rate for Cosmax Korea.

We assumed Cosmax China's annual sales growth to be 25%. As for the post-2013 CAPA, considering China's cosmetic market's fast paced growth and Cosmax's tendency to add around 20mn~30mn units to the China entity's CAPA every year, we added 30mn units to the Gwang Zhou factory CAPA. In terms of operating ratio, the domestic factory will achieve consistent growth as a result of the brand shop market's expected steady growth, but taking into account that it took the Shanghai factory 2 years to normalize operations, we excluded production from the Gwang Zhou factory in our calculations.

#### Exhibit 14. Production Capability Forecast

CAPA (by thousands)	2008	2009	2010	2011	2012F	2013F	2014F
<b>Total Cosmetics Production Capability</b>	<b>95,100</b>	<b>165,000</b>	<b>180,000</b>	<b>230,000</b>	<b>250,000</b>	<b>290,000</b>	<b>320,000</b>
Domestic-Cosmax	95,100	120,000	120,000	140,000	140,000	140,000	140,000
China-Cosmax China		45,000	60,000	90,000	110,000	150,000	180,000

Source: Company data, Leading Research Center

#### Exhibit 15. Cosmax Sales Forecast by Corporate Body

(Wbn)	2008	2009	2010	2011	2012F	2013F	2014F
Total Sales (Consolidated)	114.5	154.2	192.5	244.0	306.4	381.9	463.6
Cosmax	93.0	127.7	155.5	176.9	212.3	254.7	292.9
Cosmax China	9.3	14.3	25.2	40.9	53.2	66.5	83.1
Iljin Pharmaceuticals	19.7	25.0	25.9	42.0	56.7	76.5	103.3
3A Pharm	13.6	15.5	15.9	15.7	16.2	16.2	16.2

Source: Company data, Leading Research Center

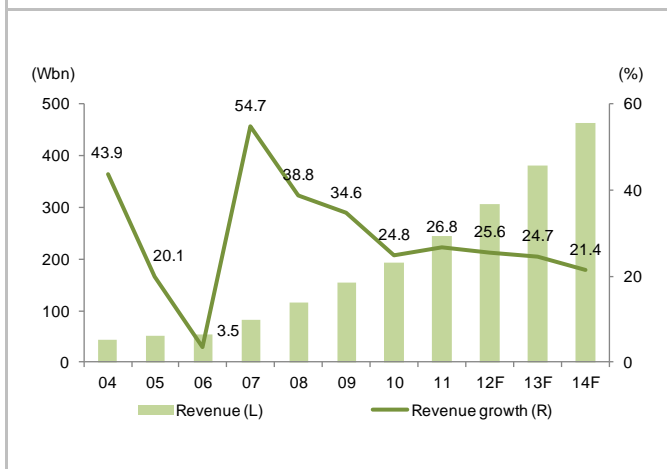
#### Exhibit 16. Cosmax Annual Results Outlook

	Outlook (Wbn)				Growth Rate (%)			
	2011	2012F	2013F	2014F	2011	2012F	2013F	2014F
Sales	192.5	244.0	306.4	381.9	463.6	26.8	25.6	24.7
Gross Profit	29.5	38.5	51.1	62.8	73.4	30.4	32.6	23.0
Operating Profit	11.7	16.9	22.1	29.4	35.3	44.4	31.2	33.0
NP	8.9	11.5	15.4	20.8	25.2	29.3	34.2	35.3
EPS	653	844	1,133	1,533	1,852	29.3	34.2	35.3
OPM (%)	6.1	6.9	7.2	7.7	7.6			
NPM (%)	4.6	4.7	5.0	5.5	5.4			

Source: Company data, Leading Research Center

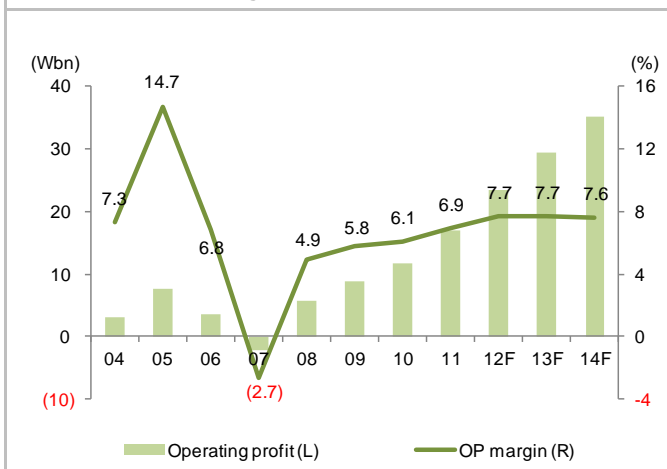
Section 5: Facts & Figures

Exhibit 17. Revenue and Growth trend



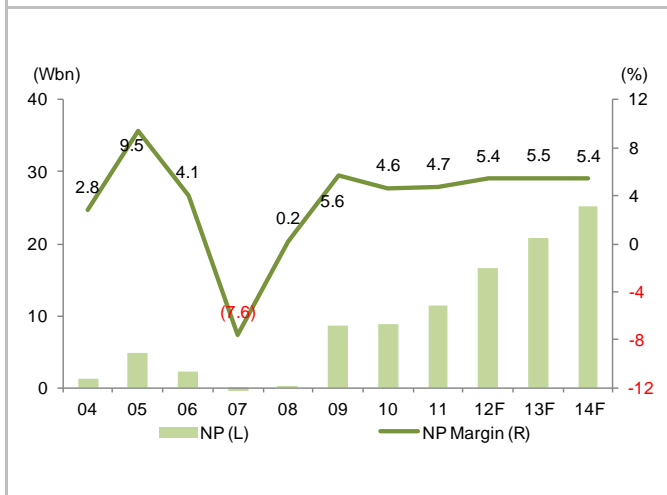
Source: Company data, Leading Research Center

Exhibit 18. Operating profit and OPM trend



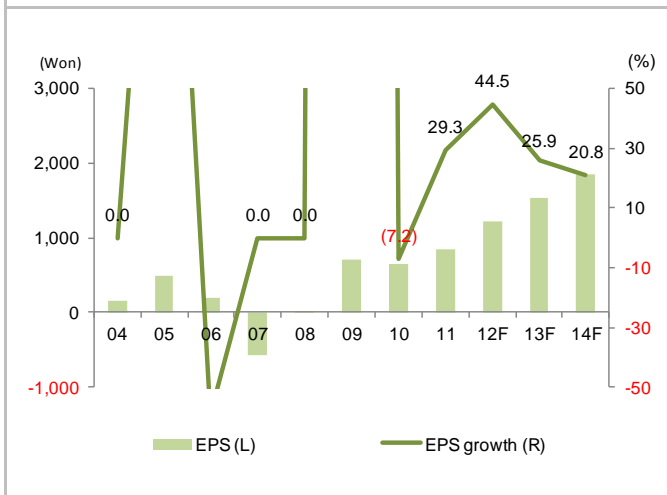
Source: Company data, Leading Research Center

Exhibit 19. Net profit and NP margin trend



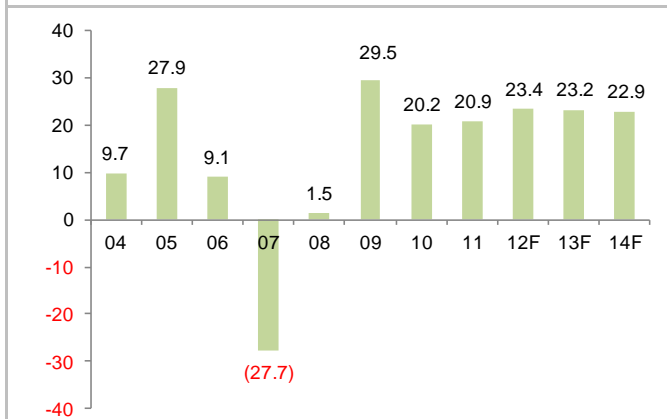
Source: Company data, Leading Research Center

Exhibit 20. EPS and EPS growth



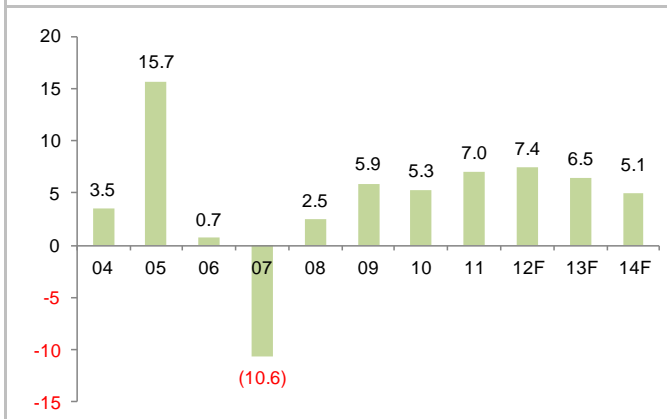
Source: Company data, Leading Research Center

Exhibit 21. ROE (%)



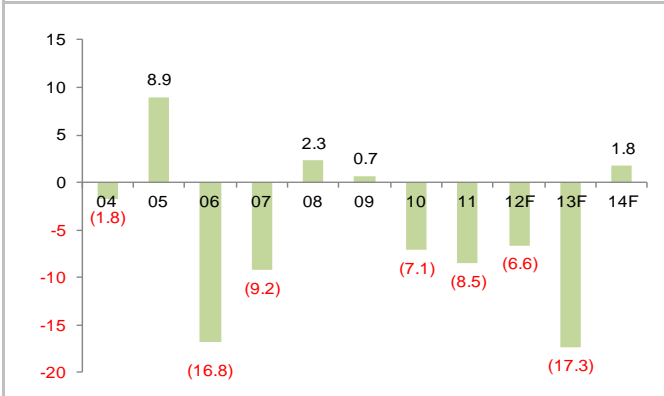
Source: Company data, Leading Research Center

Exhibit 22. EVA: ROIC less WACC (%)



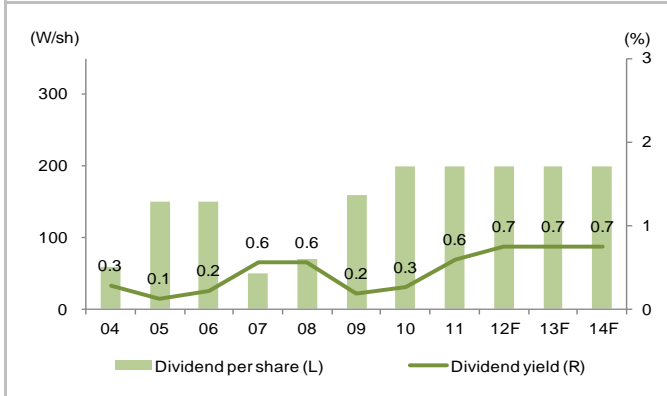
Source: Company data, Leading Research Center

