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**PROPRIETARY**

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## South Korea TMT M&A heats up with bigger players, appetite

Analysis

26 JUL 2018

- Game, home shopping companies look for global buys
- Cable consolidation to happen eventually; CJ Hello, Tbroad seen attractive targets
- Friendly policy, Pangyo's 2nd complex positive for more deals

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Coming off the surge of TMT deals in South Korea for the first half of this year, strong deal flow is further expected from the growing pool of strategic buyers and the government's support for technology advancement, deal advisors said.

Besides large telecom, internet-tech, and game companies positioned as influential investors, the band of second-tier players is also getting thicker as they are actively increasing fundraising and M&A activities on the path of growth, they said.

Moreover, the Moon Jae-In administration's pursuit of "Innovative growth" followed by the latest talks to ease regulations for conglomerates' M&A of tech ventures will be another deal driver.

The TMT sector recorded USD 7.12bn from 49 deals in 1H18 surpassing the full year record in value (USD 4.1bn of 62 deals) last year, according to *Mergermarket* [data](#).

TMT contributed 28% of the country's M&A in value (22.5% in volume), the highest contribution [since 2013](#). The media sector rose significantly to USD 5.06bn (13 deals) compared to USD 243m (12 deals) in 2017. The technology sector had USD 2bn from 36 deals.

Dealmakers are keen to capture promising venture firms in the rapidly developing TMT sector and build "early-stage" relationships, one banker said. With more opportunities, advisors are seeing increasing visits and meetings in Pangyo, often referred to as South Korea's Silicon Valley, located 35km away from Seoul's central business district.

As stated, Shin & Kim, the South Korean law firm, 'preemptively' opened an office in Pangyo in early June with delegates of M&A lawyers, Cho Joong-II, a partner of the firm said.

### Growing Buyers

The internet technology and gaming sector will see more deals with the emergence of rookies in the sector raising funds through or prior to their initial public offerings, according to Chung Joon-Hyug, a partner at Shin & Kim.

Big cash-rich players are driving the investment while simultaneously raising capital in sub-businesses like online or e-commerce services after spin-offs. NC Soft [KRX:036570], Netmarble Games[KRX:251270] and Nexon are speeding up their global expansion and remain acquisitive.

The followers such as PearlAbyss [KOSDAQ:263750], Com2us [KOSDAQ:078340], Kakao Games, and Bluehole also are fast growing the size and accumulating their cash piles as potential investors in the gaming sector, Chung said.

Investors screen Korea for small assets such as studios or R&D centers whereas targets overseas are mainly big tickets in game publishers and IP assets, he added.

Korean bidders are attracted to both controlling and minority stake deals in gaming businesses as the core concern lies in how to maintain "key members" in the investee firms, Cho said.

As such, structuring the incentive scheme of the target employees is also an area the investors pay attention to, he noted.

Netmarble and PearlAbyss floated in 2017 priced at 58.17 and 18.47 X per earnings, respectively, versus the average P/E multiple of 21.43 X from 15 domestic IPOs which raised more than USD 50m for the same period, this news service's analytics shows.

The market cap of Pearl Abyss has climbed 122% to KRW 2.92tn (USD 2.6bn) since the listing. Shares of Com2Us rose 23.7% year-to-date, valuing the company at KRW 2tn in total. Bluehole, which has emerged as a 'unicorn' with a multi-billion USD valuation, is attracting several global investors in a pre-IPO funding process run by Credit Suisse, as reported.

From Asia, Chinese players used to be dominant in cross-border M&A, Chung said.

However, the recent stricter US antitrust review by CFIUS (The Committee on Foreign Investment in the United States) may provide an edge to other Asian or Korean bidders and lead to them being favored by the sellers for smooth deal completion, particularly, for technology assets, he said.

Korean players are also actively expanding the scope of potential targets in size and structure for outbound deals, he added.

The proposed sale of Xcerra [NASDAQ:XCRA], the Massachusetts, US-based semiconductor testing equipment maker, and Cogint, a New-York based digital marketing company, to Chinese buyers were terminated this year because CFIUS was unwilling to approve, as reported.

South Korea outbound activity was up by 8.9% year-on-year in 1H18 (USD 3.4bn, 31 deals) led by Industrials & Chemicals sector (USD 1.5bn, 6 deals), the data shows. Regarding TMT deals, Bluehole acquired Madglory Interactive, the New York, US-based eSports portal company, for USD 13m, via its subsidiary PUBG Corp in March. SK Telecom [KRX:017670] joined the USD 50m Series C round of SiFive, a California-based semiconductor design company, in April 2018.

Backed by stable domestic business, Korean home shopping companies are also on the lookout for buys to broaden their portfolio or geographical presence to increase profitability, a second banker said.

There are seven TV-home shopping companies; CJ ENM [KOSDAQ:035760], formerly known as CJ O Shopping (22.04%), GS Home Shopping [KOSDAQ:028150] (20.39%), Hyundai Home Shopping Network (19.82%), Lotte Home Shopping (17.73%), NS Shopping [KRX:138250] (9.18%), Home and Shopping (8.14%) and IM Shopping (2.69%) in the order of market share in revenues in 2017, as disclosed.

GS Home Shopping is looking for homeware brands in Europe and the US, this news service earlier reported.

The largest player CJ ENM, which completed a merger with its content affiliate CJ E&M in June, plans to break through the stagnant growth in Korea and will seek JV or M&A deals overseas, its merger filing shows. This March, the company acquired a 50% stake in Televisa CJ Grand, the Mexico-based home shopping TV channel, for USD 5m.

Ray of hope?

