



## **Delivered Electronically (Translation of Korean)**

October 13, 2022

The Board of Directors, KT&G Corporation  
71 Beotkkot-gil, Daedeok-gu, Daejeon

### **Letter of Intent**

Flashlight Capital Partners PTE. LTD. ("FCP" or "we") is pleased to submit this Letter of Intent ("LOI") regarding acquisition of Korea Ginseng Corp (corporate registration number 160111-0083066, "KGC"), which is wholly owned by KT&G Corporation ("KT&G") (the "Transaction").

FCP has consistently emphasized KT&G's intrinsic value at approximately KRW 160,000 per share. The current severe undervaluation is driven from KT&G's poor corporate governance, and KGC's value not being properly reflected in KT&G's stock price.

We see tremendous potential for KGC in the global market. Much like New Zealand's Manuka honey or China's Maotai, Korean ginseng boasts a historical heritage and global brand awareness.

Unfortunately, KGC is suffering under the tobacco company. While the health supplement industry is experiencing high growth both domestically and globally, KGC's performance is fast deteriorating. This is because KGC has been run under the tobacco executives who have little understanding of the health food business.

Since 2022, FCP has proposed a spin-off of KGC to make it a global company. However, even after several months of receiving our initial proposal, KT&G's management and Board rejected the idea citing they didn't have "sufficient review." Since then, KGC's operating profit halved from KRW 202.1 billion in 2019 to KRW 103.1 billion in 2023. KT&G's guidance indicates further decline in 2024.

On January 26, 2023, during 'Investor Day' presentation, CEO Bang Kyung-man (then Senior Executive Vice President) mentioned '7-8x EV/EBITDA for KGC'<sup>1</sup>, i.e. KRW 1.2-1.3 trillion.

We propose to acquire 100% of KGC's shares for KRW 1.9 trillion, which is 50% higher than the value stated by CEO Bang.

The proceeds from this sale could be used for shareholder returns or investments in future businesses. More importantly, this would be a crucial step toward transforming KGC into a global brand by separating it from the tobacco business. KGC should be set free, either through a spin-off or a sale. The potential of Korean Ginseng should no longer be wasted.

Under the Korean law, KT&G's Board of Directors has a fiduciary duty to protect the interests of the company. Should you choose to reject our proposal, we, along with other shareholders, will demand a clear rationale be disclosed to all shareholders.

#### **About FCP**

FCP is an investment fund that focuses on creating value through governance improvements, and we are a shareholder of KT&G.

---

<sup>1</sup> <https://www.yna.co.kr/view/AKR20230126156300003>

Sanghyun Lee founded FCP with 20 years of private equity experience. During his seven years as head of The Carlyle Group in Korea, he led the acquisition of ADT Caps, significantly increasing its sales and profits, while enhancing operational efficiency and making new business investments to greatly increase the company's value. While working at Affinity Equity Partners, he led the acquisition of The Face Shop, significantly expanding the brand and store count. He has also worked at the Government of Singapore Investment Corporation (GIC) and McKinsey & Company. He holds a Bachelor's degree from Seoul National University and an MBA from Harvard Business School.

#### Purchase Price

- Purchase Price: KRW 1.92 trillion
- Acquisition target: 100% of the equity interest of KGC (14,370,023 shares) owned by KT&G
- Valuation method: 10x EV/EBITDA. Our price proposal is based on KGC's consolidated financial statements as of December 31, 2023.

The transaction amount will be paid in full in cash at the time of closing, with typical escrow deposits or other conditions as necessary.

#### Key Valuation Assumptions

FCP has arrived at the proposed transaction amount based on the following assumptions:

- Publicly disclosed information is accurate and complete in all material respects, with no omissions of significant facts or liabilities.
- There are no significant regulatory, tax, labor, or legal issues related to the company.
- There have been no material adverse changes in the company's outlook or operations since the date of disclosure.
- The company will maintain normal business operations until the transaction is finalized.

#### Financing

Funds sourced by FCP, its affiliates, and special-purpose entities managed by FCP will be used to finance the transaction. Attached please find a document for the source of fund.

#### Due Diligence

We are confident in KGC's potential in the global market and expect that only a minimal level of basic due diligence will be necessary, mainly accounting, tax, legal matters, and business aspects.

External advisors will be hired for the due diligence process. Assuming we receive information in a timely manner, we anticipate completing the process within six weeks and finalizing negotiations on binding agreements.

#### Approvals

FCP has obtained all internal approvals necessary to submit this Letter of Intent.

Except for general reporting requirements, such as Fair Trade Commission report, we do not anticipate any significant regulatory or external approvals.

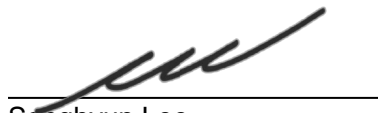
Contact

For any matters related to the transaction, please contact:

Name	Position	Mobile	Email
Sunkyou Yoo	Vice President	[REDACTED]	skyoo@flashlightcap.com

Others

This LOI is governed and construed in accordance with the laws of the Republic of Korea, and is preliminary, non-binding, and does not constitute or intend to constitute a legally binding offer. FCP is not under any obligation or commitment to proceed with the Transaction or any other transactions.



Sanghyun Lee  
Managing Partner  
Flashlight Capital Partners PTE. LTD.