**Exhibit 23. Free Cash Flow trend (Wbn)**



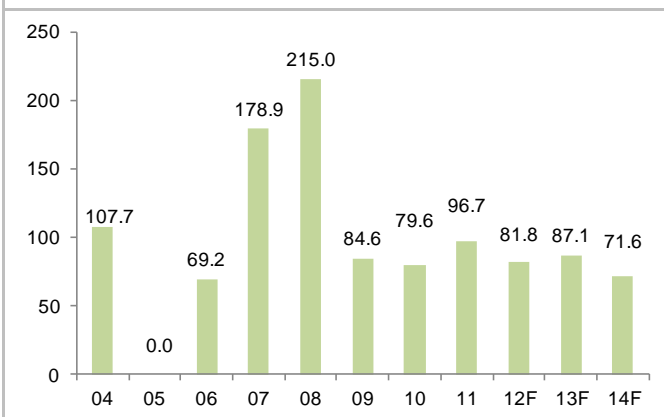
Source: Company data, Leading Research Center

**Exhibit 24. Dividend per share and yield trend**



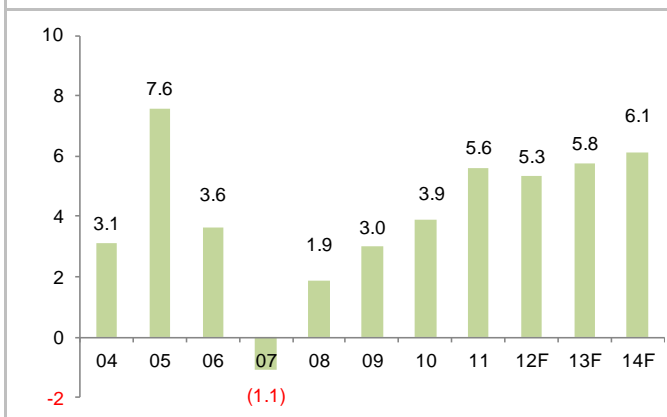
Source: Company data, Leading Research Center

**Exhibit 25. Net debt/equity ratio (%)**



Source: Company data, Leading Research Center

**Exhibit 26. Interest coverage (X)**



Source: Company data, Leading Research Center

## Financial Statement

### Income statement

(Wbn)	04	05	06	07	08	09	10	11	12F	13F	14F
<b>Revenue</b>	<b>42.9</b>	<b>51.5</b>	<b>53.3</b>	<b>82.5</b>	<b>114.5</b>	<b>154.2</b>	<b>192.5</b>	<b>244.0</b>	<b>306.4</b>	<b>381.9</b>	<b>463.6</b>
% chg yoy	43.9	20.1	3.5	54.7	38.8	34.6	24.8	26.8	25.6	24.7	21.4
COGS	34.5	38.6	44.1	74.2	97.5	127.7	162.9	205.5	255.3	319.1	390.1
<b>Gross profit</b>	<b>8.5</b>	<b>12.9</b>	<b>9.3</b>	<b>8.4</b>	<b>17.0</b>	<b>26.5</b>	<b>29.5</b>	<b>38.5</b>	<b>51.1</b>	<b>62.8</b>	<b>73.4</b>
GP margin (%)	19.7	25.0	17.4	10.1	14.9	17.2	15.3	15.8	16.7	16.4	15.8
SG&A	<b>5.3</b>	<b>5.3</b>	<b>5.6</b>	<b>10.6</b>	<b>11.4</b>	<b>17.6</b>	<b>17.9</b>	<b>21.6</b>	<b>27.5</b>	<b>33.4</b>	<b>38.2</b>
<b>Operating income</b>	<b>3.1</b>	<b>7.6</b>	<b>3.6</b>	<b>(2.2)</b>	<b>5.6</b>	<b>9.0</b>	<b>11.7</b>	<b>16.9</b>	<b>23.5</b>	<b>29.4</b>	<b>35.3</b>
Adj. OP margin (%)	<b>7.3</b>	<b>14.7</b>	<b>6.8</b>	<b>(2.7)</b>	<b>4.9</b>	<b>5.8</b>	<b>6.1</b>	<b>6.9</b>	<b>7.7</b>	<b>7.7</b>	<b>7.6</b>
Net other income	0.0	(1.0)	(1.0)	(2.0)	(3.0)	(1.0)	1.0	0.0	0.0	0.0	0.0
<b>Reported OP</b>	<b>3.1</b>	<b>7.6</b>	<b>3.6</b>	<b>(2.2)</b>	<b>5.6</b>	<b>9.0</b>	<b>11.7</b>	<b>16.9</b>	<b>23.5</b>	<b>29.4</b>	<b>35.3</b>
Net equity method gains	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.3	0.4	0.4	0.5
Financial income	0.0	0.0	0.0	1.0	0.0	3.0	1.0	0.0	0.5	0.4	0.4
Financial expenses	1.0	1.0	1.0	2.0	3.0	3.0	3.0	3.0	4.4	5.1	5.8
Income before tax	<b>1.4</b>	<b>5.8</b>	<b>2.8</b>	<b>(7.0)</b>	<b>0.2</b>	<b>9.9</b>	<b>10.5</b>	<b>14.1</b>	<b>20.0</b>	<b>25.2</b>	<b>30.4</b>
Income tax	0.2	0.9	0.6	(0.8)	(0.0)	1.2	1.7	2.6	3.4	4.3	5.2
Tax rate (%)	0.2	0.2	0.2	0.1	(0.2)	0.1	0.2	0.2	0.2	0.2	0.2
<b>Net profit</b>	<b>1.2</b>	<b>4.9</b>	<b>2.2</b>	<b>(6.2)</b>	<b>0.3</b>	<b>8.7</b>	<b>8.9</b>	<b>11.5</b>	<b>16.6</b>	<b>20.9</b>	<b>25.2</b>
Controlling interest	1.0	0.0	0.0	(2.0)	2.0	10.0	9.0	12.0	16.1	21.4	25.5
Non-controlling	0.0	0.0	0.0	(5.0)	(1.0)	(1.0)	0.0	0.0	0.5	(0.5)	(0.3)
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0
Total comprehensive inc	1.2	4.9	2.2	(6.2)	0.3	8.7	8.9	12.2	16.6	20.9	25.2

### Balance sheet

(Wbn)	04	05	06	07	08	09	10	11	12F	13F	14F
<b>Current assets</b>	<b>21.0</b>	<b>27.0</b>	<b>26.0</b>	<b>34.0</b>	<b>40.0</b>	<b>60.0</b>	<b>65.0</b>	<b>101.0</b>	<b>111.1</b>	<b>135.4</b>	<b>165.8</b>
Cash & equivalents	1.0	2.0	1.0	1.0	2.0	5.0	3.0	10.0	7.2	5.6	7.4
ST financial assets	3.0	9.0	5.0	5.0	5.0	6.0	2.0	3.0	2.1	3.0	2.9
Accounts receivables	12.0	13.0	14.0	21.0	21.0	26.0	39.0	51.0	58.8	74.9	92.2
Inventory	5.0	4.0	4.0	7.0	11.0	21.0	20.0	36.0	42.9	51.7	63.2
Others	0.0	(1.0)	2.0	0.0	1.0	2.0	1.0	1.0	0.1	0.2	0.1
<b>Non-current assets</b>	<b>15.0</b>	<b>16.0</b>	<b>35.0</b>	<b>47.0</b>	<b>57.0</b>	<b>61.0</b>	<b>70.0</b>	<b>99.0</b>	<b>110.5</b>	<b>134.2</b>	<b>141.6</b>
Tangible Assets	10.0	11.0	29.0	36.0	47.0	54.0	59.0	88.0	100.4	123.7	129.2
LT financial assets	2.0	3.0	5.0	4.0	6.0	3.0	6.0	4.0	4.2	4.1	4.5
Inv in related co's	0.0	2.0	1.0	5.0	2.0	2.0	2.0	2.3	2.7	3.1	3.6
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
Others	3.0	0.0	0.0	2.0	2.0	2.0	3.0	3.7	3.2	3.4	4.4
<b>Total assets</b>	<b>36.0</b>	<b>44.0</b>	<b>61.0</b>	<b>81.0</b>	<b>97.0</b>	<b>122.0</b>	<b>135.0</b>	<b>200.0</b>	<b>221.6</b>	<b>269.6</b>	<b>307.5</b>
<b>Current liabilities</b>	<b>21.0</b>	<b>19.0</b>	<b>24.0</b>	<b>42.0</b>	<b>64.0</b>	<b>73.0</b>	<b>76.0</b>	<b>114.0</b>	<b>114.9</b>	<b>131.8</b>	<b>146.6</b>
Accounts payables	3.0	2.0	2.0	5.0	9.0	13.0	13.0	21.0	23.5	30.6	38.6
ST financial liabilities	17.0	10.0	16.0	27.0	43.0	41.0	41.0	57.0	57.0	63.1	65.7
Others	1.0	7.0	6.0	10.0	12.0	19.0	22.0	36.0	34.4	38.1	42.3
<b>Non-current liabilities</b>	<b>2.0</b>	<b>3.0</b>	<b>11.0</b>	<b>19.0</b>	<b>13.0</b>	<b>9.0</b>	<b>10.0</b>	<b>24.0</b>	<b>25.9</b>	<b>38.9</b>	<b>39.4</b>
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT financial liabilities	1.0	1.0	8.0	13.0	7.0	3.0	3.0	15.0	18.4	31.6	31.6
Others	1.0	2.0	3.0	6.0	6.0	6.0	7.0	9.0	7.5	7.3	7.8
<b>Total liabilities</b>	<b>23.0</b>	<b>22.0</b>	<b>35.0</b>	<b>61.0</b>	<b>77.0</b>	<b>83.0</b>	<b>86.0</b>	<b>138.0</b>	<b>140.8</b>	<b>170.7</b>	<b>186.0</b>
Paid-in capital	4.0	5.0	5.0	5.0	5.0	6.0	7.0	7.0	7.0	7.0	7.0
Capital surplus	3.0	6.0	11.0	10.0	10.0	14.0	16.0	16.0	16.0	16.0	16.0
Others	0.0	0.0	0.0	(1.0)	1.0	5.0	5.0	3.0	3.0	3.0	3.0
Other capital adjustments	(1.0)	0.0	(2.0)	0.0	0.0	0.0	(4.0)	(5.0)	0.0	0.0	0.0
Retained earnings	7.0	11.0	12.0	8.0	9.0	19.0	25.0	39.0	53.3	71.9	94.8
Non-controlling interest	0.0	0.0	0.0	(3.0)	(5.0)	(5.0)	0.0	1.0	1.5	1.0	0.7
<b>Total shareholder equity</b>	<b>13.0</b>	<b>22.0</b>	<b>26.0</b>	<b>19.0</b>	<b>20.0</b>	<b>39.0</b>	<b>49.0</b>	<b>61.0</b>	<b>80.8</b>	<b>98.8</b>	<b>121.5</b>