Meanwhile, the cable and broadcasting sector, which was inactive for a long time pending consolidation, hopes to see some deals following the regulatory change in June-end, according to Chung.

The regulation which banned a single cable operator or MSO (multiple system operator) from owning more than a 33 % market share (number of subscribers) lapsed on 27 June 2018. Policy makers are currently discussing whether to extend the law for two more years or not, but details are not finalized as yet, as reported.

Nevertheless, "how antitrust regulator view and judge" will matter the most, Chung pointed out.

The regulator's blocking of the sale of CJ Hello [KRX:037560] to SK Telecom in 2016 was huge since it prevented further deals in the sector, Chung and the first banker said. The South Korean Fair Trade Commission dismissed SKT's filing citing it as the combination of the "two largest players"

Still, cable operators' M&A with wireless companies is seen as imperative considering how consumption is evolving in media and the subdued cable market, they said.

The mobile operators SKT and LG Uplus [KRX:032640] are potential acquirers while D'Live, the distressed portfolio company of South Korea-based MBK Partners, and Macquarie Group, is a potential target, as reported.

CJ Hello and Tbroad, 20% owned by the private equity firm IMM Private Equity, are also deemed as attractive and potential targets, they said.

D'Live is by far the single clear target but least attractive, the banker added.

The creditors of D'Live denied media reports in March that it had lowered the expected sale price from KRW 1.26tn to KRW 840bn. The company resumed the sale process in late 2017, after failing 2015 auction.

Pangyo, bridging tech firms

The government's plans for Pangyo, which is mandated to develop country's technology and M&A by large players, are shaping up, Shin & Kim lawyers said.

"More companies will settle here when the second complex is done next year," Cho said, adding that physical proximity of the established firms and young entrepreneurs is indeed conducive to creating more collaboration and deals.

About 1,300 companies ranging from large players such as Mando [KRX:204320], Hanwha Techwin, NC Soft and Nexon to tech incubators are clustered in the industrial complex in Pangyo. As a tech-hub, the government provides incentives such as tax-cuts, low interest loans or an expansion of the infrastructure.

The second ICT zone on a 430,000 square meter lot will finish construction in 2019, inviting 1,200 firms gradually by 2022 across biotech, robot, IoT, fintech, drones, autonomous driving, and next-generation semiconductor technology sectors. Pangyo is also the pilot town for autonomous driving cars.

The Korea Fair Trade Commission also stated earlier this month that it is planning to lower the bar for conglomerates' M&A in startups in areas such as minimum threshold and the holding entity's asset criteria.

Separately, legislative discussions on whether to relax regulations in Corporate Venture Capital, a corporate fund for startup investment, is also moving ahead, as reported.

Internet, telecom and retail firms such as Kakao [KRX:035720] and Naver [KRX:035420] remain interested in acquiring startups and adding O2O services and content on their platform, the advisors said.

Early-stage firms face patent-related, human resources and fundraising challenges most often, and careful review on funding terms would be much-needed since negotiation tends to focus on valuation, Cho said.

Most recently in June, Kakao, advised by Shin & Kim, acquired a 51% stake in Kiwi Plus, the South Korean start up for kids watch maker, at KRW 14bn. The company also acquired a 50.54% stake in Accio, a domestic IoT technology start-up, and Korean carpool service app operator Luxi at KRW 4.6bn and KRW 25.2bn, respectively, this year.

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by Kate Kim and Aram Jeong in Seoul, with analytics by Jasmine Wu

Grade: Confirmed

#### BIDDERS

[SK Telecom Co., Ltd.](#)

[NCsoft Corporation](#)

[Kakao Corporation](#)

[NAVER Corporation](#)

[NEXON Co., Ltd.](#)

[GS Home Shopping, Inc](#)

[CJ ENM Co., Ltd.](#)

[Com2uS Corporation](#)

[Bluehole, Inc.](#)

Financial advisor

[Credit Suisse](#)

[Netmarble Games Corporation](#)

[Kakao Games Corp.](#)

#### Countries

China

France

Germany

Italy

South Korea

Spain

USA

United Kingdom

#### States

#### Sectors

Computer services

Computer software

Computer: Hardware

Computer: Semiconductors

Internet / ecommerce

Media

Telecommunications:

Carriers

Pearl Abyss Corp.

## OTHERS

Shin & Kim

## TARGET

D'LIVE Co., Ltd

## VENDORS

MBK Partners Inc.Macquarie Korea OpportunitiesFund

## OTHERS

LG Uplus CorpSK Telecom Co., Ltd.Tbroad Co. Ltd.CJ Hello Co., Ltd.

## Telecommunications:

## Hardware

**Sub-Sectors**

Advertising  
 Application software products  
 Browsers  
 Cable equipment  
 Cable telecom carriers  
 Computer mainframes  
 Computer peripherals  
 Data processing  
 Electronic components  
 Fixed line telecoms  
 Hardware maintenance  
 ISPs  
 IT consulting  
 IT training  
 Laptops  
 Media houses  
 Minicomputers  
 Mobile/satellite network equipment  
 Mobile/satellite telecoms carriers  
 Operating systems and systems-related software  
 Optical scanning equipment  
 PDA/hand-held devices  
 Portals  
 Publishing  
 Radio broadcast  
 Search engines and other internet enabling technol  
 Semiconductor fabrication equipment  
 Semiconductors  
 Software development  
 Systems integration  
 TV broadcast  
 Trading / procurement systems  
 Voice and data communication equipment  
 Voice synthesis/recognition equipment  
 Website design/consultancy  
 e-retailing

**Topics**

Analysis

Bolt on/Oppportunistic

Companies for sale

Cross Border

Large/Transformational

Acquisitions

Private equity related

Regulatory issues

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