## Free cashflow analysis

(Wbn)	04	05	06	07	08	09	10	11	12F	13F	14F
<b>Net profit</b>	<b>1.2</b>	<b>4.9</b>	<b>2.2</b>	<b>(6.2)</b>	<b>0.3</b>	<b>8.7</b>	<b>8.9</b>	<b>11.5</b>	<b>16.6</b>	<b>20.9</b>	<b>25.2</b>
<b>Adj. for non-cash exp.</b>	<b>4.0</b>	<b>4.0</b>	<b>3.0</b>	<b>9.0</b>	<b>11.0</b>	<b>5.0</b>	<b>7.0</b>	<b>15.0</b>	<b>7.2</b>	<b>9.0</b>	<b>10.5</b>
Depreciation	2.0	1.0	1.0	2.0	3.0	5.0	4.0	4.0	4.6	6.2	7.5
Provision for reserves	1.0	1.0	1.0	2.0	1.0	2.0	2.0	2.0	2.5	2.6	2.8
Net FX gains	0.0	0.0	0.0	0.0	(2.0)	0.0	0.0	0.0	0.0	0.0	0.0
Net eq method gains	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0	0.4	0.4	0.5
Others	0.0	2.0	1.0	4.0	5.0	(2.0)	1.0	9.0	0.0	0.0	0.0
<b>Chg in op assets &amp; liab</b>	<b>(5.0)</b>	<b>2.0</b>	<b>(3.0)</b>	<b>(7.0)</b>	<b>1.0</b>	<b>(9.0)</b>	<b>(13.0)</b>	<b>(6.0)</b>	<b>(12.2)</b>	<b>(17.7)</b>	<b>(20.9)</b>
Incr in WC (decr)	5.0	1.0	1.0	7.0	0.0	11.0	12.0	20.0	12.2	17.7	20.9
Others	0.0	(3.0)	2.0	0.0	(1.0)	(2.0)	1.0	(14.0)	0.0	0.0	0.0
<b>Cash from operations</b>	<b>0.2</b>	<b>10.9</b>	<b>2.2</b>	<b>(4.2)</b>	<b>12.3</b>	<b>4.7</b>	<b>2.9</b>	<b>20.5</b>	<b>11.6</b>	<b>12.2</b>	<b>14.8</b>
Capital expenditures	2.0	2.0	19.0	5.0	10.0	4.0	10.0	29.0	17.0	29.5	13.0
<b>Free cash flow</b>	<b>(1.8)</b>	<b>8.9</b>	<b>(16.8)</b>	<b>(9.2)</b>	<b>2.3</b>	<b>0.7</b>	<b>(7.1)</b>	<b>(8.5)</b>	<b>(5.4)</b>	<b>(17.3)</b>	<b>1.8</b>
<b>Dividend</b>	<b>0.0</b>	<b>0.0</b>	<b>1.0</b>	<b>2.0</b>	<b>1.0</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>
Incr in investment assets	0.0	0.0	0.0	4.0	0.0	0.0	0.0	1.3	(0.6)	0.4	0.5
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	(2.0)	(7.0)	13.0	16.0	10.0	(6.0)	0.0	28.0	3.4	19.3	2.6
Others	1.3	(4.2)	(1.5)	2.9	9.1	(9.4)	(1.8)	6.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1.9</b>	<b>1.1</b>	<b>0.7</b>	<b>(2.1)</b>	<b>3.2</b>	<b>3.1</b>	<b>(4.3)</b>	<b>8.2</b>	<b>(2.8)</b>	<b>(1.6)</b>	<b>1.7</b>
Beginning cash	1.0	1.0	2.0	1.0	1.0	2.0	5.0	3.0	10.0	7.2	5.6
Ending cash	1.0	2.0	1.0	1.0	2.0	5.0	3.0	10.0	7.2	5.6	7.4

## Stability ratios

	04	05	06	07	08	09	10	11	12F	13F	14F
Current ratio	100.0	142.1	108.3	81.0	62.5	82.2	85.5	88.6	96.7	102.7	113.1
Quick ratio	4.8	7.4	3.8	2.9	5.0	8.3	4.6	9.9	6.5	4.1	4.5
Inv. holding period (d)	47.7	37.8	45.5	44.3	59.9	58.6	62.7	70.1	67.6	29.6	29.6
A/R collection period (d)	106.3	95.6	119.7	92.9	74.9	76.9	85.3	82.1	79.6	35.8	36.3
A/P period (days)	25.0	24.3	16.6	16.6	25.2	29.2	29.3	28.0	31.0	30.1	31.5
Interest bear debt (Wbn)	18.0	11.0	24.0	40.0	50.0	44.0	44.0	72.0	75.4	94.7	97.3
Cash & equivalents (Wbn)	4.0	11.0	6.0	6.0	7.0	11.0	5.0	13.0	9.3	8.6	10.3
Net int. bear debt (Wbn)	14.0	0.0	18.0	34.0	43.0	33.0	39.0	59.0	66.1	86.1	87.0
Net debt/equity (%)	107.7	0.0	69.2	178.9	215.0	84.6	79.6	96.7	81.8	87.1	71.6
Liability/equity (%)	176.9	100.0	134.6	321.1	385.0	212.8	175.5	226.2	174.3	172.8	153.1
Interest coverage (X)	3.1	7.6	3.6	(1.1)	1.9	3.0	3.9	5.6	5.3	5.8	6.1

## Valuations and margins

	04	05	06	07	08	09	10	11	12F	13F	14F
EV/EBITDA (X)	40.5	34.9	71.3	(1,602.6)	38.6	27.0	26.4	19.9	14.5	11.4	9.5
EPS (W)	158	494	200	(573)	26	704	653	844	1,220	1,536	1,855
EPS yoy chg (%)	N/A	213.4	(59.5)	N/A	N/A	2595.2	(7.2)	29.3	44.5	25.9	20.8
PER (X)	192.8	61.5	151.9	N/A	1,164.0	43.2	46.6	36.0	24.9	19.8	16.4
BVPS (W)	1,871	2,504	2,507	1,748	1,840	3,356	3,775	4,488	5,943	7,270	8,936
P/BVPS (X)	16.3	12.1	12.1	17.4	16.5	9.1	8.1	6.8	5.1	4.2	3.4
Dividend/sh (W)	60	150	150	50	70	160	200	200	200	200	200
Dividend yield (%)	0.2	0.5	0.5	0.2	0.2	0.5	0.7	0.7	0.7	0.7	0.7
ROE (%)	9.7	27.9	9.1	(27.7)	1.5	29.5	20.2	20.9	23.4	23.2	22.9
ROA (%)	3.4	12.2	4.1	(8.8)	0.3	8.0	6.9	6.9	7.9	8.5	8.7
GP margin (%)	19.7	25.0	17.4	10.1	14.9	17.2	15.3	15.8	16.7	16.4	15.8
OP margin (%)	7.3	14.7	6.8	(2.7)	4.9	5.8	6.1	6.9	7.7	7.7	7.6
NP margin (%)	2.8	9.5	4.1	(7.6)	0.2	5.6	4.6	4.7	5.4	5.5	5.4
EBITDA margin (%)	14.3	16.7	8.7	(0.3)	7.5	9.0	8.1	8.6	9.3	9.5	9.4
ROIC (%)	9.4	25.9	8.6	(4.0)	11.3	11.6	12.3	13.2	14.6	14.7	14.9
WACC (%)	5.9	10.2	7.9	6.6	8.8	5.7	7.0	6.2	7.2	8.3	9.8
ROIC less WACC (%)	3.5	15.7	0.7	(10.6)	2.5	5.9	5.3	7.0	7.4	6.5	5.1

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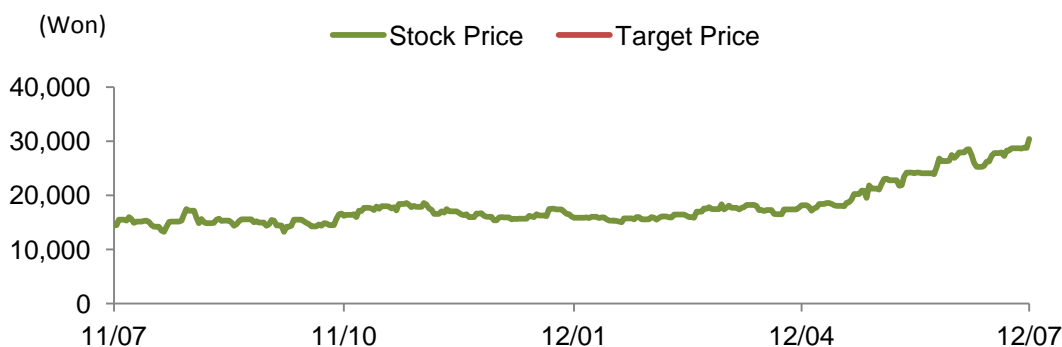
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### ► Ratings and target price history in past two years

#### Cosmax (044820 KS)

Date	2012-07-23
Rating	BUY
Target Price	₩39,000

### ► Target price changes in past two years



### ► Investment period and ratings

#### Company

BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

#### Industry

OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months

A steed with a strong foundation

Analyst : Tess Lee  
[hylee1@leading.co.kr](mailto:hylee1@leading.co.kr)  
82-2-2009-7191Leading Traffic Light: **Green**

## Korea Kolmar is...

- ✓ The first domestic cosmetics ODM firm
- ✓ The resolute No.1 ODM firm in the cosmetics market



## Green light because:

- ✓ Expected to benefit most from gentrification of low priced cosmetic products
- ✓ Beijing Kolmar to reach BEP this year

## Growth Potential:

- Sales in China expected to increase 121.1%yoy in 2012E from demand for cosmetics ODM/OEM
- Began ODM for mid size pharmaceuticals facing pressures from decreasing medicine prices



## Management &amp; Shareholder Value:

- CEO is the 1<sup>st</sup> domestic ODM firm founder
- Separating management and manufacturing sector to restructure to a holding company system



## Outstanding Value Creation:

- Large CAPEX, but within EBITDA
- Consistently retains EVA in the 4% range
- Expected to maintain high ROIC in 11~15% range for next 3 years



## Valuation:

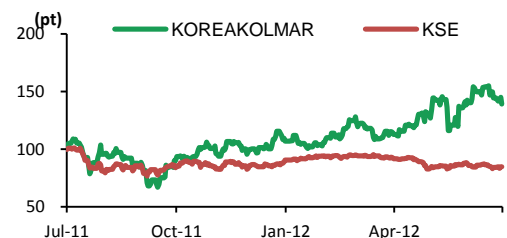
- Applied 20% discount to industry PER of 19.7x in valuation because although Korea Kolmar is domestically the No.1 ODM firm, its China entity is expected to begin generating profits in 2013
- TP = W16,000 (Upside Potential of 51.6%)

**BUY**

Target Price (KRW)	W16,000
Current Price (KRW)	W10,550
Upside Potential (%)	51.6%

Key Data	July 20 <sup>th</sup> , 2012		
Sector	Household Products		
KOSDAQ	1822.93		
Market Cap. (Wbn)	304.5		
Shares Outstanding (m)	28.9		
Foreign Ownership (%)	15.0		
52 Week High (KRW)	11,750		
Low (KRW)	5,070		
60-d avg. turnover (Wbn)	10.6		
Major Shareholders	(%)		
Yoon Dong Han & 3 Others	19.4		
Kolmar Japan	14.2		
Performance (%)	1M	6M	12M
Absolute	0.5	27.1	38.5
Relative	4.7	33.6	53.5

## Relative Performance



## CAVEAT EMPTOR!!! – Watch out for...

- ✓ As part of Korea Kolmar's efforts to restructure into a holding company, human resource partition took place on June 5<sup>th</sup>, 2012
  - ➔ Parent company went against announced statement and transfer possession of Kolmar Beijing to affiliated domestic manufacturer – firm will lose credibility
- ✓ Pharmaceutical sectors expected to face sales decline in 2012 due to regulation of declining medicine prices
  - ➔ 6% of sales will be affected, but impact expected to be mitigated as company changes structure from B2C to B2B

## Valuation Forecast

FY	Sales (Wbn)	% chg yoy	OP (Wbn)	OPM (%)	NP (Wbn)	EPS (W)	EPS Growth (%)	PER (x)	EV/EBITDA (x)	ROE (%)	P/B (x)
2009	188.1	22.2	13.6	7.2	11.7	437	86.1	24.1	15.6	13.5	2.6
2010	271.0	44.1	18.7	6.9	12.6	438	0.0	24.1	12.6	11.4	2.4
2011	324.5	19.8	21.2	6.5	20.3	703	60.6	15.0	11.0	15.4	2.2
2012E	396.5	22.2	27.8	7.0	23.3	807	14.8	13.1	8.6	15.3	1.9
2013F	449.0	13.2	35.3	7.9	30.2	1,045	29.5	10.1	6.9	16.9	1.6
2014F	511.3	13.9	43.3	8.5	37.8	1,308	25.2	8.1	5.7	17.8	1.3

## Table of contents

- 3 Section 1: Valuation – Target price
- 4 Section 2: What is the CEO's management philosophy?
- 6 Section 3: Company Snapshot
- 10 Section 4: Operations & Earnings forecast
- 11 Section 5: Facts & Figures

## Section 1-1: Valuation- Target price W16,000

### 1. Korea Kolmar will benefit most from rapid growth of low-mid priced cosmetic products market

- As brand shop enterprises engage in heated price and product quality competition, cosmetics suppliers' dependence on ODM/OEM firms with advanced production and manufacturing capacities will increase
- Korea Kolmar, the first ever domestic cosmetic products ODM/OEM firm, has maintained position as No. 1 ODM/OEM firm in market through its noteworthy research, development, and production capacities
- Korea Kolmar's non-consolidated sales expected to grow 14.2% in 2012E~2014F

### 2. Too early to apply premium based on China entity

- Korea Kolmar entered China's cosmetics market relatively late compared to other domestic competitors. Therefore, the firm's China entity is expected to begin generating meaningful profits in 2013, and it is too early to give the firm a premium during valuation for its business in China

### 3. Target Price of W16,000 derived from applying 20% discount to cosmetics industry 2012F average PER

- Although Korea Kolmar has maintained the largest MS in domestic ODM/OES market, and will see significant benefits from domestic gentrification of low-mid price cosmetic products category, since the firm's China entity will begin generating profits in 2013, a 20% discount to the industry's 2013F PER during valuation seems appropriate
- Applying a 20% discount to the cosmetics industry's 2012 PER, we derive a multiplier of 15.7x as the appropriate PER for Korea Kolmar's valuation: Industry PER 19.7x X 20% = Korea Kolmar PER 15.7x
- **Target Price: 2013F EPS W1,045 X PER 15.7 = W16,000**

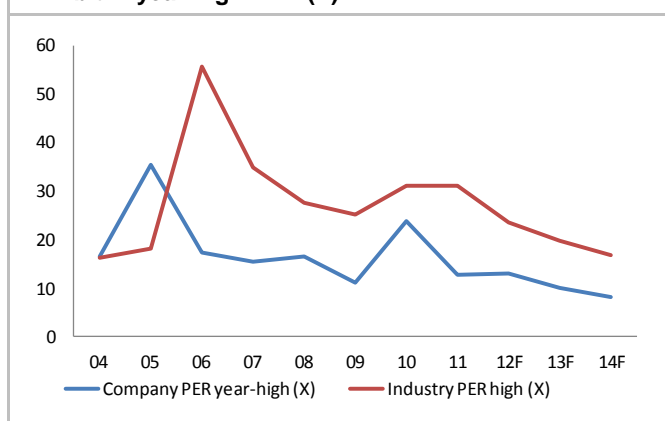
#### Exhibit 1. Korea Kolmar Valuation vs. Market Valuation

(X, %)	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2013F
Company PER high (X)	16.6	35.5	17.4	15.4	16.6	11.2	23.7	12.7	13.1	10.1	8.1
Industry PER high (X)	16.1	18.2	55.6	34.8	27.5	25.1	30.9	31.1	23.6	19.7	16.7
<b>Premium/(Discount) to market (%)</b>	2.9	94.9	(68.8)	(55.8)	(39.7)	(55.5)	(23.6)	(59.3)	(44.5)	(48.7)	(51.7)

Source: Company data, Leading Research Center

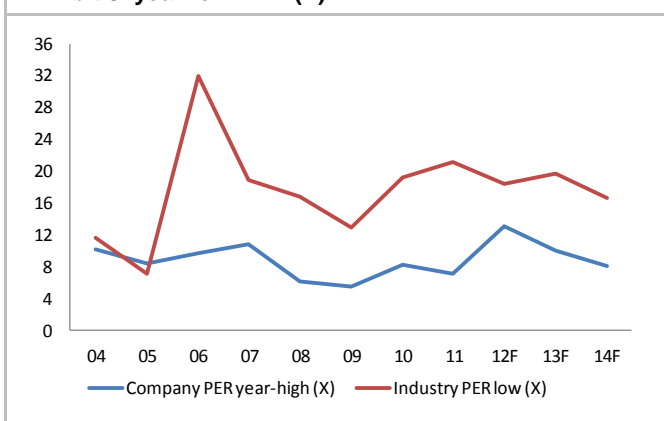
\*Market = KOSPI + KOSDAQ,

#### Exhibit 2. year-high PER (X)



Source: Fnguide, Leading Research Center

#### Exhibit 3. year-low PER (X)



Source: Fnguide, Leading Research Center

## Section 2: What is the CEO's management philosophy?

### Pioneer of cosmetic products ODM

**Founded first ever domestic cosmetic products ODM firm**

Prior to Korea Kolmar's founding in 1990, major domestic cosmetics makers undertook the development, manufacturing, and even distribution process of cosmetic products (the entire process). Korea Kolmar's president Mr. Yoon Dong Han observed how cosmetic firms of leading countries such as Japan and US tend to separate manufacturing and commercial selling in order to increase efficiency and promote specialization, and took this model as a foundation to create the first ever domestic cosmetic products ODM firm. President Han obtained his philosophy that technical skills serve as a company's core during his time working as vice president of Daewoong Pharmaceuticals. He has been investing 5% of overall sales in R&D and even designates 30% of the company's employees as R&D human resources. As such, Mr. Han helped Korea Kolmar attain the largest market share in the domestic cosmetics ODM market through earning a competitive edge in advanced product development and manufacturing capabilities.

**Foreign customers increased as Korea Kolmar was acknowledged for its advanced product development skills**

As such, Korea Kolmar is globally acknowledged for its noteworthy product development capabilities, and currently manufactures products for multinational brands such as Johnson & Johnson and New Skin. Near the end of last year, Korea Kolmar also started manufacturing cosmetic products for new brands such as Coti (Calvin Klein's cosmetic products line), and Chinese brand Amway. This demonstrates that President Han, who was responsible for operations, planning, and finances for 15 years in Daewoong Pharmaceuticals, is aspiring to lead Korea Kolmar as a global brand that provides products for multiple foreign markets instead of having the firm simply manufacture products for a limited number of domestic cosmetics brands. Mr. Han consecutively received the "This Year's CEO" award for the past 3 years, and as such, has been acknowledged for his innovative mind and management skills.

**Plans to penetrate foreign markets with firm's pharmaceutical enterprises as well**

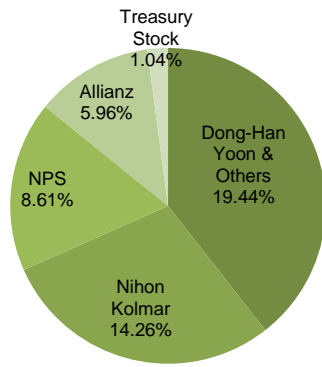
Currently, sales from the firm's pharmaceuticals sector accounts for about 20% of the Korea Kolmar's consolidated revenue. Although the domestic pharmaceuticals market has been facing growth confinements due to the declining prices of medicine, Korea Kolmar recently acquired Kolmar Pharma (previously called BRN Science) in February 2012 – this acquisition will allow Korea Kolmar to establish its pharmaceutical entity in foreign markets and achieve growth in the sector by escaping the domestic pharmaceutical market's slowdown.

Mr. Han plans to achieve fast paced growth in both the cosmetics products and pharmaceuticals sectors by penetrating foreign markets and refusing to limit the firm's customer base to the domestic market.

**Strengthening innovative management through creation of holding company**

Currently, President Han possesses a 19.4% stake in Korea Kolmar. From the ongoing construction of the firm's holding company, which entails the partition of human resources, we expect major shareholders to receive increased stakes and the management's position to be secured. This will increase the weight of Mr. Han's voice in the management, which means that his innovative management skills will carry more significance during the firm's operations.

**Exhibit 24. Shareholder Breakdown**



Source: Company data, Leading Research Center

**Exhibit 25. CEO Profile**

Time	Achievement
1970~1974	Entered National Agricultural Cooperatives Foundation-NACF
1974~1990	Daewoong Pharmaceuticals (Last Position: Executive Vice President) Korea Kolmar CEO
1990~ Present	Korean Academy of Commodity Science & Technology: Chairman

Source: Company data, Leading Research Center

### Section 3: Company Snapshot

#### Korea Kolmar is?

**Cosmetic products ODM firm**

Korea Kolmar is a cosmetic products ODM/OEM firm that researches, develops, and produces cosmetic products, without a specific brand name. The firm delivers its produced cosmetic products to 220 domestic cosmetics suppliers such as LG Health & Beauty, Amore Pacific, Yuhan Kimberly, Woongjin Coway, Enprani, etc. and to foreign firms such as Johnson & Johnson, Herbal Life, New Skin, and etc.

#### Korea Kolmar is the No.1 cosmetic products ODM firm

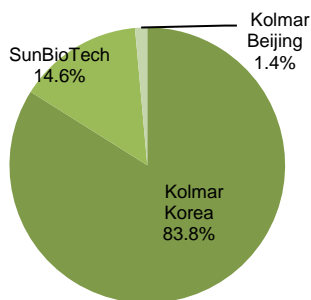
**First ever domestic cosmetic products ODM firm**

Korea Kolmar is the first ever domestic cosmetic products ODM firm. Previously in Korea, cosmetics firms undertook planning, manufacturing, and distribution – the entire process, while cosmetic firms of leading foreign markets divided distribution and commercial selling. In order to increase operating efficiency and promote specialization, Korea Kolmar emulated the foreign model, and became the first domestic cosmetics ODM firm that specializes in development and manufacturing of cosmetic products. The firm does not have a specific brand name because it supplies its products to other brands that carry out commercial selling – as such, Korea Kolmar pioneered the domestic cosmetics ODM market.

**Undeniably ranked No.1**

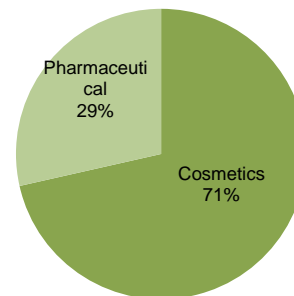
Currently, the cosmetics ODM/OEM market accounts for about 15.5% of the entire cosmetics industry, and is worth about W1.4trn. There are currently 200 domestic ODM/OEM firms - Korea Kolmar and Cosmax are two firms that have independent development skills and whose ODM carries more weight than OEM. Currently, these two firms have a 60% market share in the cosmetics ODM/OEM market. Since its entry in 1990, Korea Kolmar has been maintaining its position as the resolute No.1 cosmetics ODM/OEM firm in the market.

**Exhibit 4. Sales Breakdown (Consolidated)**



Source: Company data, Leading Research Center

**Exhibit 5. Korea Kolmar Sales Breakdown by Division (Non-consolidated)**



Source: Company data, Leading Research Center

## Firm will benefit from the restructuring of brand shops

**Brand shops depend on ODM production, so ODM market expected to grow in proportion with brand shop market**

The cosmetics ODM/OEM market grows in proportion with the brand shop market (Missha, The Face Shop, Etude, Innisfree, Skin Food, Tony Moly, etc.) – because the majority of brand shops depend on ODM/OEM production. Starting in 2008, when brand shops began spreading quickly and demand for low-mid price cosmetic products began increasing rapidly; brand shops have been achieving high annual growths of ~19%

**Cosmetic products sector grows 33% annually**

Price competition and competition regarding quality of goods is becoming extremely heated in the brand shop market. As competition becomes increasingly heated, more and more brand shops are depending on ODM firms for production because ODM firms can mass produce high quality goods at low prices. We expect the current market situation to be extremely beneficial for Korea Kolmar, which is the undisputed market leader in the ODM/OEM market and has noteworthy production skills. As such, consolidated sales in the cosmetics sector is expected to increase 23% annually during 2012E ~2014F.

## CAPA extension effect

**CAPA extensions based on increasing demand**

In order to meet the market's increasing demand, Korea Kolmar plans to build a new factory with a CAPA of W100bn in the firm's No.2 industrial complex located in Yeonki. In addition, Kolmar Beijing plans to make facility investments to increase the China factory's CAPA by W50bn in the first half of 2014.

**Exhibit 6. Korea Kolmar Extension Plans**

Time Table	Factory extended	Extension Quantity	Total CAPA after extension
2013 2 <sup>nd</sup> half	Korea Kolmar (Domestic – Cosmetic Products) Beijing Kolmar (China-Cosmetic Products)	W100bn	W350bn
2014 1 <sup>st</sup> half		W50bn	W100bn

Source: Company data, Leading Research Center (연결효과 감안)

**Exhibit 7. Production Capability Projections by Sector**

CAPA (W100Mn)	2011	2012F	2013F	2014F
<b>Cosmetic Products</b>	<b>3,000</b>	<b>3,000</b>	<b>4,000</b>	<b>4,500</b>
Domestic (Korea Kolmar)	2,500	2,500	3,500	3,500
China (Kolmar Beijing)	500	500	500	1,000
<b>Pharmaceuticals</b>	<b>1,500</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
Domestic (Korea Kolmar)	1,500	1,500	1,500	1,500
Subsidiary (Kolmar Pharma)	0	2,500	2,500	2,500

Source: Company data, Leading Research Center

**Profitability expected to increase from new foreign customers**

Korea Kolmar's cosmetic products sector is structured in a way that causes the firm to have a low profit margin (B2B structure). Also, cosmetics sales in foreign markets has higher profitability than sales in domestic markets – as Korea Kolmar began producing goods for Chinese and American firms such as Amway, Calvin Klein, and Coti, sales from foreign markets, which accounted for only 8% of quarterly sales in 2011, is expected to increase to 10% in 2012. As such, since profitability is expected to increase in cosmetic sector sales, which accounts for around 80% of overall sales, the firm's OPM is expected to increase from 6.5% in 2011 to 8.5% in 2014F.

## Health-foods sector: SunBio Tech

Health-foods sector's SunBio Tech will maintain fast growth – +45% yoy in 2012E sales

In 2004, Korea Kolmar co-invested in a new health-foods start up, SunBio Tech, along with Korea Atomic Energy Research Institute, and entered the health-foods industry for the first time. Currently, sales growth of SunBio Tech is accelerating. The firm's representative health-food is Hemohim (hematosis, anticancer, and immunity boosting product), and its 2011 annual sales was W52.8bn (+61.4% yoy) – recording a NPM of 11%. As the health-foods NPM is higher than cosmetics sector NPM, the health-foods sector is expected to improve the firm's overall profitability. In addition, through producing B2B cosmetic products exclusively meant to be exported, the firm plans to increase export quantity through the SunBio Tech brand.

From increased demand in the health-foods sector and increased exports in the cosmetics sector, SunBio Tech is expected to record sales of W77.4bn (+46.5%yoy) in 2012E (2013.03) and net profit of W8.9bn(+53.4%yoy) and maintain its current rapid growth trend.

## Domestic pharmaceuticals sector: Korea Kolmar & Kolmar Pharma

Impact from medicine price regulation will be limited

Korea Kolmar's pharmaceutical sector, which accounts for about 30% of Korea Kolmar's quarterly sales, is supplying pharmaceutical products to 15 companies – domestic and foreign. Although sales is expected to decrease from the recent decline in medicine prices, since Korea Kolmar's pharmaceutical sector directly develops its products and even possesses item patents for these products, and as most sales are from consignment sales, Korea Kolmar is expected to receive limited impact from regulation of declining medicine prices. About 20% of Korea Kolmar's pharmaceutical sector sales (accounts for about 6% of overall sales) is actually exposed to the regulation risk.

Firm began export-based pharmaceutical product ODM business through acquiring BRN Science

However, in February 2012, Korea Kolmar invested W22bn to acquire a 92% stake in BRN Science (currently called Kolmar Pharma). As Korea Kolmar acquired BRN Science's flagship products, item patents, and cGMP factory, the firm plans to use Kolmar Pharma as a circuit to begin an export-based pharmaceutical ODM business. As such, from changing the company's structure from B2C to B2B, marketing costs are expected to be saved and the firm's profitability is expected to increase. Since low-mid size pharmaceutical companies will face pressures to decrease production costs from declining medicine prices, these firms will have to rely on ODM or OEM firms for production, in order to decrease costs. As such, Korea Kolmar's B2B production demand is expected to increase, and the firm's pharmaceutical sector is projected to achieve high average annual growth of ~30% after 2012.

BRN Science recorded sales of W25.6bn and net loss of W46.3bn in 2011.

### Exhibit 9. Earnings forecast by affiliated company

Affiliated Company		(Wbn)	2011	2012F	2013F	2014F
<b>Total</b>			<b>324.5</b>	<b>396.5</b>	<b>449.0</b>	<b>511.3</b>
Korea Kolmar	Cosmetics ODM/OEM & pharmaceuticals		302.6	339.2	367.1	399.4
SunBio Tech	Health-Foods		52.8	64.5	77.4	92.9
Beijing Kolmar	Cosmetics ODM/OEM		5.2	11.5	26.5	45.2
Kolmar Pharma (Acquired 2012.2)	Export-based pharmaceuticals		-	25.0	27.5	30.3

Source: Company data, Leading Research Center

## Establishing holding company will change structure & governance

**Will establish holding company and management will become independent**

Korea Kolmar decided to partition its human resources in June 4<sup>th</sup> 2012 by assigning employees to either the firm's manufacturing sector (deemed Korea Kolmar) or the firm's holding company, in the process of transition to a holding company structure. The partition ratio for Korea Kolmar's Holding company and Korea Kolmar is 0.325 : 0.675. We believe the main reason for this change is to increase the influence of the major shareholders through holding company structure, given that the major shareholder only has 19.44% of the company.

### Exhibit 10. Structure Transition Schedule

Korea Kolmar and Holding Company Structure Change Schedule	
Partition Decision Date	2012.6.4
Major Shareholder General Meeting	2012.8.28
Submission Period For Old Shares	2012.8.29~2012.9.28
Trading suspension Period	2012.09.27~2012.10.18
Issuing of New Shares	2012.10.18
Listing of New Shares	2012.10.19
Split Date	2012.10.01
Registering the Split	2012.10.03

*Source: Company data, Leading Research Center*

## Section 4: Earnings forecast

### Basic Assumptions

**(Consolidated) – Sales expected to grow 13~22% p.a.**

We assumed Korea Kolmar's annual sales growth rate to be around 13%~22%. Korea Kolmar is undisputedly the No.1 cosmetics ODM/OEM firm in the domestic market. Moreover, brand shops are becoming increasingly dependent on ODM firms with advanced production capabilities as price competition and competition regarding quality of goods is intensifying among brand shops. In addition, the ODM/OEM market is projected to grow proportionally with the brand shop market because of the brand shops' heavy dependence on ODM production, and the brand shop market's expected growth rate is estimated at around 20%. Therefore, we expect Korea Kolmar's sales to grow around 13~22%.

**Kolmar Beijing**  
-Sales expected to grow 20% p.a.

Kolmar Beijing is expected to record sales of W11.5bn this year and report a small margined surplus. Sales is expected to annually grow in the 20% range henceforth. We arrived at this assumption based on the fact that most of Kolmar Beijing's customers are local Chinese firms, and that China's cosmetics market will grow rapidly as a result of the low-mid price cosmetic products boom – Kolmar Beijing will directly benefit from China's cosmetics market growth.

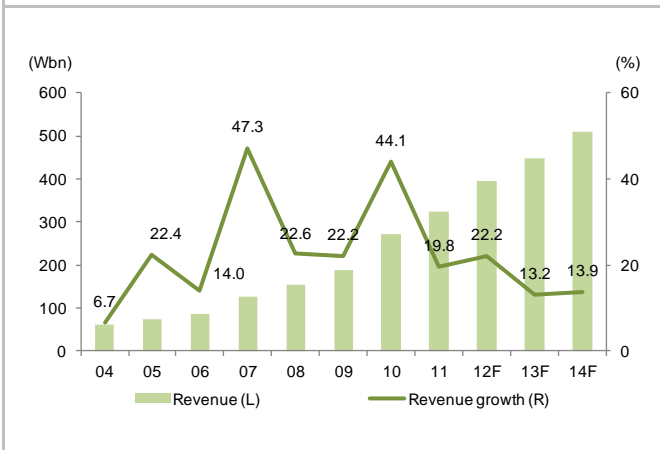
#### Exhibit 29. Yearly Earnings Outlook

	Outlook (Wbn)				Growth Rate (%)			
	2011	2012F	2013F	2014F	2011	2012F	2013F	2014F
Sales	324.5	396.5	449.0	511.3	19.8	22.2	13.2	13.9
Gross Profit	60.6	75.7	87.1	99.2	20.5	25.1	15.0	13.9
Adjusted OP	21.2	27.8	35.3	43.3	13.3	31.3	26.7	22.6
Income before tax	23.8	27.3	35.4	44.3	64.9	14.8	29.5	25.2
NP	20.3	23.3	30.2	37.8	60.6	14.8	29.5	25.2
EPS	703	807	1,045	1,308	60.6	14.8	29.5	25.2
OPM (%)	6.5	7.0	7.9	8.5				
NPM (%)	6.2	5.9	6.7	7.4				

Source: Company data, Leading Research Center

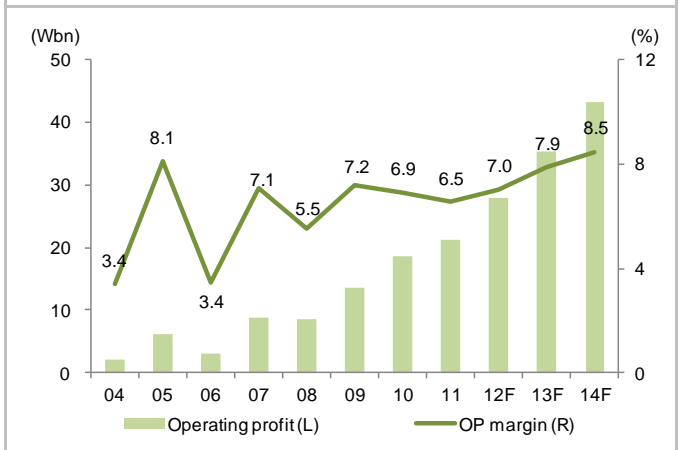
Section 5: Facts & Figures

Exhibit 17. Revenue and Growth trend



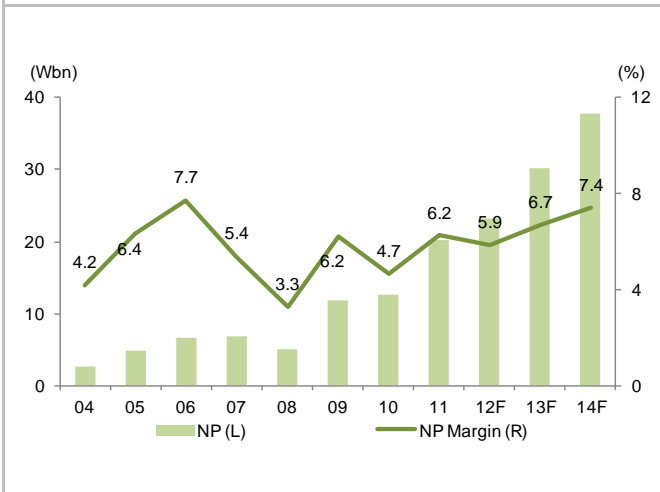
Source: Company data, Leading Research Center

Exhibit 18. Operating profit and OPM trend



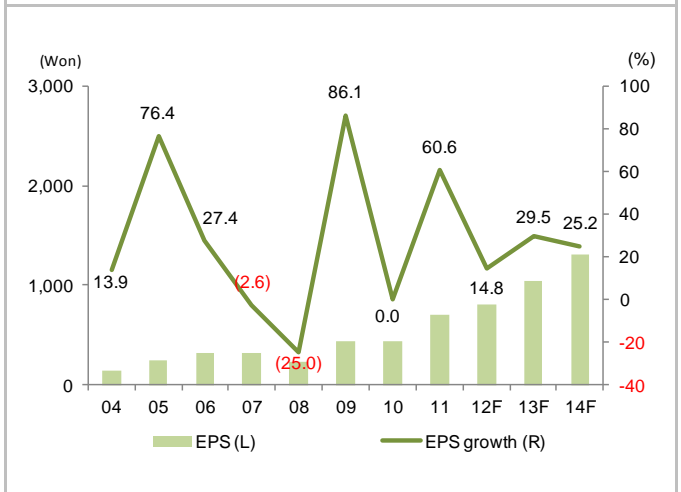
Source: Company data, Leading Research Center

Exhibit 19. Net profit and NP margin trend



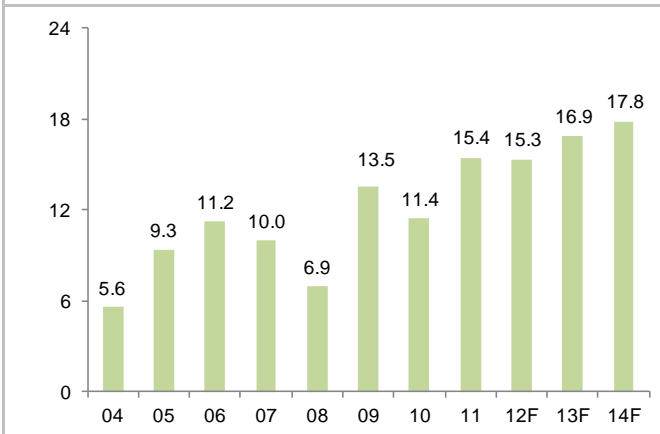
Source: Company data, Leading Research Center

Exhibit 20. EPS and EPS growth



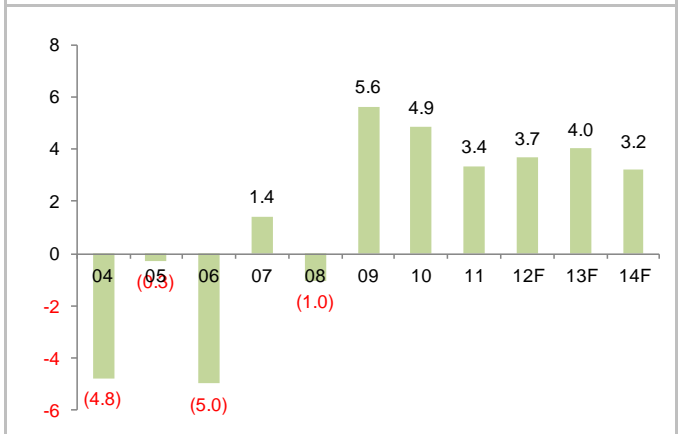
Source: Company data, Leading Research Center

Exhibit 21. ROE (%)



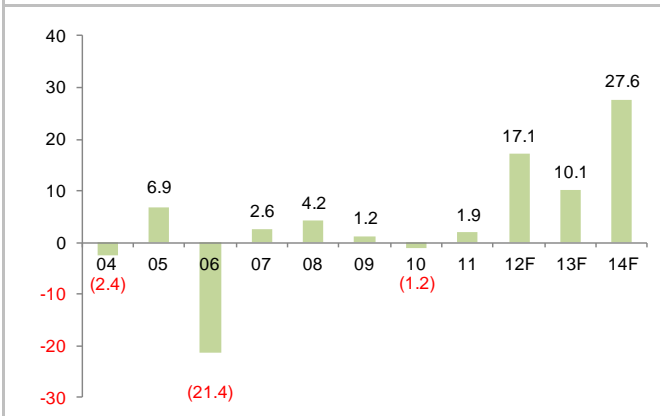
Source: Company data, Leading Research Center

Exhibit 16. EVA: ROIC less WACC (%)



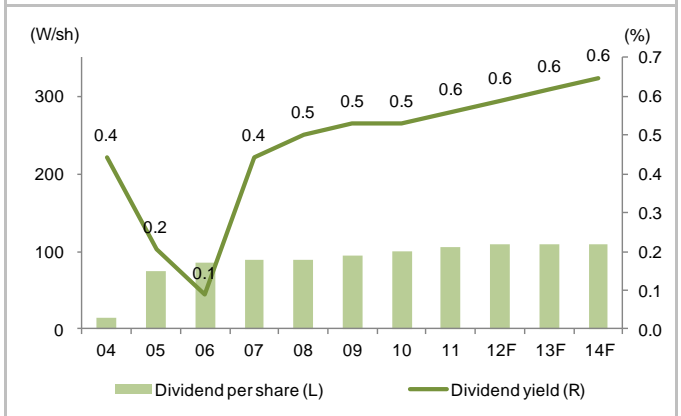
Source: Company data, Leading Research Center

**Exhibit 23. Free Cash Flow trend (Wbn)**



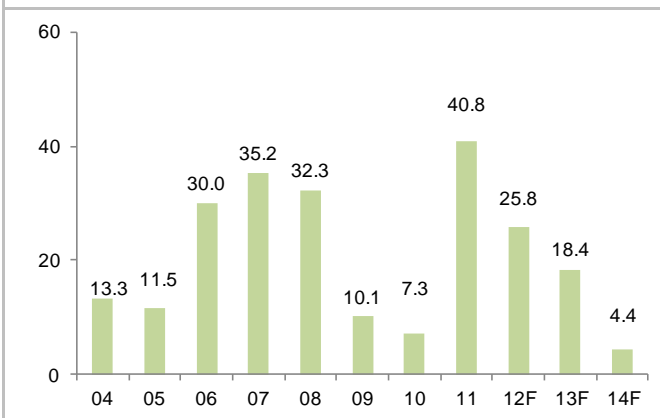
Source: Company data, Leading Research Center

**Exhibit 24. Dividend per share and yield trend**



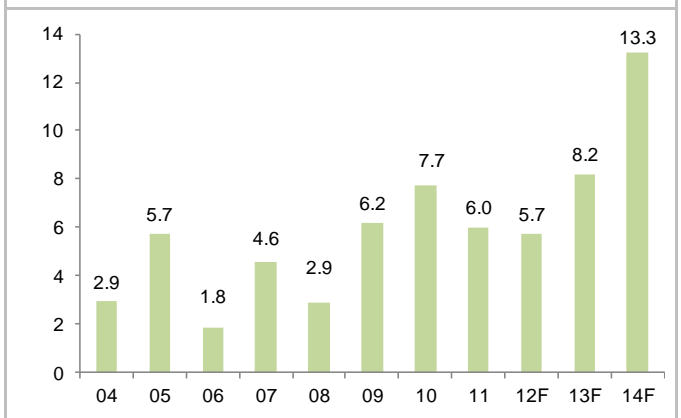
Source: Company data, Leading Research Center

**Exhibit 25. Net debt/equity ratio (%)**



Source: Company data, Leading Research Center

**Exhibit 26. Interest coverage (X)**



Source: Company data, Leading Research Center

## Financial Statement

### Income statement

(Wbn)	2005.3	2006.3	2007.3	2008.3	2009.3	2010.3	2011.3	2012.3	2013.3F	2014.3F	2015.3F
<b>Revenue</b>	<b>61.1</b>	<b>74.8</b>	<b>85.3</b>	<b>125.6</b>	<b>153.9</b>	<b>188.1</b>	<b>271.0</b>	<b>324.5</b>	<b>396.5</b>	<b>449.0</b>	<b>511.3</b>
% chg yoy	6.7	22.4	14.0	47.3	22.6	22.2	44.1	19.8	22.2	13.2	13.9
COGS	51.7	56.7	69.3	102.1	127.5	152.1	220.8	264.0	320.8	361.9	412.1
<b>Gross profit</b>	<b>9.4</b>	<b>18.1</b>	<b>16.0</b>	<b>23.5</b>	<b>26.4</b>	<b>36.0</b>	<b>50.2</b>	<b>60.6</b>	<b>75.7</b>	<b>87.1</b>	<b>99.2</b>
GP margin (%)	15.5	24.2	18.7	18.7	17.2	19.1	18.5	18.7	19.1	19.4	19.4
SG&A	7.4	12.0	13.0	14.6	17.9	22.4	31.5	39.3	47.9	51.8	55.9
<b>Operating income</b>	<b>2.1</b>	<b>6.1</b>	<b>2.9</b>	<b>8.9</b>	<b>8.5</b>	<b>13.6</b>	<b>18.7</b>	<b>21.2</b>	<b>27.8</b>	<b>35.3</b>	<b>43.3</b>
Adj. OP margin (%)	3.4	8.1	3.4	7.1	5.5	7.2	6.9	6.5	7.0	7.9	8.5
Net other income	0.2	0.2	7.5	0.0	(0.6)	(0.3)	(3.2)	0.9	(0.1)	(0.1)	(0.1)
<b>Reported OP</b>	<b>2.1</b>	<b>6.1</b>	<b>2.9</b>	<b>8.9</b>	<b>8.5</b>	<b>13.6</b>	<b>18.7</b>	<b>22.1</b>	<b>27.7</b>	<b>35.2</b>	<b>43.2</b>
Net equity method gains	0.0	(0.1)	(0.1)	(0.1)	0.7	1.7	(0.6)	0.0	0.0	0.0	0.0
Financial income	1.3	0.7	2.1	1.0	1.1	1.0	2.1	7.9	4.4	4.5	4.4
Financial expenses	0.7	1.1	3.8	2.1	4.0	2.3	4.8	6.1	4.9	4.3	3.3
Income before tax	<b>2.8</b>	<b>5.9</b>	<b>8.5</b>	<b>7.6</b>	<b>5.7</b>	<b>12.1</b>	<b>14.4</b>	<b>23.8</b>	<b>27.3</b>	<b>35.4</b>	<b>44.3</b>
Income tax	0.3	1.1	1.9	0.9	0.6	0.4	1.8	3.5	4.0	5.2	6.5
Tax rate (%)	0.1	0.2	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
<b>Net profit</b>	<b>2.6</b>	<b>4.8</b>	<b>6.6</b>	<b>6.8</b>	<b>5.1</b>	<b>11.7</b>	<b>12.6</b>	<b>20.3</b>	<b>23.3</b>	<b>30.2</b>	<b>37.8</b>
Controlling interest	2.5	3.5	8.3	5.8	5.6	0.0	10.6	18.7	21.3	27.6	34.5
Non-controlling	0.1	1.3	(1.7)	1.0	(0.5)	0.0	1.1	1.6	2.0	2.5	3.2
Other comprehensive inc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Total comprehensive inc	2.6	4.8	6.6	6.8	5.1	11.7	12.6	20.8	23.3	30.2	37.8

### Balance sheet

(Wbn)	2005.3	2006.3	2007.3	2008.3	2009.3	2010.3	2011.3	2012.3	2013.3F	2014.3F	2015.3F
<b>Current assets</b>	<b>35.2</b>	<b>45.1</b>	<b>52.8</b>	<b>57.5</b>	<b>68.8</b>	<b>77.5</b>	<b>119.1</b>	<b>130.4</b>	<b>153.2</b>	<b>171.5</b>	<b>184.4</b>
Cash & equivalents	9.0	17.3	13.2	17.4	22.9	18.1	15.3	18.2	20.3	23.4	19.0
ST financial assets	1.6	2.7	3.1	4.5	2.1	7.3	22.6	12.1	11.9	9.4	8.7
Accounts receivables	17.5	17.5	26.1	22.8	28.4	32.9	40.2	55.9	67.8	79.9	91.5
Inventory	6.0	6.7	8.5	10.3	12.7	17.5	37.0	41.0	49.4	54.6	61.4
Others	1.1	1.0	1.9	2.5	2.8	1.8	3.9	3.2	3.8	4.1	3.8
<b>Non-current assets</b>	<b>42.3</b>	<b>49.2</b>	<b>71.9</b>	<b>82.8</b>	<b>86.6</b>	<b>91.3</b>	<b>107.5</b>	<b>165.2</b>	<b>170.1</b>	<b>185.4</b>	<b>188.3</b>
Tangible Assets	28.9	30.9	49.3	46.2	49.7	55.8	73.6	112.6	114.0	126.5	126.7
LT financial assets	2.7	7.3	16.2	29.7	19.9	9.7	7.4	3.9	4.2	4.5	4.7
Inv in related co's	0.1	0.0	2.9	2.8	12.0	21.3	5.5	5.5	5.5	5.5	5.5
Inv in joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	10.7	11.0	3.5	4.1	5.0	4.5	20.9	43.1	46.3	48.8	51.3
<b>Total assets</b>	<b>77.6</b>	<b>94.3</b>	<b>124.7</b>	<b>140.2</b>	<b>155.4</b>	<b>168.8</b>	<b>226.5</b>	<b>295.6</b>	<b>323.3</b>	<b>356.9</b>	<b>372.7</b>
<b>Current liabilities</b>	<b>20.5</b>	<b>19.4</b>	<b>37.5</b>	<b>55.2</b>	<b>69.1</b>	<b>62.3</b>	<b>86.9</b>	<b>133.4</b>	<b>140.0</b>	<b>143.5</b>	<b>130.0</b>
Accounts payables	8.5	8.3	13.6	13.2	21.9	24.1	40.7	45.2	57.4	63.7	73.4
ST financial liabilities	9.6	7.1	14.3	36.7	40.3	30.1	34.7	71.3	61.9	55.7	33.1
Others	2.4	4.1	9.6	5.2	6.8	8.0	11.4	16.9	20.7	24.1	23.5
<b>Non-current liabilities</b>	<b>8.8</b>	<b>21.5</b>	<b>23.1</b>	<b>13.1</b>	<b>11.2</b>	<b>8.4</b>	<b>16.5</b>	<b>22.9</b>	<b>19.2</b>	<b>20.1</b>	<b>12.8</b>
LT payables	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2
LT financial liabilities	7.4	19.1	21.2	10.5	8.9	5.2	12.1	15.9	12.7	12.7	4.7
Others	1.4	2.4	1.9	2.5	2.3	3.1	4.3	6.8	6.3	7.2	7.9
<b>Total liabilities</b>	<b>29.3</b>	<b>40.9</b>	<b>60.6</b>	<b>68.3</b>	<b>80.3</b>	<b>70.6</b>	<b>103.3</b>	<b>156.3</b>	<b>159.2</b>	<b>163.6</b>	<b>142.7</b>
Paid-in capital	9.0	9.4	10.3	10.8	10.8	13.4	14.4	14.4	14.4	14.4	14.4
Capital surplus	16.8	17.3	22.2	25.7	25.8	38.6	44.3	44.3	44.3	44.3	44.3
Others	0.0	0.2	0.0	(0.2)	0.6	1.3	(0.4)	0.1	0.1	0.1	0.1
Other capital adjustments	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(2.1)	0.0	0.0	0.0
Retained earnings	17.9	20.6	27.5	31.5	35.2	44.9	59.9	74.8	95.4	122.1	155.5
Non-controlling interest	4.6	5.9	4.2	4.0	2.8	0.0	5.0	7.9	9.9	12.4	15.6
<b>Total shareholder equity</b>	<b>48.3</b>	<b>53.4</b>	<b>64.1</b>	<b>71.9</b>	<b>75.1</b>	<b>98.2</b>	<b>123.2</b>	<b>139.3</b>	<b>164.1</b>	<b>193.3</b>	<b>229.9</b>

## Free cashflow analysis

(Wbn)	2005.3	2006.3	2007.3	2008.3	2009.3	2010.3	2011.3	2012.3	2013.3F	2014.3F	2015.3F
<b>Net profit</b>	2.6	4.8	6.6	6.8	5.1	11.7	12.6	20.3	23.3	30.2	37.8
<b>Adj. for non-cash exp.</b>	3.4	6.4	(0.5)	4.0	8.6	6.6	15.3	9.8	10.1	11.6	13.2
Depreciation	2.7	2.8	3.5	3.8	3.9	4.1	5.0	5.7	6.8	8.1	9.2
Provision for reserves	0.9	1.1	1.1	1.6	1.6	1.6	1.4	1.7	2.5	2.6	2.8
Net FX gains	(0.0)	(0.0)	(0.0)	(0.5)	(1.1)	(0.1)	(0.2)	0.1	0.0	0.0	0.0
Net eq method gains	0.0	(0.1)	(0.1)	(0.1)	0.7	1.7	(0.5)	(0.2)	0.0	0.0	0.0
Others	(0.4)	2.1	(5.5)	(2.2)	2.3	1.9	7.8	1.7	0.0	0.0	0.0
<b>Chg in op assets &amp; liab</b>	(4.6)	0.7	(1.7)	(4.6)	(1.8)	(6.6)	(10.9)	(11.0)	(8.0)	(11.1)	(14.0)
Incr in WC (decr)	1.9	0.8	5.2	(1.2)	(0.7)	7.1	10.3	15.2	8.0	11.1	8.7
Others	2.7	(1.6)	(3.5)	5.9	2.5	(0.5)	0.7	(4.2)	0.0	0.0	(5.3)
<b>Cash from operations</b>	1.4	11.9	4.4	6.2	11.8	11.7	17.0	19.1	25.3	30.7	37.0
Capital expenditures	3.8	5.0	25.8	3.5	7.6	10.6	18.1	17.2	8.2	20.6	9.4
<b>Free cash flow</b>	(2.4)	6.9	(21.4)	2.6	4.2	1.2	(1.2)	1.9	17.1	10.1	27.6
<b>Dividend</b>	0.3	0.3	1.8	1.7	1.9	1.9	2.6	3.2	2.7	3.5	4.3
Incr in investment assets	0.0	0.0	0.0	1.2	1.3	(0.2)	3.2	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in debt	1.1	9.2	9.3	11.8	2.0	(13.9)	11.5	40.4	(12.6)	(6.0)	(28.4)
Others	1.0	6.8	2.9	8.7	(0.2)	(16.3)	(0.7)	46.6	0.0	0.0	0.0
<b>Net cash flow</b>	(1.0)	8.2	(4.1)	4.2	5.5	(4.8)	(1.9)	2.9	2.1	3.1	(4.4)
Beginning cash	10.0	9.0	17.3	13.2	17.4	22.9	18.1	15.3	18.2	20.3	23.4
Ending cash	9.0	17.3	13.2	17.4	22.9	18.1	15.3	18.2	20.3	23.4	19.0

## Stability ratios

	2005.3	2006.3	2007.3	2008.3	2009.3	2010.3	2011.3	2012.3	2013.3F	2014.3F	2015.3F
Current ratio	171.6	232.7	140.9	104.1	99.6	124.5	137.1	97.8	109.4	119.5	141.9
Quick ratio	25.6	38.3	24.9	30.3	33.2	23.4	12.8	14.0	13.3	13.6	10.3
Inv. holding period (d)	44.8	48.9	49.5	41.0	43.1	65.4	64.5	62.5	59.2	27.6	27.2
A/R collection period (d)	104.4	106.3	104.6	74.3	72.6	70.9	64.8	69.6	68.0	32.5	32.7
A/P period (days)	70.0	53.4	56.1	47.2	49.4	53.6	49.2	58.5	56.9	60.2	59.7
Interest bear debt (Wbn)	17.0	26.2	35.5	47.3	49.2	35.3	46.9	87.2	74.6	68.4	37.8
Cash & equivalents (Wbn)	10.6	20.0	16.3	22.0	25.0	25.4	37.9	30.3	32.2	32.8	27.7
Net int. bear debt (Wbn)	6.4	6.2	19.2	25.3	24.2	9.9	8.9	56.9	42.4	35.6	10.1
Net debt/equity (%)	13.3	11.5	30.0	35.2	32.3	10.1	7.3	40.8	25.8	18.4	4.4
Liability/equity (%)	60.7	76.5	94.5	94.9	107.0	71.9	83.9	112.1	97.0	84.6	62.1
Interest coverage (X)	2.9	5.7	1.8	4.6	2.9	6.2	7.7	6.0	5.7	8.2	13.3

## Valuations and margins

	2005.3	2006.3	2007.3	2008.3	2009.3	2010.3	2011.3	2012.3	2013.3F	2014.3F	2015.3F
EV/EBITDA (X)	39.1	22.5	32.3	17.6	17.9	15.6	12.6	11.0	8.6	6.9	5.7
EPS (W)	143	252	322	313	235	437	438	703	807	1,045	1,308
EPS yoy chg (%)	0.1	76.4	27.4	(0.0)	(0.2)	86.1	0.0	60.6	14.8	29.5	25.2
PER (X)	73.7	41.8	32.8	33.7	44.9	24.1	24.1	15.0	13.1	10.1	8.1
BVPS (W)	2,754	2,907	3,260	3,415	3,472	4,052	4,424	4,828	5,684	6,696	7,966
P/BVPS (X)	3.8	3.6	3.2	3.1	3.0	2.6	2.4	2.2	1.9	1.6	1.3
Dividend/sh (W)	15	75	85	90	90	95	100	105	110	110	110
Dividend yield (%)	0.1	0.7	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
ROE (%)	5.6	9.3	11.2	10.0	6.9	13.5	11.4	15.4	15.3	16.9	17.8
ROA (%)	3.3	5.5	6.0	5.1	3.4	7.2	6.4	7.8	7.5	8.9	10.4
GP margin (%)	15.5	24.2	18.7	18.7	17.2	19.1	18.5	18.7	19.1	19.4	19.4
OP margin (%)	3.4	8.1	3.4	7.1	5.5	7.2	6.9	6.5	7.0	7.9	8.5
NP margin (%)	4.2	6.4	7.7	5.4	3.3	6.2	4.7	6.2	5.9	6.7	7.4
EBITDA margin (%)	8.2	12.2	7.9	10.3	8.3	9.7	8.9	8.5	8.9	9.9	10.5
ROIC (%)	3.7	8.6	3.2	8.7	7.7	12.7	13.6	11.0	11.8	13.8	15.7
WACC (%)	8.5	8.9	8.2	7.3	8.7	7.0	8.8	7.7	8.1	9.8	12.5
ROIC less WACC (%)	(4.8)	(0.3)	(5.0)	1.4	(1.0)	5.6	4.9	3.4	3.7	4.0	3.2

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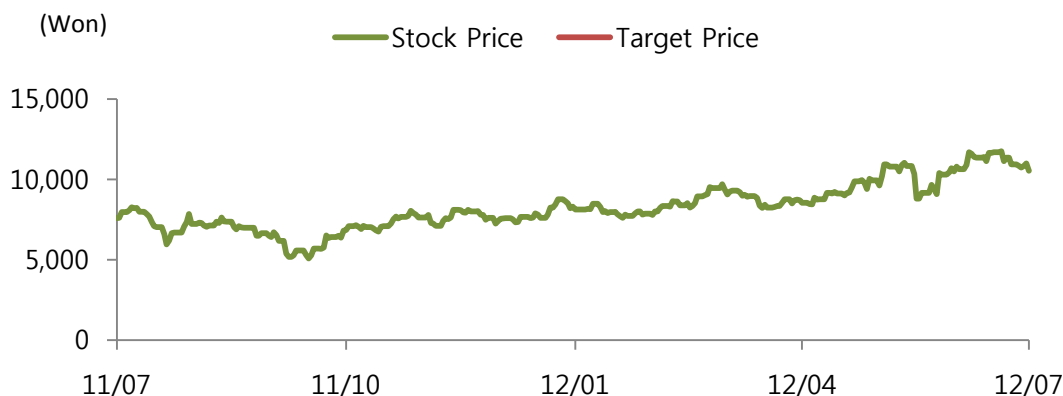
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## ► Ratings and target price history in past two years

### Korea Kolmar (024720KS)

Date	2012-07-23
Rating	BUY
Target Price	W16,000

## ► Target price changes in past two years



## ► Investment period and ratings

### Company

BUY	The stock is expected to outperform the market by at least 15%p over the next 12 months.
HOLD	The stock is expected to either outperform or underperform the market by less than 15%p over the next 12 months.
SELL	The stock is expected to underperform the market by at least 15%p over the next 12 months

### Industry

OVERWEIGHT	Industry indicators are expected to outperform the by at least 5%p over the next 12 months.
NEUTRAL	Industry indicators are expected to be in line with the market within 5%p over the next 12 months.
UNDERWEIGHT	Industry indicators are expected to underperform the market by at least 5%p over the next 12 months